TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH

Financial Statements as of and for the Year Ended September 30, 2015 and Independent Auditors' Report

MAXWELL & LOCKE & RITTER

TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH

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INDEPENDENT AUDITORS' REPORT

To the Board of Managers of
Travis County Healthcare District:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Travis County Healthcare District (doing business as and hereinafter referred to as "Central Health"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise Central Health's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Affiliated Company
ML&R WEALTH MANAGEMENT LLC
"A Registered Investment Advisor"
This firm is not a CPA firm

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Central Health, as of September 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2016, on our consideration of Central Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Central Health's internal control over financial reporting and compliance.

Maxwell Locke + Ritter LLP

Austin, Texas
January 25, 2016

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, 2015. Please read this section in conjunction with Central Health's financial statements, which begin on page 12.

Background and Formation

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

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

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

Central Health may levy taxes to finance health care services and the levy may not exceed 25 cents on each $100 of the taxable value of property taxable by Central Health. The fiscal year 2015 tax levy for Central Health was 12.64 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 ("UMCB", leased to Seton Healthcare Network ("Seton") to operate), Austin Women's Hospital (leased to the University of Texas Medical Branch to operate), and the Central Texas Community Health Centers, operated until March 1, 2009 by the City of Austin through an interlocal agreement between Central Health and the City of Austin. In June 2007, Seton opened the new Dell Children's Medical Center of Central Texas which is not owned by Central Health. The former Children's Hospital associated with UMCB was converted into various other uses by Seton.

Effective March 1, 2009, Central Health and its affiliated entity, the Central Texas Community Health Centers, Inc. (doing business as and herein after referred to as "CommUnityCare"), a 501(c)(3) nonprofit corporation, became joint holders of the Federally Qualified Health Center ("FQHC") designation awarded by the Health Resources and Services Administration of the U.S. Department of Health and Human Services Department. This designation allows the countywide system of primary clinics operated by CommUnityCare and 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.

Fiscal Year 2015 Operational Highlights

- Central Health's net position increased $6.7 million, a 3% increase compared to prior year net position.
- During the year, Central Health's total operating revenues were $31.6 million and operating expenses were $177.0 million. Nonoperating revenues, comprised primarily of property tax revenue, were $152.1 million, net of nonoperating expenses.
- To carry out its fiscal responsibility to the taxpayers, Central Health maintains reserve funds to protect its financial security and operational stability in consideration of the risks it faces. The Emergency Reserve is budgeted as a funding source for unanticipated emergencies that arise from unusual circumstances. Funding is budgeted at approximately 15% of budgeted ongoing expenses and will be set annually through adoption of the budget. In addition, Central Health maintains a Contingency Reserve policy to serve as a funding source for one-time expenditures or for ongoing expenditures when needed for cyclical or temporary structural deficits. Central Health also maintains a Capital Reserve established to fund capital assets or projects that will not be funded through the issuance of debt or through a grant. Lastly, Central Health maintains a risk-based HMO Reserve to be used for paid-in capital to Sendero Health Plans, Inc. ("Sendero").
- Central Health maintained a rating of AAA from Standard & Poor's on its first debt issuance (see Note 7 in this report for more information).
- Sent $132.3 million in public funds as the local share to be utilized for intergovernmental transfers to draw federal matching funds for the Disproportionate Share Program and Medicaid 1115 Waiver Program for the provision of unreimbursed healthcare costs to qualifying hospitals and participation in the Delivery Service Reform Incentive Payment program.

- Provided local matching funds to draw 99.5% of the total value of the Community Care Collaborative Delivery Service Reform Incentive Payment project for Demonstration Year 3.
- Hosted community forums, a workshop and an open house relating to the redevelopment of the Central Health Brackenridge Campus and completed Phase 1 of the related Master Plan.
- Completed Phase 1 of the Central Health Southeast Health & Wellness Center-opening up approximately 33,500 square feet of the facility's 67,400 square-foot total build out space.
- Approved the lease of Central Health land adjacent to the Southeast Health and Wellness Center to Austin Travis County Integral Care to build a mental health crisis center.
- Enrolled a monthly average of 24,257 members in the Medical Access Program (MAP).
- Continued in the role of anchor entity for the Medicaid 1115 Waiver Program for Regional Healthcare Partnership Region 7, which consists of Travis County and five other surrounding counties.

Financial Statements

Central Health's financial statements are prepared on the accrual basis of accounting and 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 position, (2) statement of revenues, expenses, and changes in net position, and (3) statement of cash flows.

