

**Tarrant County Hospital District**  
**d/b/a JPS Health Network**  
**A Component Unit of Tarrant County, Texas**  
Accountants' Report and Financial Statements  
September 30, 2011 and 2010



**Tarrant County Hospital District  
d/b/a JPS Health Network  
A Component Unit of Tarrant County, Texas  
September 30, 2011 and 2010**

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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 sheet of Tarrant County Hospital District d/b/a JPS Health Network (the District), a component unit of Tarrant County, Texas, as of September 30, 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the District as of and for the year ended September 30, 2010, were audited by other accountants whose report dated February 10, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis of the basic financial statements rather than to present the financial position and results of operations of the individual entities, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*BKD, LLP*

January 25, 2012

**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, 2011 and 2010**  
**(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, 2011 and 2010. 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 decreased in 2011 by \$11,131 or 2.8 percent and increased in 2010 by \$23,265 or 6.2 percent.
- The District's net assets increased in each of the past two years with a \$3,165, or 0.5 percent increase in 2011, and a \$12,590, or 2.0 percent increase in 2010.
- The District reported operating losses in both 2011 (\$302,167) and 2010 (\$303,200). The operating loss in 2011 decreased by \$1,033, or 0.3 percent, as compared to the operating loss reported in 2010. The operating loss in 2010 increased by \$12,763, or 4.4 percent, from the operating loss reported in 2009.
- Net nonoperating revenues decreased by \$10,458, or 3.3 percent, in 2011 compared to 2010, and increased by \$23,996, or 8.2 percent, in 2010 compared to 2009.

**Using This Annual Report**

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

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

One of the most important questions asked about any 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 \$3,165 (0.5 percent) in 2011 over 2010, and by \$12,590 (2.0 percent) in 2010 over 2009, as shown in Table 1:

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

	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Assets</b>			
Cash and short-term investments	\$ 200,306	\$ 213,839	\$ 190,701
Patient accounts receivable, net	53,821	55,626	44,217
Other current assets	45,200	52,177	61,903
Capital assets, net	303,918	293,555	302,578
Other noncurrent assets	179,037	176,886	176,447
	<u>782,282</u>	<u>792,083</u>	<u>775,846</u>
Total assets	<u>\$ 782,282</u>	<u>\$ 792,083</u>	<u>\$ 775,846</u>
<b>Liabilities</b>			
Long-term debt	\$ 56,352	\$ 58,593	\$ 66,823
Other current and noncurrent liabilities	71,802	82,527	70,650
	<u>128,154</u>	<u>141,120</u>	<u>137,473</u>
Total liabilities	<u>128,154</u>	<u>141,120</u>	<u>137,473</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	248,344	232,867	238,290
Restricted expendable	2,308	8,997	10,377
Restricted nonexpendable	250	250	250
Unrestricted	403,226	408,849	389,456
	<u>654,128</u>	<u>650,963</u>	<u>638,373</u>
Total net assets	<u>654,128</u>	<u>650,963</u>	<u>638,373</u>
Total liabilities and net assets	<u>\$ 782,282</u>	<u>\$ 792,083</u>	<u>\$ 775,846</u>

The most significant change in the District's assets in 2011 is the decrease in cash and investments of \$11,131 or 2.8 percent, which was offset by an increase in the District's capital assets of \$10,363 or 3.5 percent. 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 the Texas disproportionate share program (DSH). Due to the timing of payments and the maximum DSH 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 percent from 2010 to 2011.

The most significant change in the District's financial position in 2010 was an increase in cash and investments of \$23,265 or 6.2 percent, offset by a decrease in the DSH receivable of \$10,377 or 54.8 percent. As in 2011, the decrease in the DSH receivable in 2010 is a product of the timing of payments and the maximum DSH reimbursement the District was eligible for in the last quarter of the fiscal year.

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

In 2011, the District's net assets increased by \$3,165, or 0.5 percent, as shown in Table 2. This increase is made up of several different components and represents a decline of 74.9 percent compared with the increase in net assets for 2010 of \$12,590. The District's change in net assets increased from \$1,357 in 2009 to \$12,590 in 2010.

