

Winnie-Stowell Hospital District

Accountants' Report and Financial Statements

December 31, 2011 and 2010

Winnie-Stowell Hospital District
December 31, 2011 and 2010

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Independent Accountants' Report on Financial Statements

Board of Directors
Winnie-Stowell Hospital District
Winnie, Texas

We have audited the accompanying balance sheet of Winnie-Stowell Hospital District (the District) as of December 31, 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Winnie-Stowell Hospital District as of and for the year ended December 31, 2010, were audited by other accountants whose report dated July 13, 2011, expressed an unqualified opinion on those statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of Winnie-Stowell Hospital District as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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.

BKD, LLP

March 15, 2013

Winnie-Stowell Hospital District

Management's Discussion and Analysis

Years Ended December 31, 2011 and 2010

Introduction

This management's discussion and analysis of the financial performance of Winnie-Stowell Hospital District (the District) provides an overview of the District's financial activities for the years ended December 31, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the District.

Financial Highlights

- The District's net assets increased by \$44,680, or 3.6%, in 2011, and decreased by \$97,004, or 7.3%, in 2010.
- The District reported an operating loss of \$401,885 in 2011 and \$517,325 in 2010, respectively. The operating loss in 2011 decreased by \$115,440, or 22.3%, over the operating loss reported in 2010. The operating loss in 2010 increased by \$465,879, or 905.6%, from the operating loss reported in 2009.
- Net nonoperating revenues increased by \$26,244, or 6.2%, in 2011 compared to 2010, and decreased by \$69,323, or 14.2%, in 2010 compared to 2009.

Using This Annual Report

The District's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the District, including resources held by the District but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any District's finances is "Is the District as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net assets report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. The District's total net assets — the difference between assets and liabilities — is one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the District's patient base, changes in legislation and regulations, measures of the quantity and quality of

services provided to its patients and local economic factors should also be considered to assess the overall financial health of the District.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The District's Net Assets

The District's net assets are the difference between its assets and liabilities reported in the balance sheets. The District's net assets increased by \$44,680, or 3.6%, in 2011 over 2010, and decreased by \$97,004, or 7.3%, in 2010 over 2009, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Other current assets	\$ 1,061,877	\$ 1,041,050	\$ 986,904
Capital assets, net	132,466	139,499	88,834
Other noncurrent assets	131,250	206,250	281,250
Total assets	\$ 1,325,593	\$ 1,386,799	\$ 1,356,988
Liabilities			
Current liabilities	\$ 51,510	\$ 157,396	\$ 30,581
Total liabilities	51,510	157,396	30,581
Net Assets			
Invested in capital assets, net of related debt	132,466	139,499	88,834
Unrestricted	1,141,617	1,089,904	1,237,573
Total net assets	1,274,083	1,229,403	1,326,407
Total liabilities and net assets	\$ 1,325,593	\$ 1,386,799	\$ 1,356,988

In 2010, the current liabilities increased due to the approval of additional payments of \$131,000 that was not funded at year end.

Operating Results and Changes in the District's Net Assets

In 2011, the District's net assets increased by \$44,680, or 3.6%, as shown in Table 2. The District's net assets decreased from \$1,326,407 in 2009 to \$1,229,403 in 2010, a decrease of 7.3%.

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenues			
Other	\$ 8,164	\$ 10,015	\$ 105,243
Total operating revenues	<u>8,164</u>	<u>10,015</u>	<u>105,243</u>
Operating Expenses			
Indigent care	302,479	408,707	41,090
Purchased services and professional fees	6,000	6,000	6,000
Grant	-	-	11,840
Miscellaneous	94,537	111,477	97,759
Depreciation and amortization	7,033	1,156	-
Total operating expenses	<u>410,049</u>	<u>527,340</u>	<u>156,689</u>
Operating Loss	<u>(401,885)</u>	<u>(517,325)</u>	<u>(51,446)</u>
Nonoperating Revenues (Expenses)			
Sales tax revenue	444,448	416,049	483,278
Investment income	2,117	4,272	6,366
Total nonoperating revenues (expenses)	<u>446,565</u>	<u>420,321</u>	<u>489,644</u>
Increase (Decrease) in Net Assets	<u>\$ 44,680</u>	<u>\$ (97,004)</u>	<u>\$ 438,198</u>

Operating Losses

The first component of the overall change in the District's net assets is its operating income or loss—generally, the difference between operating revenue and indigent care costs for both 2011 and 2010. In each of the past two years, the District has reported an operating loss. This is consistent with the District's recent operating history as the District was formed and is operated primarily to ensure quality healthcare is available for residents of Chambers County and the surrounding area by providing indigent care payments for direct patient care services as well as funding to local facilities.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of sales tax revenue and investment income.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating income (loss) and nonoperating revenues and expenses for 2011, 2010 and 2009, discussed earlier.