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

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

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

Statement of Net Position

The following table summarizes Central Health's assets, liabilities and net position as of September 30, 2015 and 2014:

TABLE 1
Condensed Statement of Net Position

	2015	2014	% Fluctuation
Current assets	$ 115,249,405	$ 122,367,905	(6%)
Noncurrent assets	52,725,674	36,904,489	43%
Capital assets	122,874,434	119,470,191	3%
Total assets	290,849,513	278,742,585	4%
Current liabilities	21,608,130	15,244,237	42%
Noncurrent liabilities	11,355,000	12,305,000	(8%)
Total liabilities	32,963,130	27,549,237	20%
Net position:			
Net investment in capital assets	110,569,434	106,230,191	4%
Restricted for capital acquisition	7,642,674	3,821,489	100%
Restricted for Sendero	4,083,000	4,883,000	(16%)
Unrestricted	135,591,275	136,258,668	<1%
Total net position	$ 257,886,383	$ 251,193,348	3%

As shown in Table 1, net position was $257.9 million at September 30, 2015 and $251.2 million at September 30, 2014. The increase in net position is due primarily to increased nonoperating revenues and ongoing delays of intergovernmental transfers for the Uncompensated Care program.

Statement of Revenues, Expenses, and Changes in Net Position

The following table summarizes Central Health's revenues, expenses, and changes in net position during the years ended September 30, 2015 and 2014:

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

	2015	2014	% Fluctuation
Operating revenues:			
UMCB lease revenue	$ 31,637,376	$ 32,321,472	(2%)
Ground sublease revenue	839,874	-	100%
Total operating revenues	32,477,250	32,321,472	<1%
Operating expenses:			
Health care delivery	166,092,275	132,995,467	26%
Salaries and benefits	3,668,535	3,893,350	(6%)
Other purchased goods and services	3,234,326	4,115,020	(21%)
Depreciation	4,034,844	3,486,535	16%
Total operating expenses	177,869,854	144,490,372	23%
Operating loss	(145,392,604)	(112,168,900)	30%
Nonoperating revenues, net:			
Net ad valorem tax revenue	149,320,326	137,221,969	9%
Net tobacco settlement revenue	2,753,050	1,900,357	45%
Investment income	442,232	543,736	(19%)
Interest expense	(434,906)	(448,960)	(3%)
Other revenue	4,937	226,274	(98%)
Total nonoperating revenues, net	152,085,639	139,443,376	9%
Change in net position	6,693,035	27,274,476	(75%)
Total net position - beginning of year	251,193,348	223,918,872	12%
Total net position - end of year	$ 257,886,383	$ 251,193,348	3%

Central Health's operating revenues were $31.6 million for the year ended September 30, 2015, comprised of $31.6 million in lease revenue relating to the UMCB campus. Central Health's operating loss was $145.4 million for the year ended September 30, 2015. 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 $152.1 million for the year ended September 30, 2015, comprised mainly of net property taxes of $149.3 million and net tobacco settlement revenue of $2.8 million.

Capital Assets

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

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

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, 2015 and 2014.

TABLE 3
Capital Assets

	2015	2014
Land	$ 11,770,184	$ 10,464,414
Construction in progress	14,692,570	15,380,684
Buildings and improvements	117,789,671	111,047,816
Equipment and furniture	7,103,605	7,025,729
Subtotal	151,356,030	143,918,643
Less accumulated depreciation	(28,481,596)	(24,448,452)
Total capital assets, net	$ 122,874,434	$ 119,470,191

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

TABLE 4
Long-Term Debt

	2015	2014
Certificates of Obligation	$ 12,305,000	$ 13,240,000

Central Health issued $16,000,000 in certificates of obligation on September 20, 2011. During fiscal year 2015, principal payments of $935,000 were made against the certificates of obligation. Additional information regarding the District's long-term debt can be found in Note 7 of the notes to the financial statements.

Current Budget

Central Health prepares an annual 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 5 presents the amended budget as compared to fiscal year 2015 actual amounts.