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

	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 264,448	\$ 267,358	\$ 228,057
Texas disproportionate share and UPL program	103,309	91,780	103,311
Other operating revenues	<u>52,450</u>	<u>52,306</u>	<u>47,268</u>
Total operating revenues	<u>420,207</u>	<u>411,444</u>	<u>378,636</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	354,123	342,987	325,863
Purchased services and professional fees	174,237	178,633	156,995
Supplies	131,964	134,577	129,201
Depreciation and amortization	40,454	38,308	36,248
Other operating expenses	<u>21,596</u>	<u>20,139</u>	<u>20,766</u>
Total operating expenses	<u>722,374</u>	<u>714,644</u>	<u>669,073</u>
<b>Operating loss</b>	<u>(302,167)</u>	<u>(303,200)</u>	<u>(290,437)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Property taxes	275,345	284,028	279,091
Contributed services	26,509	27,150	2,331
Investment return, interest expense and other	<u>3,478</u>	<u>4,612</u>	<u>10,372</u>
Total nonoperating revenues (expenses)	<u>305,332</u>	<u>315,790</u>	<u>291,794</u>
<b>Increase in Net Assets</b>	<u>\$ 3,165</u>	<u>\$ 12,590</u>	<u>\$ 1,357</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 2011 decreased by \$1,033, or 0.3 percent, as compared to 2010. The primary components of the increased operating loss are:

- An decrease in net patient service revenue of \$2,910, or 1.1 percent
- An increase in Texas disproportionate share and UPL program revenue of \$11,529 or 12.6 percent
- An decrease in professional fees and purchased services of \$4,396 or 2.5 percent
- A decrease in supply and drug costs of \$2,613 or 1.9 percent and
- An increase in salaries and wages of \$11,136, or 3.2 percent.

While patient days increased by 3,659 from 2010 to 2011, net patient service revenue decreased primarily due to a change in the District's payer mix and higher uninsured utilization. Revenue from the Texas disproportionate share and upper payment limit programs increased by \$11,529 from 2010 to 2011 as a result of increased Medicaid volumes and uncompensated patients, coupled with fluctuations in various other factors impacting the amount of revenue the District is eligible for under this program.

Professional fees and purchased services decreased as a result of changes to the District's estimate of amounts due to various physician groups for providing services to indigent patients served by the District as a result of the settlement in the UPL program as of September 30, 2011.

Expenditures for supplies and prescription drugs are a major component of the District's costs. In 2011, supplies and prescription drug costs totaled \$131,964, or 18.3 percent, of total operating expenses. In 2010, they totaled \$134,577, or 18.8 percent, of total operating expenses, an increase of \$5,376, or 4.2 percent, over 2009. The primary factor contributing to the current year decrease in supply and drug costs is a decline in drug costs resulting from enhanced management of the supply chain distribution and department efficiencies. A contract with Maxor to manage the outpatient pharmacies was implemented in 2011 that provided outpatient pharmacy efficiencies.

Employee salaries and wages and benefits increased in 2011 in connection with the growth in volume as well as the District's retention and recruitment efforts.

The District's other operating revenue also increased by \$824 due to implementation of a flat parking garage fee, additional Tobacco Settlement revenue and increased vendor rebates.

The operating loss for 2010 of \$303,200 was \$12,763 more than the operating loss of \$290,437 recognized in 2009. The increase in net patient service revenue of \$39,301 was offset by a decline in Texas disproportionate share and UPL program revenue of \$11,531 as well as increased operating costs. The District's increase in overall operating expenses was approximately 6.8 percent.

## **Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses consist primarily of property taxes levied by the District and investment income and interest expense, all of which declined in 2011 as compared to 2010. The District held property tax rates constant in 2011, but a decline in overall property values as well as changes in estimated uncollectible property taxes resulted in a net decrease in property tax revenue of \$8,683 or 3.1 percent from 2010 to 2011. Investment return declined in 2011 compared to 2010, resulting primarily from a decrease in total cash and investments and changes 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 \$641 in 2011 as compared to 2010.

Interest expense decreased by \$784 or 28.1 percent due to a decrease in long-term debt, but primarily due to more 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 2011, 2010 and 2009, discussed earlier. As discussed below, capital asset purchases were significantly higher in 2011 due to the electronic medical records project.

## **Capital Asset and Debt Administration**

### **Capital Assets**

At the end of 2011, the District had \$303,918 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2011, the District purchased new equipment costing \$26,066. In addition, approximately \$22,047 was spent to develop a new electronic medical record system. The total capital cost of this project is estimated to be \$81,378 and is expected to be completed in the third quarter of fiscal year 2012.

### **Debt**

At September 30, 2011, the District had \$58,565 in revenue bonds and certificates of obligation outstanding. The District issued no new debt in 2011 or 2010. 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.

