

**Tarrant County Hospital District  
d/b/a JPS Health Network  
A Component Unit of Tarrant County, Texas**

Accountants' Report and Financial Statements

September 30, 2012 and 2011



**Tarrant County Hospital District  
d/b/a JPS Health Network  
A Component Unit of Tarrant County, Texas  
September 30, 2012 and 2011**

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## **Independent Accountants' Report on Financial Statements and Supplementary Information**

Board of Managers  
Tarrant County Hospital District  
d/b/a JPS Health Network  
Fort Worth, Texas

We have audited the accompanying balance sheets of Tarrant County Hospital District d/b/a JPS Health Network (the District), a component unit of Tarrant County, Texas, as of September 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years 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 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 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 audits provide 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 District as of September 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years 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 and pension information 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 audits 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*BKD, LLP*

January 30, 2013

**Tarrant County Hospital District  
d/b/a JPS Health Network  
A Component Unit of Tarrant County, Texas  
Management's Discussion and Analysis  
Years Ended September 30, 2012 and 2011  
(In Thousands)**

***Introduction***

This management's discussion and analysis of the financial performance of Tarrant County Hospital District d/b/a JPS Health Network (the District) provides an overview of the District's financial activities for the years ended September 30, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the District. Unless otherwise indicated, amounts are in thousands.

***Financial Highlights***

- Cash, short-term investments and other noncurrent investments increased in 2012 by \$14,141 or 3.7% and decreased in 2011 by \$11,131 or 2.8%.
- The District's net assets increased in each of the past two years with a \$16,508 or 2.5% increase in 2012 and a \$3,165 or 0.5% increase in 2011.
- The District reported operating losses in both 2012 (\$291,380) and 2011 (\$302,167). The operating loss in 2012 decreased by \$10,787 or 3.6%, as compared to the operating loss reported in 2011. The operating loss in 2011 decreased by \$1,033 or 0.3%, from the operating loss reported in 2010.
- Net nonoperating revenues increased by \$56 or 0.0% in 2012 compared to 2011 and decreased by \$10,458 or 3.3% in 2011 compared to 2010.

***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 hospital's finances is "Is the hospital 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 \$16,508 (2.5%) in 2012 over 2011 and by \$3,165 (0.5%) in 2011 over 2010, as shown in Table 1:

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

|                                                 | 2012              | 2011              | 2010              |
|-------------------------------------------------|-------------------|-------------------|-------------------|
| <b>Assets</b>                                   |                   |                   |                   |
| Cash and short-term investments                 | \$ 211,511        | \$ 200,306        | \$ 213,839        |
| Patient accounts receivable, net                | 62,726            | 53,821            | 55,626            |
| Other current assets                            | 58,645            | 45,200            | 52,177            |
| Capital assets, net                             | 303,812           | 303,918           | 293,555           |
| Other noncurrent assets                         | 188,876           | 179,037           | 176,886           |
| Total assets                                    | <u>\$ 825,570</u> | <u>\$ 782,282</u> | <u>\$ 792,083</u> |
| <b>Liabilities</b>                              |                   |                   |                   |
| Long-term debt                                  | \$ 54,024         | \$ 56,352         | \$ 58,593         |
| Other current and noncurrent liabilities        | 100,910           | 71,802            | 82,527            |
| Total liabilities                               | <u>154,934</u>    | <u>128,154</u>    | <u>141,120</u>    |
| <b>Net Assets</b>                               |                   |                   |                   |
| Invested in capital assets, net of related debt | 250,529           | 248,344           | 232,867           |
| Restricted expendable                           | 4,425             | 2,308             | 8,997             |
| Restricted nonexpendable                        | 250               | 250               | 250               |
| Unrestricted                                    | 415,432           | 403,226           | 408,849           |
| Total net assets                                | <u>670,636</u>    | <u>654,128</u>    | <u>650,963</u>    |
| Total liabilities and net assets                | <u>\$ 825,570</u> | <u>\$ 782,282</u> | <u>\$ 792,083</u> |

One of the most significant changes in the District's assets in 2012 is the increase in amounts due from the state of Texas under supplemental funding programs. Supplemental funding payments were delayed in 2012 as a result of the Medicaid Section 1115(a) demonstration transition, discussed more fully in Note 2, and the related receivable increased by \$21,331 or 178.6% in 2012 as compared to 2011. The District's cash and investments and other noncurrent investments increased by \$14,441 or 3.7% in 2012 as compared to 2011 and the District's accounts receivable increased by \$8,905 or 16.5% in 2012 as

compared to 2011. In May 2012, the District began utilizing a new electronic health record and patient billing software program. This implementation led to billing delays and was the primary cause for the increase in accounts receivable.

The most significant change in the District's assets in 2011 is the decrease in cash and investments and other noncurrent investments of \$11,131 or 2.8%, which was offset by an increase in the District's capital assets of \$10,363 or 3.5%. Capital assets purchased during 2011 were \$24,342 higher than assets purchased in 2010, which relates primarily to the District's implementation of electronic health records. Total assets were also impacted by amounts due from the state of Texas under supplemental funding programs. Due to the timing of payments and the maximum supplemental reimbursement the District was eligible for in the last quarter of the State's 2011 fiscal year, that receivable decreased by \$6,984 or 36.9% from 2010 to 2011.

### ***Operating Results and Changes in the District's Net Assets***

In 2012, the District's net assets increased by \$16,508 or 2.5%, as shown in Table 2. This increase is made up of several different components and represents an increase of 421.6% compared with the increase in net assets for 2011 of \$3,165. The District's change in net assets decreased from \$12,590 in 2010 to \$3,165 in 2011.

***Table 2: Operating Results and Changes in Net Assets***

|                                                                   | <b>2012</b>      | <b>2011</b>     | <b>2010</b>      |
|-------------------------------------------------------------------|------------------|-----------------|------------------|
| <b>Operating Revenues</b>                                         |                  |                 |                  |
| Net patient service revenue                                       | \$ 271,604       | \$ 264,448      | \$ 267,358       |
| Texas disproportionate share and UPL program                      | 121,596          | 103,309         | 91,780           |
| Other operating revenues                                          | 48,373           | 52,450          | 52,306           |
| Total operating revenues                                          | 441,573          | 420,207         | 411,444          |
| <b>Operating Expenses</b>                                         |                  |                 |                  |
| Salaries and wages and employee benefits                          | 356,588          | 354,123         | 342,987          |
| Purchased services and professional fees                          | 180,248          | 158,739         | 178,633          |
| Supplies                                                          | 117,048          | 131,964         | 134,577          |
| Depreciation and amortization                                     | 43,396           | 40,454          | 38,308           |
| Other operating expenses                                          | 35,673           | 37,094          | 20,139           |
| Total operating expenses                                          | 732,953          | 722,374         | 714,644          |
| <b>Operating Loss</b>                                             | (291,380)        | (302,167)       | (303,200)        |
| <b>Nonoperating Revenues (Expenses)</b>                           |                  |                 |                  |
| Property taxes                                                    | 279,403          | 275,345         | 284,028          |
| Contributed services                                              | 23,676           | 26,509          | 27,150           |
| Investment return, interest expense and other                     | 2,309            | 3,478           | 4,612            |
| Total nonoperating revenues (expenses)                            | 305,388          | 305,332         | 315,790          |
| <b>Excess of Revenues Over Expenses<br/>Before Capital Grants</b> | 14,008           | 3,165           | 12,590           |
| <b>Capital Grants</b>                                             | 2,500            | -               | -                |
| <b>Increase in Net Assets</b>                                     | <u>\$ 16,508</u> | <u>\$ 3,165</u> | <u>\$ 12,590</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 net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three 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 serve lower income residents of Tarrant County. The District levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating loss for 2012 decreased by \$10,787 or 3.6% as compared to 2011. The primary components of the increased operating loss are:

- An increase in net patient service revenue of \$7,156 or 2.7%
- An increase in Texas Medicaid supplemental funding of \$18,287 or 17.7%
- The receipt of Electronic Health Record funding of \$4,760 in 2012
- An increase in professional fees and purchased services of \$21,509 or 13.5%
- A decrease in supply and drug costs of \$14,916 or 11.3% and
- An increase in salaries and wages of \$2,465 or 0.7%

While patient days decreased in 2012 as compared to 2011, patient service revenue increased primarily due to a slight increase in the acuity of patients and minor shifts in payer mix and a transfer of the payment of trauma funds to the Medicaid SDA. The increase in revenue from supplemental funding from the Texas Medicaid program is attributable to the Medicaid Section 1115(a) demonstration, discussed in *Note 2*, and increased funding to the District for uncompensated care through that program.

Professional fees and purchased services increased in the current year as a result of increased payments to physician groups providing services to indigent patients served by the District and due to increased consulting services utilized during the implementation of the District's new electronic health record system.

The decrease in supply and drug costs is primarily attributable to new drug related contracts which reduced the unit price of various drugs and led to an overall decrease in drug costs.

