

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

Auditor's Report and Financial Statements

September 30, 2014 and 2013

**Tarrant County Hospital District
d/b/a JPS Health Network
A Component Unit of Tarrant County, Texas
Years Ended September 30, 2014 and 2013**

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Independent Auditor's Report

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 (District), a component unit of Tarrant County, Texas, as of September 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the 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 financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Dallas, Texas
February 13, 2015

**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, 2014 and 2013
(In Thousands)**

Introduction

This management's discussion and analysis of the financial performance of Tarrant County Hospital District d/b/a JPS Health Network (District) provides an overview of the District's financial activities for the years ended September 30, 2014 and 2013. 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 2014 by \$34,039 or 8.8% and decreased in 2013 by \$10,227 or 2.6%.
- The District's net position increased in each of the past two years with a \$28,371 or 3.9% increase in 2014 and a \$60,260 or 9.0% increase in 2013.
- The District reported operating losses in both 2014 (\$274,530) and 2013 (\$236,678). The operating loss in 2014 increased by \$37,852 or 16.0%, as compared to the operating loss reported in 2013. The operating loss in 2013 decreased by \$55,204 or 18.9%, from the operating loss reported in 2012.
- Net nonoperating revenues increased by \$5,598 or 1.9% in 2014 compared to 2013 and decreased by \$8,972 or 2.9% in 2013 compared to 2012.

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 position; 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 Position

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 position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. 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 position and changes in them. The District's total net position—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 position 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 Position

The District's net position are the difference between its assets and liabilities reported in the balance sheets. The District's net position increased by \$28,371 (3.9%) in 2014 over 2013 and by \$60,260 (9.0%) in 2013 over 2012, as shown in Table 1:

Table 1: Assets, Liabilities and Net Position

| | 2014 | 2013 | 2012 |
|--|-------------------|-------------------|-------------------|
| Assets | | | |
| Cash and short-term investments | \$ 235,148 | \$ 202,938 | \$ 211,511 |
| Patient accounts receivable, net | 47,721 | 53,928 | 62,726 |
| Other current assets | 192,677 | 161,882 | 58,645 |
| Capital assets, net | 284,087 | 283,409 | 303,812 |
| Other noncurrent assets | 187,366 | 187,096 | 188,876 |
| | <u>946,999</u> | <u>889,253</u> | <u>825,570</u> |
| Total assets | <u>\$ 946,999</u> | <u>\$ 889,253</u> | <u>\$ 825,570</u> |
| Liabilities | | | |
| Long-term debt | \$ 46,045 | \$ 48,742 | \$ 54,024 |
| Other current and noncurrent liabilities | 141,687 | 109,615 | 100,910 |
| | <u>187,732</u> | <u>158,357</u> | <u>154,934</u> |
| Total liabilities | <u>187,732</u> | <u>158,357</u> | <u>154,934</u> |
| Net Position | | | |
| Net investment in capital assets | 233,599 | 232,625 | 250,529 |
| Restricted expendable | 1,735 | 1,434 | 4,425 |
| Restricted nonexpendable | 315 | 315 | 250 |
| Unrestricted | 523,618 | 496,522 | 415,432 |
| | <u>759,267</u> | <u>730,896</u> | <u>670,636</u> |
| Total net position | <u>759,267</u> | <u>730,896</u> | <u>670,636</u> |
| Total liabilities and net position | <u>\$ 946,999</u> | <u>\$ 889,253</u> | <u>\$ 825,570</u> |

A significant change in the District's assets in 2014 is the increase in amounts due from the state of Texas under supplemental funding programs. Supplemental funding payments from the Medicaid Disproportionate Share Program and the Medicaid section 1115(a) demonstration (Waiver) funding pools, discussed more fully in *Note 3*, have been delayed and the related receivable increased by \$28,377 or 21.3% in 2014 as compared to 2013.

The District's cash and investments and other noncurrent investments increased by \$34,039 or 8.8% in 2014 as compared to 2013 and the District's accounts receivable decreased by \$6,207 or 11.5% in 2014 as compared to 2013. The increase in cash and investments is attributable to the excess of revenues over expenses and a decrease in patient accounts receivable. The decrease in accounts receivable is primarily attributable to continued experience with the electronic health record and patient billing software program the District began utilizing in May 2012.

The most significant change in the District's assets in 2013 was also an increase in amounts due from the state of Texas under supplemental funding programs. In 2012, the state of Texas began the transition of the Waiver and the related receivable increased by \$100,236 or 301.3% in 2013 as compared to 2012. The District's cash and investments and other noncurrent investments decreased by \$10,227 or 2.6% in 2013 as compared to 2012 and the District's accounts receivable decreased by \$8,798 or 14.0% in 2013 as compared to 2012. The decrease in accounts receivable was primarily attributable to more experience with new electronic health record and patient billing software program as discussed above.

Operating Results and Changes in the District's Net Position

In 2014, the District's net position increased by \$28,371 or 3.9%, as shown in Table 2. This increase is made up of several different components and represents a decrease of 52.9% compared with the increase in net position for 2013 of \$60,260. The District's change in net position increased from \$16,508 in 2012 to \$60,260 in 2013.

Table 2: Operating Results and Changes in Net Position

| | 2014 | 2013 | 2012 |
|---|------------------|------------------|------------------|
| Operating Revenues | | | |
| Net patient service revenue | \$ 299,019 | \$ 261,427 | \$ 271,604 |
| Supplemental Medicaid funding | 185,143 | 211,628 | 121,596 |
| Other operating revenue | 42,396 | 51,384 | 47,871 |
| | <hr/> | <hr/> | <hr/> |
| Total operating revenues | 526,558 | 524,439 | 441,071 |
| | <hr/> | <hr/> | <hr/> |
| Operating Expenses | | | |
| Salaries and wages and employee benefits | 408,976 | 372,709 | 356,588 |
| Purchased services and professional fees | 189,390 | 187,917 | 180,248 |
| Supplies | 124,201 | 121,011 | 117,048 |
| Depreciation and amortization | 40,084 | 42,491 | 43,396 |
| Other operating expenses | 38,437 | 36,989 | 35,673 |
| | <hr/> | <hr/> | <hr/> |
| Total operating expenses | 801,088 | 761,117 | 732,953 |
| | <hr/> | <hr/> | <hr/> |
| Operating Loss | (274,530) | (236,678) | (291,882) |
| | <hr/> | <hr/> | <hr/> |
| Nonoperating Revenues (Expenses) | | | |
| Property taxes | 291,013 | 283,766 | 279,403 |
| Contributed services | 9,185 | 12,427 | 23,676 |
| Investment return, interest expense and other | 2,318 | 725 | 2,811 |
| | <hr/> | <hr/> | <hr/> |
| Total nonoperating revenues (expenses) | 302,516 | 296,918 | 305,890 |
| | <hr/> | <hr/> | <hr/> |
| Excess of Revenues Over Expenses Before Capital Grants | 27,986 | 60,240 | 14,008 |
| | <hr/> | <hr/> | <hr/> |
| Capital Grants | 385 | 20 | 2,500 |
| | <hr/> | <hr/> | <hr/> |
| Increase in Net Position | <u>\$ 28,371</u> | <u>\$ 60,260</u> | <u>\$ 16,508</u> |