## **Other Economic Factors**

The District is anticipating that volumes will continue to increase in fiscal year 2012 from growth in the county and with the addition of new physicians to the District's medical staff. Based on the recommendation of the District's Board of Managers (the Board), the Tarrant County Commissioners Court (the Court) set the property tax rate for fiscal year 2012 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:

- Tarrant County's population growth, as well as continued growth in the number of uninsured and working poor,
- Workforce shortages, particularly in the areas of nursing, physical, occupational and speech therapists, and medical technologists,
- Continued growth in medical and pharmaceutical costs, as well as advances in therapies,
- Continued advances in health care medical equipment and computing technology and
- Access to funds for capital expansion

### **Significant Financial Practices**

The District maintains several financial practices designed to maintain its creditworthiness 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, 2011 and 2010**  
**(In Thousands)**

**Assets**

	<u>2011</u>	<u>2010</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 90,030	\$ 72,801
Short-term investments	110,276	141,038
Patient accounts receivable, net	53,821	55,626
Property taxes receivable, net	5,209	4,219
Texas disproportionate share program receivable	11,941	18,925
Restricted pledges receivable, net	279	436
Held by trustee for self insurance, current portion	5,501	5,493
Due from third-party payers	2,200	679
Supplies inventory	10,011	10,462
Prepaid expenses and other assets	10,059	11,963
	<u>299,327</u>	<u>321,642</u>
<b>Noncurrent Cash and Investments</b>		
Held by trustee for debt service	2,958	2,976
Held by trustee for self insurance	13,243	12,676
Restricted by donors for capital acquisitions and specific operating activities	2,623	5,092
Internally designated for capital acquisitions and operating activities	160,120	155,806
	<u>178,944</u>	<u>176,550</u>
Total noncurrent assets		
	<u>93</u>	<u>336</u>
<b>Pledges Receivable</b>		
	<u>303,918</u>	<u>293,555</u>
<b>Capital Assets - Net</b>		
Total assets	<u>\$ 782,282</u>	<u>\$ 792,083</u>

## Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
<b>Current Liabilities</b>		
Accounts payable	\$ 32,847	\$ 46,935
Accrued expenses	28,171	24,646
Due to third-party payers	150	168
Current portion of self-insurance costs	5,501	5,493
Current maturities of long-term debt	<u>2,180</u>	<u>2,095</u>
Total current liabilities	68,849	79,337
<b>Estimated Self-insurance Costs</b>	1,674	2,069
<b>Long-term Debt</b>	56,352	58,593
<b>Other Long-term Liabilities</b>	<u>1,279</u>	<u>1,121</u>
Total liabilities	<u>128,154</u>	<u>141,120</u>
<b>Net Assets</b>		
Invested in capital assets - net of related debt	248,344	232,867
Restricted expendable	2,308	8,997
Restricted nonexpendable	250	250
Unrestricted	<u>403,226</u>	<u>408,849</u>
Total net assets	<u>654,128</u>	<u>650,963</u>
Total liabilities and net assets	<u>\$ 782,282</u>	<u>\$ 792,083</u>

**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, 2011 and 2010**  
**(In Thousands)**

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2011 - \$285,867; 2010 - \$265,502	\$ 264,448	\$ 267,358
Texas disproportionate share and upper payment limit program revenue	103,309	91,780
Contributions	819	1,499
Other operating revenue	<u>51,631</u>	<u>50,807</u>
Total operating revenues	<u>420,207</u>	<u>411,444</u>
<b>Operating Expenses</b>		
Salaries and related expenses	354,123	342,987
Professional fees and purchased services	174,237	178,633
Supplies	131,964	134,577
Depreciation and amortization	40,454	38,308
Other	<u>21,596</u>	<u>20,139</u>
Total operating expenses	<u>722,374</u>	<u>714,644</u>
<b>Operating Loss</b>	<u>(302,167)</u>	<u>(303,200)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Property tax revenue	275,345	284,028
Contributed services	26,509	27,150
Interest expense	(2,009)	(2,793)
Investment return and other	<u>5,487</u>	<u>7,405</u>
Total nonoperating revenues (expenses)	<u>305,332</u>	<u>315,790</u>
<b>Increase in Net Assets</b>	3,165	12,590
<b>Net Assets, Beginning of Year</b>	<u>650,963</u>	<u>638,373</u>
<b>Net Assets, End of Year</b>	<u>\$ 654,128</u>	<u>\$ 650,963</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, 2011 and 2010**  
**(In Thousands)**