The operating loss for 2011 of \$302,167 was \$1,033 less than the operating loss of \$303,200 recognized in 2010. The District had a decrease in net patient service revenue of \$2,910 and an increase in Texas Medicaid supplemental funding of \$11,529. The increase in supplemental funding was primarily the result of increased Medicaid and uncompensated care patients, coupled with fluctuations in various other factors impacting the amount of revenue the District is eligible for under the supplemental funding programs. Overall, operating revenues increased \$8,763 or 2.1%, in 2011 as compared to 2010. While expenses declined in some areas, the increased revenue was largely offset by an increase in salaries and wages of \$11,136 or 3.2%. Overall, expenses in 2011 increased by \$7,730 or 1.1%, as compared to 2010.

## ***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist primarily of property taxes levied by the District and investment income and interest expense. The District held property tax rates steady in 2012, but an increase in overall property values as well as changes in estimated uncollectible property taxes resulted in a net increase in property tax revenue of \$4,058 or 1.5% from 2011 to 2012. Investment return declined in 2012 compared to 2011, resulting primarily from a decrease in interest rates on certificates of deposit and debt securities. Contributed services represent the difference between the value of services provided to the District's indigent patients by area physicians and the amount the District ultimately paid for those services. Contributed services decreased by \$2,833 in 2012 as compared to 2011.

Interest expense decreased by \$245 or 12.2% due to a decrease in long-term debt, but interest expense was also impacted by less interest being capitalized in conjunction with the District's electronic medical records project.

### ***The District's Cash Flows***

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2012, 2011 and 2010, discussed earlier.

### ***Capital Asset and Debt Administration***

#### **Capital Assets**

At the end of 2012, the District had \$303,812 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2012, the District purchased new capital assets costing \$44,931. This includes \$25,056 to complete the District's new electronic health record system. The District also completed a physical inventory of capital assets during 2012.

At the end of 2011, the District had \$303,918 invested in capital assets, net of accumulated depreciation. In 2011, the District purchased new equipment costing \$26,066. In addition, approximately \$22,047 was spent to develop the new electronic health record system discussed above.

#### **Debt**

At September 30, 2012, the District had \$56,385 in revenue bonds and certificates of obligation outstanding. The District issued no new debt in 2012 or 2011. The District's formal debt issuances, revenue bonds, are subject to limitations imposed by state law. There have been no changes in the District's debt ratings in the past three years, but the outlook changed from stable to negative on the 2006 bonds given the dependence of the District on federal funding. Subsequent to year-end, the District advanced refunded its Series 2002 Bond obligations. See *Note 9* for additional discussion.

#### **Other Economic Factors**

The District is the Anchor facility for the Region 10 Regional Healthcare Partnership (RHP) Delivery System Reform Incentive Payment (DSRIP) program under the Medicaid Section 1115(a) demonstration. The Region 10 RHP is the result of a shared commitment by the region's providers to a community-oriented, regional healthcare delivery model focused on the triple aims of improving the experience of care for patients and their families, improving the health of the region, and reducing the cost of care without compromising quality. Region 10's DSRIP plan is the essential blueprint for improved individual and population health at a lower cost, delivered more efficiently.

The District is anticipating a small increase in volumes in fiscal year 2013 from growth in the county and with the addition of new physicians to the medial staff. Based on the recommendation of the District's Board of Managers, the Tarrant County Commissioners Court set the property tax rate for fiscal year 2013 to \$0.227897 per \$100 valuation.

The Board and management continue to monitor and consider many factors that have direct or indirect impact on future operations. These include:

- The Medicaid Section 1115(a) demonstration project which could have a material impact on the District's funding for providing uncompensated care and provides funding for improvements in the design of the health care delivery system and associated outcomes
- The reimbursement impact of the Patient Protection and Affordable Care Act, Texas Medicaid DSH and other federal legislation
- Tarrant County's population growth, as well as continued growth in the number of uninsured, working poor and medically indigent

- Workforce shortages, particularly in the areas of nursing, therapists, medical technologists and IT
- Continued growth in medical and pharmaceutical costs, as well as advances in therapies, and
- Continued advances in health care medical equipment and computing technology
- The District's adoption of LEAN and Six Sigma methodologies to improve efficiency and reduce outcome variation

### ***Significant Financial Practices***

The District maintains several financial practices designed to maintain its credit-worthiness and to position the District to carry out its defined mission of providing health care to the residents of Tarrant County, as well as its fiduciary responsibility to the taxpayers of Tarrant County. Those practices are as follows:

#### ***Investments Internally Designated for Capital Acquisition and Operating Activities***

The Board sets aside funds for both long-term stability and capital improvements.

#### ***Monthly Financial Reporting***

The Board meets monthly and reviews the financial statements from the prior month. This information is presented to show actual monthly and year-to-date revenues and expenses compared to budget and the prior year. Management provides explanation for significant variances.

#### ***Pay-As-You-Go Capital Funding***

The District has maintained the practice to fund routine capital items under a pay-as-you-go basis. This has been done to minimize borrowing costs as well as maintain financial flexibility.

#### ***Budget Process***

The operating and capital budgets are proposed by the District's management and endorsed by the Board. Final approval is obtained from the Court. The budget remains in effect for the entire fiscal year.

### ***Contacting the District's Financial Management***

This financial report is designed to provide our readers 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's Financial Offices at 1350 South Main Street, Suite 4000, Fort Worth, Texas 76104.

**Tarrant County Hospital District  
d/b/a JPS Health Network  
A Component Unit of Tarrant County, Texas**

**Balance Sheets  
September 30, 2012 and 2011  
(In Thousands)**

**Assets**

|                                                                                 | <b>2012</b>              | <b>2011</b>              |
|---------------------------------------------------------------------------------|--------------------------|--------------------------|
| <b>Current Assets</b>                                                           |                          |                          |
| Cash and cash equivalents                                                       | \$ 151,366               | \$ 90,030                |
| Short-term investments                                                          | 60,145                   | 110,276                  |
| Patient accounts receivable, net                                                | 62,726                   | 53,821                   |
| Property taxes receivable, net                                                  | 4,253                    | 5,209                    |
| Texas Medicaid supplemental funding receivable                                  | 33,272                   | 11,941                   |
| Restricted pledges receivable, net                                              | 43                       | 279                      |
| Held by trustee for self insurance, current portion                             | 285                      | 5,501                    |
| Due from third-party payers                                                     | -                        | 2,200                    |
| Supplies inventory                                                              | 9,472                    | 10,011                   |
| Prepaid expenses and other assets                                               | 11,320                   | 10,059                   |
|                                                                                 | <hr/>                    | <hr/>                    |
| Total current assets                                                            | 332,882                  | 299,327                  |
|                                                                                 | <hr/>                    | <hr/>                    |
| <b>Noncurrent Cash and Investments</b>                                          |                          |                          |
| Held by trustee for debt service                                                | 3,006                    | 2,958                    |
| Held by trustee for self insurance                                              | 11,297                   | 13,243                   |
| Restricted by donors for capital acquisitions and specific operating activities | 2,070                    | 2,623                    |
| Internally designated for capital acquisitions and operating activities         | 170,723                  | 160,120                  |
|                                                                                 | <hr/>                    | <hr/>                    |
| Total noncurrent cash and investments                                           | 187,096                  | 178,944                  |
|                                                                                 | <hr/>                    | <hr/>                    |
| <b>Other Receivables</b>                                                        | 1,780                    | 93                       |
|                                                                                 | <hr/>                    | <hr/>                    |
| <b>Capital Assets, Net</b>                                                      | 303,812                  | 303,918                  |
|                                                                                 | <hr/>                    | <hr/>                    |
| Total assets                                                                    | <u><u>\$ 825,570</u></u> | <u><u>\$ 782,282</u></u> |

## Liabilities and Net Assets

|                                                 | 2012       | 2011       |
|-------------------------------------------------|------------|------------|
| <b>Current Liabilities</b>                      |            |            |
| Accounts payable                                | \$ 54,119  | \$ 32,847  |
| Accrued expenses                                | 33,020     | 28,171     |
| Due to third-party payers                       | 3,547      | 150        |
| Current portion of self-insurance costs         | 5,552      | 5,501      |
| Current maturities of long-term debt            | 2,265      | 2,180      |
| Total current liabilities                       | 98,503     | 68,849     |
| <b>Estimated Self-insurance Costs</b>           | 1,411      | 1,674      |
| <b>Long-term Debt</b>                           | 54,024     | 56,352     |
| <b>Other Long-term Liabilities</b>              | 996        | 1,279      |
| Total liabilities                               | 154,934    | 128,154    |
| <b>Net Assets</b>                               |            |            |
| Invested in capital assets, net of related debt | 250,529    | 248,344    |
| Restricted expendable                           | 4,425      | 2,308      |
| Restricted nonexpendable                        | 250        | 250        |
| Unrestricted                                    | 415,432    | 403,226    |
| Total net assets                                | 670,636    | 654,128    |
| Total liabilities and net assets                | \$ 825,570 | \$ 782,282 |