TABLE 5
Budget vs. Actual

	Budget 2015	Actual 2015	Favorable (Unfavorable) Variance
Operating revenues:			
UMCB lease revenue	$ 31,637,380	$ 31,637,376	$ (4)
Ground sublease revenue	-	839,874	839,874
Total operating revenues	31,637,380	32,477,250	839,870
Operating expenses:			
Health care delivery	154,435,204	166,932,149	(12,496,945)
Salaries and benefits	4,008,281	3,668,535	339,746
Other purchased goods and services	4,487,427	3,234,326	1,253,101
Depreciation	3,500,000	4,034,844	(534,844)
Total operating expenses	166,430,912	177,869,854	(11,438,942)
Operating loss	(134,793,532)	(145,392,604)	(10,599,072)
Nonoperating revenues (expenses):			
Ad valorem tax revenue	151,728,532	150,657,511	(1,171,021)
Tax assessment and collection expense	(1,355,000)	(1,337,185)	17,815
Tobacco settlement revenue	1,500,000	2,753,050	1,253,050
Investment income	400,000	442,232	42,232
Interest expense	(436,207)	(434,906)	1,301
Other revenue	-	4,937	4,937
Total nonoperating revenues, net	151,837,325	152,085,639	248,314
Change in net position	$ 17,043,793	$ 6,693,035	$ (10,350,758)

In comparing the current year's actual financial results to budget, actual operating expenses were $11.4 million higher than budget as prior timing delays in intergovernmental transfers began to be addressed, salary and benefit expense was approximately $340,000 under budget, health care delivery expenses were approximately $12.5 million over budget and depreciation expense was approximately $535,000 over budget.

Economic Conditions and Plan for Fiscal Year 2016

In planning for fiscal year 2016, there were a number of factors Central Health needed to consider, including the following:

- The ongoing reporting and operational requirements of the Medicaid 1115 Waiver Program.
- Delays of intergovernmental transfers for the Disproportionate Share Program and Medicaid 1115 Waiver Program.
- Collaborating with Seton and the Dell Medical School at the University of Texas for the implementation of an Integrated Delivery System to move away from fragmented, episodic, fee-for-service care that emphasizes treatment of illness to a system that focuses on improving health outcomes through accountable, value-based care
- Planning for the development and reuse of the University Medical Center at Brackenridge campus.
- Effective use of funds to provide education and outreach for the Affordable Care Act as it relates to the federal health exchange.
- Funding requirements of HMO risk-based capital reserves for Sendero (a community based health plan and a component unit of Central Health). Actual payments will be based on risk-based capital requirements as determined by the Texas Department of Insurance.
- The Central Health Board of Managers adopted a total tax rate of 11.778 cents per $100 valuation of real and personal property for fiscal year 2016 that balances affordability and sustainability of current and future healthcare services.

Contacting Central Health Financial Management

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

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

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

TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH

STATEMENTS OF NET POSITION
SEPTEMBER 30, 2015

	Primary Government	Component Units		
	Governmental Activities	CommUnityCare	Sendero	Community Care Collaborative
ASSETS				
Current assets:				
Cash and cash equivalents	$ 5,004,450	$ 18,618,949	$ 20,412,713	$ 41,556,275
Short-term investments	107,001,952	-	1,777,782	-
Ad valorem taxes receivable, net of allowance for uncollectible taxes of $2,485,582	644,095	-	-	-
Accounts receivable, net of allowance for doubtful amounts of $9,340,507	-	2,925,892	-	-
Accounts receivable, net	-	-	1,033,840	-
Premium receivable	-	-	229,200	-
Reinsurance recoverables	-	-	911,743	-
Grants receivable	-	1,146,696	-	-
Other receivables	2,334,940	-	-	-
Inventory	-	483,802	-	-
Funds held by others	-	-	61,225	-
Prepaid expenses and other assets	263,968	316,724	118,929	-
Total current assets	115,249,405	23,492,063	24,545,432	41,556,275
Noncurrent assets:				
Investments restricted for capital acquisition	7,642,674	-	-	-
Investments restricted for Sendero	4,083,000	-	-	-
Long-term receivables	4,000,000	-	1,221,223	-
Investment in Sendero	29,000,000	-	-	-
Sendero surplus debenture	8,000,000	-	-	-
Capital assets:				
Land	11,770,184	-	-	-
Construction in progress	14,692,570	-	-	-
Buildings and improvements	117,789,671	-	-	-
Equipment and furniture	7,103,605	2,574,491	38,214	-
Less accumulated depreciation	(28,481,596)	(1,594,801)	(27,461)	-
Total capital assets, net	122,874,434	979,690	10,753	-
Total noncurrent assets	175,600,108	979,690	1,231,976	-
Total assets	290,849,513	24,471,753	25,777,408	41,556,275
LIABILITIES				
Current liabilities:				
Accounts payable	5,579,467	1,964,050	514,183	712,779
Unpaid losses and loss adjustment expenses	-	-	12,778,691	-
Claims payable	-	-	398,323	-
Premium tax payable	-	-	228,177	-
Salaries and benefits payable	722,170	4,096,406	-	-
Accrued interest	35,700	-	-	-
Salaries and benefits payable		-	-	5,297,323
Deferred rent	-	327,215	-	-
Other accrued liabilities	11,456,461	941,883	3,788,379	-
Certificates of obligation	950,000	-	-	-
Capital lease obligation	-	133,839	-	-
Deferred revenue	2,864,332	539,450	427,675	-
Due to Central Health	-	1,185,497	306,014	762,997
Total current liabilities	21,608,130	9,188,340	18,441,442	6,773,099
Noncurrent liabilities:				
Certificates of obligation	11,355,000	-	-	-
Capital lease obligation, net of current portion	-	5,749	-	-
Due to Central Health	-	4,000,000	-	-
Total noncurrent liabilities	11,355,000	4,005,749	-	-
Total liabilities	32,963,130	13,194,089	18,441,442	6,773,099
NET POSITION				
Net investment in capital assets	110,569,434	-	-	-
Restricted for capital acquisition	7,642,674	-	-	-
Restricted for Sendero	4,083,000	-	-	-
Restricted for surplus debenture	-	-	8,000,000	-
Restricted for HMO	-	-	29,000,000	-
Unrestricted	135,591,275	11,277,664	(29,664,034)	34,783,176
Total net position	$ 257,886,383	$ 11,277,664	$ 7,335,966	$ 34,783,176

