

WALKER COUNTY HOSPITAL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2015



Davis, Heinemann & Company, P.C.

Certified Public Accountants

1300 11th Street Suite 500

Huntsville, Texas 77340

(936) 291-3020

Walker County Hospital District
 Annual Financial Report
 For The Year Ended December 31, 2015

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
FINANCIAL SECTION		
Independent Auditor's Report.....	1	
Management's Discussion and Analysis (Required Supplementary Information).....	3	
 <u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Position.....	8	A-1
Statement of Activities.....	9	A-2
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	10	A-3
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position.....	11	A-4
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	12	A-5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	13	A-6
Statement of Fiduciary Net Position - Fiduciary Funds.....	14	A-7
Notes to the Financial Statements	15	
 <u>Required Supplementary Information</u>		
Budgetary Comparison Schedules:		
General Fund.....	23	B-1
Notes to Required Supplementary Information.....	24	

This page has been left blank intentionally.

Financial Section

This page has been left blank intentionally.



DAVIS, HEINEMANN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

1300 11TH STREET, SUITE 500

P.O. BOX 6308

HUNTSVILLE, TEXAS 77342

PHONE (936) 291-3020

FAX (936) 291-9607

Independent Auditor's Report

To the Board of Managers
Walker County Hospital District
P.O. Box 1267
Huntsville, Texas 77342-1267

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Walker County Hospital District ("the District") as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District'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.

Auditor's Responsibility

Our responsibility is to express opinions 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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 District'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 District'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 governmental activities, each major fund, and the aggregate remaining fund information of Walker County Hospital District as of December 31, 2015, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of

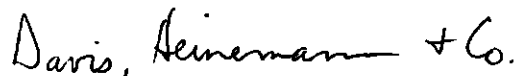
America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the budgetary comparison information identified as Required Supplementary Information in the table of contents 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.

Respectfully submitted,

A handwritten signature in cursive script that reads "Davis, Heinemann + Co.".

Davis, Heinemann & Company, P.C.

Huntsville, Texas
June 17, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Walker County Hospital District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended December 31, 2015. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$27,282,517 at December 31, 2015.
- During the year, the District's expenses were \$314,819 less than the \$9,080,783 generated in leases, property tax collections and other revenues for governmental activities.
- The general fund reported a fund balance this year of \$13,614,709.

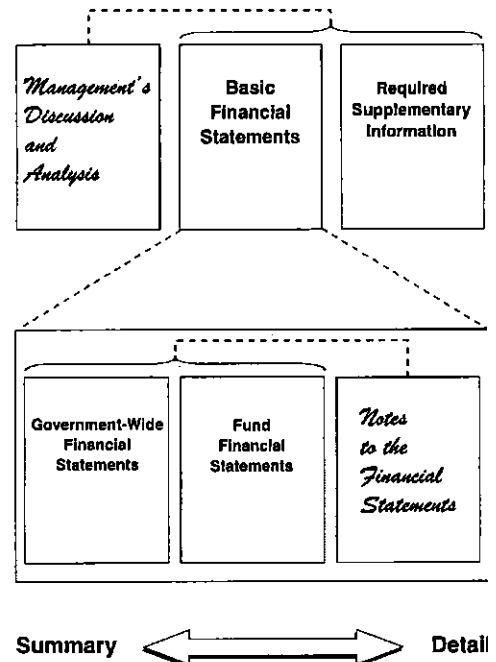
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1, Required Components of the District's Annual Financial Report



Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how it has changed. Net position—the difference between the District's assets and liabilities—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one should consider additional factors such as changes in the District's taxing jurisdictions.

The government-wide financial statements of the District include the *Governmental activities*. All of the District's basic services are included here. Charges for service paid by participating jurisdictions and other revenues finance these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds*—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and, when applicable, by bond covenants.
- The Board of Directors establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

- *Governmental funds*—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position was \$27,282.5 thousand at December 31, 2015. (See Table A-1).