Operating Losses

The first component of the overall change in the District's net position 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 2014 increased by \$37,852 or 16.0% as compared to 2013. The primary components of the increased operating loss are:

- An increase in net patient service revenue of \$37,592 or 14.4%
- A decrease in Medicaid supplemental funding of \$26,485 or 12.5%
- A decrease in other operating revenue of \$8,988 or 17.5%
- An increase in salary and related expenses of \$36,267 or 9.7%

The increase in net patient service revenue is primarily attributable to an increase in patient volumes and changes in payer mix.

The decrease in Medicaid supplemental funding revenue is due to the impact in the overall planned decrease in Waiver funding pools for 2014 and changes in funding allocation methodology.

The decrease in other operating revenue is due in large part to a decrease in funding from the Medicare and Medicaid Electronic Health Records Incentive Program discussed more fully in *Note 1*.

The increase in salary and related expenses is due to wage increases resulting from the District's retention efforts and to the addition of full time equivalent employees to manage increased volume and operationalize projects associated with Delivery System Reform Incentive Payment (DSRIP) pool discussed in *Note 3*.

The operating loss for 2013 of \$236,678 was \$55,204 less than the operating loss of \$291,882 recognized in 2012. The District had a decrease in net patient service revenue of \$10,601 and an increase in Texas Medicaid supplemental funding of \$90,032. The increase in Medicaid supplemental funding was due to the Waiver transition discussed above. Salaries and wages increased in 2013 by \$16,121 or 4.5%, as compared to 2012, due to costs associated with programs formed for the participation in the DSRIP pool. Professional fees and purchased services increased in 2013 by \$7,669 or 4.3%, as compared to 2012, as a result of increased payments to physician groups providing services to indigent patients serviced by the District and due to increased consulting services utilized during the implementation of the District's electronic health record and patient billing system.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the District, contributions and investment income and interest expense. The District held property tax rates steady in 2014, 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 \$7,247 or 2.6% from 2013 to 2014. Investment return increased in 2014 compared to 2013, resulting primarily from a slight increase 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 \$3,242 or 26.1% in 2014 as compared to 2013. This decrease resulted from the District taking on more of the costs associated with physician services provided to the District's indigent patients. Other contribution revenue increased by \$986, or 308.1% in 2014 as compared to 2013.

Interest expense decreased by \$182 or 11.1% due to an increase in interest capitalized on construction in progress projects during 2014 as discussed in *Note 1*.

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 2014, 2013 and 2012, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2014, the District had \$284,087 invested in capital assets, net of accumulated depreciation, as detailed in *Note 7* to the financial statements. In 2014, the District purchased new capital assets costing \$40,868.

At the end of 2013, the District had \$283,409 invested in capital assets, net of accumulated depreciation. In 2013, the District purchased new capital assets costing \$23,775.

Debt

At September 30, 2014, the District had \$47,440 in revenue bonds and certificates of obligations outstanding. The District issued no new debt in 2014. In 2012, the District issued the Series 2012 Bonds to refinance the outstanding Series 2002 Bonds obligation, as discussed in *Note 10*. 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 District's outlook was updated from negative to stable in 2014, by Moody's and Standard & Poor's.

Other Economic Factors

The District is the Anchor facility for the Region 10 Regional Healthcare Partnership (RHP) 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 health care 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 2015 from growth in the county. Based on the recommendation of the District's Board of Managers (Board), the Tarrant County Commissioners Court set the property tax rate for fiscal year 2015 to \$0.227897 per \$100 valuation, which is consistent with the property tax rate for fiscal year 2014.

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, specifically shifting reimbursement systems from fee for service to value based payments
- 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
- Shifting of care trend from inpatient to outpatient settings
- Continued growth in medical and pharmaceutical costs, as well as advances in therapies
- Continued advances in health care medical equipment and computing technology

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.

Operating Practices

- The District’s adoption of LEAN and Six Sigma methodologies to improve efficiency and reduce outcome variation

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, 2014 and 2013
(In Thousands)**

Assets

| | 2014 | 2013 |
|---|-------------|-------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 144,248 | \$ 97,800 |
| Short-term investments | 90,900 | 105,138 |
| Patient accounts receivable, net | 47,721 | 53,928 |
| Property taxes receivable, net | 4,075 | 4,342 |
| Supplemental Medicaid funding receivable | 161,885 | 133,508 |
| Restricted pledges receivable, net | 10 | 25 |
| Internally designated for self-insurance, current portion | 190 | 300 |
| Supplies inventory | 9,640 | 8,644 |
| Prepaid expenses and other assets | 16,877 | 15,063 |
| Total current assets | 475,546 | 418,748 |
| Noncurrent Cash and Investments | | |
| Internally designated for debt service | 333 | 298 |
| Internally designated for self-insurance | 11,502 | 11,274 |
| Restricted by donors for capital acquisitions and specific operating activities | 2,069 | 1,786 |
| Internally designated for capital acquisitions and operating activities | 173,462 | 172,069 |
| Total noncurrent cash and investments | 187,366 | 185,427 |
| Other Receivables | - | 1,669 |
| Capital Assets, Net | 284,087 | 283,409 |
| Total assets | \$ 946,999 | \$ 889,253 |