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

TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEAR ENDED SEPTEMBER 30, 2015

	Primary Government	Component Units		
	Governmental Activities	CommUnityCare	Sendero	Community Care Collaborative
Operating revenues:				
UMCB lease revenue	$ 31,637,376	$ -	$ -	$ -
Ground sublease revenue	839,874	-	-	-
Net patient service revenue	-	33,849,822	-	-
Premium revenue, net	-	-	55,536,512	-
ASO revenue	-	-	3,500,000	-
Grant revenue	-	8,541,019	-	-
Foundation grant revenue	-	507,836	-	-
Revenue received from Central Health	-	-	-	13,903,320
Revenue received from CCC	-	34,108,913	-	-
Revenue received from Delivery System Reform Incentive Payment	-	10,855,546	-	60,775,973
Revenue received from Seton Affiliation	-	553,467	-	51,700,000
Personnel services received from an affiliate	-	-	-	899,367
Total operating revenues	32,477,250	88,416,603	59,036,512	127,278,660
Operating expenses:				
Health care delivery	166,932,149	27,203,064	57,245,217	58,067,816
Payment per University of Texas affiliation agreement	-	-	-	35,000,000
Delivery System Reform Incentive Payment program expense	-	-	-	14,853,324
Salaries and benefits	3,668,535	55,535,167	3,140,041	-
Other purchased goods and services	3,234,326	3,760,155	5,763,588	-
Depreciation and amortization	4,034,844	454,094	11,389	-
Total operating expenses	177,869,854	86,952,480	66,160,235	107,921,140
Operating income (loss)	(145,392,604)	1,464,123	(7,123,723)	19,357,520
Nonoperating revenues (expenses):				
Ad valorem tax revenue	150,657,511	-	-	-
Tax assessment and collection expense	(1,337,185)	-	-	-
Tobacco settlement revenue, net	2,753,050	-	-	-
Investment income (loss)	442,232	-	(7,925)	-
Interest expense	(434,906)	-	-	-
Other revenue	4,937	-	-	10,693
Total nonoperating revenues, net	152,085,639	-	(7,925)	10,693
Change in net position prior to capital contribution	6,693,035	1,464,123	(7,131,648)	19,368,213
Surplus debenture from Central Health	-	-	8,000,000	-
Capital contribution received from Central Health	-	-	4,800,000	-
Change in net position after surplus debenture and capital contribution	6,693,035	1,464,123	5,668,352	19,368,213
Total net position - beginning of year	251,193,348	9,813,541	1,667,614	15,414,963
Total net position - end of year	$ 257,886,383	$ 11,277,664	$ 7,335,966	$ 34,783,176