Table A-1
Walker County Hospital District's Net Position
(In thousands of dollars)

	Governmental Activities		Change Total
	<u>2015</u>	<u>2014</u>	<u>2015-2014</u>
Current Assets:			
Cash and cash equivalents	\$ 4,642.8	\$ 3,958.8	\$ 684.0
Receivables:			
Taxes	3,002.5	2,632.1	370.4
Other	200.2	689.7	(489.5)
Restricted Assets:			
Cash and cash equivalents	<u>9,063.3</u>	<u>8,498.7</u>	<u>564.6</u>
Total Current Assets:	<u>16,908.8</u>	<u>15,779.3</u>	<u>1,129.5</u>
Noncurrent Assets:			
Capital assets	38,049.0	37,696.3	352.7
Less accumulated depreciation	<u>(27,383.8)</u>	<u>(26,204.5)</u>	<u>(1,179.3)</u>
Total Noncurrent Assets	<u>10,665.2</u>	<u>11,491.8</u>	<u>(826.6)</u>
Total Assets	<u>27,574.0</u>	<u>27,271.1</u>	<u>302.9</u>
Current Liabilities:			
Accounts payable	289.0	301.1	(12.1)
Other current liabilities	0.5	0.3	0.2
Security deposit	<u>2.0</u>	<u>2.0</u>	<u>-</u>
Total current liabilities	<u>291.5</u>	<u>303.4</u>	<u>(11.9)</u>
Total Liabilities	<u>291.5</u>	<u>303.4</u>	<u>(11.9)</u>
Net Position:			
Invested in capital assets	10,665.2	11,491.8	(826.6)
Restricted	9,063.3	8,498.7	564.6
Unrestricted	<u>7,554.0</u>	<u>6,977.2</u>	<u>576.8</u>
Total Net Position	<u>\$ 27,282.5</u>	<u>\$ 26,967.7</u>	<u>\$ 314.8</u>

Changes in net position. At the end of 2015 the District's total revenues were \$9,080.8 thousand. A significant portion, fifty (50) percent, of the District's revenue comes from lease income and forty-eight (48) percent of the revenue is from property tax collections. Two (2) percent of the District's revenue comes from other revenue and interest earnings.

The total cost of all programs and services was \$8,765.9 thousand; seventy-nine (79) percent of these costs are for indigent care, sixteen (16) percent of costs are for health services, and five (5) percent are for administration expenses.

Governmental Activities

Table A-2
Changes in Walker County Hospital District's Net Position
(In thousands of dollars)

	Governmental Activities		Change
	<u>2015</u>	<u>2014</u>	<u>2015-2014</u>
General Revenues:			
Property taxes	\$ 4,347.5	\$ 4,240.9	\$ 106.6
Lease income	4,546.1	4,901.6	(355.5)
Other income	132.5	194.1	(61.6)
Interest income	54.6	124.8	(70.2)
Total Revenues	9,080.7	9,461.4	(380.7)
Program Expenses:			
Indigent care	6,960.7	6,429.8	530.9
Health services	1,380.3	990.6	389.7
Administration expense	424.9	419.5	5.4
Total Expenses	8,765.9	7,839.9	926.0
Change in Net Position	\$ 314.8	\$ 1,621.5	\$ (1,306.7)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District is in the process of soliciting bids for the sale of the hospital in Huntsville. The sale of the hospital could happen before the end of the next fiscal year.

General Fund Budgetary Highlights

Over the course of the year, the District amended the budget one time. Actual expenditures were less than final appropriations by \$1,665,130. The largest positive variance was in the capital outlay category.

Resources available were \$894,233 less than the final estimated amount. The most significant negative variance resulted from lease income collections. Lease income decreased from the prior year due to recording twelve months of lease payments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, the District had invested \$38,049.0 thousand in a broad range of capital assets, including buildings, furniture and equipment. (See Table A-3.)

	Governmental Activities		Change
	2015	2014	2015-2014
Land	\$ 1,837.5	\$ 1,697.5	\$ 140.0
Buildings and improvements	20,604.7	20,604.7	-
Equipment	15,606.8	15,394.1	212.7
Totals at Historical Costs	<u>38,049.0</u>	<u>37,696.3</u>	<u>352.7</u>
Accumulated depreciation	(27,383.8)	(26,204.5)	(1,179.3)
Net Capital Assets	<u>\$ 10,665.2</u>	<u>\$ 11,491.8</u>	<u>\$ (826.6)</u>

The District's 2016 capital expenditures budget anticipates spending \$1,322,536 for the capital expenditures associated with Huntsville Memorial Hospital and other buildings or land for the District. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Long Term Debt

At year end the District had no outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- Fiscal Year 2016 budget decreases from \$9,606.9 thousand to \$9,312.7 thousand. This is a three (3) percent decrease from the 2015 year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's administration office.