Liabilities and Net Position

| | <u>2014</u> | <u>2013</u> |
|---|-----------------------|-----------------------|
| Current Liabilities | | |
| Accounts payable | \$ 89,178 | \$ 57,905 |
| Accrued expenses | 38,784 | 36,071 |
| Due to third-party payers | 3,434 | 6,912 |
| Current portion of self-insurance costs | 5,357 | 4,152 |
| Current maturities of long-term debt | <u>2,405</u> | <u>2,340</u> |
| Total current liabilities | 139,158 | 107,380 |
| Estimated Self-insurance Costs | 1,370 | 1,366 |
| Long-term Debt | 46,045 | 48,742 |
| Other Long-term Liabilities | <u>1,159</u> | <u>869</u> |
| Total liabilities | <u>187,732</u> | <u>158,357</u> |
| Net Position | | |
| Net investment in capital assets | 233,599 | 232,625 |
| Restricted expendable | 1,735 | 1,434 |
| Restricted nonexpendable | 315 | 315 |
| Unrestricted | <u>523,618</u> | <u>496,522</u> |
| Total net position | <u>759,267</u> | <u>730,896</u> |
| Total liabilities and net position | <u>\$ 946,999</u> | <u>\$ 889,253</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 Position
Years Ended September 30, 2014 and 2013
(In Thousands)**

| | <u>2014</u> | <u>2013</u> |
|--|-------------------|-------------------|
| Operating Revenues | | |
| Net patient service revenue, net of provision for uncollectible accounts; 2014 – \$349,306; 2013 – \$328,286 | \$ 299,019 | \$ 261,427 |
| Supplemental Medicaid funding | 185,143 | 211,628 |
| Other operating revenue | <u>42,396</u> | <u>51,384</u> |
| Total operating revenues | <u>526,558</u> | <u>524,439</u> |
| Operating Expenses | | |
| Salaries and related expenses | 408,976 | 372,709 |
| Professional fees and purchased services | 189,390 | 187,917 |
| Supplies | 124,201 | 121,011 |
| Depreciation and amortization | 40,084 | 42,491 |
| Other | <u>38,437</u> | <u>36,989</u> |
| Total operating expenses | <u>801,088</u> | <u>761,117</u> |
| Operating Loss | <u>(274,530)</u> | <u>(236,678)</u> |
| Nonoperating Revenues (Expenses) | | |
| Property tax revenue | 291,013 | 283,766 |
| Contributed services | 9,185 | 12,427 |
| Contributions | 1,306 | 320 |
| Interest expense | (1,459) | (1,641) |
| Investment return and other | <u>2,471</u> | <u>2,046</u> |
| Total nonoperating revenues (expenses) | <u>302,516</u> | <u>296,918</u> |
| Excess of Revenues Over Expenses Before Capital Grants | 27,986 | 60,240 |
| Capital Grants | <u>385</u> | <u>20</u> |
| Increase in Net Position | 28,371 | 60,260 |
| Net Position, Beginning of Year | <u>730,896</u> | <u>670,636</u> |
| Net Position, End of Year | <u>\$ 759,267</u> | <u>\$ 730,896</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, 2014 and 2013
(In Thousands)**

| | 2014 | 2013 |
|--|-------------|-------------|
| Operating Activities | | |
| Receipts from and on behalf of patients | \$ 302,178 | \$ 273,590 |
| Receipts from Texas Medicaid supplemental funding programs | 156,766 | 111,392 |
| Payments to suppliers and contractors | (315,302) | (333,948) |
| Payments to employees | (405,910) | (368,362) |
| Other receipts, net | 41,965 | 51,493 |
| Net cash used in operating activities | (220,303) | (265,835) |
| Noncapital Financing Activities | | |
| Noncapital grants and gifts | 1,306 | 320 |
| Property taxes supporting operations | 289,179 | 281,578 |
| Net cash provided by noncapital financing activities | 290,485 | 281,898 |
| Capital and Related Financing Activities | | |
| Proceeds from issuance of long-term debt | - | 27,657 |
| Principal paid on long-term debt | (2,340) | (32,495) |
| Interest paid on long-term debt | (2,038) | (2,158) |
| Payment of bond issuance costs | - | (270) |
| Property taxes supporting debt service | 2,101 | 2,099 |
| Capital grants and gifts | 2,051 | 20 |
| Proceeds from sale of capital assets | 80 | 388 |
| Purchase of capital assets | (38,548) | (23,577) |
| Net cash used in capital and related financing activities | (38,694) | (28,336) |
| Investing Activities | | |
| Purchase of investments | (286,783) | (296,108) |
| Proceeds from the sale and maturities of short-term investments | 300,715 | 250,954 |
| Interest income and other | 3,257 | 2,046 |
| Net cash provided by (used in) investing activities | 17,189 | (43,108) |
| Increase (Decrease) in Cash and Cash Equivalents | 48,677 | (55,381) |
| Cash and Cash Equivalents, Beginning of Year | 99,257 | 154,638 |
| Cash and Cash Equivalents, End of Year | \$ 147,934 | \$ 99,257 |

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, 2014 and 2013
(In Thousands)

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|
| Reconciliation of Cash and Cash Equivalents to the Balance Sheets | | |
| Cash and cash equivalents in current assets | \$ 144,248 | \$ 97,800 |
| Cash and cash equivalents in noncurrent cash and investments | <u>3,686</u> | <u>1,457</u> |
| | <u>\$ 147,934</u> | <u>\$ 99,257</u> |
| | | |
| Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities | | |
| Operating loss | \$ (274,530) | \$ (236,678) |
| Depreciation and amortization | 40,084 | 42,491 |
| (Gain) loss on disposal of assets | (324) | 15 |
| Provision for uncollectible accounts | 349,306 | 328,286 |
| Contributed services expense | 9,185 | 12,427 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable | (343,099) | (319,488) |
| Texas Medicaid supplemental funding receivable | (28,377) | (100,236) |
| Estimated amounts due from and to third-party payers | (3,478) | 3,365 |
| Accounts payable and accrued expenses | 32,648 | 8,056 |
| Other assets and liabilities | <u>(1,718)</u> | <u>(4,073)</u> |
| Net cash used in operating activities | <u>\$ (220,303)</u> | <u>\$ (265,835)</u> |
| | | |
| Supplemental Cash Flows Information | | |
| Capital asset acquisitions included in accounts payable | \$ 2,371 | \$ 330 |
| Contributed services revenue (<i>Note 14</i>) | \$ 9,185 | \$ 12,427 |

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

Notes to Financial Statements

September 30, 2014 and 2013

(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 (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, 20 school-based clinics and dental services at seven 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 (Court) and is governed by an 11 member Board of Managers (Board) appointed by the Court. For this reason, the District is considered to be a component unit of Tarrant County, Texas (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. Separate financial statements of JPSPG can be obtained by contacting the District's management.