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

TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH

STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2015

Cash flows from operating activities:	
Cash received operating leases	$ 32,513,587
Cash payments for health care delivery	(161,618,318)
Cash payments to employees	(3,571,789)
Cash payments for goods and services	(5,035,842)
Net cash used in operating activities	(137,712,362)
Cash flows from noncapital financing activities:	
Ad valorem taxes received	150,499,157
Payments for tax assessment and collection	(1,337,185)
Tobacco settlement received, net	2,753,050
Other nonoperating revenue received	4,937
Payments to CommUnityCare, net	(605,537)
Receipts from Sendero, net	(115,994)
Payments to Community Care Collaborative, net	(587,199)
Net cash provided by noncapital financing activities	150,611,229
Cash flows from investing activities:	
Receipts of interest income	391,779
Net loss from sale of investment pools	(9,387,207)
Purchase of investment securities	(58,841,944)
Proceeds from maturities of investment securities	75,475,064
Investment in Sendero	(4,800,000)
Sendero surplus debenture	(8,000,000)
Purchase of capital assets	(7,439,087)
Principal payments on certificates of obligation	(935,000)
Interest paid on certificates of obligation	(433,605)
Net cash used in investing activities	(13,970,000)
Net increase in cash and cash equivalents	(1,071,133)
Cash and cash equivalents - beginning of year	6,075,583
Cash and cash equivalents - end of year	$ 5,004,450
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (145,392,604)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	4,034,844
Changes in operating assets and liabilities that provided (used) cash:	
Other receivables	2,750,164
Prepaid expenses and other assets	(27,306)
Accounts payable	(1,774,210)
Salaries and benefits payable	96,746
Other accrued liabilities	5,313,831
Unearned revenue	(2,713,827)
Net cash used in operating activities	$ (137,712,362)

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

1. ORGANIZATION AND MISSION

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

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

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

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

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

Central Health provides patient care to the indigent population of Travis County through the Community Care Collaborative (the "CCC"), which is a 501(c)(3) corporation formed on October 4, 2012, pursuant to the Master Agreement between Central Health and Seton Healthcare Family ("Seton"). Through the CCC and its provider network, Central Health and Seton jointly manage the provision of healthcare services to the safety net population. The CCC is a separate legal entity, and the Central Health Board appoints a majority of its governing board. There is a financial benefit/burden relationship between Central Health and the CCC, in that Central Health provides a subsidy to the CCC. However, due to certain powers reserved to Seton in the Master Agreement, Central Health cannot impose its will on the CCC. The CCC does not meet any of the GASB criteria for blended reporting and, therefore, is presented as a discrete component unit in these financial statements. See Note 8 for further information about the CCC and the Master Agreement with Seton.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

Tobacco Settlement Revenue - Tobacco settlement revenue is the result of a settlement between various counties and hospital districts in Texas and the tobacco industry for tobacco-related health care cost. Central Health recognized $2,753,050 associated with the settlement in the year ended September 30, 2015. Settlement revenues for fiscal year 2015 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, 2015, Central Health budgeted and recorded its tobacco settlement revenue net of amounts distributed to the Seton and to Travis County, which were $1,062,097 and $330,348, respectively. Such amounts represent their respective share of total local healthcare expenses claimed for the year ended September 30, 2015.

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.

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

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

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

3. DEPOSITS AND SHORT-TERM INVESTMENTS

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

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

This collateral is held by the Federal Reserve Bank of New York, which in the case of default by JPMorgan Chase will act as agent for Central Health, in a fiduciary account held in the name of JPMorgan Chase and Central Health and pledged to Central Health. During fiscal year 2015, collateral coverage was more than the 105% of bank balances on all days during the year. As of September 30, 2015, Central Health's bank balances in excess of federal depository insurance were fully collateralized.

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

Central Health is authorized to purchase, sell, and invest its funds and funds under its control in accordance with the Texas Public Funds Investment Act, Government Code Chapter 2256 and its subsequent amendments. During the fiscal period, investments consisted of U.S. government agencies securities and participation in three local government investment pools (TexPool, TexSTAR and TexasTERM). The carrying amount of investments as of September 30, 2015, is displayed on the statement of net position as short-term and restricted investments.

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

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

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

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

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, 2015, Central Health had the following investments:

Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pools	$ 54,632,081	1
U.S. government agencies	64,095,545	531
Total fair value	$ 118,727,626	
Portfolio weighted average maturity		287

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

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

Investments at September 30, 2015	Standard & Poor's Rating
Local government investment pools	AAAm
Federal National Mortgage Association	AA+
Federal Home Loan Mortgage Corporation	AA+
Federal Home Loan Bank	AA+
Federal Farm Credit Bank	AA+

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

	Percentage of Portfolio	Portfolio Limit
Investments at September 30, 2015:		
TexPool	6%	50%
TexStar	17%	30%
U.S. government agencies	54%	75%
TexasTERM	24%	30%

