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COUNTY JUDGE

**RIO GRANDE VALLEY HEALTH
SERVICES DISTRICT**

FINANCIAL REPORT

**FROM INCEPTION (FEBRUARY 19, 2002)
TO
AUGUST 31, 2005**

 **CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS**

LONG CHILTON, LLP

RIO GRANDE VALLEY HEALTH SERVICES DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rio Grande Valley Health Services District

We have audited the accompanying basic financial statements of the Rio Grande Valley Health Services District as of August 31, 2005 and for the period from inception (February 19, 2002) through August 31, 2005 as listed in the table of contents. These financial statements are the responsibility of the Rio Grande Valley Health Services District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Rio Grande Valley Health Services District, as of August 31, 2005 and from inception (February 19, 2002), and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 19, 2006 on our consideration of the Rio Grande Valley Health Services District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 5 thru 9 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Long Chilton LLP

Brownsville, Texas
July 19, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Rio Grande Valley Health Services District (RGVHSD) financial performance provides an overview of the RGVHSD's financial activities from inception (February 19, 2002) through the fiscal year ended August 31, 2005. The MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

The RGVHSD also implemented the provisions of GASB Statement 37, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*" This Statement clarifies certain GASB 34 provisions related to MD&A requirements and the modified approach to infrastructure. Additionally, the RGVHSD also implemented GASB 38, "*Certain Financial Statement Note Disclosures*" and GASB Interpretation No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statement, effective October 1, 2001.*"

FINANCIAL HIGHLIGHTS

The assets of the RGVHSD's Governmental activities were \$1,523,230 and the liabilities were \$11,355 at the close of the FY2005. This difference resulted in a fund balance of \$1,511,875.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the RGVHSD's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. At August 31, 2005, no adjustments were necessary to convert the governmental fund statements to government-wide statements.

The Government-wide financial statements. *The government-wide financial statements* are designed to provide readers with a broad overview of the RGVHSD's finances in a manner similar to private sector business. They present the financial picture of the RGVHSD from an economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the RGVHSD as well as all liabilities.

The statement of net assets presents information on all the RGVHSD's assets and liabilities, with the difference between the two reported as *net assets*.

The statement of revenues, expenditures, and changes in fund balance/net assets presents information showing how net assets changed during the most recent fiscal year using full accrual basis of accounting. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and

The government-wide financial statements distinguish functions of the RGVHSD that are principally supported by intergovernmental revenues (governmental activities) from other business functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the RGVHSD only include general government.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The RGVHSD, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund of the RGVHSD is categorized a governmental fund.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Unlike the government-wide financial statements, however, governmental funds financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the RGVHSD's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate the comparison between *governmental funds* and *governmental activities*.

The RGVHSD maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the Fund.

The RGVHSD adopts an annual appropriated budget as a management control device during the year for the Fund. A budgetary comparison schedule (original versus final) has been provided for the Fund.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Of the RGVHSD's total assets of \$1,523,230, the largest components are: 1) cash of \$462,707 or 30.4%, 2) receivables which largely represent the Tobacco funds due from Cameron County for FY 2002 \$129,400 and Hidalgo County for Fiscal Years 2002 through 2005 for \$931,123 both

Of the RGVHSD's total assets of \$1,523,230, the largest components are: 1) cash of \$462,707 or 30.4%, 2) receivables which largely represent the Tobacco funds due from Cameron County for FY 2002 \$129,400 and Hidalgo County for Fiscal Years 2002 through 2005 for \$931,123 both representing 69.6% of the total assets. Out of the total liabilities of \$11,355, all are current liabilities.

The RGVHSD's assets equaled liabilities at the close of each of the fiscal years.

The RGVHSD's net assets for fiscal year ended August 31, 2005 are summarized as follows:

	Governmental Activities <u>August 31, 2005</u>
Current and other assets	\$ <u>1,523,230</u>
Total assets	1,523,230
Current and other liabilities	<u>11,355</u>
Total liabilities	11,355
Net assets:	<u>1,511,875</u>
Total net assets	<u>\$ 1,511,875</u>

The Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance/Net Assets of Governmental Funds on page 11 further details the change in net assets.

Rio Grande Valley Health Services District's Changes in Net Assets

	Governmental Activities From Inception (February 19, 2002) to <u>August 31, 2005</u>
Revenues:	
General revenues:	
Intergovernmental revenues	\$ 1,570,858
Unrestricted investments earnings	<u>1,305</u>
Total revenues	1,572,163
Expenses:	
General government	<u>60,288</u>
Total expenses	60,288
Changes in net assets	1,511,875
Net assets -- beginning	-
Net assets -- ending	<u>\$ 1,511,875</u>

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

As noted earlier, the RGVHSD uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements. Fund accounting and budget controls have been the framework of the RGVHSD's strong fiscal management and accountability.