JPS Foundation (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. Because the Foundation operates primarily for the exclusive benefit of the District, it is also presented as a blended component unit of the District. Separate financial statements of the Foundation can be obtained by contacting the District's management.

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.

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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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

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, 2014 and 2013, cash equivalents consisted primarily of money market accounts with brokers and state investment pools described more fully in *Note 5*.

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.

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.

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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 |

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:

| | <u>2014</u> | <u>2013</u> |
|-----------------------------------|-----------------|-----------------|
| Interest costs capitalized | \$ 279 | \$ 150 |
| Interest costs charged to expense | <u>1,459</u> | <u>1,641</u> |
| Total interest incurred | <u>\$ 1,738</u> | <u>\$ 1,791</u> |

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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 benefits are earned whether the employee is expected to realize the benefit as time off or in cash. 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 Position

Net position of the District is classified in four components. Net investment in capital assets consists 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 position is made up of 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 position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the District, such as permanent endowments. Unrestricted net position is the remaining assets less remaining liabilities that do not meet the definition of net invested in capital assets or restricted net position.

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 \$5,485 and \$5,801 in revenue from this settlement for the years ended September 30, 2014 and 2013, respectively. This revenue is recognized as a component of other operating revenue in the accompanying statements of revenues, expenses and changes in net position.

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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.

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. JPSPG may also receive incentive payments of up to \$44,000 per eligible physician over five years for Medicare and \$63,750 per eligible physician over six years for Medicaid. 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 2014 and 2013, the District completed the second-year and first-year requirements under the Medicare program and recorded revenue of approximately \$1,447 and \$1,636, respectively. In 2014 and 2013, the District completed the third-year and second-year requirements under the Medicaid program, respectively, and recorded revenue of approximately \$860 and \$5,010 in 2014 and 2013, respectively. The revenue earned from these programs is included as a component of other operating revenue in the accompanying statements of revenue, expenses and changes in net position.

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Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 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. The District's Medicare cost reports have been audited by the Medicare administrative contractor through September 30, 2010.

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, 2009.

Approximately 82% and 80% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for both the years ended September 30, 2014 and 2013. Settlements under reimbursement agreements with Medicare and Medicaid programs are estimated and recorded in the period the related services are rendered and are adjusted in future periods as adjustments become known or as the service years are no longer subject to audit, review or investigation. Annual cost reports required under the Medicare and Medicaid programs are subject to routine audits, which may result in adjustments to the amounts ultimately determined to be due under the reimbursement programs. These audits often require several years to reach their financial determination of amounts earned under the programs. As a result, it is reasonably possible that recorded estimates will change materially in the near term. Net patient service revenue increased in 2014 by approximately \$2,633 and decreased in 2013 by approximately \$2,494, due to changes in previous estimates.

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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: Supplemental Medicaid Funding Revenue

Supplemental Medicaid funding revenue included in the statement of revenues, expenses and changes in net position includes revenue received from the Medicaid Disproportionate Share Program (DSH) of approximately \$39,191 and \$26,726 for the years ended September 30, 2014 and 2013, respectively. The amounts the District may expect to receive from this program in future years could be impacted by the Medicaid section 1115(a) demonstration program discussed below.

On December 12, 2011, the United States Department of Health and Human Services approved a new Medicaid section 1115(a) demonstration entitled "Texas Health Transformation and Quality Improvement Program" (Waiver). The Waiver expanded existing Medicaid managed care programs and established two funding pools that assists providers with uncompensated care costs (UC Pool) and promotes health system transformation (DSRIP Pool). The Waiver is effective from December 12, 2011 to September 30, 2016. The revenue from the two funding pools is recognized as earned throughout the related demonstration year. During 2014, the District recognized approximately \$102,072 and \$43,880 from the UC Pool and DSRIP Pool, respectively. During 2013, the District recognized approximately \$128,757 and \$56,145 from the UC Pool and DSRIP Pool, respectively. Approximately \$8,349 of revenue recognized in 2013 related to settlement of the 2012 UC Pool. The funding the District has received is subject to audit and is not representative of funding to be received in future years.

The programs described above are subject to review and scrutiny by both the Texas Legislature and the Center for Medicare and Medicaid Services (CMS) and the programs could be modified or terminated based on new legislation or regulation in future periods.

Note 4: Property Tax Revenue

The District received approximately 36% and 35% of its support from property taxes in the years ended September 30, 2014 and 2013, 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 \$8,877 and \$8,722 at September 30, 2014 and 2013, respectively.

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The District's property tax rate was \$0.226253 and \$0.226210 per \$100 valuation for 2014 and 2013, respectively, for the maintenance and operation fund and property tax revenue for this fund was \$288,914 and \$281,666 for 2014 and 2013, respectively. The District's property tax rate was \$0.001644 and \$0.001687 per \$100 valuation for 2014 and 2013, respectively, for the interest and sinking fund and property tax revenue for this fund was \$2,099 and \$2,100 for 2014 and 2013, respectively.

Note 5: 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, 2014 and 2013, the District's deposits were either insured or collateralized in accordance with state law.

At September 30, 2014, the Foundation's cash accounts exceeded federally insured limits by \$1,839.

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.