Information regarding investments in any one issuer that represents five percent or more of Central Health total investments must be disclosed under GASB Statement No. 40, excluding investments issued or explicitly guaranteed by the U.S. government. At September 30, 2015, Central Health's investments which require disclosure are as follows:

	Fair Value	Percentage of Portfolio
Investments at September 30, 2015:		
Federal Home Loan Bank	$ 26,990,388	23%
Federal Farm Credit Bank	9,000,585	8%
Federal Home Loan Mortgage Corporation	5,998,800	5%
Federal National Mortgage Association	8,991,972	8%

4. DISAGGREGATION OF RECEIVABLE BALANCES

Central Health's receivables, including the applicable allowances, are comprised of the following as of September 30, 2015:

	Taxes	Due from Component Units	Other	Total
Total	$ 3,129,677	6,254,203	80,737	9,464,617
Less:				
Allowance for uncollectibles	(186,136)	-	-	(186,136)
Allowance for long-term collections	(2,299,446)	-	-	(2,299,446)
Total, net	$ 644,095	6,254,203	80,737	6,979,035
Amounts not scheduled for collection during the subsequent year	$ -	4,000,000	-	4,000,000

At September 30, 2015, the due from component units includes a Sendero balance of $305,709 in intercompany receivables, a CCC balance of $762,997 in intercompany receivables, and a CommUnityCare balance of $5,185,497, which contains $4,000,000 in noncurrent assets. At September 30, 2015, the other receivable balance is comprised of $40,753 of accrued interest on investments and $39,984 in miscellaneous receivables.

5. SURPLUS DEBENTURE

In February 2015, Sendero issued a surplus debenture to Central Health, in the amount of $8,000,000. The effective date of the surplus debenture, as filed with the Texas Department of Insurance was December 18, 2014. Cash was disbursed on February 27, 2015. The par value and carrying value of the debenture is $8,000,000 with interest accruing at prime plus 0.25%. Interest will not be a legal or financial statement liability of Sendero or a claim on the assets of Sendero unless the following are satisfied: (i) as of the payment date, the amount of accrued and unpaid interest must equal or exceed the debenture's scheduled payment and (ii) Sendero's surplus that is in excess of the debenture's surplus floor must equal or exceed the debenture's scheduled payment. The surplus floor is defined as the greater of: (i) $1,500,000 or (ii) 300% of risk-based capital. Subject to the requirements of Chapter 427 of the Texas Insurance Code and terms of the debenture, principal is to be paid in annual installments on December 1 of each year, commencing on December 1, 2015 and continuing for approximately 30 years through December 1, 2044. Principal will not be a legal or financial statement liability for Sendero or a claim on its assets unless the following are satisfied: (i) as of the payment date, the amount of unpaid principal must equal or exceed the debenture's scheduled payment; (ii) Sendero's surplus that is in excess of the debenture's surplus floor must equal or exceed the debenture's scheduled payment; (iii) immediately after the scheduled payment Sendero will have surplus equal to or in excess of the required minimum required by law; and (iv) Sendero's Board of Directors shall have authorized the scheduled payment.

No interest or principal payments have been received or accrued since Sendero has not met the requirements stated above. In the event of the voluntary or involuntary liquidation of Sendero, the debenture is intended to become a fully matured and payable liability of Sendero, but subordinated to claims and rights of policyholders and policy beneficiaries of Sendero. Additionally, in the event of liquidation, any payment of interest or principal will be made in accordance with Chapter 443 of the Texas Insurance Code.

6. CAPITAL ASSETS

Central Health's capital assets are comprised of the following as of September 30, 2015:

	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 10,464,414	1,305,770	-	11,770,184
Construction in progress	15,380,684	6,053,741	(6,741,855)	14,692,570
Total capital assets not being depreciated	25,845,098	7,359,511	(6,741,855)	26,462,754
Capital assets being depreciated:				
Building and improvements	111,047,816	-	6,741,855	117,789,671
Equipment and furniture	7,025,729	79,576	(1,700)	7,103,605
Total capital assets being depreciated	118,073,545	79,576	6,740,155	124,893,276
Less accumulated depreciation for:				
Building and improvements	(20,457,620)	(3,048,465)	-	(23,506,085)
Equipment and furniture	(3,990,832)	(986,379)	1,700	(4,975,511)
Total accumulated depreciation	(24,448,452)	(4,034,844)	1,700	(28,481,596)
Total capital assets being depreciated	93,625,093	(3,955,268)	-	96,411,680
Capital assets, net	$119,470,191	3,404,243	-	122,874,434

With the creation of Central Health, the City of Austin conveyed ownership of assets associated with UMCB (then Brackenridge/Children's Hospital) and medical equipment used in the health care clinics to Central Health. Travis County conveyed medical equipment used in the health care clinics to Central Health. The City of Austin also donated an office building to Central Health. The conveyed and donated assets were recorded at fair 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 were deeded from the City of Austin to Central Health in fiscal year 2009.