**Tarrant County Hospital District**  
**d/b/a JPS Health Network**  
**A Component Unit of Tarrant County, Texas**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended September 30, 2012 and 2011**  
**(In Thousands)**

|                                                                                                                 | <b>2012</b>              | <b>2011</b>              |
|-----------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| <b>Operating Revenues</b>                                                                                       |                          |                          |
| Net patient service revenue, net of provision for<br>uncollectible accounts; 2012 – \$337,838; 2011 – \$282,434 | \$ 271,604               | \$ 264,448               |
| Supplemental Medicaid funding                                                                                   | 121,596                  | 103,309                  |
| Contributions                                                                                                   | 502                      | 819                      |
| Other operating revenue                                                                                         | 47,871                   | 51,631                   |
|                                                                                                                 | <u>441,573</u>           | <u>420,207</u>           |
| Total operating revenues                                                                                        | <u>441,573</u>           | <u>420,207</u>           |
| <b>Operating Expenses</b>                                                                                       |                          |                          |
| Salaries and related expenses                                                                                   | 356,588                  | 354,123                  |
| Professional fees and purchased services                                                                        | 180,248                  | 158,739                  |
| Supplies                                                                                                        | 117,048                  | 131,964                  |
| Depreciation and amortization                                                                                   | 43,396                   | 40,454                   |
| Other                                                                                                           | 35,673                   | 37,094                   |
|                                                                                                                 | <u>732,953</u>           | <u>722,374</u>           |
| Total operating expenses                                                                                        | <u>732,953</u>           | <u>722,374</u>           |
| <b>Operating Loss</b>                                                                                           | <u>(291,380)</u>         | <u>(302,167)</u>         |
| <b>Nonoperating Revenues (Expenses)</b>                                                                         |                          |                          |
| Property tax revenue                                                                                            | 279,403                  | 275,345                  |
| Contributed services                                                                                            | 23,676                   | 26,509                   |
| Interest expense                                                                                                | (1,764)                  | (2,009)                  |
| Investment return and other                                                                                     | 4,073                    | 5,487                    |
|                                                                                                                 | <u>305,388</u>           | <u>305,332</u>           |
| Total nonoperating revenues (expenses)                                                                          | <u>305,388</u>           | <u>305,332</u>           |
| <b>Excess of Revenues Over Expenses Before Capital Grants</b>                                                   | 14,008                   | 3,165                    |
| <b>Capital Grants</b>                                                                                           | <u>2,500</u>             | <u>-</u>                 |
| <b>Increase in Net Assets</b>                                                                                   | 16,508                   | 3,165                    |
| <b>Net Assets, Beginning of Year</b>                                                                            | <u>654,128</u>           | <u>650,963</u>           |
| <b>Net Assets, End of Year</b>                                                                                  | <u><u>\$ 670,636</u></u> | <u><u>\$ 654,128</u></u> |

**Tarrant County Hospital District  
d/b/a JPS Health Network  
A Component Unit of Tarrant County, Texas**

**Statements of Cash Flows  
Years Ended September 30, 2012 and 2011  
(In Thousands)**

|                                                                 | <b>2012</b>              | <b>2011</b>             |
|-----------------------------------------------------------------|--------------------------|-------------------------|
| <b>Operating Activities</b>                                     |                          |                         |
| Receipts from and on behalf of patients                         | \$ 268,296               | \$ 264,714              |
| Receipts from Texas Medicaid supplemental funding programs      | 100,265                  | 110,293                 |
| Payments to suppliers and contractors                           | (287,152)                | (309,600)               |
| Payments to employees                                           | (351,728)                | (350,756)               |
| Other receipts, net                                             | 46,639                   | 53,008                  |
| Net cash used in operating activities                           | <u>(223,680)</u>         | <u>(232,341)</u>        |
| <b>Noncapital Financing Activities</b>                          |                          |                         |
| Property taxes supporting operations                            | <u>278,241</u>           | <u>272,449</u>          |
| Net cash provided by noncapital financing activities            | <u>278,241</u>           | <u>272,449</u>          |
| <b>Capital and Related Financing Activities</b>                 |                          |                         |
| Principal paid on long-term debt                                | (2,180)                  | (2,095)                 |
| Interest paid on long-term debt                                 | (2,826)                  | (2,910)                 |
| Property taxes supporting debt service                          | 2,118                    | 1,906                   |
| Purchase of capital assets                                      | <u>(41,605)</u>          | <u>(53,627)</u>         |
| Net cash used in capital and related financing activities       | <u>(44,493)</u>          | <u>(56,726)</u>         |
| <b>Investing Activities</b>                                     |                          |                         |
| Purchase of investments                                         | (186,510)                | (218,326)               |
| Proceeds from the sale and maturities of short-term investments | 233,320                  | 246,690                 |
| Interest income and other                                       | <u>4,073</u>             | <u>5,487</u>            |
| Net cash provided by investing activities                       | <u>50,883</u>            | <u>33,851</u>           |
| <b>Increase in Cash and Cash Equivalents</b>                    | 60,951                   | 17,233                  |
| <b>Cash and Cash Equivalents, Beginning of Year</b>             | <u>93,687</u>            | <u>76,454</u>           |
| <b>Cash and Cash Equivalents, End of Year</b>                   | <u><u>\$ 154,638</u></u> | <u><u>\$ 93,687</u></u> |

**Tarrant County Hospital District**  
**d/b/a JPS Health Network**  
**A Component Unit of Tarrant County, Texas**  
**Statements of Cash Flows (Continued)**  
**Years Ended September 30, 2012 and 2011**  
**(In Thousands)**

|                                                                          | <b>2012</b>                | <b>2011</b>                |
|--------------------------------------------------------------------------|----------------------------|----------------------------|
| <b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b> |                            |                            |
| Cash and cash equivalents in current assets                              | \$ 151,366                 | \$ 90,030                  |
| Cash and cash equivalents in noncurrent cash and investments             | <u>3,272</u>               | <u>3,657</u>               |
|                                                                          | <u><u>\$ 154,638</u></u>   | <u><u>\$ 93,687</u></u>    |
| <b>Net Cash Used in Operating Activities</b>                             |                            |                            |
| Operating loss                                                           | \$ (291,380)               | \$ (302,167)               |
| Depreciation and amortization                                            | 43,396                     | 40,454                     |
| Loss on disposal of assets                                               | 1,451                      | 1,245                      |
| Contributed services expense                                             | 23,676                     | 26,509                     |
| Changes in operating assets and liabilities                              |                            |                            |
| Patient accounts receivable                                              | (8,905)                    | 1,805                      |
| Texas Medicaid supplemental funding receivable                           | (21,331)                   | 6,984                      |
| Estimated amounts due from and to third-party payers                     | 5,597                      | (1,539)                    |
| Accounts payable and accrued expenses                                    | 23,984                     | (8,158)                    |
| Other assets and liabilities                                             | <u>(168)</u>               | <u>2,526</u>               |
| Net cash used in operating activities                                    | <u><u>\$ (223,680)</u></u> | <u><u>\$ (232,341)</u></u> |
| <b>Supplemental Cash Flows Information</b>                               |                            |                            |
| Capital asset acquisitions included in accounts payable                  | \$ 282                     | \$ 708                     |
| Contributed services revenue ( <i>Note 13</i> )                          | \$ 23,676                  | \$ 26,509                  |

**Tarrant County Hospital District  
d/b/a JPS Health Network  
A Component Unit of Tarrant County, Texas**

**Notes to Financial Statements**

**September 30, 2012 and 2011**

**(In Thousands)**

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

***Nature of Operations and Reporting Entity***

Tarrant County Hospital District d/b/a JPS Health Network (the District) is a political subdivision of the state of Texas and operates a hospital, a psychiatric inpatient facility, a skilled nursing unit, 24 ambulatory health centers, a psychiatric emergency center, an emergency department and a designated Level 1 trauma center, three health centers for women, 19 school-based clinics and dental services at six locations. Additionally, it manages medical care services at the Tarrant County correctional system's three locations. The District is under the supervision of the Tarrant County Commissioners Court (the Court) and is governed by an 11 member Board of Managers (the Board) appointed by the Court. For this reason, the District is considered to be a component unit of Tarrant County, Texas (the County) and is included as a discretely presented component unit in the basic financial statements of the County.

JPS Physician Group (JPSPG) began operations in July 2003, primarily for the purpose of providing physician services to District patients. The District is the sole corporate member of JPSPG and has the authority to exercise significant control over the financial operations of JPSPG. As such, JPSPG is presented as a blended component unit of the District.

JPS Foundation (the Foundation) was formed on August 4, 1997, solely to support and benefit scientific, educational and charitable activities conducted by the District. The Foundation is a non-profit organization whose purpose is to perform services on behalf of the District, including organizing fundraising activities, providing patient assistance programs, participating in recruiting functions and conducting administrative services. The Foundation is also presented as a blended component unit of the District.

The District's financial statements include the activities as set forth above. All material intercompany accounts and transactions have been eliminated in the financial statements.

***Basis of Accounting and Presentation***

The accompanying 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 (principally federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions.