	<u>2011</u>	<u>2010</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 264,714	\$ 255,949
Receipts from Texas disproportionate share and upper payment limit programs	110,293	102,157
Payments to suppliers and contractors	(309,600)	(301,361)
Payments to employees	(350,756)	(340,446)
Other receipts, net	<u>53,008</u>	<u>52,306</u>
Net cash used in operating activities	<u>(232,341)</u>	<u>(231,395)</u>
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	272,449	279,514
Other	<u>-</u>	<u>111</u>
Net cash provided by noncapital financing activities	<u>272,449</u>	<u>279,625</u>
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(2,095)	(4,684)
Interest paid on long-term debt	(2,910)	(2,920)
Property taxes supporting debt service	1,906	1,974
Purchase of capital assets	<u>(53,627)</u>	<u>(29,285)</u>
Net cash used in capital and related financing activities	<u>(56,726)</u>	<u>(34,915)</u>
<b>Investing Activities</b>		
Purchase of investments	(218,326)	(181,576)
Proceeds from the sale and maturities of short-term investments	246,690	103,829
Interest income and other	<u>5,487</u>	<u>9,621</u>
Net cash provided by (used in) investing activities	<u>33,851</u>	<u>(68,126)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	17,233	(54,811)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>76,454</u>	<u>131,265</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 93,687</u>	<u>\$ 76,454</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, 2011 and 2010**  
**(In Thousands)**

	<u>2011</u>	<u>2010</u>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents in current assets	\$ 90,030	\$ 72,801
Cash and cash equivalents in noncurrent cash and investments	<u>3,657</u>	<u>3,653</u>
	<u>\$ 93,687</u>	<u>\$ 76,454</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to</b>		
<b>Net Cash Used in Operating Activities</b>		
Operating loss	\$ (302,167)	\$ (303,200)
Depreciation and amortization	40,454	38,308
Loss (gain) on disposal of assets	1,245	(46)
Contributed services expense	26,509	27,150
Changes in operating assets and liabilities:		
Patient accounts receivable	1,805	(11,409)
Texas disproportionate share program receivable	6,984	10,377
Estimated amounts due from and to third-party payers	(1,539)	175
Accounts payable and accrued expenses	(8,158)	10,235
Other assets and liabilities	<u>2,526</u>	<u>(2,985)</u>
Net cash used in operating activities	<u>\$ (232,341)</u>	<u>\$ (231,395)</u>
<b>Supplemental Cash Flows Information</b>		
Capital asset acquisitions included in accounts payable	\$ 506	\$ 2,881
Contributed services revenue ( <i>Note 13</i> )	\$ 26,509	\$ 27,150

**Tarrant County Hospital District**  
**d/b/a JPS Health Network**  
**A Component Unit of Tarrant County, Texas**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**  
**(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.

Partners Together for Health (Partners) was formed on August 4, 1997, solely to support and benefit scientific, educational and charitable activities conducted by the District. Partners 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. Partners 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 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.

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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, 2011 and 2010, 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.



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***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	3–5 years

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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>2011</b>	<b>2010</b>
Interest costs capitalized	\$ 830	\$ 246
Interest costs charged to expense	2,009	2,793
Total interest incurred	\$ 2,839	\$ 3,039

***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.

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***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 \$5,664 and \$5,388 in revenue from this settlement for the years ended September 30, 2011 and 2010, respectively. This revenue is recognized as a component of other operating revenue in the 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 and a similar provision of state law. The District and Partners also carry an exemption from income taxes under Internal Revenue Code Section 501(c)(3). JPSPG is exempt from income taxes under Section 501(a) of the Internal Revenue Code. The District, Partners and JPSPG are all subject to federal income tax on any unrelated business taxable income.

***Reclassifications***

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

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**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. 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. 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.

In response to the growing number of uninsured patients and the rising cost of health care, the Texas Legislature established a Texas Medicaid Disproportionate Share Program (DSH) that was designed to assist those facilities serving the majority of the indigent patients by providing funds supporting increased access to health care within the community. This program allows the Texas Department of Human Services to levy assessments from certain hospitals, use the assessed funds to obtain federal matching funds, and then redistribute the total funds to those facilities serving a disproportionate share of indigent patients in the state of Texas. The District receives additional reimbursement from this program as well as the Texas Medicaid Upper Payment Limit Program (UPL) to assist in serving the indigent population of Tarrant County. The District received approximately \$103,309 and \$91,780 during 2011 and 2010, respectively, from these programs, primarily DSH. 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 establish 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 may have a material impact on the District’s future Medicaid funding. Management is not currently able to estimate the impact of the 1115(a) waiver on future funding.

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Approximately 50 percent of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for both the years ended September 30, 2011 and 2010, 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.

**Note 3: Property Tax Revenue**

The District received approximately 40 percent of its support from property taxes in both the years ended September 30, 2011 and 2010. 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 \$7,891 and \$9,051 at September 30, 2011 and 2010, respectively.

The District's property tax rate was \$0.226255 per \$100 valuation for 2011 and 2010 for the maintenance and operation fund and property tax revenue for this fund was approximately \$273,432 and \$282,054 for 2011 and 2010, respectively. The District's property tax rate was \$0.001583 per \$100 valuation for 2011 and 2010 for the interest and sinking fund and property tax revenue for this fund was approximately \$1,913 and \$1,974 for 2011 and 2010, 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, 2011 and 2010, the District's deposits were either insured or collateralized in accordance with state law.