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At September 30, 2014 and 2013, the District had the following investments and maturities as:

| | | September 30, 2014 | | | |
|---------------------------|-------------------|----------------------------|------------------|-------------|-------------------------|
| | | Maturities in Years | | | |
| Type | Fair Value | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| Money market mutual funds | \$ 43 | \$ 43 | \$ - | \$ - | \$ - |
| Investment pools | 64,714 | 64,714 | - | - | - |
| U.S. Treasury obligations | 1,223 | 507 | 716 | - | - |
| U.S. agencies obligations | 29,927 | 2,840 | 27,087 | - | - |
| Municipal bonds | 5,714 | 102 | 5,612 | - | - |
| | | <u>\$ 68,206</u> | <u>\$ 33,415</u> | <u>\$ -</u> | <u>\$ -</u> |
| Mutual funds | <u>531</u> | | | | |
| | <u>\$ 102,152</u> | | | | |

| | | September 30, 2013 | | | |
|---------------------------|-------------------|----------------------------|------------------|---------------|-------------------------|
| | | Maturities in Years | | | |
| Type | Fair Value | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| Money market mutual funds | \$ 32 | \$ 32 | \$ - | \$ - | \$ - |
| Investment pools | 55,194 | 55,194 | - | - | - |
| U.S. Treasury obligations | 1,236 | - | 1,236 | - | - |
| U.S. agencies obligations | 36,749 | 6,001 | 29,848 | 900 | - |
| Municipal bonds | 5,752 | 153 | 5,599 | - | - |
| | | <u>\$ 61,380</u> | <u>\$ 36,683</u> | <u>\$ 900</u> | <u>\$ -</u> |
| Mutual funds | <u>525</u> | | | | |
| | <u>\$ 99,488</u> | | | | |

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.

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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’s investments in municipal bonds were rated AA- to AA+ by Standard & Poor’s. The District also invests in State Investment Pools (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.

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:

| | 2014 | 2013 |
|---|-------------|-------------|
| Federal Home Loan Bank | 8.8% | 9.6% |
| Federal National Mortgage Association | 3.1% | 6.8% |
| Federal Farm Credit Bank | 10.5% | 11.5% |
| Federal Agricultural Mortgage Corporation | 5.4% | 5.7% |

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Summary of Carrying Values

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

| | 2014 | 2013 |
|---|-------------------|-------------------|
| Carrying value | | |
| Deposits | \$ 320,552 | \$ 289,177 |
| Investments | <u>102,152</u> | <u>99,488</u> |
| | <u>\$ 422,704</u> | <u>\$ 388,665</u> |
| Included in the following balance sheet captions | | |
| Cash and cash equivalents | \$ 144,248 | \$ 97,800 |
| Short-term investments | 90,900 | 105,138 |
| Internally designated for self-insurance, current portion | 190 | 300 |
| Noncurrent cash and investments | <u>187,366</u> | <u>185,427</u> |
| | <u>\$ 422,704</u> | <u>\$ 388,665</u> |

Investment Income

Investment income for the years ended September 30 consisted of:

| | 2014 | 2013 |
|---|-----------------|-----------------|
| Interest and dividend income | \$ 2,816 | \$ 3,624 |
| Net decrease in fair value of investments | <u>(706)</u> | <u>(1,574)</u> |
| | <u>\$ 2,110</u> | <u>\$ 2,050</u> |

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Note 6: 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:

| | 2014 | 2013 |
|---|-------------|-------------|
| Medicare | \$ 10,758 | \$ 10,173 |
| Medicaid | 20,846 | 27,628 |
| Other third-party payers | 25,803 | 15,707 |
| Patients | 125,949 | 135,668 |
| | 183,356 | 189,176 |
| Less allowance for uncollectible accounts | 135,635 | 135,248 |
| | \$ 47,721 | \$ 53,928 |

Note 7: Capital Assets

Capital assets activity for the years ended September 30 was:

| | 2014 | | | | |
|-------------------------------|------------------------------|------------------|------------------|--------------------------------|---------------------------|
| | Beginning Balance | Additions | Disposals | Transfers and Other | Ending Balance |
| Land and improvements | \$ 51,835 | \$ 301 | \$ - | \$ 482 | \$ 52,618 |
| Buildings and improvements | 237,015 | 1,055 | - | 3,283 | 241,353 |
| Equipment | 366,069 | 17,423 | (4,991) | 17,186 | 395,687 |
| Construction in progress | 7,358 | 22,089 | - | (20,951) | 8,496 |
| | 662,277 | 40,868 | (4,991) | - | 698,154 |
| Less accumulated depreciation | 378,868 | 40,084 | (4,885) | - | 414,067 |
| Capital assets, net | \$ 283,409 | \$ 784 | \$ (106) | \$ - | \$ 284,087 |

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| | 2013 | | | | Ending Balance |
|-------------------------------|----------------------|--------------------|-----------------|------------------------|-------------------|
| | Beginning Balance | Additions | Disposals | Transfers and Other | |
| Land and improvements | \$ 51,199 | \$ 1,959 | \$ (373) | \$ (950) | \$ 51,835 |
| Buildings and improvements | 232,187 | 116 | (862) | 5,574 | 237,015 |
| Equipment | 354,042 | 9,604 | (868) | 3,291 | 366,069 |
| Construction in progress | 4,402 | 12,096 | - | (9,140) | 7,358 |
| | <u>641,830</u> | <u>23,775</u> | <u>(2,103)</u> | <u>(1,225)</u> | <u>662,277</u> |
| Less accumulated depreciation | <u>338,018</u> | <u>42,550</u> | <u>(1,700)</u> | <u>-</u> | <u>378,868</u> |
| Capital assets, net | <u>\$ 303,812</u> | <u>\$ (18,775)</u> | <u>\$ (403)</u> | <u>\$ (1,225)</u> | <u>\$ 283,409</u> |

Note 8: Accounts Payable and Accrued Expenses

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

| | 2014 | 2013 |
|---|-------------------|------------------|
| Payable to suppliers and contractors | \$ 40,656 | \$ 30,913 |
| Payable to employees (including payroll taxes and benefits) | 38,534 | 35,798 |
| Payable to TCICC (Note 14) | 46,336 | 25,233 |
| Patient credit balances | 2,182 | 1,752 |
| Other accrued liabilities | 254 | 280 |
| | <u>\$ 127,962</u> | <u>\$ 93,976</u> |

Note 9: 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.

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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.

Activity in the District's accrued medical malpractice claims liability during 2014 and 2013 is summarized as follows:

| | 2014 | 2013 |
|--|-------------|-------------|
| Balance, beginning of year | \$ 665 | \$ 785 |
| Current year claims incurred and changes in estimates for claims incurred in prior years | (61) | 28 |
| Claims and expenses paid | (119) | (148) |
| Balance, end of year | \$ 485 | \$ 665 |

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 2014 and 2013 is summarized as follows:

| | 2014 | 2013 |
|--|-------------|-------------|
| Balance, beginning of year | \$ 2,970 | \$ 4,450 |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 32,533 | 26,714 |
| Claims and expenses paid | (31,243) | (28,194) |
| Balance, end of year | \$ 4,260 | \$ 2,970 |

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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.