7. LONG-TERM DEBT

The following is a summary of changes in long-term debt for the period ended September 30, 2015:

	Beginning Balance	Additions	Retirements	Ending Balance
Certificates of Obligation	$ 13,240,000	-	(935,000)	12,305,000

Certificates of Obligation debt consists of the following at September 30, 2015:

Series	Date of Issue	Amount of Original Issue	Matures Through	Interest Rate	Outstanding at 9-30-15	Due Within One Year
2011	9-20-11	$ 16,000,000	2026	0.50 - 4.25%	$ 12,305,000	$ 950,000

As of September 30, 2015, the debt service requirements of indebtedness to maturity are as follows:

Year Ended September 30,	Principal	Interest	Total
2016	$ 950,000	418,805	1,368,805
2017	975,000	397,803	1,372,803
2018	1,000,000	372,795	1,372,795
2019	1,030,000	342,818	1,372,818
2020	1,065,000	308,283	1,373,283
2021 - 2025	5,945,000	901,407	6,846,407
2026	1,340,000	28,475	1,368,475
Total	$ 12,305,000	2,770,385	15,075,385

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

8. OPERATING LEASE WITH SETON

Effective June 1, 2013, Central Health and Seton entered into a Master Agreement and ancillary agreements that superseded the original lease inherited from the City of Austin, as amended. See Note 9 for a discussion of the Master Agreement and ancillary agreements.

The future minimum lease payment to be received from Seton in 2016 is $1,806,060.

The UMCB lease provides that Seton will continue to lease and operate UMCB until construction of a new teaching hospital, currently scheduled to open in 2017. Based on this, future lease payments of $16,514,540 are not included above as the lease is expected to terminate in fiscal year 2017. The UMCB lease provides for the continued use of certain space on the UMCB campus after the opening of the teaching hospital, as mutually determined by Central Health and Seton. Currently, these amounts are unknown and cannot be estimated.

9. CENTRAL HEALTH/SETON MASTER AND ANCILLARY AGREEMENTS

Effective June 1, 2013, Central Health and Seton entered into the Master Agreement and two ancillary agreements: a lease for UMCB and an Omnibus Services Agreement. The Master Agreement is a result of the collaboration of Central Health and Seton in participating in the Texas Healthcare and Quality Improvement Program, a statewide Medicaid 1115 waiver program.

Through the Master Agreement, Central Health and Seton have formed the CCC, a 501(c)(3) corporation through which the two parties will jointly manage the provision of indigent health care. Through the CCC, the parties will mutually determine the size and composition of the covered population to be served in Travis County and the benefit plan that will be provided to them. The CCC is a performing provider that will carry out a number of Delivery System Reform Incentive Payment ("DSRIP") projects through the Medicaid 1115 waiver, those that will be done in an ambulatory setting. Seton will carry out a number of DSRIP projects in a hospital setting, either at UMCB or at the Dell Children's Hospital and St. David's is also performing a project.

The UMCB lease provides that Seton will continue to operate UMCB until it has completed the construction of a new teaching hospital, currently scheduled to open during calendar year 2017. The teaching hospital will serve as the medical education setting for the Dell Medical School at the University of Texas at Austin and will replace UMCB as the primary safety-net hospital in Travis County. The lease also provides for the continued use of certain space on the UMCB campus after the opening of the teaching hospital, as mutually determined by Central Health and Seton. Central Health is now engaged in a planning process for the reuse of the UMCB campus.

The Omnibus Services Agreement establishes the baseline for services that Seton will continue to perform and the value of those services. Under the Master Agreement, Seton must provide this baseline level of service for at least five years, even if the Master Agreement terminates. In addition, if Seton provides additional services, it will receive additional compensation as mutually determined by the parties at that time.

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, 2014, upon which the October 2014 levy was based, was $151,847,983. Central Health levied taxes based on a tax rate of $0.1264 per $100 of assessed valuation.