This page has been left blank intentionally.

Basic Financial Statements

This page has been left blank intentionally.

WALKER COUNTY HOSPITAL DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2015

	<u>Governmental Activities</u>
ASSETS:	
<i>Cash and Cash Equivalents</i>	\$ 4,642,762
Receivables:	
<i>Taxes</i>	3,002,543
<i>Other</i>	200,176
Restricted Assets:	
<i>Cash and Cash Equivalents</i>	9,063,307
Capital Assets (net of accumulated depreciation):	
<i>Land</i>	1,697,536
<i>Construction In Progress</i>	140,000
<i>Other Capital Assets, net</i>	8,827,728
Total Assets	<u>27,574,052</u>
LIABILITIES:	
<i>Accounts Payable</i>	288,999
<i>Security Deposits</i>	2,000
<i>Other Current Liabilities</i>	536
Total Liabilities	<u>291,535</u>
NET POSITION:	
Net Investment in Capital Assets	10,665,264
Restricted For:	
Capital Projects	9,063,307
Unrestricted	7,553,946
Total Net Position	<u>\$ 27,282,517</u>

The accompanying notes are an integral part of this statement.

WALKER COUNTY HOSPITAL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

Functions/Programs	Expenses	Net (Expense) Revenue and Changes in Net Position
PRIMARY GOVERNMENT:		Governmental Activities
Governmental Activities:		
<i>Indigent Care</i>	\$ 6,960,731	\$ (6,960,731)
<i>Health Services</i>	1,380,334	(1,380,334)
<i>Administration Expense</i>	424,899	(424,899)
Total Governmental Activities	<u>8,765,964</u>	<u>(8,765,964)</u>
Total Primary Government	<u>\$ 8,765,964</u>	<u>(8,765,964)</u>
General Revenues:		
<i>Property Taxes</i>		4,347,557
<i>Lease Income</i>		4,546,060
<i>Interest Income</i>		54,650
<i>Other</i>		132,516
Total General Revenues		<u>9,080,783</u>
Change in Net Position		314,819
Net Position - Beginning		26,967,698
Net Position - Ending		<u>\$ 27,282,517</u>

The accompanying notes are an integral part of this statement.

WALKER COUNTY HOSPITAL DISTRICT**BALANCE SHEET - GOVERNMENTAL FUNDS**

DECEMBER 31, 2015

	General Fund
ASSETS:	
<i>Cash and Cash Equivalents</i>	\$ 4,642,761
Receivables:	
<i>Taxes</i>	3,002,543
<i>Other</i>	200,176
Restricted Assets:	
<i>Cash and Cash Equivalents</i>	9,063,307
Total Assets	\$ <u>16,908,787</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:	
Liabilities:	
<i>Accounts Payable</i>	\$ 288,999
<i>Security Deposits</i>	2,000
<i>Other Current Liabilities</i>	536
Total Liabilities	<u>291,535</u>
 DEFERRED INFLOWS OF RESOURCES:	
Deferred Property Taxes	3,002,543
Total Deferred Inflows of Resources	<u>3,002,543</u>
 Fund Balances:	
Restricted Fund Balances:	
<i>Restricted for Capital Additions - ESGC</i>	1,102,878
<i>Restricted for Building and Land Improvements - HMH</i>	899,963
<i>Restricted for Major Equipment - HMH</i>	1,457,299
Committed Fund Balance:	
<i>Committed for Building and Land Improvement - WCHD</i>	5,603,167
Unreserved	4,551,402
Total Fund Balance	<u>13,614,709</u>
 Total Liabilities and Fund Balance	\$ <u>16,908,787</u>

The accompanying notes are an integral part of this statement.

WALKER COUNTY HOSPITAL DISTRICT
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2015*

Total fund balances - governmental funds balance sheet	\$ 13,614,709
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	10,665,264
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	<u>3,002,543</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 27,282,517</u>

The accompanying notes are an integral part of this statement.

