

**WINNIE-STOWELL HOSPITAL DISTRICT  
WINNIE, TEXS**

**For the Years Ended  
December 31, 2013 and 2012**

# DURBIN & COMPANY, L. L. P.

Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors and Management  
Winnie-Stowell Hospital District  
Winnie, Texas

We have audited the accompanying financial statements of Winnie-Stowell Hospital District (the "District"), which comprise the statements of net position, as of December 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### **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 an opinion on these financial statements based on our audits. We conducted our audits 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 from 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 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 opinion.

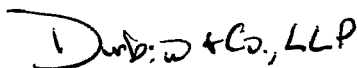
## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Winnie-Stowell Hospital District as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages A-1 through A-4 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.



Durbin & Company, L. L. P.  
Lubbock, Texas  
August 20, 2014

**WINNIE-STOWELL HOSPITAL DISTRICT  
WINNIE, TEXS**

**Management's Discussion and Analysis**

**For the Years Ended  
December 31, 2013 and 2012**

**WINNIE-STOWELL HOSPITAL DISTRICT**  
**MANAGEMENTS' DISCUSSION AND ANALYSIS**  
**AND FINANCIAL STATEMENTS**

**UNAUDITED**

Our discussion and analysis of Winnie-Stowell Hospital District's financial performance provides an overview of the District's financial activities for the fiscal years ended December 31, 2013 and 2012. Please read it in conjunction with the District's financial statements, which begin on page 1.

**FINANCIAL HIGHLIGHTS**

- The District's net position decreased in 2013 by \$(193,509) or (16.1%) and decreased in 2012 by \$(74,137) or (5.8%).
- The District's operating expenses increased in 2013 by \$239,593 or 40.9% and increased in 2012 by \$176,000 or 42.9%.
- The District's non-operating revenues and expenses increased in 2013 by \$119,117 or 23.7% and increased in 2012 by \$56,735 or 12.7%.

**USING THIS ANNUAL REPORT**

The District's financial statements consist of three statements, a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Fund Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, and enabling legislation.

**The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position**

Our analysis of the District's finances begins on page A-2. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position 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. 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 position and changes to it. You can think of the District's net position—the difference between assets and liabilities—as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the District.

**WINNIE-STOWELL HOSPITAL DISTRICT  
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS  
AND FINANCIAL STATEMENTS (CONTINUED)**

**The Statement of Cash Flows**

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing 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 balance during the reporting period?"

**THE DISTRICT'S NET POSITION**

The District's net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 2. The District's assets, liabilities, and net position are summarized in **Table 1**. The total net position represents the District's net worth.

**Table 1: Assets, Liabilities, and Net Position**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current Assets	\$ 983,203	\$ 1,127,065	\$ 1,193,127
Capital Assets (net)	59,504	85,131	132,466
Total Assets	<u>\$ 1,042,707</u>	<u>\$ 1,212,196</u>	<u>\$ 1,325,593</u>
Liabilities:			
Other Current and Non-Current	\$ 36,270	\$ 12,250	\$ 51,510
Total Liabilities	<u>36,270</u>	<u>12,250</u>	<u>51,510</u>
Total Net Position	<u>1,006,437</u>	<u>1,199,946</u>	<u>1,274,083</u>
Total Liabilities and Net Position	<u>\$ 1,042,707</u>	<u>\$ 1,212,196</u>	<u>\$ 1,325,593</u>

A significant component of the change in the District's assets is the decrease in cash and short-term investments in the amount of \$(95,450) in 2013, and \$(32,497) in 2012.

**WINNIE-STOWELL HOSPITAL DISTRICT  
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS  
AND FINANCIAL STATEMENTS (CONTINUED)**

**OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION**

In 2013 and 2012, the District's net position decreased in 2013 by \$(193,509) or (16.1%) and decreased in 2012 by \$(74,137) or (5.8%).