Activity in the District's accrued workers' compensation claims liability during 2014 and 2013 is summarized as follows:

| | 2014 | 2013 |
|--|-------------|-------------|
| Balance, beginning of year | \$ 1,883 | \$ 1,728 |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 1,446 | 1,402 |
| Claims and expenses paid | (1,347) | (1,247) |
| Balance, end of year | \$ 1,982 | \$ 1,883 |

Note 10: Long-term Debt

A summary of long-term debt is as follows:

| | 2014 | 2013 |
|---|-------------|-------------|
| Revenue bonds, Series 2012 | \$ 23,015 | \$ 24,405 |
| Certificates of obligation, Series 2006 | 24,425 | 25,375 |
| | 47,440 | 49,780 |
| Bond premium (discount), net | 1,010 | 1,302 |
| | \$ 48,450 | \$ 51,082 |

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(In Thousands)**

Revenue Bonds – Series 2012

The Series 2012 revenue bonds consist of Tarrant County Hospital District Senior Lien Revenue Refunding Bonds, Series 2012 (Series 2012 Bonds) in the original amount of \$25,890 dated September 1, 2012, which bear interest at 2.0% to 5.0%. The Series 2012 Bonds are payable in annual installments of \$1,420 to \$2,205 through August 15, 2027. The Series 2012 Bonds are secured by revenues of the District, exclusive of ad valorem tax revenue. All of the Series 2012 Bonds still outstanding may be redeemed at the District’s option on or after August 15, 2023, at par value plus accrued interest. The proceeds from the Series 2012 Bonds were used to advance refund the Series 2002 Bonds.

Certificates of Obligation – Series 2006

The Series 2006 certificates of obligation consist of Tarrant County Hospital District Certificates of Obligation, Series 2006 (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 \$985 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 Certificates are secured by the net revenues of the District, including property tax revenue.

The indenture agreements 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:

| | 2014 | | | | |
|---|----------------------|-------------|-----------------|-------------------|--------------------|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Long-term debt | | | | | |
| Revenue bonds, Series 2012 | \$ 24,405 | \$ - | \$ 1,390 | \$ 23,015 | \$ 1,420 |
| Certificates of obligation, Series 2006 | 25,375 | - | 950 | 24,425 | 985 |
| Total long-term debt | <u>\$ 49,780</u> | <u>\$ -</u> | <u>\$ 2,340</u> | <u>\$ 47,440</u> | <u>\$ 2,405</u> |

**Tarrant County Hospital District
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| | 2013 | | | | |
|---|----------------------|------------------|------------------|-------------------|--------------------|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Long-term debt | | | | | |
| Revenue bonds, Series 2002 | \$ 30,100 | \$ - | \$ 30,100 | \$ - | \$ - |
| Revenue bonds, Series 2012 | - | 25,890 | 1,485 | 24,405 | 1,390 |
| Certificates of obligation, Series 2006 | 26,285 | - | 910 | 25,375 | 950 |
| Total long-term debt | <u>\$ 56,385</u> | <u>\$ 25,890</u> | <u>\$ 32,495</u> | <u>\$ 49,780</u> | <u>\$ 2,340</u> |

The debt service requirements as of September 30, 2014, are as follows:

| Year Ending September 30, | Principal | Interest | Total |
|------------------------------|------------------|------------------|------------------|
| 2015 | \$ 2,405 | \$ 1,946 | \$ 4,351 |
| 2016 | 2,470 | 1,877 | 4,347 |
| 2017 | 2,555 | 1,792 | 4,347 |
| 2018 | 2,650 | 1,702 | 4,352 |
| 2019 | 2,735 | 1,608 | 4,343 |
| 2020 – 2024 | 15,820 | 5,904 | 21,724 |
| 2025 – 2029 | 14,845 | 2,343 | 17,188 |
| 2030 – 2031 | 3,960 | 186 | 4,146 |
| | <u>\$ 47,440</u> | <u>\$ 17,358</u> | <u>\$ 64,798</u> |

Note 11: Restricted and Designated Net Position

At September 30, 2014 and 2013, \$1,735 and \$1,434, respectively, of net position were restricted by donors for capital and operating activities.

At September 30, 2014 and 2013, \$173,462 and \$172,069, respectively, of unrestricted net position has been designated by the Board for future operating needs and capital acquisitions. Designated assets remain under the control of the Board, which may, at its discretion, later use these assets for other purposes.

At September 30, 2014 and 2013, the District had \$315 of restricted nonexpendable net position which is a general endowment for the Foundation.

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Note 12: 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 \$141,587 and \$158,148 for 2014 and 2013, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross charity care charges. The decrease in uncompensated care cost in 2014 as compared to 2013 is primarily attributable to more of the District's patients obtaining health insurance coverage through the federal health insurance exchange.

Note 13: 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. 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.

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The employer contributions were 6.5% of estimated participant compensation for both the years ended September 30, 2014 and 2013. 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 \$11,625 and \$12,380 for the years ended September 30, 2014 and 2013, respectively. These costs were equal to the annual required contributions as determined in the actuarial valuations dated October 1, 2013 and 2012, respectively. There is no existing net pension obligation.

The required contributions for the plan year ended September 30, 2014, were based on the results of the actuarial valuation as of October 1, 2013, 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) a 7.75% 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

| Fiscal Year Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|-------------------|---------------------------|-------------------------------|------------------------|
| 2012 | \$ 12,051 | 100% | \$ - |
| 2013 | 12,380 | 100% | - |
| 2014 | 11,625 | 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 |
|--------------------------|--------------------------------|-----------------------------------|---------------------------|--------------|-----------------|---|
| 10/1/2011 | \$ 113,033 | \$ 144,579 | \$ (31,546) | 78.2% | \$ 185,406 | (17.0%) |
| 10/1/2012 | 125,181 | 159,752 | (34,571) | 78.4% | 190,464 | (18.2%) |
| 10/1/2013 | 145,400 | 170,583 | (25,183) | 85.2% | 178,847 | (14.1%) |

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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 to the IRC Section 403(b) plan discussed below, up to 4% of pay. The contributions for the employer match on the plan were approximately \$3,963 and \$3,645 for the years ended September 30, 2014 and 2013, 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. Employee contributions were \$9,070 and \$8,470 for the years ended September 30, 2014 and 2013, respectively.