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**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.

At September 30, 2011 and 2010, the District had the following investments and maturities as:

<b>September 30, 2011</b>					
<b>Type</b>	<b>Fair Value</b>	<b>Maturities in Years</b>			
		<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More 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	199				
	<u>\$ 110,826</u>				

<b>September 30, 2010</b>					
<b>Type</b>	<b>Fair Value</b>	<b>Maturities in Years</b>			
		<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>
Money market mutual funds	\$ 3,291	\$ 3,291	\$ -	\$ -	\$ -
Investment pools	22,972	22,972	-	-	-
U.S. Treasury obligations	1,211	-	512	699	-
U.S. agencies obligations	79,995	23,836	32,947	23,212	-
Corporate bonds	718	403	315	-	-
Municipal bonds	100	-	-	-	100
		<u>\$ 50,502</u>	<u>\$ 33,774</u>	<u>\$ 23,911</u>	<u>\$ 100</u>
Mutual funds	475				
	<u>\$ 108,762</u>				

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- **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.

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- **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 five percent of total investments:

	<u>2011</u>	<u>2010</u>
Federal Home Loan Bank	19.2%	32.5%
Federal National Mortgage Association	8.8%	12.7%
Federal Farm Credit Bank	11.7%	12.9%
Federal Home Loan Mortgage Association	9.3%	9.4%
Federal Agricultural Mortgage Corporation	5.3%	5.2%

**Summary of Carrying Values**

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

	<u>2011</u>	<u>2010</u>
Carrying value		
Deposits	\$ 273,925	\$ 287,120
Investments	<u>110,826</u>	<u>108,762</u>
	<u>\$ 384,751</u>	<u>\$ 395,882</u>
Included in the following balance sheets captions		
Cash and cash equivalents	\$ 90,030	\$ 72,801
Short-term investments	110,276	141,038
Restricted cash and investments, current	5,501	5,493
Noncurrent cash and investments	<u>178,944</u>	<u>176,550</u>
	<u>\$ 384,751</u>	<u>\$ 395,882</u>



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***Investment Income***

Investment income for the years ended September 30 consisted of:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 6,112	\$ 7,233
Net decrease in fair value of investments	(713)	(218)
	<u>\$ 5,399</u>	<u>\$ 7,015</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:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 10,803	\$ 11,496
Medicaid	25,813	18,050
Other third-party payers	6,746	21,226
Patients	<u>151,805</u>	<u>143,336</u>
	195,167	194,108
Less allowance for uncollectible accounts	<u>141,346</u>	<u>138,482</u>
	<u>\$ 53,821</u>	<u>\$ 55,626</u>

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**Note 6: Capital Assets**

Capital assets activity for the years ended September 30 was:

	<b>2011</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending 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>\$ 293,555</u>	<u>\$ 11,517</u>	<u>\$ (1,154)</u>	<u>\$ -</u>	<u>\$ 303,918</u>
	<b>2010</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land and improvements	\$ 45,788	\$ 1,044	\$ -	\$ 66	\$ 46,898
Buildings and improvements	224,182	42	(160)	6,112	230,176
Equipment	305,161	13,513	(2,554)	12,753	328,873
Construction in progress	8,393	15,567	-	(18,931)	5,029
	<u>583,524</u>	<u>30,166</u>	<u>(2,714)</u>	<u>-</u>	<u>610,976</u>
Less accumulated depreciation	<u>280,946</u>	<u>38,409</u>	<u>(1,934)</u>	<u>-</u>	<u>317,421</u>
Capital assets, net	<u>\$ 302,578</u>	<u>\$ (8,243)</u>	<u>\$ (780)</u>	<u>\$ -</u>	<u>\$ 293,555</u>

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In 2010, the District began implementing an electronic medical record system. This project is expected to be completed in 2012 and the total estimated remaining cost at September 30, 2011, is \$94,122, of which \$81,378 is expected to be capital related.

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

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

	<b>2011</b>	<b>2010</b>
Payable to suppliers and contractors	\$ 26,650	\$ 40,655
Payable to employees (including payroll taxes and benefits)	27,818	24,285
Pollution remediation liability	2,837	3,464
Patient credit balances	1,968	2,948
Other accrued liabilities	1,745	229
	\$ 61,018	\$ 71,581

**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 2011 and 2010 is summarized as follows:

	<b>2011</b>	<b>2010</b>
Balance, beginning of year	\$ 1,211	\$ 1,333
Current year claims incurred and changes in estimates for claims incurred in prior years	(54)	(14)
Claims and expenses paid	(51)	(108)
Balance, end of year	\$ 1,106	\$ 1,211