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues:			
Other Operating Revenue	\$ 9,716	\$ 8,612	\$ 8,164
Total Operating Revenue	<u>\$ 9,716</u>	<u>\$ 8,612</u>	<u>\$ 8,164</u>
Operating Expenses:			
Professional Fees and Purchased Services	43,921	81,000	81,000
Indigent Care Support	318,903	385,744	302,479
Legal and Consulting Fees	337,214	22,723	9,535
Other Operating Expenses	99,976	49,247	10,002
Depreciation / Amortization	<u>25,628</u>	<u>47,335</u>	<u>7,033</u>
Total Operating Expenses	<u>825,642</u>	<u>586,049</u>	<u>410,049</u>
Operating Income (Loss)	(815,926)	(577,437)	(401,885)
Nonoperating Revenues and Expenses:			
Sales Tax Revenue	620,958	501,164	444,448
Investment Income	<u>1,459</u>	<u>2,136</u>	<u>2,117</u>
Total Nonoperating Revenue	622,417	503,300	446,565
Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Contributions	<u>(193,509)</u>	<u>(74,137)</u>	<u>44,680</u>
Increase (Decrease) in Net Position	<u>\$ (193,509)</u>	<u>\$ (74,137)</u>	<u>\$ 44,680</u>

**Operating Loss**

Contributing to the overall change of the District's net position is its operating loss, generally, the difference between the Tobacco Settlement and the expenses incurred in operation. The District has reported an operating loss of \$(815,926) and \$(577,437) in 2013 and 2012, respectively.

**Nonoperating Revenues and Expenses**

Nonoperating revenues consist primarily of sales taxes levied by the state and investment income. The District received \$119,794 more in taxes in 2013, while in 2012 the taxes collected increased by \$56,716.

**WINNIE-STOWELL HOSPITAL DISTRICT  
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS  
AND FINANCIAL STATEMENTS (CONTINUED)**

**THE DISTRICT'S CASH FLOWS**

Changes in the District's cash flows are consistent with changes in operating income and nonoperating revenues and expenses.

The net of all cash flow activities resulted in a net decrease in cash and cash equivalents of \$(95,450) in 2013 and decreased \$(32,497) in 2012.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2013 and 2012, respectively, the District had \$59,504 and \$85,131 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 of the financial statements.

**Debt**

At year-end 2013 and 2012, the District did not have any incurred long-term debt.

**Other Economic Factors**

The District maintains good relations with various employers in the area. The District seeks to maintain its provider status in the many health insurance networks that local employers participate in. The District will continue to look for ways to foster its relationship with local employers and work towards promoting the services it offers to potential patients in the area.

**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. If you have any questions about this report or need additional financial information, contact, the District's office at Winnie-Stowell Hospital District, 538 Broadway, Winnie, Texas 77665.



**WINNIE-STOWELL HOSPITAL DISTRICT  
WINNIE, TEXS**

**Financials**

**For the Years Ended  
December 31, 2013 and 2012**

**WINNIE-STOWELL HOSPITAL DISTRICT  
STATEMENTS OF NET POSITION**

**DECEMBER 31, 2013 AND 2012**

<b>ASSETS:</b>	<u>2013</u>	<u>2012</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 647,923	\$ 743,373
Short-Term Investments	205,294	204,680
Prepaid and Other Current Assets	-	100,000
Sales Taxes Receivable	129,986	79,012
Total current assets	<u>983,203</u>	<u>1,127,065</u>
<b>CAPITAL ASSETS</b>		
Depreciable Capital Assets, Net	<u>59,504</u>	<u>85,131</u>
Total Capital Assets, Net	<u>59,504</u>	<u>85,131</u>
Total Assets	<u>\$ 1,042,707</u>	<u>\$ 1,212,196</u>

The accompanying notes are an integral part of these financial statements.

**WINNIE-STOWELL HOSPITAL DISTRICT  
STATEMENTS OF NET POSITION**

**DECEMBER 31, 2013 AND 2012**

<b>LIABILITIES AND NET POSITION:</b>	<u>2013</u>	<u>2012</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	<u>\$ 36,270</u>	<u>\$ 12,250</u>
Total Current Liabilities	36,270	12,250
Total Liabilities	<u>36,270</u>	<u>12,250</u>
<b>NET POSITION</b>		
Invested in Capital Assets Net of Related Debt	59,504	85,131
Unrestricted	<u>946,933</u>	<u>1,114,815</u>
Total Net Position	<u>1,006,437</u>	<u>1,199,946</u>
Total Liabilities and Net Position	<u>\$ 1,042,707</u>	<u>\$ 1,212,196</u>

The accompanying notes are an integral part of these financial statements.