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 IRC. As of September 30, 2014 and 2013, approximately \$345 and \$0 was due under this plan. Approximately \$345 of benefit expense was recognized in 2014.

Note 14: Related Party Transactions

The District is party to 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 largely replaced with funding from the Waiver. This program allows for continued funding under the current TCICC agreement.

Under this program, the District contributes certain government funds to the state of Texas, limited to the amount allowed based on aggregate statewide 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.

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Services provided by TCICC were valued at approximately \$36,124 and \$47,967 for the years ended September 30, 2014 and 2013, respectively. As part of the affiliation agreement, the District provided \$26,939 and \$35,540 in funding to the program for the years ended September 30, 2014 and 2013, 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 \$9,185 and \$12,427 for 2014 and 2013, respectively.

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

Note 15: Condensed Combining Information

The following tables include condensed combining balance sheet information for the District and its blended component units as of September 30, 2014 and 2013:

| | September 30, 2014 | | | | |
|-------------------------------------|--------------------|------------------|-----------------|-------------------|-------------------|
| | Hospital | JPSPG | Foundation | Eliminations | Total |
| Assets | | | | | |
| Current assets | \$ 452,113 | \$ 24,769 | \$ 443 | \$ (1,779) | \$ 475,546 |
| Due from affiliates | 865 | 245 | 11 | (1,121) | - |
| Noncurrent cash and investments | 185,297 | - | 2,069 | - | 187,366 |
| Capital assets, net | 282,621 | 1,464 | 2 | - | 284,087 |
| Total assets | <u>\$ 920,896</u> | <u>\$ 26,478</u> | <u>\$ 2,525</u> | <u>\$ (2,900)</u> | <u>\$ 946,999</u> |
| Liabilities and Net Position | | | | | |
| Current liabilities | \$ 135,560 | \$ 5,367 | \$ 10 | \$ (1,779) | \$ 139,158 |
| Due to affiliates | 273 | 805 | 43 | (1,121) | - |
| Estimated self-insurance costs | 1,370 | - | - | - | 1,370 |
| Long-term debt | 46,045 | - | - | - | 46,045 |
| Other long-term liabilities | 345 | 814 | - | - | 1,159 |
| Total liabilities | <u>183,593</u> | <u>6,986</u> | <u>53</u> | <u>(2,900)</u> | <u>187,732</u> |
| Net Position | | | | | |
| Net investment in capital assets | 232,133 | 1,464 | 2 | - | 233,599 |
| Restricted expendable | - | - | 1,735 | - | 1,735 |
| Restricted nonexpendable | - | - | 315 | - | 315 |
| Unrestricted | 505,170 | 18,028 | 420 | - | 523,618 |
| Total net position | <u>737,303</u> | <u>19,492</u> | <u>2,472</u> | <u>-</u> | <u>759,267</u> |
| Total liabilities and net position | <u>\$ 920,896</u> | <u>\$ 26,478</u> | <u>\$ 2,525</u> | <u>\$ (2,900)</u> | <u>\$ 946,999</u> |

**Tarrant County Hospital District
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September 30, 2014 and 2013

(In Thousands)

| | September 30, 2013 | | | | |
|-------------------------------------|--------------------|------------------|-----------------|-------------------|-------------------|
| | Hospital | JPSPG | Foundation | Eliminations | Total |
| Assets | | | | | |
| Current assets | \$ 394,188 | \$ 25,851 | \$ 120 | \$ (1,411) | \$ 418,748 |
| Due from affiliates | 1,070 | 82 | 44 | (1,196) | - |
| Noncurrent cash and investments | 183,641 | - | 1,786 | - | 185,427 |
| Other receivables | 1,667 | - | 2 | - | 1,669 |
| Capital assets, net | 281,749 | 1,657 | 3 | - | 283,409 |
| Total assets | <u>\$ 862,315</u> | <u>\$ 27,590</u> | <u>\$ 1,955</u> | <u>\$ (2,607)</u> | <u>\$ 889,253</u> |
| Liabilities and Net Position | | | | | |
| Current liabilities | \$ 103,109 | \$ 5,656 | \$ 26 | \$ (1,411) | \$ 107,380 |
| Due to affiliates | 133 | 961 | 102 | (1,196) | - |
| Estimated self-insurance costs | 1,366 | - | - | - | 1,366 |
| Long-term debt | 48,742 | - | - | - | 48,742 |
| Other long-term liabilities | - | 869 | - | - | 869 |
| Total liabilities | <u>153,350</u> | <u>7,486</u> | <u>128</u> | <u>(2,607)</u> | <u>158,357</u> |
| Net Position | | | | | |
| Net investment in capital assets | 230,965 | 1,657 | 3 | - | 232,625 |
| Restricted expendable | 20 | - | 1,414 | - | 1,434 |
| Restricted nonexpendable | - | - | 315 | - | 315 |
| Unrestricted | 477,980 | 18,447 | 95 | - | 496,522 |
| Total net position | <u>708,965</u> | <u>20,104</u> | <u>1,827</u> | <u>-</u> | <u>730,896</u> |
| Total liabilities and net position | <u>\$ 862,315</u> | <u>\$ 27,590</u> | <u>\$ 1,955</u> | <u>\$ (2,607)</u> | <u>\$ 889,253</u> |

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the District and its blended component units for the years ended September 30, 2014 and 2013.

| | September 30, 2014 | | | | |
|-------------------------------------|--------------------|------------------|-----------------|--------------|-------------------|
| | Hospital | JPSPG | Foundation | Eliminations | Total |
| Operating revenues | \$ 504,984 | \$ 42,438 | \$ 108 | \$ (20,972) | \$ 526,558 |
| Operating expenses | 778,243 | 43,109 | 825 | (21,089) | 801,088 |
| Operating income (loss) | <u>(273,259)</u> | <u>(671)</u> | <u>(717)</u> | <u>117</u> | <u>(274,530)</u> |
| Nonoperating revenues (expenses) | 301,212 | 59 | 1,362 | (117) | 302,516 |
| Capital grants | 385 | - | - | - | 385 |
| Increase (decrease) in net position | 28,338 | (612) | 645 | - | 28,371 |
| Net position, beginning of year | 708,965 | 20,104 | 1,827 | - | 730,896 |
| Net position, end of year | <u>\$ 737,303</u> | <u>\$ 19,492</u> | <u>\$ 2,472</u> | <u>\$ -</u> | <u>\$ 759,267</u> |