**Tarrant County Hospital District  
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**(In Thousands)**

Government-mandated nonexchange transactions that are not program specific, 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) that were issued on or before 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 and Cash Equivalents***

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2012 and 2011, cash equivalents consisted primarily of money market accounts with brokers.

***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; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice, employee health and workers' compensation claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District is self-insured for a portion of its exposure to risk of loss from medical malpractice, employee health and workers' compensation claims. Annual estimated provisions are accrued for the self-insured portion of these risks and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

**Tarrant County Hospital District  
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A Component Unit of Tarrant County, Texas**

**Notes to Financial Statements  
September 30, 2012 and 2011  
(In Thousands)**

***Investments and Investment Income***

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one-year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

***Patient Accounts Receivable***

The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

***Supplies***

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

***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. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the District:

|                            |               |
|----------------------------|---------------|
| Land improvements          | 10 – 20 years |
| Buildings and improvements | 10 – 40 years |
| Equipment                  | 3 – 20 years  |
| Computer software          | 3 – 10 years  |

**Tarrant County Hospital District  
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**Notes to Financial Statements**

**September 30, 2012 and 2011**

**(In Thousands)**

The District capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred was:

|                                   | <b>2012</b>     | <b>2011</b>     |
|-----------------------------------|-----------------|-----------------|
| Interest costs capitalized        | \$ 988          | \$ 830          |
| Interest costs charged to expense | 1,764           | 2,009           |
| Total interest incurred           | <u>\$ 2,752</u> | <u>\$ 2,839</u> |

***Deferred Financing Costs***

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the effective interest method.

***Compensated Absences***

District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

***Net Assets***

Net assets of the District are classified in four 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. Restricted expendable net assets are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the District, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net assets are noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Hospital, such as permanent endowments. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted.

**Tarrant County Hospital District  
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**Notes to Financial Statements**

**September 30, 2012 and 2011**

**(In Thousands)**

***Net Patient Service Revenue***

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

***Tobacco Settlement Revenue***

The District receives revenue that is the result of a settlement between various counties and hospital districts in Texas and the tobacco industry for tobacco-related health care costs. The District received approximately \$5,285 and \$5,664 in revenue from this settlement for the years ended September 30, 2012 and 2011, respectively. This revenue is recognized as a component of other operating revenue in the accompanying statements of revenues, expenses and changes in net assets.

***Charity Care***

The District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

***Income Taxes***

As an essential government function of the County, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code (IRC) and a similar provision of state law. The District and the Foundation also carry an exemption from income taxes under IRC Section 501(c)(3). JPSPG is exempt from income taxes under Section 501(a) of the IRC. The District, the Foundation and JPSPG are all subject to federal income tax on any unrelated business taxable income.

**Tarrant County Hospital District  
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**Notes to Financial Statements**

**September 30, 2012 and 2011**

**(In Thousands)**

***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the American Recovery and Reinvestment Act of 2009, provides for one time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payments under both programs are contingent on the District continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The District recognizes revenue under the grant accounting model using the cliff recognition approach. Under this approach, revenue is recognized once meaningful use status has been met for the full reporting period.

In 2012, the District completed the first year requirements under the Medicaid program and has recorded revenue of approximately \$4,760, which is included as a component of other operating revenue in the accompanying statements of revenue, expenses and changes in net assets.

***Reclassifications***

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. The reclassifications had no effect on the changes in financial position.

**Note 2: Net Patient Service Revenue**

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient nonacute services and defined medical education costs are paid based on a cost reimbursement methodology. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.

**Tarrant County Hospital District  
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**Notes to Financial Statements**

**September 30, 2012 and 2011**

**(In Thousands)**

The District's Medicare cost reports have been audited by the Medicare administrative contractor through September 30, 2007.

- **Medicaid** – Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment system. Inpatient reimbursement is inclusive of an add-on for trauma care that is based on the Medicaid Standards Dollar Amount. Outpatient and physician services are reimbursed under a mixture of fee schedules and cost reimbursement. The District is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid administrative contractor. The District's Medicaid cost reports have been audited by the Medicaid administrative contractor through September 30, 2007.

On December 12, 2011, the United States Department of Health & Human Services approved a new Medicaid section 1115(a) demonstration entitled "Texas Health Transformation and Quality Improvement Program". This demonstration will expand existing Medicaid managed care programs and established two funding pools that will assist providers with uncompensated care costs and promote health system transformation. The demonstration is effective from December 12, 2011 to September 30, 2016, and will likely have a material impact on the District's future Medicaid funding. The funding received through this demonstration could impact the funding the District has historically received under the Texas Medicaid Disproportionate Share (DSH) program and will replace the funding historically received through the Upper Payment Limit (UPL) program, both designed to assist those facilities serving the majority of the indigent patients by providing funds supporting increased access to health care within the community. Total funding received through the Texas Medicaid supplemental funding programs was \$121,596 and \$103,309 for the years ended September 30, 2012 and 2011, respectively.

Approximately 38% and 50% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The District has also entered into payment agreements with certain commercial insurance carriers, HMOs and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

**Tarrant County Hospital District  
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**Notes to Financial Statements**

**September 30, 2012 and 2011**

**(In Thousands)**

**Note 3: Property Tax Revenue**

The District received approximately 39% and 40% of its support from property taxes in the years ended September 30, 2012 and 2011, respectively. Property taxes are levied by the District on October 1 of each year based on the preceding January 1 assessed property values. To secure payment, an enforceable lien attaches to the property on January 1, when the value is assessed. Property taxes become due and payable when levied on October 1. This is the date on which an enforceable legal claim arises and the District records a receivable for the property tax assessment, less an allowance for uncollectible taxes. Property taxes are considered delinquent after January 31 of the following year. The District recorded an allowance for uncollectible property taxes of approximately \$8,745 and \$7,891 at September 30, 2012 and 2011, respectively.

The District's property tax rate was \$0.226175 and \$0.226200 per \$100 valuation for 2012 and 2011, respectively, for the maintenance and operation fund and property tax revenue for this fund was approximately \$277,292 and \$273,432 for 2012 and 2011, respectively. The District's property tax rate was \$0.001722 and \$0.001697 per \$100 valuation for 2012 and 2011, respectively, for the interest and sinking fund and property tax revenue for this fund was approximately \$2,111 and \$1,913 for 2012 and 2011, respectively.

**Note 4: Deposits, Investments and Investment Income**

***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 or other qualified investments. At September 30, 2012 and 2011, the District's deposits were either insured or collateralized in accordance with state law.

***Investments***

The District may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

**Tarrant County Hospital District  
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**Notes to Financial Statements  
September 30, 2012 and 2011  
(In Thousands)**

At September 30, 2012 and 2011, the District had the following investments and maturities as:

| <b>September 30, 2012</b> |                   |                            |                  |                  |                         |
|---------------------------|-------------------|----------------------------|------------------|------------------|-------------------------|
| <b>Type</b>               | <b>Fair Value</b> | <b>Maturities in Years</b> |                  |                  |                         |
|                           |                   | <b>Less<br/>Than 1</b>     | <b>1-5</b>       | <b>6-10</b>      | <b>More<br/>Than 10</b> |
| Money market mutual funds | \$ 3,224          | \$ 3,224                   | \$ -             | \$ -             | \$ -                    |
| Investment pools          | 94,361            | 94,361                     | -                | -                | -                       |
| U.S. Treasury obligations | 1,263             | -                          | 1,263            | -                | -                       |
| U.S. agencies obligations | 40,590            | 2,447                      | 31,721           | 6,422            | -                       |
| Municipal bonds           | 574               | 203                        | 371              | -                | -                       |
|                           |                   | <u>\$ 100,235</u>          | <u>\$ 33,355</u> | <u>\$ 6,422</u>  | <u>\$ -</u>             |
| Mutual funds              | <u>199</u>        |                            |                  |                  |                         |
|                           | <u>\$ 140,211</u> |                            |                  |                  |                         |
| <b>September 30, 2011</b> |                   |                            |                  |                  |                         |
| <b>Type</b>               | <b>Fair Value</b> | <b>Maturities in Years</b> |                  |                  |                         |
|                           |                   | <b>Less<br/>Than 1</b>     | <b>1-5</b>       | <b>6-10</b>      | <b>More<br/>Than 10</b> |
| Money market mutual funds | \$ 3,244          | \$ 3,244                   | \$ -             | \$ -             | \$ -                    |
| Investment pools          | 45,298            | 45,298                     | -                | -                | -                       |
| U.S. Treasury obligations | 1,248             | -                          | 521              | 727              | -                       |
| U.S. agencies obligations | 60,154            | 21,548                     | 20,777           | 17,829           | -                       |
| Municipal bonds           | 683               | 101                        | 582              | -                | -                       |
|                           |                   | <u>\$ 70,191</u>           | <u>\$ 21,880</u> | <u>\$ 18,556</u> | <u>\$ -</u>             |
| Mutual funds              | <u>199</u>        |                            |                  |                  |                         |
|                           | <u>\$ 110,826</u> |                            |                  |                  |                         |