**WINNIE-STOWELL HOSPITAL DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
<b>OPERATING REVENUES:</b>		
Other Revenue	\$ 9,716	\$ 8,612
Total Operating Revenues	9,716	8,612
<b>OPERATING EXPENSES:</b>		
Professional Fees and Purchased Services	43,921	81,000
Indigent Care Support	318,903	385,744
Legal and Consulting Fees	337,214	22,723
Other Operating	99,976	49,247
Depreciation and Amortization	25,628	47,335
Total Operating Expenses	825,642	586,049
Operating Income (Loss)	(815,926)	(577,437)
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Sales Tax Revenue	620,958	501,164
Investment Income	1,459	2,136
Total Nonoperating Revenues (Expenses)	622,417	503,300
Increase (Decrease) in Net Position	(193,509)	(74,137)
Net Position, Beginning of Year	1,199,946	1,274,083
Net Position, End of Year	\$ 1,006,437	\$ 1,199,946

The accompanying notes are an integral part of these financial statements.

**WINNIE-STOWELL HOSPITAL DISTRICT  
STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Other Receipts and Payments, net	\$ 9,716	\$ 8,612
Indigent Care Support	(318,903)	(385,744)
Payments to Suppliers and Contractors	(357,091)	(292,230)
Net cash provided by (used in) operating activities	(666,278)	(669,362)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Earnings	1,459	2,136
Purchase of Investments	(614)	-
Proceeds From Sale of Investments	-	130,495
Net Cash Provided by (Used in) Investing Activities	845	132,631
<b>CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Sales Tax	569,983	504,234
Net Cash Provided by (Used in) Noncapital Financing Activities	569,983	504,234
Net Increase (Decrease) in Cash and Cash Equivalents	(95,450)	(32,497)
Cash and Cash Equivalents, Beginning of Year	743,373	775,870
Cash and Cash Equivalents, End of Year	\$ 647,923	\$ 743,373

The accompanying notes are an integral part of these financial statements.

**WINNIE-STOWELL HOSPITAL DISTRICT  
STATEMENTS OF CASH FLOWS (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>RECONCILIATION OF CASH AND EQUIVALENTS TO THE BALANCE SHEETS</b>		
Cash and equivalents presented under the following titles:		
Cash and Cash Equivalents	\$ 647,923	\$ 743,373
	<u>\$ 647,923</u>	<u>\$ 743,373</u>
<b>RECONCILIATION OF NET INCOME TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating Income (Loss)	(815,926)	(577,437)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Used in Operating Activities:		
Depreciation and Amortization	25,628	47,335
Prepaid Expenses and Other Current Assets	100,000	(100,000)
Increase (Decrease) in:		
Accounts Payable	<u>24,020</u>	<u>(39,260)</u>
 Net Cash Provided By (Used in) Operating Activities	 <u>\$ (666,278)</u>	 <u>\$ (669,362)</u>

The accompanying notes are an integral part of these financial statements.

**WINNIE-STOWELL HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - The Winnie-Stowell Hospital District (the “District”) was formed as a political subdivision under the laws of the State of Texas, and became effective on January 1, 2005, in the eastern portion of Chambers County, Texas. The District is governed by an elected five-member board of directors serving four-year terms. As a hospital district it is not controlled by or dependent upon any other entity and does not exercise control over operations of any other entity.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America.

**Enterprise Fund Accounting** – The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The District has elected to apply the provisions based on Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

**Newly Adopted Accounting Pronouncements**

**GASB Statement No. 63** – GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position. All applicable provisions have been applied to the District’s financial statements.

**GASB Statement No. 65** – GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement 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. All applicable provisions have been applied to the District’s financial statements.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles 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 and Cash Equivalents** - The District considers highly liquid investments with an original maturity of three months or less to be cash equivalents, excluding amounts whose use is limited by board designation or other arrangements under trust agreements.

**WINNIE-STOWELL HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments** – The District is authorized to invest excess working capital and assets whose use is limited in certificate of deposit, money market accounts, or U.S. government securities. The District can invest its excess working capital monies in certificates of deposit at its designated depository and other financial institutions. Investments at the District’s depository are secured by the Federal Deposit Insurance Corporation (FDIC) or through the purchase of collateral in the form of US government securities by the depository.