Governmental funds. The general government functions are reported in the Fund. The focus of the RGVHSD's *governmental fund* is to provide information on near-term inflow, outflows and balances of *spendable* resources. Such information is useful in assessing the RGVHSD's annual financing and budgeting requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the RGVHSD's governmental fund reported combined ending fund balance of \$1,511,875.

The Fund is the chief operating fund of the RGVHSD.

GENERAL FUND BUDGETARY HIGHLIGHTS

The budget is prepared in accordance with financial policies approved by the RGVHSD Budget Officer and the Board of Health Services Commissioners following a public hearing. The Budget Officer is required by policy to present the Board of Health Services Commissioners with a balanced budget.

The budget is prepared in accordance with accounting principles generally accepted in the United States of America by the RGVHSD Budget Officer and approved by the Board of Health Services Commissioners following a public hearing. Appropriated budgets are approved and employed as a management control device during the year. The RGVHSD maintains strict budgetary controls and sets its appropriations at the line item level for each department. Appropriation transfers may be made between line item or departments only with the approval of the Board of Health Services Commissioners. Reserves are established as a budget line item and may be transferred to other budget line items with approval of the Board of Health Services Commissioners.

The final FY2005 budget was adopted on July 18, 2005 with the total Fund expenditures amounting to \$60,288.

In total, the original budget and the final amended budget were equal.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The annual budget is developed to provide efficient, effective and economic uses of the RGVHSD's resources, as well as, a means to accomplish the highest priority objectives.

Through the budget, the Board of Health Services Commissioners sets the direction of the RGVHSD, allocates its resources and establishes its priorities.

In considering the RGVHSD budget for FY2006, the Board of Health Services Commissioners and management considered the following factors:

- Projected Tobacco settlement funds,
- Interest earnings are planned for maximum stability
- Each County's projected 8% limit.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, taxpayers and investors with a general overview of the RGVHSD's finances and to show the RGVHSD's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the appropriate financial officer at 964 E. Harrison, Brownsville, Texas 78520.

RIO GRANDE VALLEY HEALTH SERVICES DISTRICT

STATEMENT OF NET ASSETS

August 31, 2005

ASSETS

Cash in bank	\$ 462,707
Accounts receivable	<u>1,060,523</u>
Total assets	<u>1,523,230</u>

LIABILITIES

Due to Cameron County	9,007
Payroll taxes payable	1,635
Fiscal agent fees payable	511
Accrued expenses	<u>202</u>
Total liabilities	<u>11,355</u>

NET ASSETS

Unrestricted	<u>\$ 1,511,875</u>
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See notes to the financial statements.

No adjustments are needed to convert the governmental fund statements to government-wide statements.

RIO GRANDE VALLEY HEALTH SERVICES DISTRICT
**STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE/NET ASSETS**
 From Inception (February 19, 2002) to August 31, 2005

Revenues	
Intergovernmental	\$ 1,570,858
Interest	<u>1,305</u>
	<u>1,572,163</u>
Expenditures	
Advertising	2,081
Fiscal agent fees	852
Insurance	586
Legal services	36,668
Payroll taxes	1,211
Salaries	15,833
Supplies	1,584
Travel	<u>1,473</u>
	<u>60,288</u>
Change in fund balance/net assets	1,511,875
Fund balance/net assets:	
Beginning of year	<u>-</u>
End of year	<u>\$ 1,511,875</u>

See notes to the financial statements.

No adjustments are needed to convert the governmental fund statements to government-wide statements.

RIO GRANDE VALLEY HEALTH SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

August 31, 2005

Note 1 – Purpose of Entity and Summary of Significant Accounting Policies

The Rio Grande Valley Health Services District (referred to as the "District") is a political subdivision organized under Subtitle D, Title 4, Health and Safety Code, Chapter 287 enacted by the 76th Legislative Session effective September 1, 1999. The District created within this chapter grants the power of eminent domain and the authority to issue bonds, but does not grant the authority to levy tax. The creation of this District allows two or more counties or hospital districts to pool resources to improve indigent health care service in a region through partnering of different levels of government, agencies, and the private sector. On February 19, 2002, the Commissioners' Courts of the Counties of Hidalgo and Cameron each passed a concurrent order creating the Rio Grande Valley Health Services District (RGVHSD). During April 2002, both commissioners' courts appointed seven board members, four representing Hidalgo and three representing Cameron. On October 22, 2002, the Board adopted by-laws, developed a mission statement, hired general counsel and set forth to select a bank depository. Although the County Commissioners' Courts appoint District board members, the counties do not exercise any management responsibility over operations, nor do the Counties significantly influence operations. All debt incurred by the District is the responsibility of the District.

The District's activities are funded by each county's funds derived from required eight percent of the prior year's General Revenue Tax Levy (GRTL) appropriated for the provision of Indigent Healthcare defined under Chapter 61, Health & Safety Code and each county's settlement proceeds allotted to them by the State of Texas from their settlement of a suit against the Tobacco Cigarette companies for the state's cost of related health care due to the use of tobacco products by its residents.