***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 2011 and 2010 is summarized as follows:

	<b>2011</b>	<b>2010</b>
Balance, beginning of year	\$ 4,250	\$ 4,870
Current year claims incurred and changes in estimates for claims incurred in prior years	35,273	37,224
Claims and expenses paid	(35,223)	(37,844)
Balance, end of year	\$ 4,300	\$ 4,250

***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 2011 and 2010 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 2,101	\$ 3,110
Current year claims incurred and changes in estimates for claims incurred in prior years	537	321
Claims and expenses paid	<u>(869)</u>	<u>(1,330)</u>
Balance, end of year	<u>\$ 1,769</u>	<u>\$ 2,101</u>

**Note 9: Long-term Debt**

A summary of long-term debt follows:

	<u>2011</u>	<u>2010</u>
Revenue bonds, Series 2002	\$ 31,405	\$ 32,660
Certificates of obligation, Series 2006	<u>27,160</u>	<u>28,000</u>
	58,565	60,660
Bond premium (discount)	<u>(33)</u>	<u>28</u>
	<u>\$ 58,532</u>	<u>\$ 60,688</u>

**Revenue Bonds - Series 2002**

The Series 2002 revenue bonds consist of Tarrant County Hospital District Revenue Bonds, Series 2002 (the Bonds) in the original amount of \$40,940 dated June 1, 2002, which bear interest at 2.0 percent to 5.5 percent. The Bonds are payable in remaining annual installments of \$1,305 to \$2,790 through August 15, 2027. All of the Bonds still outstanding may be redeemed at the District's option on or after August 15, 2012, at par value plus accrued interest. The Bonds are secured by the net revenues of the District, excluding property tax revenue.

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***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 percent to 5.0 percent. The Certificates are payable in remaining annual installments of \$875 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>2011</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Revenue bonds, Series 2002	\$ 32,660	\$ -	\$ 1,255	\$ 31,405	\$ 1,305
Certificates of obligation, Series 2006	<u>28,000</u>	<u>-</u>	<u>840</u>	<u>27,160</u>	<u>875</u>
Total long-term debt	<u>\$ 60,660</u>	<u>\$ -</u>	<u>\$ 2,095</u>	<u>\$ 58,565</u>	<u>\$ 2,180</u>
	<b>2010</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Revenue bonds, Series 2002	\$ 33,870	\$ -	\$ 1,210	\$ 32,660	\$ 1,255
Certificates of obligation, Series 2006	28,810	-	810	28,000	840
Capital lease obligations	<u>2,664</u>	<u>-</u>	<u>2,664</u>	<u>-</u>	<u>-</u>
Total long-term debt	<u>\$ 65,344</u>	<u>\$ -</u>	<u>\$ 4,684</u>	<u>\$ 60,660</u>	<u>\$ 2,095</u>

**Tarrant County Hospital District  
d/b/a JPS Health Network  
A Component Unit of Tarrant County, Texas  
Notes to Financial Statements  
September 30, 2011 and 2010  
(In Thousands)**

The debt service requirements as of September 30, 2011, are as follows:

Year Ending September 30,	Principal	Interest	Total
2012	\$ 2,180	\$ 2,826	\$ 5,006
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 - 2021	15,195	9,825	25,020
2022 - 2026	19,380	5,634	25,014
2027 - 2031	12,040	1,258	13,298
	<u>\$ 58,565</u>	<u>\$ 29,796</u>	<u>\$ 88,361</u>

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

At September 30, 2011 and 2010, \$2,308 and \$4,664, respectively, of net assets were restricted by donors for capital and operating activities.

At September 30, 2011 and 2010, \$160,120 and \$155,806, 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, 2011 and 2010, the District had \$250 of restricted nonexpendable net assets which is a general endowment for Partners.

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

**Notes to Financial Statements  
September 30, 2011 and 2010  
(In Thousands)**

**Note 11: Charity 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. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the District provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

Uncompensated charges relating to these services are as follows:

	<b>2011</b>	<b>2010</b>
Charity allowances	\$ 654,576	\$ 655,881
State Medicaid and other public aid programs	206,152	199,274
	\$ 860,728	\$ 855,155

In addition to uncompensated charges, the District also commits significant time and resources to endeavors and critical services, which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

**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 Post Office Box 679010, Austin, Texas 78768-9010.



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**(In Thousands)**

***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 percent of their compensation. 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 will make 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 percent 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 30 years, which would be remediated by an increase in the employer contribution rate. The employer contributions were 6.5 percent of estimated participant compensation for both the years ended September 30, 2011 and 2010. 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 \$12,652 and \$11,206 for the years ended September 30, 2011 and 2010, respectively. These costs were equal to the annual required contributions as determined in the actuarial valuations dated October 1, 2010 and 2009, respectively. There is no existing net pension obligation.