WALKER COUNTY HOSPITAL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General Fund
Revenue:	
<i>Property Taxes</i>	\$ 3,977,070
<i>Lease Income</i>	4,546,060
<i>Interest Income</i>	54,650
<i>Other</i>	132,516
Total Revenues	<u>8,710,296</u>
Expenditures:	
<i>Indigent Care</i>	6,960,731
<i>Health Services</i>	208,931
<i>Administration Expense</i>	417,033
<i>Capital Outlay</i>	352,704
Total Expenditures	<u>7,939,399</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	770,897
Fund Balances - Beginning	12,843,812
Fund Balances - Ending	<u>\$ 13,614,709</u>

The accompanying notes are an integral part of this statement.

WALKER COUNTY HOSPITAL DISTRICT

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015*

Net change in fund balances - total governmental funds	\$ 770,897
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	352,704
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,179,269)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	<u>370,486</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 314,819</u>

The accompanying notes are an integral part of this statement.

WALKER COUNTY HOSPITAL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2015

Agency
Fund

UPL Medicaid

ASSETS:

Cash and Cash Equivalents
 Total Assets

\$ 2,812,223
 \$ 2,812,223

LIABILITIES:

Claims Payable
 Total Liabilities

\$ 2,812,223
 \$ 2,812,223

The accompanying notes are an integral part of this statement.

This page has been left blank intentionally.

WALKER COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

A. Summary of Significant Accounting Policies

The combined financial statements of Walker County Hospital District (the "District") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The District's basic financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- the exclusion of the organization would result in misleading or incomplete financial statements

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues may include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including taxes, leases and interest are presented as general revenues. The District records no program revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

WALKER COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

In addition, the District reports the following fund types:

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property 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, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

WALKER COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

b. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50
Building Improvements	20
Office Equipment	3-15
Computer Equipment	3-15

c. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

d. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

e. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Managers. Committed amounts cannot be used for any other purpose unless the Board of Managers removes those constraints by taking the same type of formal action.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Managers or by an official or body to which the Board of Managers delegates the authority.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance.

The District is currently working on developing a formal fund balance policy.

WALKER COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

f. **Deferred Outflows and Inflows of Resources**

In addition to assets, the statements of financial position (the government-wide and proprietary Statements of Net Position) and governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

B. Compliance and Accountability

1. **Finance-Related Legal and Contractual Provisions**

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. **Deficit Fund Balance or Fund Net Position of Individual Funds**

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits:

At December 31, 2015, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in investments) was \$13,701,246 and the bank balance was \$13,708,283. The District's cash deposits at December 31, 2015 and during the year ended December 31, 2015, were covered by FDIC insurance, SIPC insurance or by pledged collateral held by the District's agent bank in the District's name.

Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

WALKER COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares. The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

The District's investment in Texpool, which is included in cash and cash equivalents on the financial statements due to the average maturity of the holdings, at December 31, 2015 is shown below:

Unrestricted Investment	
General Fund	\$ <u>1,466</u>
Restricted Investment	
ESGC Funded Depreciation	\$ <u>3,358</u>

Analysis of Specific Deposit and Investment Risks

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

WALKER COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

D. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,697,536	\$ --	\$ --	\$ 1,697,536
Construction in progress	--	140,000	--	140,000
Total capital assets not being depreciated	<u>1,697,536</u>	<u>140,000</u>	<u>--</u>	<u>1,837,536</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	20,604,684	--	--	20,604,684
Equipment	15,394,121	212,708	--	15,606,829
Total capital assets being depreciated	<u>35,998,805</u>	<u>212,708</u>	<u>--</u>	<u>36,211,513</u>
Less accumulated depreciation for:				
Buildings and improvements	(12,922,112)	(801,440)	--	(13,723,552)
Equipment	(13,282,404)	(377,829)	--	(13,660,233)
Total accumulated depreciation	<u>(26,204,516)</u>	<u>(1,179,269)</u>	<u>--</u>	<u>(27,383,785)</u>
Total capital assets being depreciated, net	<u>9,794,289</u>	<u>(966,561)</u>	<u>--</u>	<u>8,827,728</u>
Governmental activities capital assets, net	<u>\$ 11,491,825</u>	<u>\$ (826,561)</u>	<u>\$ --</u>	<u>\$ 10,665,264</u>

Depreciation was charged to functions as follows:

Health Services	\$ 1,171,403
Administration Expenses	7,866
	<u>\$ 1,179,269</u>

E. Employment Benefits

The District employees are covered by the Social Security system. Regular monthly withholding and matching contributions are made. The District's full time employees have vacation and absence benefits available. The District does not have a retirement program nor does it provide health care benefits. Since 2001, the District has reimbursed employee health insurance premiums.