**Tarrant County Hospital District**  
**d/b/a JPS Health Network**  
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**Notes to Financial Statements**

**September 30, 2012 and 2011**

**(In Thousands)**

- **Interest Rate Risk** – As a means of limiting its exposure to fair value losses arising from rising interest rates, the District investment policy requires that total investments have a weighted-average maturity of five years or less. The District's investments in U.S. Treasury and agency obligations include fixed-rate notes and bonds with a weighted-average maturity of three years. The longer the maturity of a fixed-rate obligation, the greater the impact a change in interest rates will have on its fair value. As interest rates increase, the fair value of the obligations decrease. Likewise, when interest rates decrease, the fair value of the obligations increase. The money market mutual funds 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. It is the District's policy to limit its investments to U.S. Treasury and agency obligations or otherwise follow the restriction of the Texas Public Funds Investment Act. The District's investment in U.S. Treasury obligations carry the explicit guarantee of the U.S. government. The debt securities of the U.S. agencies are rated AA+ by Standard & Poor's rating agency. The District also invests in State Investment Pools (the Pools), which are considered investments for financial reporting. The District has an undivided beneficial interest in the pool of assets held by the Pools. Authorized investments include obligations of the United States or its agencies, direct obligation of the state of Texas or its agencies, certificates of deposit, and repurchase agreements. The fair value of the position in these pools is the same as the value of the shares in each pool. The Pools, as well as the money market mutual funds invested in by the District, are rated as AAAm by Standard & Poor's.

The District also invests in certificates of deposit, which are classified as deposits for financial reporting purposes. These certificates of deposit are fully collateralized by the various financial institutions.

- **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. All of the District's investments are held in safekeeping or trust accounts.

**Tarrant County Hospital District  
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**Notes to Financial Statements**

**September 30, 2012 and 2011**

**(In Thousands)**

- **Concentration of Credit Risk** – The District places no limit on the amount that may be invested in any one issuer as long as the restrictions of the Texas Public Funds Investment Act are followed. The following table reflects the District's investments in single issuers that represent more than 5% of total investments:

|                                           | <b>2012</b> | <b>2011</b> |
|-------------------------------------------|-------------|-------------|
| Federal Home Loan Bank                    | 8.1%        | 19.2%       |
| Federal National Mortgage Association     | 5.2%        | 8.8%        |
| Federal Farm Credit Bank                  | 8.9%        | 11.7%       |
| Federal Home Loan Mortgage Association    | 2.3%        | 9.3%        |
| Federal Agricultural Mortgage Corporation | 4.2%        | 5.3%        |

**Summary of Carrying Values**

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

|                                                     | <b>2012</b>       | <b>2011</b>       |
|-----------------------------------------------------|-------------------|-------------------|
| Carrying value                                      |                   |                   |
| Deposits                                            | \$ 258,681        | \$ 273,925        |
| Investments                                         | 140,211           | 110,826           |
|                                                     | <u>\$ 398,892</u> | <u>\$ 384,751</u> |
| Included in the following balance sheets captions   |                   |                   |
| Cash and cash equivalents                           | \$ 151,366        | \$ 90,030         |
| Short-term investments                              | 60,145            | 110,276           |
| Held by trustee for self-insurance, current portion | 285               | 5,501             |
| Noncurrent cash and investments                     | 187,096           | 178,944           |
|                                                     | <u>\$ 398,892</u> | <u>\$ 384,751</u> |

**Tarrant County Hospital District  
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**Notes to Financial Statements  
September 30, 2012 and 2011  
(In Thousands)**

***Investment Income***

Investment income for the years ended September 30 consisted of:

|                                           | <b>2012</b>     | <b>2011</b>     |
|-------------------------------------------|-----------------|-----------------|
| Interest and dividend income              | \$ 4,703        | \$ 6,112        |
| Net decrease in fair value of investments | (504)           | (713)           |
|                                           | <u>\$ 4,199</u> | <u>\$ 5,399</u> |

**Note 5: Patient Accounts Receivable**

The District grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30 consisted of:

|                                           | <b>2012</b>      | <b>2011</b>      |
|-------------------------------------------|------------------|------------------|
| Medicare                                  | \$ 9,913         | \$ 10,803        |
| Medicaid                                  | 18,832           | 25,813           |
| Other third-party payers                  | 16,412           | 6,746            |
| Patients                                  | <u>201,287</u>   | <u>151,805</u>   |
|                                           | 246,444          | 195,167          |
| Less allowance for uncollectible accounts | <u>183,718</u>   | <u>141,346</u>   |
|                                           | <u>\$ 62,726</u> | <u>\$ 53,821</u> |

**Tarrant County Hospital District  
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**Notes to Financial Statements  
September 30, 2012 and 2011  
(In Thousands)**

**Note 6: Capital Assets**

Capital assets activity for the years ended September 30 was:

| <b>2012</b>                   |                              |                        |                          |                    |                           |
|-------------------------------|------------------------------|------------------------|--------------------------|--------------------|---------------------------|
|                               | <b>Beginning<br/>Balance</b> | <b>Additions</b>       | <b>Disposals</b>         | <b>Transfers</b>   | <b>Ending<br/>Balance</b> |
| Land and improvements         | \$ 47,900                    | \$ 3,272               | \$ -                     | \$ 27              | \$ 51,199                 |
| Buildings and improvements    | 231,792                      | 609                    | (547)                    | 333                | 232,187                   |
| Equipment                     | 338,074                      | 10,940                 | (48,375)                 | 53,403             | 354,042                   |
| Construction in progress      | 28,405                       | 30,177                 | (417)                    | (53,763)           | 4,402                     |
|                               | <u>646,171</u>               | <u>44,998</u>          | <u>(49,339)</u>          | <u>-</u>           | <u>641,830</u>            |
| Less accumulated depreciation | <u>342,253</u>               | <u>43,567</u>          | <u>(47,802)</u>          | <u>-</u>           | <u>338,018</u>            |
| Capital assets, net           | <u><u>\$ 303,918</u></u>     | <u><u>\$ 1,431</u></u> | <u><u>\$ (1,537)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 303,812</u></u>  |

  

| <b>2011</b>                   |                              |                         |                          |                    |                           |
|-------------------------------|------------------------------|-------------------------|--------------------------|--------------------|---------------------------|
|                               | <b>Beginning<br/>Balance</b> | <b>Additions</b>        | <b>Disposals</b>         | <b>Transfers</b>   | <b>Ending<br/>Balance</b> |
| Land and improvements         | \$ 46,898                    | \$ 176                  | \$ -                     | \$ 826             | \$ 47,900                 |
| Buildings and improvements    | 230,176                      | 349                     | -                        | 1,267              | 231,792                   |
| Equipment                     | 328,873                      | 15,287                  | (16,887)                 | 10,801             | 338,074                   |
| Construction in progress      | 5,029                        | 36,270                  | -                        | (12,894)           | 28,405                    |
|                               | <u>610,976</u>               | <u>52,082</u>           | <u>(16,887)</u>          | <u>-</u>           | <u>646,171</u>            |
| Less accumulated depreciation | <u>317,421</u>               | <u>40,565</u>           | <u>(15,733)</u>          | <u>-</u>           | <u>342,253</u>            |
| Capital assets, net           | <u><u>\$ 293,555</u></u>     | <u><u>\$ 11,517</u></u> | <u><u>\$ (1,154)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 303,918</u></u>  |

**Tarrant County Hospital District  
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**Notes to Financial Statements  
September 30, 2012 and 2011  
(In Thousands)**

**Note 7: Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses included in current liabilities at September 30 consisted of:

|                                                             | <u>2012</u>      | <u>2011</u>      |
|-------------------------------------------------------------|------------------|------------------|
| Payable to suppliers and contractors                        | \$ 23,733        | \$ 26,019        |
| Payable to employees (including payroll taxes and benefits) | 32,670           | 27,818           |
| Payable to TCICC (Note 13)                                  | 20,953           | 1,998            |
| Pollution remediation liability                             | 5,600            | 2,837            |
| Patient credit balances                                     | 3,832            | 1,968            |
| Other accrued liabilities                                   | <u>351</u>       | <u>378</u>       |
|                                                             | <u>\$ 87,139</u> | <u>\$ 61,018</u> |

**Note 8: Risk Management**

***Medical Malpractice and General Liability Risks***

The District is self-insured for medical malpractice and general liability claims. The District's maximum liability for professional and general liability claims as a governmental unit under the Tort Claims Act is generally \$100,000 per individual and \$300,000 per occurrence.

Losses from asserted and unasserted claims identified under the District's incident reporting system are accrued based on estimates that incorporate the District's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. It is reasonably possible that the District's estimate of losses will change by a material amount in the near term.