The required contributions for the plan year ended September 30, 2011, were based on the results of the actuarial valuation as of October 1, 2010, 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 percent investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5 percent to 8.0 percent, per year, varying by attained age. Both (a) and (b) included an inflation component of 4.0 percent. 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.

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

**Three-Year Trend Information**

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 9,646,748	100%	\$ -
2010	11,205,667	100%	-
2011	12,652,413	100%	-

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Plan Assets Less than AAL	Funded Ratio	Covered Payroll	Plan Assets Less Than AAL as a Percent of Covered Payroll
10/1/2008	\$ 79,788	\$ 97,125	\$ (17,337)	82.1%	\$ 139,484	-12.4%
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%

**Other Benefit Plans**

The District has an Internal Revenue Code (IRC) Section 401(a) plan that includes an employer match calculated as 50% of an employee's contribution up to 4 percent of pay. The contributions for the employer match on the plan were approximately \$3,831 and \$3,516 for the years ended September 30, 2011 and 2010, 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 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.

**Tarrant County Hospital District**  
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**September 30, 2011 and 2010**  
**(In Thousands)**

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, 2011 and 2010, there were no benefits due under this plan.

**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 is 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).

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 UPL 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 \$83,100 and \$73,490 for the years ended September 30, 2011 and 2010, respectively. As part of the affiliation agreement, the District provided \$56,591 and \$46,340 in funding to the program for the years ended September 30, 2011 and 2010, 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 \$26,509 and \$27,150 for 2011 and 2010, 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.

The funding for services for the indigent population of Tarrant County through the UPL program will be replaced by 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.

**Tarrant County Hospital District**  
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**September 30, 2011 and 2010**  
**(In Thousands)**

**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 the District believes it has obligated itself to remediate the environmental hazards and, therefore, has incurred pollution remediation obligations (PRO).

Changes in the District’s PRO liability are capitalized as a component of capital assets. The District’s PRO liability is measured based on the current cost of expected remediation activities and is adjusted as changes in the cost of remediation occur.

The following table summarizes the change in the District’s PRO during the years ended September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
PRO, beginning of year	\$ 3,464	\$ 3,551
Changes in estimated remediation costs	<u>(627)</u>	<u>(87)</u>
PRO, end of year	<u>\$ 2,837</u>	<u>\$ 3,464</u>

## **Supplementary Information**

**JPS Health Network**  
**A Component Unit of Tarrant County**  
**Balance Sheet Information**  
**September 30, 2011**  
**(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	\$ 75,905	\$ 13,756	\$ 365	\$ 4	\$ 90,030
Short-term investments	110,276	-	-	-	110,276
Patient accounts receivable, net	47,033	6,788	-	-	53,821
Property taxes receivable, net	5,209	-	-	-	5,209
Texas disproportionate share program receivable	11,941	-	-	-	11,941
Restricted pledges receivable, net	-	-	279	-	279
Held by trustee for self insurance, current portion	5,501	-	-	-	5,501
Due from third-party payers	2,200	-	-	-	2,200
Supplies inventory	10,011	-	-	-	10,011
Prepaid expenses and other assets	8,698	1,955	41	(635)	10,059
	<u>276,774</u>	<u>22,499</u>	<u>685</u>	<u>(631)</u>	<u>299,327</u>
<b>Due from Affiliates</b>	<u>2,095</u>	<u>551</u>	<u>5</u>	<u>(2,651)</u>	<u>-</u>
<b>Noncurrent Cash and Investments</b>					
Held by trustee for debt service	2,958	-	-	-	2,958
Held by trustee for self insurance	13,243	-	-	-	13,243
Restricted by donors for capital acquisitions and specific operating activities	-	-	2,623	-	2,623
Internally designated for capital acquisitions and operating activities	160,120	-	-	-	160,120
	<u>176,321</u>	<u>-</u>	<u>2,623</u>	<u>-</u>	<u>178,944</u>
<b>Pledges Receivable</b>	<u>-</u>	<u>-</u>	<u>93</u>	<u>-</u>	<u>93</u>
<b>Capital Assets - Net</b>	<u>303,913</u>	<u>-</u>	<u>5</u>	<u>-</u>	<u>303,918</u>
<b>Total assets</b>	<u>\$ 759,103</u>	<u>\$ 23,050</u>	<u>\$ 3,411</u>	<u>\$ (3,282)</u>	<u>\$ 782,282</u>