WALKER COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

F. Lease Agreements

Huntsville Memorial Hospital

Under a "Lease, Mortgage, Deed of Trust, Assignment of Productions and Security Agreement" between the Walker County Hospital District and Huntsville Memorial Hospital, (a Texas non-profit corporation) dated July 1, 1977, the District leases a 140-bed hospital facility to Huntsville Memorial Hospital (a Texas non-profit corporation). The lease provides that the rentals payable to the District will be at least sufficient to pay the principal and interest on the First Mortgage Revenue Bonds, Series A, and to maintain certain reserve funds. The amount of each rental payment to the District may be reduced by certain credits allowable under the lease, including earnings on certain funds and accounts.

The lease also provides that the Hospital pay to the District as supplemental rent six annual payments of \$100,000, with the first payment being due December 25, 1978. These supplemental rent payments are subordinate to all other payments required by the lease, including operating expenses of Huntsville Memorial Hospital. Provisions of the lease provide for deferral of these supplemental rent payments until the end of the lease term.

During 1993, Section 10.8 of the Indenture of Mortgage and Deed of Trust was exercised. This section states that all of the funds held by the trustee are available to be used by the trustee to redeem the bonds. Consequently, the increments for an additional 25 years at \$1,000 per year or a negotiated price. The current agreement extends the contract until June 30, 2033.

On September 21, 1994, the lease between the District and the Hospital was amended to provide two basic rent payments: one is based on indigent care, the other is based on funded depreciation. The amendment provides that the portion of the rents paid based on depreciation booked by the Hospital for the previous year are to be restricted and reserved for capital improvements, renewal, and replacements of the District's assets. These rents will be deposited by the District into two designated accounts: the building and land improvements fund, controlled exclusively by the District, and the fixed equipment and major movables fund, controlled exclusively by the Hospital. Earnings derived from these rents are to be added to the reserved funds. All other rents paid by the Hospital are not to be restricted. This amendment extends the lease until June 30, 2033.

On August 10, 2005, the District adopted a resolution approving and consenting to the assignment by Huntsville Memorial Hospital (HMH) to Walker County Hospital Corporation (WCHC) all of the right, title and interest of HMH in and to the: (1) "Lease, Mortgage, Deed of Trust, Assignment of Production and Security Agreement" dated July 1, 1977, as amended by and between Walker County Hospital District and HMH; (2) "Hospital Operating Agreement" dated October 1, 2004 by and between HMH, VHA Southwest Community Health Corporation and the District; and (3) "Needy Care Agreement" dated 1977 by and between HMH and the District.

The District and HMH terminated the July 1, 1977 lease agreement June 13, 2013. The 1977 lease included many terms related to bonds issued by the District to finance the cost of purchasing, constructing, acquiring, and equipping new facilities for the Hospital, and such bonds ceased to be outstanding on July 1, 1993.

On June 13, 2013, the District leased to HMH all the property, plant and equipment located at the Hospital site. The lease is for a term of twenty years, commencing on June 13, 2013 (subject to one ten year extension as set forth in the lease), and terminating twenty years thereafter, unless earlier terminated or extended, all subject to and on terms and conditions more fully set forth in the lease. Certain terms of the lease were amended to reflect the fair market value of the leased property. The amendment went into effect on March 1, 2014.

Methodist Retirement Services

In order to provide health care to the needy and elderly inhabitants of the District, the District renovated its Ella Smither Building into a geriatric domiciliary care center capable of providing 114 licensed beds.

To finance the costs of such renovation and conversion, including the purchase of various pieces of fixed and moveable equipment, the District, on August 13, 1983, submitted to the voter's approval the sale of \$1,990,000 of bonds secured by the proceeds of the continuing direct annual ad valorem tax levied against the taxable property

WALKER COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

located within the District.