Capital Asset Administration

At the end of 2011, the District had \$132,466 invested in capital assets, net of accumulated depreciation, as detailed in *Note 3* to the financial statements.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the District Executive Director by telephoning (409) 267-3143.

Winnie-Stowell Hospital District
Balance Sheets
December 31, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash and cash equivalents	\$ 775,870	\$ 762,848
Short-term investments	203,925	202,833
Sales tax receivable	82,082	75,369
Total current assets	1,061,877	1,041,050
Noncurrent Cash and Investments		
Designated by board for physician retention commitment	131,250	206,250
Capital Assets, Net	132,466	139,499
Total assets	\$ 1,325,593	\$ 1,386,799

Liabilities and Net Assets

Current Liabilities		
Indigent care commitment payable	\$ -	\$ 131,112
Accounts payable	51,510	26,284
Total liabilities	51,510	157,396
Net Assets		
Invested in capital assets, net of related debt	132,466	139,499
Unrestricted	1,141,617	1,089,904
Total net assets	1,274,083	1,229,403
Total liabilities and net assets	\$ 1,325,593	\$ 1,386,799

Winnie-Stowell Hospital District
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Other	\$ 8,164	\$ 10,015
Total operating revenues	<u>8,164</u>	<u>10,015</u>
Operating Expenses		
Indigent care	302,479	408,707
Purchased services and other	100,537	117,477
Depreciation and amortization	<u>7,033</u>	<u>1,156</u>
Total operating expenses	<u>410,049</u>	<u>527,340</u>
Operating Loss	<u>(401,885)</u>	<u>(517,325)</u>
Nonoperating Revenues (Expenses)		
Sales tax revenue	444,448	416,049
Interest income	<u>2,117</u>	<u>4,272</u>
Total nonoperating revenues (expenses)	<u>446,565</u>	<u>420,321</u>
Increase (Decrease) in Net Assets	44,680	(97,004)
Net Assets, Beginning of Year	<u>1,229,403</u>	<u>1,326,407</u>
Net Assets, End of Year	<u><u>\$ 1,274,083</u></u>	<u><u>\$ 1,229,403</u></u>

Winnie-Stowell Hospital District
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Payments to suppliers	\$ (82,024)	\$ (121,774)
Payments for indigent care	(433,591)	(277,595)
Other receipts, net	8,164	10,015
	<u>(507,451)</u>	<u>(389,354)</u>
Noncapital Financing Activities		
Sales taxes supporting operations	444,448	416,049
	<u>444,448</u>	<u>416,049</u>
Capital and Related Financing Activities		
Purchase of capital assets	-	(51,821)
	<u>-</u>	<u>(51,821)</u>
Investing Activities		
Interest on investments	2,117	4,272
Purchase of investments	(1,092)	(202,833)
	<u>1,025</u>	<u>(198,561)</u>
Decrease in Cash and Cash Equivalents	(61,978)	(223,687)
Cash and Cash Equivalents, Beginning of Year	<u>969,098</u>	<u>1,192,785</u>
Cash and Cash Equivalents, End of Year	<u>\$ 907,120</u>	<u>\$ 969,098</u>

Winnie-Stowell Hospital District
Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 775,870	\$ 762,848
Cash and cash equivalents in noncurrent cash and investments	131,250	206,250
Total cash and cash equivalents	\$ 907,120	\$ 969,098
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (401,885)	\$ (517,325)
Depreciation and amortization	7,033	1,156
Changes in operating assets and liabilities:		
Accounts payable and accrued expenses	(105,886)	(4,297)
Other assets and liabilities	(6,713)	131,112
Net cash used in operating activities	\$ (507,451)	\$ (389,354)

Winnie-Stowell Hospital District
Notes to Financial Statements
December 31, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Winnie-Stowell Hospital District (the District) was formed as a political subdivision under the laws of the State of Texas, with its operations governed by a five-member elected board of directors. The District was established to provide indigent healthcare for qualified residents of the district, and encompasses the eastern portion of Chambers County.

Basis of Accounting and Presentation

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The District prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) including those issued on or after November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reporting period. Actual results could differ from those estimates.

Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted primarily of investments in a public investment pool.

Winnie-Stowell Hospital District

Notes to Financial Statements

December 31, 2011 and 2010

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; board liability; and errors and omissions. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the District:

Equipment	20 years
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Net Assets

Net assets of the District are classified in two components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation, and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt.

Sales Tax Revenue

The District received approximately 97.7% and 96.7 % of its financial support from sales taxes in 2011 and 2010, respectively. These funds were used to support operations. Sales taxes are collected by the state of Texas and remitted to the District monthly. The tax is collected by the vendor and is required to be remitted to the state by the 20th of the month following collection. The tax is then paid to the District by the Friday following the second Wednesday of the subsequent month.