**Assets Whose Use is Limited** - Assets whose use is limited (if any) include assets held under indenture agreements and designated assets set aside by the board of directors to be used for capital expenditures over which the board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the District have been reclassified as current assets.

**Capital Assets** – Capital assets are carried at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment life. Such amortization is included in depreciation and amortization in the financial statements. Except for capital assets acquired through gifts, contributions, or capital grants, interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring these assets.

The District has elected to capitalize expenditures over \$5,000 and provide for depreciation of capital assets by the straight-line method at rates promulgated by the American Hospital Association, which are designed to amortize the cost of such equipment over its useful life as follows:

Major Moveable Equipment	3 to 20 years
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**Net Position** – Net position of the District are classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

**Operating Revenues and Expenses** – For purposes of display, the District’s statements of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses result from exchange transactions associated with providing health care services - the District’s principal activity. Non-exchange revenues and expenses, including taxes, grants and contributions, and intergovernmental transfers received for purposes other than capital asset acquisition, are reported as non-operating revenues and expenses. Operating expenses are all expenses incurred to provide health care services, other than financing costs.



**WINNIE-STOWELL HOSPITAL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2013 AND 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Federal Income Taxes** - The District is a political subdivision under the laws of the State of Texas, and therefore, it is exempt from federal income tax pursuant to Section 115 of the Internal Revenue Code. Additionally, pursuant to Section 1.6033-2(g)(6) of the Income Tax Regulations, it is not required to file an information return form 990.

**Indigent Care** – The District provides payment for services to health care providers for certified indigents who have applied and met the District’s criteria for indigent care. The District pays a discounted rate which in most cases is equal to the Medicaid reimbursement rates.

**Sales Tax Revenue** – 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 20<sup>th</sup> of the month following collection. The tax is then paid to the District by the Friday following the second Wednesday of the subsequent month. These funds were used to support operations.

**Risk Management** - The District is exposed to various risks of loss from torts: theft of, damage to and destruction of assets; business interruption; errors and omissions and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage during the year.

**Reclassifications** – Certain amounts in the 2012 financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications had no effect on change in net position.

**NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

At December 31, 2013 and 2012, the carrying amount of the District’s deposits with financial institutions was \$329,865 and \$225,115, respectively, and the bank balance was \$349,997 and \$381,753, respectively.

	<u>2013</u>	<u>2012</u>
Amount insured by the FDIC	\$ 250,000	\$ 250,000
Amount collateralized with securities held by the pledging financial institution's trust department in the District's name	<u>99,997</u>	<u>131,753</u>
Total bank balance	<u>\$ 349,997</u>	<u>\$ 381,753</u>

**WINNIE-STOWELL HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 3 – INVESTMENTS**

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. At December 31, 2013 and 2012, the carrying amount of the District's deposits with financial institutions was \$523,352 and \$722,938, respectively. Separate financial statements can be obtained by sending TexSTAR a fax or calling 1-800-TEX-STAR.

**Interest Rate Risk** – Interest rate risk is the risk that the market values of investments will change based on changes in market interest rates. The District 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, 2013 and 2012, 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.

**Concentration of Credit Risk** – The District places no limit on the amount that may be invested in any one issuer. At December 31, 2013 and 2012, the investment in state investment pools was 81% and 97% of total cash and cash equivalents respectively.

**Summary of Carrying Values** – The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	<u>2013</u>	<u>2012</u>
Carrying Value:		
Deposits	<u>\$ 853,217</u>	<u>\$ 948,053</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 647,923	\$ 743,373
Short-Term Investments	<u>205,294</u>	<u>204,680</u>
	<u>\$ 853,217</u>	<u>\$ 948,053</u>

**WINNIE-STOWELL HOSPITAL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2013 AND 2012**

**NOTE 4 – SALES TAX RECEIVABLE**

Sales taxes are reported as revenues in the period for which they are collected. Tax revenue, net of related expenses for 2013 and 2012 was \$620,958 and \$501,164, respectively. As of December 31, 2013 and 2012, the balance of sales tax receivable and its related allowance for uncollectible taxes are as follows:

	<u>2013</u>	<u>2012</u>
Taxes Receivable	<u>\$ 129,986</u>	<u>\$ 79,012</u>

**NOTE 5 – CAPITAL ASSETS**

The following is a summary of capital assets at cost less accumulated depreciation:

	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Reclass/ Retirements</u>	<u>Balance 12/31/13</u>
Equipment	\$ 140,655	\$ -	\$ -	\$ 140,655
Totals at Historical Cost	140,655	-	-	140,655
Less Accumulated Depreciation for:				
Equipment	<u>(55,524)</u>	<u>(25,627)</u>	<u>-</u>	<u>(81,151)</u>
Total Accumulated Depreciation	<u>(55,524)</u>	<u>(25,627)</u>	<u>-</u>	<u>(81,151)</u>
Capital Assets, Net	<u>\$ 85,131</u>	<u>\$ (25,627)</u>	<u>\$ -</u>	<u>\$ 59,504</u>

**WINNIE-STOWELL HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

	<u>Balance 12/31/11</u>	<u>Additions</u>	<u>Reclass/ Retirements</u>	<u>Balance 12/31/12</u>
Equipment	\$ 140,655	\$ -	\$ -	\$ 140,655
Totals at Historical Cost	140,655	-	-	140,655
Less Accumulated Depreciation for:				
Equipment	<u>(8,189)</u>	<u>(47,335)</u>	<u>-</u>	<u>(55,524)</u>
Total Accumulated Depreciation	<u>(8,189)</u>	<u>(47,335)</u>	<u>-</u>	<u>(55,524)</u>
Capital Assets, Net	<u>\$ 132,466</u>	<u>\$ (47,335)</u>	<u>\$ -</u>	<u>\$ 85,131</u>

Depreciation expense for the years ended December 31, 2013 and 2012, was \$25,628 and \$47,335 respectively.

**NOTE 6 – 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. In addition, the District is part of an indigent care assistance agreement with Winnie Community Hospital. This agreement is intended to reimburse the Hospital for services provided to residents of the District. The District incurred expense for indigent care and assistance in the amount of \$318,903 and \$385,744 for 2013 and 2012, respectively.

**NOTE 7 – MANAGEMENT FEE**

For the year ended December 31, 2012, the District had 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 year then ended amounted to \$6,000. In 2013 the District contracted a District administrator to provide the day to day operation and administration in return for a hourly management fee of \$20, with a monthly minimum of \$500. For the year ended December 31, 2013, the management fee was \$6,421.

**WINNIE-STOWELL HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**NOTE 8 – PHYSICIAN RETENTION AGREEMENT**

During fiscal year 2008, the District entered into a 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 District paid the physician \$18,750 quarterly, starting September 30, 2008, over five years and reported it as an expense as the time requirement was fulfilled. During the years ended December 31, 2013 and 2012, the District expensed \$37,500 and \$75,000, respectively. The District has paid the full amount of \$375,000 under this agreement as of December 31, 2013.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

The District is from time to time subject to claims and suits for damages for personal injuries to patients and others, most of which are covered as to risk and amount. In the opinion of management, the ultimate resolution of any unasserted claims will not have a material effect on the District's financial position or results of operation.

**NOTE 10 – SUBSEQUENT EVENTS**

Subsequent to year end, the District has entered into agreements to acquire the operations of 12 nursing homes, so the district can participate in the Nursing Facility Upper Payment Limit(UPL) Supplemental Payment Program. Pursuant to Section 285.101a(1) and b(1)(A) of the Texas Health & Safety Code, The District as such authority to operate a nursing home. Federal regulations at Title 42 Code of Federal Regulations §447.272 allow states to claim federal matching funds under Medicaid up to what Medicare would pay for a similar service. Under this UPL supplemental program, the District would contribute the "state share" of the supplemental payment in the form of Inter-Governmental Transfers (IGTs). The state will claim matching funds and will make a supplemental payment to the nursing facility based on the supplemental amount calculated by the state and the IGT amount transferred by the entity. The District anticipates significant cash outflow for these fundings. The District will enter into a management agreement for the operations of each facility. In the future, the operations of the District could materially change as a result of these transactions.

The date to which events occurring after December 31, 2013, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is August 20, 2014, which is the date on which the financial statements were available to be issued.