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Activity in the District's accrued medical malpractice claims liability during 2012 and 2011 is summarized as follows:

|                                                                                          | <u>2012</u>   | <u>2011</u>     |
|------------------------------------------------------------------------------------------|---------------|-----------------|
| Balance, beginning of year                                                               | \$ 1,106      | \$ 1,211        |
| Current year claims incurred and changes in estimates for claims incurred in prior years | (312)         | (54)            |
| Claims and expenses paid                                                                 | <u>(9)</u>    | <u>(51)</u>     |
| Balance, end of year                                                                     | <u>\$ 785</u> | <u>\$ 1,106</u> |

***Employee Health Claims***

Substantially all of the District's employees and their dependents are eligible to participate in the District's employee health insurance plan. Commercial stop-loss insurance coverage is purchased for claims in excess of \$500,000. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the District's estimate will change by a material amount in the near term.

Activity in the District's accrued employee health claims liability during 2012 and 2011 is summarized as follows:

|                                                                                          | <u>2012</u>     | <u>2011</u>     |
|------------------------------------------------------------------------------------------|-----------------|-----------------|
| Balance, beginning of year                                                               | \$ 4,300        | \$ 4,250        |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 30,392          | 35,273          |
| Claims and expenses paid                                                                 | <u>(30,242)</u> | <u>(35,223)</u> |
| Balance, end of year                                                                     | <u>\$ 4,450</u> | <u>\$ 4,300</u> |

***Workers' Compensation Claims***

The District is self-insured for workers' compensation claims. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the District's estimate will change by a material amount in the near term.

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Activity in the District's accrued workers' compensation claims liability during 2012 and 2011 is summarized as follows:

|                                                                                          | <b>2012</b>            | <b>2011</b>            |
|------------------------------------------------------------------------------------------|------------------------|------------------------|
| Balance, beginning of year                                                               | \$ 1,769               | \$ 2,101               |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 1,037                  | 537                    |
| Claims and expenses paid                                                                 | <u>(1,078)</u>         | <u>(869)</u>           |
| Balance, end of year                                                                     | <u><u>\$ 1,728</u></u> | <u><u>\$ 1,769</u></u> |

**Note 9: Long-term Debt**

A summary of long-term debt is as follows:

|                                         | <b>2012</b>             | <b>2011</b>             |
|-----------------------------------------|-------------------------|-------------------------|
| Revenue bonds, Series 2002              | \$ 30,100               | \$ 31,405               |
| Certificates of obligation, Series 2006 | <u>26,285</u>           | <u>27,160</u>           |
|                                         | 56,385                  | 58,565                  |
| Bond discount, net                      | <u>(96)</u>             | <u>(33)</u>             |
|                                         | <u><u>\$ 56,289</u></u> | <u><u>\$ 58,532</u></u> |

**Revenue Bonds – Series 2002**

The Series 2002 revenue bonds consist of Tarrant County Hospital District Revenue Bonds, Series 2002 (the Series 2002 Bonds) in the original amount of \$40,940 dated June 1, 2002, which bear interest at 2.0% to 5.5%. The Series 2002 Bonds are payable in remaining annual installments of \$1,355 to \$2,790 through August 15, 2027. All of the Series 2002 Bonds still outstanding may be redeemed at the District's option on or after August 15, 2012, at par value plus accrued interest. The Series 2002 Bonds are secured by the net revenues of the District, excluding property tax revenue.

Subsequent to September 30, 2012, the District issued the Tarrant County Hospital District Senior Lien Revenue Refunding Bond, Series 2012 (the Series 2012 Bonds) in the original amount of \$25,890,000. The Series 2012 Bonds are secured by revenues of the District exclusive of ad valorem tax revenue. The proceeds from the Series 2012 Bonds, along with funds held in a debt service reserve account, were used to advance refund the Series 2002 Bonds. The loss on the advance refunding was approximately \$327,000.

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**Notes to Financial Statements**

**September 30, 2012 and 2011**

**(In Thousands)**

***Certificates of Obligation – Series 2006***

The Series 2006 certificates of obligation consist of Tarrant County Hospital District Certificates of Obligation, Series 2006 (the Certificates) in the original amount of \$30,330 dated March 1, 2006, which bear interest at 4.0% to 5.0%. The Certificates are payable in remaining annual installments of \$910 to \$2,025 through February 15, 2031. All of the Certificates still outstanding may be redeemed at the District's option on or after February 15, 2016, at par value plus accrued interest. The Bonds are secured by the net revenues of the District, including property tax revenue.

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service in the balance sheets. The indenture agreements also require the District to comply with certain restrictive covenants including minimum insurance coverage and days cash on hand.

The following is a summary of long-term debt transactions for the District for the years ended September 30:

| <b>2012</b>                             |                              |                  |                   |                           |                            |
|-----------------------------------------|------------------------------|------------------|-------------------|---------------------------|----------------------------|
|                                         | <b>Beginning<br/>Balance</b> | <b>Additions</b> | <b>Deductions</b> | <b>Ending<br/>Balance</b> | <b>Current<br/>Portion</b> |
| Long-term debt                          |                              |                  |                   |                           |                            |
| Revenue bonds, Series 2002              | \$ 31,405                    | \$ -             | \$ 1,305          | \$ 30,100                 | \$ 1,355                   |
| Certificates of obligation, Series 2006 | 27,160                       | -                | 875               | 26,285                    | 910                        |
|                                         | <u>\$ 58,565</u>             | <u>\$ -</u>      | <u>\$ 2,180</u>   | <u>\$ 56,385</u>          | <u>\$ 2,265</u>            |
| Total long-term debt                    |                              |                  |                   |                           |                            |
|                                         |                              |                  |                   |                           |                            |
| <b>2011</b>                             |                              |                  |                   |                           |                            |
|                                         | <b>Beginning<br/>Balance</b> | <b>Additions</b> | <b>Deductions</b> | <b>Ending<br/>Balance</b> | <b>Current<br/>Portion</b> |
| Long-term debt                          |                              |                  |                   |                           |                            |
| Revenue bonds, Series 2002              | \$ 32,660                    | \$ -             | \$ 1,255          | \$ 31,405                 | \$ 1,305                   |
| Certificates of obligation, Series 2006 | 28,000                       | -                | 840               | 27,160                    | 875                        |
|                                         | <u>\$ 60,660</u>             | <u>\$ -</u>      | <u>\$ 2,095</u>   | <u>\$ 58,565</u>          | <u>\$ 2,180</u>            |
| Total long-term debt                    |                              |                  |                   |                           |                            |

**Tarrant County Hospital District  
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**Notes to Financial Statements  
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The debt service requirements as of September 30, 2012, are as follows:

| Year Ending<br>September 30, | Principal        | Interest         | Total            |
|------------------------------|------------------|------------------|------------------|
| 2013                         | \$ 2,265         | \$ 2,737         | \$ 5,002         |
| 2014                         | 2,385            | 2,625            | 5,010            |
| 2015                         | 2,500            | 2,507            | 5,007            |
| 2016                         | 2,620            | 2,384            | 5,004            |
| 2017                         | 2,750            | 2,254            | 5,004            |
| 2018 – 2022                  | 15,950           | 9,066            | 25,016           |
| 2023 – 2027                  | 20,345           | 4,672            | 25,017           |
| 2028 – 2031                  | <u>7,570</u>     | <u>724</u>       | <u>8,294</u>     |
|                              | <u>\$ 56,385</u> | <u>\$ 26,969</u> | <u>\$ 83,354</u> |

The debt service requirements as result of the issuance of the Series 2012 Bonds subsequent to September 30, 2012 are as follows:

| Year Ending<br>September 30, | Principal        | Interest         | Total            |
|------------------------------|------------------|------------------|------------------|
| 2013                         | \$ 2,395         | \$ 1,953         | \$ 4,348         |
| 2014                         | 2,340            | 2,012            | 4,352            |
| 2015                         | 2,405            | 1,946            | 4,351            |
| 2016                         | 2,470            | 1,877            | 4,347            |
| 2017                         | 2,555            | 1,792            | 4,347            |
| 2018 – 2022                  | 14,410           | 7,320            | 21,730           |
| 2023 – 2027                  | 18,030           | 3,700            | 21,730           |
| 2028 – 2031                  | <u>7,570</u>     | <u>724</u>       | <u>8,294</u>     |
|                              | <u>\$ 52,175</u> | <u>\$ 21,324</u> | <u>\$ 73,499</u> |

**Note 10: Restricted and Designated Net Assets**

At September 30, 2012 and 2011, \$4,425 and \$2,308, respectively, of net assets were restricted by donors for capital and operating activities.

**Tarrant County Hospital District  
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(In Thousands)**

At September 30, 2012 and 2011, \$170,723 and \$160,120, respectively, of unrestricted net assets has been designated by the Board for future operating needs and capital acquisitions. Designated net assets remain under the control of the Board, which may, at its discretion, later use these net assets for other purposes.

At September 30, 2012 and 2011, the District had \$250 of restricted nonexpendable net assets which is a general endowment for the Foundation.

**Note 11: Uncompensated Care**

In support of its mission, the District voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. The costs of charity care provided under the District's charity care policy were \$152,132 and \$173,127 for 2012 and 2011, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross charity care charges.