The District entered into an agreement with Methodist Retirement Services, Inc. on October 24, 1984 whereby Methodist Retirement Services would lease the facility and operate a geriatric center. The lease term expires twenty years from initial occupancy, unless sooner terminated or extended. The current lease expires on December 31, 2014.

The District and Methodist Retirement Services, Inc. terminated their lease, effective March 31, 2013, after Methodist Retirement Services, Inc. moved into a new facility.

G. Contingent Indigent Care Liability

University of Texas Medical Branch

Walker County Hospital District has agreements with the University of Texas Medical Branch and John Sealy Hospital in Galveston to assist the District in meeting its responsibility for indigent care in Walker County. As much as possible, indigent hospital care in Walker County is handled through Huntsville Memorial Hospital. When care requirements exceed the capabilities of Huntsville Memorial Hospital, the indigent are referred to John Sealy Hospital. The referral is made because John Sealy Hospital allows Walker County Hospital District to pay a reduced fee for services.

The District is under contract with the University of Texas Medical branch in Galveston to provide health care services to eligible residents of the District. The District agrees to pay the UTMB in Galveston 48% of services provided unless specified in the compensation schedule. Due to hurricane Ike in September, 2008, services in Galveston were suspended until 2009. The 2015 budget for these services was \$1,400,000.

Walker County, Texas

Walker County Hospital District provides health care services to inmates housed in the Walker County jail. The inmates must meet the indigent requirement and be a qualified resident of the Hospital District. Walker County Hospital District reimburses Walker County for indigent inmate care.

Medicaid UPL Program

On January 1, 2006, Walker County Hospital District agreed to deposit its indigent care payment to Huntsville Memorial Hospital into an escrow account for the benefit of the Medicaid Supplemental Payment Program in Walker County (Medicaid UPL Program). Funds are transferred from this account by the Texas State Comptroller of Public Accounts for the purpose of certifying the State's matchable portion of funding for the Medicaid UPL Program. Under the Medicaid UPL Program, the Federal Government matches these funds and then returns them to Huntsville Memorial Hospital.

H. Subsequent Events

The District is in the process of soliciting bids for the sale of the Huntsville hospital. If bids are received and one is accepted, the sale could take place before the end of the next year.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

This page has been left blank intentionally.

WALKER COUNTY HOSPITAL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED DECEMBER 31, 2015

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
<i>Property Taxes</i>	\$ 4,105,317	\$ 4,105,317	\$ 3,977,070	\$ (128,247)
<i>Lease Income</i>	5,321,612	5,321,612	4,546,060	(775,552)
<i>Interest Income</i>	79,500	79,500	54,650	(24,850)
<i>Other</i>	98,100	98,100	132,516	34,416
Total Revenues	<u>9,604,529</u>	<u>9,604,529</u>	<u>8,710,296</u>	<u>(894,233)</u>
Expenditures:				
<i>Indigent Care</i>	7,093,500	7,093,500	6,960,731	132,769
<i>Health Services</i>	260,000	260,000	208,931	51,069
<i>Administration Expense</i>	277,000	365,000	417,018	(52,018)
<i>Capital Outlay</i>	1,974,029	1,886,029	352,719	1,533,310
Total Expenditures	<u>9,604,529</u>	<u>9,604,529</u>	<u>7,939,399</u>	<u>1,665,130</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	--	--	770,897	770,897
Fund Balances - Beginning	12,843,812	12,843,812	12,843,812	--
Fund Balances - Ending	<u>\$ 12,843,812</u>	<u>\$ 12,843,812</u>	<u>\$ 13,614,709</u>	<u>\$ 770,897</u>

WALKER COUNTY HOSPITAL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015

Budgetary Data

The Board of Managers shall prepare a proposed budget annually for the District. The proposed budget must debt, available cash, prior year balances and the estimated tax rate required to fund the budget.

- a. Prior to the beginning of the fiscal year, the District prepares a budget for the succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. The Board of Managers shall hold a public hearing on the proposed budget. A notice must be published no later than the tenth day before the date of the hearing. At the conclusion of the hearing, the board shall adopt the proposed budget.
- c. The board may make changes to the proposed budget.

After adoption, the budget may be amended on the board's approval. Expenditures may not be made that are not included in the annual budget or an amendment to the budget.

This page has been left blank intentionally.