## Liabilities and Net Assets

	Hospital	JPSPG	Partners	Eliminations	Total
<b>Current Liabilities</b>					
Accounts payable	\$ 33,109	\$ 320	\$ 49	\$ (631)	\$ 32,847
Accrued expenses	22,383	5,783	5	-	28,171
Due to third-party payers	150	-	-	-	150
Current portion of self-insurance costs	5,501	-	-	-	5,501
Current maturities of long-term debt	2,180	-	-	-	2,180
	<u>63,323</u>	<u>6,103</u>	<u>54</u>	<u>(631)</u>	<u>68,849</u>
<b>Due to Affiliates</b>	560	1,687	404	(2,651)	-
<b>Estimated Self-insurance Costs</b>	1,674	-	-	-	1,674
<b>Long-term Debt</b>	56,352	-	-	-	56,352
<b>Other Long-term Liabilities</b>	<u>-</u>	<u>1,269</u>	<u>10</u>	<u>-</u>	<u>1,279</u>
	<u>121,909</u>	<u>9,059</u>	<u>468</u>	<u>(3,282)</u>	<u>128,154</u>
<b>Net Assets</b>					
Invested in capital assets - net of related debt	248,339	-	5	-	248,344
Restricted expendable	-	-	2,308	-	2,308
Restricted non-expendable	-	-	250	-	250
Unrestricted	388,855	13,991	380	-	403,226
	<u>637,194</u>	<u>13,991</u>	<u>2,943</u>	<u>-</u>	<u>654,128</u>
	<u>\$ 759,103</u>	<u>\$ 23,050</u>	<u>\$ 3,411</u>	<u>\$ (3,282)</u>	<u>\$ 782,282</u>

**JPS Health Network**  
**A Component Unit of Tarrant County**  
**Statement of Revenues, Expenses and**  
**Changes in Net Assets Information**  
**Year Ended September 30, 2011**  
**(In Thousands)**

	<u>Hospital</u>	<u>JPSPG</u>	<u>Partners</u>	<u>Eliminations</u>	<u>Total</u>
<b>Operating Revenues</b>					
Net patient service revenue	\$ 229,036	\$ 35,471	\$ -	\$ (59)	\$ 264,448
Texas disproportionate share program revenue	100,274	3,035	-	-	103,309
Contributions	-	-	858	(39)	819
Other operating revenue	44,901	8,979	499	(2,748)	51,631
	<u>374,211</u>	<u>47,485</u>	<u>1,357</u>	<u>(2,846)</u>	<u>420,207</u>
<b>Operating Expenses</b>					
Salaries and related expenses	311,145	42,931	47	-	354,123
Professional fees and purchased services	175,109	1,527	828	(3,227)	174,237
Supplies	131,705	189	102	(32)	131,964
Depreciation and amortization	40,452	-	2	-	40,454
Other	20,510	570	3,106	(2,590)	21,596
	<u>678,921</u>	<u>45,217</u>	<u>4,085</u>	<u>(5,849)</u>	<u>722,374</u>
<b>Operating Income (Loss)</b>	<u>(304,710)</u>	<u>2,268</u>	<u>(2,728)</u>	<u>3,003</u>	<u>(302,167)</u>
<b>Nonoperating Revenues (Expenses)</b>					
Property tax revenue	275,345	-	-	-	275,345
Contributed services	26,509	-	-	-	26,509
Interest expense	(2,009)	-	-	-	(2,009)
Investment return and other	7,457	41	635	(2,646)	5,487
	<u>307,302</u>	<u>41</u>	<u>635</u>	<u>(2,646)</u>	<u>305,332</u>
<b>Excess of Revenues Over Expenses Before Capital Grants and Gifts</b>	2,592	2,309	(2,093)	357	3,165
<b>Capital Grants and Gifts</b>	<u>(402)</u>	<u>(1)</u>	<u>760</u>	<u>(357)</u>	<u>-</u>
<b>Increase (Decrease) in Net Assets</b>	2,190	2,308	(1,333)	-	3,165
<b>Net Assets, Beginning of Year</b>	<u>635,004</u>	<u>11,683</u>	<u>4,276</u>	<u>-</u>	<u>650,963</u>
<b>Net Assets, End of Year</b>	<u>\$ 637,194</u>	<u>\$ 13,991</u>	<u>\$ 2,943</u>	<u>\$ -</u>	<u>\$ 654,128</u>



## **Required Supplementary Information**

**JPS Health Network**  
**A Component Unit of Tarrant County**  
**Schedule of Funding Progress – Pension Plan**  
**September 30, 2011**

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Plan Assets Less than AAL	Funded Ratio	Covered Payroll	Plan Assets Less Than AAL as a Percent of Covered Payroll
10/1/2008	\$ 79,787,987	\$ 97,125,493	\$ (17,337,506)	82.1%	\$ 139,484,491	-12.4%
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%