The District also provides care to patients who do not pay all or a portion of the charges billed. These charges are adjusted through the provision for uncollectible accounts in net patient service revenue. The costs of providing care to these patients, estimated using the same ratio used in estimating charity care costs, was \$89,354 and \$74,700 for 2012 and 2011, respectively.

**Note 12: Pension Plan**

***Plan Description***

The District sponsors a defined benefit pension plan for eligible employees within a multiemployer retirement program sponsored for member hospitals by the Texas Hospital Association (THA). HealthShare/THA, a wholly owned subsidiary of THA, is the plan administrator of the pension plan. The plan's assets are invested as a portion of the THA's master pension trust fund. The plan provides retirement, death and disability benefits. Amendments to the plan are made only with the authority of the District's Board.

The plan does not issue a stand-alone financial report. However, an annual actuarial valuation report is available from the District or HealthShare/THA. That report may be obtained by writing HealthShare/THA at 1108 Lavaca, Suite 700, Austin, Texas 78701.

***Funding Policy***

The Board has the sole authority to establish or amend the obligations to contribute to the plan by participants or the employer. The District is not subject to any explicit legal or contractual contribution rate. Plan members are required to annually contribute 1% of their compensation.

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(In Thousands)**

Effective October 1, 2006, participation in the pension plan became mandatory for full-time employees completing one-year of service on or after October 1, 2006. An amendment effective October 1, 2011, made plan participation voluntary for employees hired after that date.

The District makes annual contributions, which are actuarially determined as a level percentage of total participant compensation less projected employee contributions in accordance with the Entry Age Normal (EAN) actuarial funding method. Under the EAN method, the District contribution rate is set equal to 6.5% of total participant compensation beginning with the current fiscal year until a future actuarial valuation shows that: (a) actuarial value of assets equals or exceeds the EAN accrued liability, which will cause a reduction to the employer contribution rate or (b) the implicit amortization period of the unfunded EAN accrued liability at the current contribution rate exceeds 25 years, which would be remediated by an increase in the employer contribution rate. The employer contributions were 6.5% of estimated participant compensation for both the years ended September 30, 2012 and 2011. The costs of administering the plan are paid by the plan and are considered in the determination of the employer contribution rate.

**Annual Pension Cost**

The District's annual pension cost was \$12,051 and \$12,652 for the years ended September 30, 2012 and 2011, respectively. These costs were equal to the annual required contributions as determined in the actuarial valuations dated October 1, 2011 and 2010, respectively. There is no existing net pension obligation.

The required contributions for the plan year ended September 30, 2012, were based on the results of the actuarial valuation as of October 1, 2011, using the EAN actuarial funding method and were in compliance with the GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, parameters. The actuarial assumptions included: (a) an 8% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5% to 8.0%, per year, varying by attained age. Both (a) and (b) included an inflation component of 4.0%. The assumptions did not include any postretirement benefit increases. The actuarial value of plan assets was determined using a five-year smoothed market value method.

**Three-Year Trend Information**

| <b>Fiscal Year Ended</b> | <b>Annual<br/>Pension Cost<br/>(APC)</b> | <b>Percentage<br/>of APC<br/>Contributed</b> | <b>Net Pension<br/>Obligation</b> |
|--------------------------|------------------------------------------|----------------------------------------------|-----------------------------------|
| 2010                     | \$ 11,205,667                            | 100%                                         | \$ -                              |
| 2011                     | 12,652,413                               | 100%                                         | -                                 |
| 2012                     | 12,051,401                               | 100%                                         | -                                 |

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**Notes to Financial Statements  
September 30, 2012 and 2011  
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***Schedule of Funding Progress***

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of Plan<br>Assets | Actuarial<br>Accrued<br>Liability (AAL) | Plan Assets<br>Less<br>than AAL | Funded<br>Ratio | Covered<br>Payroll | Plan Assets<br>Less Than<br>AAL as a<br>Percent of<br>Covered<br>Payroll |
|--------------------------------|--------------------------------------|-----------------------------------------|---------------------------------|-----------------|--------------------|--------------------------------------------------------------------------|
| 10/1/2009                      | \$ 89,497                            | \$ 113,781                              | \$ (24,284)                     | 78.7%           | \$ 172,395         | (14.1%)                                                                  |
| 10/1/2010                      | 101,345                              | 134,597                                 | (33,252)                        | 75.3%           | 194,653            | (17.1%)                                                                  |
| 10/1/2011                      | 113,033                              | 144,579                                 | (31,546)                        | 78.2%           | 185,406            | (17.0%)                                                                  |

***Other Benefit Plans***

The District has an IRC Section 401(a) plan that includes an employer match calculated as 50% of an employee's contribution up to 4% of pay. The contributions for the employer match on the plan were approximately \$3,641 and \$3,831 for the years ended September 30, 2012 and 2011, respectively. Employee contributions were \$8,300 and \$8,509 for the years ended September 30, 2012 and 2011, respectively.

In addition, the District offers its employees a tax-deferred annuity plan created in accordance with IRC Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. All amounts of compensation deferred under the plan and income attributable to those amounts are solely the property of the employee. Thus, the plan amounts are not reported in the accompanying financial statements.

The District also offers its employees a tax-deferred annuity plan created in accordance with IRC Section 403(b). The plan, available to all District employees, permits them to defer a portion of their salary until future years. All amounts of compensation deferred under the plan and income attributable to those amounts are solely the property of the employee. Thus, the plan amounts are not reported in the financial statements.

The District has a Governmental Excess Benefit Arrangement Plan for executives approved by the Board. This plan is to provide participants in the defined benefit plan that portion of the participant's benefits that would otherwise be payable under the terms of the defined benefit plan, except for the limitations on benefits imposed by Section 415(b) of the IRS. As of September 30, 2012 and 2011, there were no benefits due under this plan.

**Tarrant County Hospital District  
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**Notes to Financial Statements**

**September 30, 2012 and 2011**

**(In Thousands)**

**Note 13: Related Party Transactions**

During 2010, the District entered an indigent care affiliation agreement with the Tarrant County Indigent Care Corporation (TCICC), a non-profit corporation comprised of affiliated Tarrant County hospitals. This agreement was intended to increase funding for the Medicaid population and to access federal funding for the indigent population of Tarrant County through the Texas Medicaid Supplemental Payment Program also known as the Private Upper Payment Limit Program (UPL). During 2012, funding through the UPL program was replaced with funding from the Medicaid section 1115(a) Demonstration program, titled “Texas Healthcare Transformation and Quality Improvement Program” that was approved on December 12, 2011, by the Department of Health & Human Services. This program allows for continued funding under the current TCICC agreement for the initial transition year.

Under this program, the District contributes certain government funds to the state of Texas, limited to the amount allowed based on aggregate state-wide funding caps. TCICC uses the funds received for medical direction and indigent care for services to the Tarrant County indigent care population provided at the District’s facilities. Prior to this agreement, the medical direction and indigent care services were funded by the District.

Services provided by TCICC were valued at approximately \$94,471 and \$83,100 for the years ended September 30, 2012 and 2011, respectively. As part of the affiliation agreement, the District provided \$70,795 and \$56,591 in funding to the program for the years ended September 30, 2012 and 2011, respectively. The District recognizes revenue from contributed services equal to the difference in the value of the services provided by TCICC and the program funding provided by the District. Contributed services revenue was \$23,676 and \$26,509 for 2012 and 2011, respectively.

Should TCICC cease providing these services, the District has entered a stand-by agreement with physicians participating in this program under which the District would assume the payment obligations of TCICC.

**Note 14: Pollution Remediation Obligations**

The District owns a building containing asbestos and other potential environmental issues that meet the criteria for “obligating events” and disclosure under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This vacant property was acquired by the District for the purpose of eventually constructing new facility space and changes in the District’s pollution remediation obligation (PRO) liability are capitalized as a component of capital assets.

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**Notes to Financial Statements  
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During 2012, the District commenced demolition of the building and related pollution remediation activities and increased the liability to the current estimated cost of demolition and remediation activities. The demolition and remediation is expected to be completed in 2013.