Income Taxes

As an essential government function, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2010 financial statement presentation. The reclassifications had no effect on the changes in financial position.

Winnie-Stowell Hospital District
Notes to Financial Statements
December 31, 2011 and 2010

Note 2: Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Texas; bonds of any city, county, school district or special road district of the state of Texas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2011 and 2010, the District's bank balances were fully insured or collateralized by securities held in the District's name.

Investments

Short-term investments are carried at amortized cost and consist of certificates of deposit with maturities over three months, up to one year.

The District has funds invested in TexSTAR which is reported as cash and equivalents. TexSTAR is a local government investment pool created under the Interlocal Cooperation Act specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity and competitive yield. TexSTAR is administered by First Southwest Asset Management, Inc. and JP Morgan Chase. The fund is rated AAAM by Standard and Poor's and maintains a maturity of 60 days or less, with a maximum maturity of 13 months for any individual security. The fund seeks to maintain a constant dollar objective and fulfills all requirements of the Texas Public Funds Investment Act for local government investment pools. Separate financial statements can be obtained by sending TexSTAR a fax or by calling 1-800-TEX-STAR.

Interest Rate Risk – Interest rate risk is the risk that market values of investments will change based on changes in market interest rates. The District's investment policy limits maturities to one year or less as a means of managing its exposure to fair value losses arising from increasing interest rates. State investment pools are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2011 and 2010, the District's investments in TexStar was rated AAAM by Standard & Poor's.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. TexStar is managed to fulfill all requirements of the Texas Public Funds Investment Act.

Winnie-Stowell Hospital District

Notes to Financial Statements

December 31, 2011 and 2010

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer. At December 31, 2011 and 2010, the investment in state investment pools was 90% and 93% of total investments, respectively.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2011	2010
Carrying value:		
Deposits	\$ 1,111,045	\$ 1,171,931
Included in the following balance sheets captions:		
Cash and cash equivalents	\$ 775,870	\$ 762,848
Designated by board for physician retention commitment	131,250	206,250
Short-term investments	203,925	202,833
	\$ 1,111,045	\$ 1,171,931

Note 3: Capital Assets

Capital assets activity for the years ended December 31 was:

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Equipment	\$ 140,655	\$ -	\$ -	\$ -	\$ 140,655
Less accumulated depreciation:					
Equipment	(1,156)	(7,033)	-	-	(8,189)
Capital assets, net	\$ 139,499	\$ (7,033)	\$ -	\$ -	\$ 132,466

Winnie-Stowell Hospital District
Notes to Financial Statements
December 31, 2011 and 2010

	2010				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Equipment	\$ 88,834	\$ 51,821	\$ -	\$ -	\$ 140,655
Less accumulated depreciation: Equipment	-	(1,156)	-	-	(1,156)
Capital assets, net	<u>\$ 88,834</u>	<u>\$ 50,665</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 139,499</u>

Note 4: Contingencies

Litigation

In the normal course of business, the District is, from time to time, subject to allegations that may or do result in litigation. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 5: Indigent Care

The District is responsible for providing healthcare for residents of the District that qualify under the indigent program guidelines. Currently, Chambers County has agreed to manage the indigent care program on behalf of the District in return for an administrative fee of 5% of indigent care payments. The District incurred expense for indigent care in the amount of \$23,986 and \$46,387 and related administrative fees of \$1,199 and \$2,319 for 2011 and 2010, respectively.

The District entered an indigent care affiliation agreement to provide funding through the Texas Medicaid Supplemental Payment Program, also known as the Private Upper Payment Limit Program or PUPLP. Under this program, the District contributes revenues to the State of Texas. In turn, the funds, including a federal match amounts are used to provide payments to the local hospitals for additional funding to cover the costs of providing healthcare services to the indigent residents. The District funded approximately \$408,000 for the year ending December 31, 2011 under this program.

Note 6: Management Fee

The District has an agreement with Chambers County Hospital District to provide the accounting and day to day operation and administration in return for a monthly management fee of \$500. The management fee for the years ended December 31, 2011 and 2010 amounted to \$6,000 each year.

Winnie-Stowell Hospital District
Notes to Financial Statements
December 31, 2011 and 2010

Note 7: Physician Retention Agreement

During fiscal year 2008, the District entered into an commitment with a local doctor to provide funding of up to \$375,000 for repayment of student loans in return for a promise to remain in the local area for the duration of the agreement term and provide professional healthcare services to residents of the community. The amounts will be paid out quarterly starting September 30, 2008 over five years and reported as expense as the time requirement is fulfilled. During the years ended December 31, 2011 and 2010, the District expensed \$75,000 under this agreement with \$37,500 and \$18,750 included in accounts payable as of December 31, 2011 and 2010, respectively. The District has paid or accrued \$262,500 under this agreement through December 31, 2011.