A summary of significant accounting policies consistently applied in the preparation of the financial statements follows:

A. Fund Accounting

The District's operations are accounted for in a single governmental operating fund.

B. Basis of Accounting, Measurement Focus, and Financial Statement Presentation

The government-wide financial statements (i.e. the statement of net assets and the statements of changes in net assets) are reported using economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues whose origin is property taxes are recognized as revenues in the year for which they are levied by the funding county.

RIO GRANDE VALLEY HEALTH SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

August 31, 2005

Note 1 – Purpose of Entity and Summary of Significant Accounting Policies – Continued

B. Basis of Accounting, Measurement Focus, and Financial Statement Presentation –
Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as fund accrual accounting.

The District incorporates recent pronouncements including GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments; Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures: Omnibus; and GASB Interpretation No. 6, Recognition and Measurement of certain Liabilities and Expenditures in Governmental Fund Financial Statements.

The principal impact of the adoption of such standards for the District is the presentation of a statement of net assets with required classifications of net assets replacing the customary reported equity classifications. In addition, the adoption of such standards results in the preparation of the Management's Discussion and Analysis as required supplementary information.

C. Local County Funds

Senate Bill 1615 of the 76 Regular Texas Legislative Sessions provides under Government Code 287.024 Funding that each County contribute to the District local General Revenue Tax Levy as defined within the Health and Safety Code, Chapter 61, State assistance received under Chapter 61, and any funds received under the Agreement Regarding Disposition of Settlement Proceeds dated July 18, 1998, or July 24, 1998, and filed in the United States District Court, Eastern District of Texas, in the Case styled The State of Texas v. The American Tobacco Company, et al., No. 5-96CV-91.

RIO GRANDE VALLEY HEALTH SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

August 31, 2005

Note 1 – Purpose of Entity and Summary of Significant Accounting Policies – Continued

D. Budget

The Board adopts a budget for the year of operation. For the year ended August 31, 2005, the Board was still in the organization stage of development. Operational needs were primarily met by the two participating counties.

E. 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash equivalents

The District considers cash in bank and investments with maturity of three months or less when purchased to be cash equivalents.

Note 2 – Contracts

The District contracts with the Counties of Cameron and Hidalgo to administer and pay the healthcare claims of those residents who qualify to participate in the Indigent Healthcare Program as defined within the Health and Safety Code, Chapter 61. The Board intends to contract with each county until the District develops the organizational structure necessary to manage the program. Each contract is renewable on an annual basis. In turn, each county pledges to provide similar administrative resources as they employed prior to the creation of the District until such time as the District is ready to assume full operation.

The District also contracts with Cameron County to provide fiscal agent services. Fiscal services are provided to the District at a fee of five (5%) percent of each transaction. The Board has also designated the fiscal agent as the District's Investment Officer. The County Auditor of Cameron County serves in the role as fiscal agent. The County Auditor has provided a fidelity bond to the Board in a similar amount as the bond provided to Cameron County.

RIO GRANDE VALLEY HEALTH SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

August 31, 2005

Note 2 – Contracts – Continued

The District contracted with Garcia de Trevino & Associates to represent the Board and to assist the Board in Administrative duties during the District's formation. The annual contract is for \$75,000 to be paid in 24 semi-monthly installments.

The District has hired legal counsel to advise Board during its proceedings. The budget for legal services is expected to be \$2,000 per month.

Note 3 – Cash and Investments

Custodial Credit Risk - Deposits:

The District's deposits at year end were covered either by Federal depository insurance or collateral held by the in the System's name. The District adopted an investment policy in November 2005, that reinforces the District's investment practices that remain in compliance with V.T.C.A., Title 10, Government Code, Section 2256.

Concentration Risk:

The District is authorized to utilize investment pools whose operations are compliant with V.T.C.A., Title 10, Government Code, Section 2256. It is policy that the District may not invest more than 65 % of available cash with no more than 35 % of available cash balances invested in any one investment pool. Due to interest rates these pools were not used.

As of August 31, 2005, the District's carrying amount of deposits and investments was \$462,707 and the bank balance was \$463,518.

<u>Current Assets</u>	<u>Fair Value</u>
Cash	\$ 462,707
Total	\$ 462,707

Note 4 – Contingencies

The ability of the District to continue as a going concern is dependent on continued funding by Cameron and Hidalgo Counties and the State of Texas.

**Independent Auditor's Report on Internal
Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit
of Financial Statements Performed in Accordance
With *Government Auditing Standards***

To the Board of Directors
Rio Grande Valley Health Services District

We have audited the accompanying financial statements of Rio Grande Valley Health Services District from inception (February 19, 2002) through August 31, 2005, and have issued our report thereon dated July 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rio Grande Valley Health Services District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rio Grande Valley Health Services District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of

financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which are described as follows:

Fraud Policy – The District has not implemented an antifraud program as required under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee and management, and is not intended to be and should not be used by anyone other than those specified parties.



LONG CHILTON, LLP
Certified Public Accountants

Brownsville, Texas
July 19, 2006