The following table summarizes the change in the District's PRO during the years ended September 30, 2012 and 2011:

|                                        | <u>2012</u>            | <u>2011</u>            |
|----------------------------------------|------------------------|------------------------|
| PRO, beginning of year                 | \$ 2,837               | \$ 3,464               |
| Changes in estimated remediation costs | <u>2,763</u>           | <u>(627)</u>           |
| PRO, end of year                       | <u><u>\$ 5,600</u></u> | <u><u>\$ 2,837</u></u> |

## **Supplementary Information**

**Tarrant County Hospital District**  
**d/b/a JPS Health Network**  
**A Component Unit of Tarrant County, Texas**

**Balance Sheet Information**

**September 30, 2012**

**(In Thousands)**

**Assets**

|                                                                                 | <b>Hospital</b>   | <b>JPSPG</b>     | <b>Partners</b> | <b>Eliminations</b> | <b>Total</b>      |
|---------------------------------------------------------------------------------|-------------------|------------------|-----------------|---------------------|-------------------|
| <b>Current Assets</b>                                                           |                   |                  |                 |                     |                   |
| Cash and cash equivalents                                                       | \$ 134,478        | \$ 16,703        | \$ 185          | \$ -                | \$ 151,366        |
| Short-term investments                                                          | 60,145            | -                | -               | -                   | 60,145            |
| Patient accounts receivable, net                                                | 56,112            | 6,614            | -               | -                   | 62,726            |
| Property taxes receivable, net                                                  | 4,253             | -                | -               | -                   | 4,253             |
| Texas disproportionate share program receivable                                 | 33,272            | -                | -               | -                   | 33,272            |
| Restricted pledges receivable, net                                              | -                 | -                | 43              | -                   | 43                |
| Held by trustee for self insurance, current portion                             | 285               | -                | -               | -                   | 285               |
| Supplies inventory                                                              | 9,472             | -                | -               | -                   | 9,472             |
| Prepaid expenses and other assets                                               | 9,724             | 1,570            | 26              | -                   | 11,320            |
|                                                                                 | <u>307,741</u>    | <u>24,887</u>    | <u>254</u>      | <u>-</u>            | <u>332,882</u>    |
| <b>Due from Affiliates</b>                                                      | <u>791</u>        | <u>323</u>       | <u>6</u>        | <u>(1,120)</u>      | <u>-</u>          |
| <b>Noncurrent Cash and Investments</b>                                          |                   |                  |                 |                     |                   |
| Held by trustee for debt service                                                | 3,006             | -                | -               | -                   | 3,006             |
| Held by trustee for self insurance                                              | 11,297            | -                | -               | -                   | 11,297            |
| Restricted by donors for capital acquisitions and specific operating activities | -                 | -                | 2,070           | -                   | 2,070             |
| Internally designated for capital acquisitions and operating activities         | 170,723           | -                | -               | -                   | 170,723           |
|                                                                                 | <u>185,026</u>    | <u>-</u>         | <u>2,070</u>    | <u>-</u>            | <u>187,096</u>    |
| <b>Other Receivables</b>                                                        | <u>1,667</u>      | <u>-</u>         | <u>113</u>      | <u>-</u>            | <u>1,780</u>      |
| <b>Capital Assets , Net</b>                                                     | <u>303,808</u>    | <u>-</u>         | <u>4</u>        | <u>-</u>            | <u>303,812</u>    |
| <b>Total assets</b>                                                             | <u>\$ 799,033</u> | <u>\$ 25,210</u> | <u>\$ 2,447</u> | <u>\$ (1,120)</u>   | <u>\$ 825,570</u> |

## Liabilities and Net Assets

|                                                 | Hospital   | JPSPG     | Partners | Eliminations | Total      |
|-------------------------------------------------|------------|-----------|----------|--------------|------------|
| <b>Current Liabilities</b>                      |            |           |          |              |            |
| Accounts payable                                | \$ 53,481  | \$ 572    | \$ 66    | \$ -         | \$ 54,119  |
| Accrued expenses                                | 27,407     | 5,608     | 5        | -            | 33,020     |
| Due to third-party payers                       | 3,547      | -         | -        | -            | 3,547      |
| Current portion of self-insurance costs         | 5,552      | -         | -        | -            | 5,552      |
| Current maturities of long-term debt            | 2,265      | -         | -        | -            | 2,265      |
| Total current liabilities                       | 92,252     | 6,180     | 71       | -            | 98,503     |
| <b>Due to Affiliates</b>                        | 329        | 782       | 9        | (1,120)      | -          |
| <b>Estimated Self-insurance Costs</b>           | 1,411      | -         | -        | -            | 1,411      |
| <b>Long-term Debt</b>                           | 54,024     | -         | -        | -            | 54,024     |
| <b>Other Long-term Liabilities</b>              | -          | 986       | 10       | -            | 996        |
| Total liabilities                               | 148,016    | 7,948     | 90       | (1,120)      | 154,934    |
| <b>Net Assets</b>                               |            |           |          |              |            |
| Invested in capital assets, net of related debt | 250,525    | -         | 4        | -            | 250,529    |
| Restricted expendable                           | 2,500      | -         | 1,925    | -            | 4,425      |
| Restricted nonexpendable                        | -          | -         | 250      | -            | 250        |
| Unrestricted                                    | 397,992    | 17,262    | 178      | -            | 415,432    |
| Total net assets                                | 651,017    | 17,262    | 2,357    | -            | 670,636    |
| Total liabilities and net assets                | \$ 799,033 | \$ 25,210 | \$ 2,447 | \$ (1,120)   | \$ 825,570 |

**Tarrant County Hospital District**  
**d/b/a JPS Health Network**  
**A Component Unit of Tarrant County, Texas**  
**Statement of Revenues, Expenses and**  
**Changes in Net Assets Information**  
**Year Ended September 30, 2012**  
**(In Thousands)**

|                                                                         | <b>Hospital</b> | <b>JPSPG</b> | <b>Partners</b> | <b>Eliminations</b> | <b>Total</b> |
|-------------------------------------------------------------------------|-----------------|--------------|-----------------|---------------------|--------------|
| <b>Operating Revenues</b>                                               |                 |              |                 |                     |              |
| Net patient service revenue                                             | \$ 235,947      | \$ 35,682    | \$ -            | \$ (25)             | \$ 271,604   |
| Supplemental Medicaid funding                                           | 117,504         | 4,092        | -               | -                   | 121,596      |
| Contributions                                                           | 140             | -            | 441             | (79)                | 502          |
| Other operating revenue                                                 | 42,118          | 8,115        | -               | (2,362)             | 47,871       |
| Total operating revenues                                                | 395,709         | 47,889       | 441             | (2,466)             | 441,573      |
| <b>Operating Expenses</b>                                               |                 |              |                 |                     |              |
| Salaries and related expenses                                           | 313,899         | 42,665       | 24              | -                   | 356,588      |
| Professional fees and purchased services                                | 180,865         | 1,735        | 523             | (2,875)             | 180,248      |
| Supplies                                                                | 116,742         | 127          | 179             | -                   | 117,048      |
| Depreciation and amortization                                           | 43,522          | -            | 2               | (128)               | 43,396       |
| Other                                                                   | 34,961          | 140          | 661             | (89)                | 35,673       |
| Total operating expenses                                                | 689,989         | 44,667       | 1,389           | (3,092)             | 732,953      |
| <b>Operating Income (Loss)</b>                                          | (294,280)       | 3,222        | (948)           | 626                 | (291,380)    |
| <b>Nonoperating Revenues (Expenses)</b>                                 |                 |              |                 |                     |              |
| Property tax revenue                                                    | 279,403         | -            | -               | -                   | 279,403      |
| Contributed services                                                    | 23,676          | -            | -               | -                   | 23,676       |
| Interest expense                                                        | (1,764)         | -            | -               | -                   | (1,764)      |
| Investment return and other                                             | 4,288           | 49           | 362             | (626)               | 4,073        |
| Total nonoperating revenues (expenses)                                  | 305,603         | 49           | 362             | (626)               | 305,388      |
| <b>Excess of Revenues Over Expenses Before Capital Grants and Gifts</b> | 11,323          | 3,271        | (586)           | -                   | 14,008       |
| <b>Capital Grants and Gifts</b>                                         | 2,500           | -            | -               | -                   | 2,500        |
| <b>Increase (Decrease) in Net Assets</b>                                | 13,823          | 3,271        | (586)           | -                   | 16,508       |
| <b>Net Assets, Beginning of Year</b>                                    | 637,194         | 13,991       | 2,943           | -                   | 654,128      |
| <b>Net Assets, End of Year</b>                                          | \$ 651,017      | \$ 17,262    | \$ 2,357        | \$ -                | \$ 670,636   |

## **Required Supplementary Information**

**Tarrant County Hospital District  
d/b/a JPS Health Network  
A Component Unit of Tarrant County, Texas  
Schedule of Funding Progress – Pension Plan  
September 30, 2012**

| <b>Acturial<br/>Valuation<br/>Date</b> | <b>Acturial<br/>Value of Plan<br/>Assets</b> | <b>Acturial<br/>Accrued<br/>Liability (AAL)</b> | <b>Plan Assets<br/>Less<br/>than AAL</b> | <b>Funded<br/>Ratio</b> | <b>Covered<br/>Payroll</b> | <b>Plan Assets<br/>Less Than<br/>AAL as a<br/>Percent of<br/>Covered<br/>Payroll</b> |
|----------------------------------------|----------------------------------------------|-------------------------------------------------|------------------------------------------|-------------------------|----------------------------|--------------------------------------------------------------------------------------|
| 10/1/2009                              | \$ 89,497,413                                | \$ 113,780,607                                  | \$ (24,283,194)                          | 78.7%                   | \$ 172,394,878             | (14.1%)                                                                              |
| 10/1/2010                              | 101,344,894                                  | 134,596,522                                     | (33,251,628)                             | 75.3%                   | 194,652,507                | (17.1%)                                                                              |
| 10/1/2011                              | 113,033,130                                  | 144,578,735                                     | (31,545,605)                             | 78.2%                   | 185,406,171                | (17.0%)                                                                              |