11. INTERLOCAL AGREEMENT WITH THE CITY OF AUSTIN

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

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

12. INTERLOCAL AGREEMENTS WITH TRAVIS COUNTY

Central Health entered into an Interlocal agreement with Travis County in which Travis County provides legal and other services for Central Health along with the tax collection services discussed in Note 10. Central Health also entered into several leases of mixed-use facilities from Travis County for primary care (clinic) sites that, pursuant to State law, did not transfer to Central Health. The mixed-use facility leases may remain in place until February 28, 2019, if not terminated earlier by either party. Rental expense to Central Health is comprised only of the operating and maintenance expense for each facility.

13. THE UNIVERSITY OF TEXAS AFFILIATION AGREEMENT

On July 10, 2014, Central Health and the University of Texas ("UT") entered into an affiliation agreement under which UT will assist Central Health and the CCC in:

- Serving low-income communities by offering opportunities to train residents and medical students in community-based offerings;
- Developing appropriate levels of clinical services at community clinics and new clinic locations in Travis County;
- Providing additional specialty and sub-specialty care at clinics and other facilities acting as providers for the Integrated Delivery System ("IDS"); and
- Collaborating with Central Health and the CCC through a Joint Affiliation Committee that will develop performance metrics to measure the achievements of the IDS mission and goals.

The CCC will, as its first spending priority, cause to be paid to UT annual Permitted Investment Payments in the amount of $35 million, annually. Central Health will guarantee these payments to be made by the CCC, to the extent it is permitted to do so by the Constitution and the Laws of the State of Texas. The initial term of the affiliation agreement is 25 years from the effect date, with an automatic renewal for a successive 25 year term.

14. DEFERRED COMPENSATION PLAN

Central Health offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. Assets and income of Central Health's plan are administered by a private corporation under contract with Central Health and are held for the exclusive benefit of the participants and their beneficiaries. Accordingly, the plan's assets and liabilities are not recorded in Central Health's financial statements. During the year ended September 30, 2015, Central Health contributed $45,367 to the plan under Central Health's deferred compensation matching program.

15. RETIREMENT PLAN

In October 2007, Central Health began offering its employees a 401(a) plan established in accordance with Internal Revenue Code Section 401(a). Assets and income of Central Health's plan are administered by a private corporation under contract with Central Health and are held for the exclusive benefit of the participants and their beneficiaries. Accordingly, the plan's assets and liabilities are not recorded in Central Health's financial statements. During the year ended September 30, 2015, Central Health contributed $304,094 to the plan under Central Health's retirement program.

16. HEALTH CARE COVERAGE

During the year ended September 30, 2015, employees of Central Health were covered by a health insurance plan. On average, Central Health contributed $564 per month per employee to the plan during the year ended September 30, 2015. Central Health contributed a portion of the cost of family coverage, if applicable, and employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All contributions were paid to a licensed insurer. The plan was documented by a contractual agreement.

17. OPERATING LEASES

Central Health leases a clinic facility and other equipment under noncancelable long-term leases that expire at various dates through June 2019. The clinic facility lease requires additional payments for common area maintenance and real estate taxes. Rent expense for the year ended September 30, 2015 was $376,077. Future minimum rental payments as of September 30, 2015 are as follows:

2016	$	389,877
2017		175,939
2018		100,194
2019		55,188
Total	$	721,198

18. GROUND LEASE AND SUBLEASE

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

Ground lease payments of $839,874 for the fiscal year ended September 30, 2015 are included in health care delivery operating expenses in the statement of revenues, expenses, and changes in net position. A corresponding amount is recognized as ground sublease revenue as a result of the sublease agreement with Seton and offsets the ground lease payment amount made to UT.

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

Future minimum ground lease payments to be paid by Central Health and future minimum sublease payments due to Central Health are based on current market value with a minimum annual increase of one percent (1%) as of September 30, 2015 are as follows:

2016	$ 885,666
2017	894,522
2018	903,467
2019	912,502
Thereafter	67,142,804
Total	$ 70,738,961

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

19. 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, 2015, 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.

20. COMMITMENTS AND CONTINGENCIES

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

21. SUBSEQUENT EVENTS

Central Health has evaluated subsequent events through January 25, 2016 (the date the financial statements were available to be issued).

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

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

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

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

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

To the Board of Managers of
Travis County Healthcare District:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Travis County Healthcare District (doing business as and hereinafter referred to as "Central Health") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise Central Health's basic financial statements, and have issued our report thereon dated January 25, 2016.

Internal Control Over Financial Reporting

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

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

Affiliated Company
ML&R WEALTH MANAGEMENT LLC
"A Registered Investment Advisor"
This firm is not a CPA firm

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

Compliance and Other Matters

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

Purpose of this Report

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

Maxwell Locke + Ritter LLP

Austin, Texas
January 25, 2016