**Tarrant County Hospital District
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Notes to Financial Statements

September 30, 2014 and 2013

(In Thousands)

| | September 30, 2013 | | | | |
|-------------------------------------|--------------------|------------------|-----------------|--------------|-------------------|
| | Hospital | JPSPG | Foundation | Eliminations | Total |
| Operating revenues | \$ 492,618 | \$ 50,042 | \$ 450 | \$ (18,351) | \$ 524,759 |
| Operating expenses | 731,431 | 47,250 | 1,228 | (18,792) | 761,117 |
| Operating income (loss) | (238,813) | 2,792 | (778) | 441 | (236,358) |
| Nonoperating revenues (expenses) | 296,741 | 50 | 248 | (441) | 296,598 |
| Capital grants | 20 | - | - | - | 20 |
| Increase (decrease) in net position | 57,948 | 2,842 | (530) | - | 60,260 |
| Net position, beginning of year | 651,017 | 17,262 | 2,357 | - | 670,636 |
| Net position, end of year | <u>\$ 708,965</u> | <u>\$ 20,104</u> | <u>\$ 1,827</u> | <u>\$ -</u> | <u>\$ 730,896</u> |

The following tables include condensed combining statements of cash flows information for the District and its blended component units for the years ended September 30, 2014 and 2013.

| | September 30, 2014 | | | | |
|--|--------------------|------------------|-----------------|--------------|-------------------|
| | Hospital | JPSPG | Foundation | Eliminations | Total |
| Net cash provided by (used in): | | | | | |
| Operating activities | \$ (223,304) | \$ 3,743 | \$ (742) | \$ - | \$ (220,303) |
| Noncapital financing activities | 290,485 | - | - | - | 290,485 |
| Capital and related financing activities | (38,531) | (163) | - | - | (38,694) |
| Investing activities | 17,100 | 59 | 30 | - | 17,189 |
| Increase in cash and cash equivalents | 45,750 | 3,639 | (712) | - | 48,677 |
| Cash and cash equivalents, beginning of year | 82,763 | 14,666 | 1,828 | - | 99,257 |
| Cash and cash equivalents, end of year | <u>\$ 128,513</u> | <u>\$ 18,305</u> | <u>\$ 1,116</u> | <u>\$ -</u> | <u>\$ 147,934</u> |

| | September 30, 2013 | | | | |
|--|--------------------|------------------|-----------------|--------------|------------------|
| | Hospital | JPSPG | Foundation | Eliminations | Total |
| Net cash provided by (used in): | | | | | |
| Operating activities | \$ (265,004) | \$ (156) | \$ (675) | \$ - | \$ (265,835) |
| Noncapital financing activities | 281,898 | - | - | - | 281,898 |
| Capital and related financing activities | (26,405) | (1,931) | - | - | (28,336) |
| Investing activities | (43,406) | 50 | 248 | - | (43,108) |
| Increase in cash and cash equivalents | (52,917) | (2,037) | (427) | - | (55,381) |
| Cash and cash equivalents, beginning of year | 135,680 | 16,703 | 2,255 | - | 154,638 |
| Cash and cash equivalents, end of year | <u>\$ 82,763</u> | <u>\$ 14,666</u> | <u>\$ 1,828</u> | <u>\$ -</u> | <u>\$ 99,257</u> |

**Tarrant County Hospital District
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Notes to Financial Statements

September 30, 2014 and 2013

(In Thousands)

Note 16: Future Change in Accounting Principle

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. In addition to making changes to how annual pension expense is to be calculated for defined benefit pension plans, the standard also requires that governmental entities record a liability in their financial statements that is equal to the unfunded pension obligation. Historically, governmental entities have only been required to record a liability for the difference between APC and the amount of APC contributed to the plan. This standard is effective for the District's fiscal year ending September 30, 2015. Management has estimated the impact of adopting this standard and anticipates recording a liability of approximately \$12,000 to \$16,000 in 2015.

Note 17: Subsequent Event

Subsequent to year-end, the Board approved a plan to create a joint 501a entity with the two members being the District and the UNT Health Science Center (UNTHSC). The new entity (Acclaim Physician Group, Inc.) will result in a physician services organization that is physician led in which there will be standardized governance and coordinated patient care resulting in overall improved care for the residents of Tarrant County. The District and UNTHSC will each appoint three representatives to the joint governing body of the new organization. The intent is to have Acclaim operational by the end of 2015.

Supplementary Information

**Tarrant County Hospital District
d/b/a JPS Health Network
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Balance Sheet Information

September 30, 2014

(In Thousands)

Assets

| | Hospital | JPSPG | Foundation | Eliminations | Total |
|---|-------------------|------------------|-------------------|---------------------|-------------------|
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 125,548 | \$ 18,305 | \$ 395 | \$ - | \$ 144,248 |
| Short-term investments | 90,900 | - | - | - | 90,900 |
| Patient accounts receivable, net | 47,611 | 1,889 | - | (1,779) | 47,721 |
| Property taxes receivable, net | 4,075 | - | - | - | 4,075 |
| Supplemental Medicaid funding receivable | 161,643 | 242 | - | - | 161,885 |
| Restricted pledges receivable, net | - | - | 10 | - | 10 |
| Internally designated for self-insurance, current portion | 190 | - | - | - | 190 |
| Supplies inventory | 9,640 | - | - | - | 9,640 |
| Prepaid expenses and other assets | 12,506 | 4,333 | 38 | - | 16,877 |
| | <u>452,113</u> | <u>24,769</u> | <u>443</u> | <u>(1,779)</u> | <u>475,546</u> |
| Total current assets | | | | | |
| | <u>865</u> | <u>245</u> | <u>11</u> | <u>(1,121)</u> | <u>-</u> |
| Due from Affiliates | | | | | |
| Noncurrent Cash and Investments | | | | | |
| Internally designated for debt service | 333 | - | - | - | 333 |
| Internally designated for self-insurance | 11,502 | - | - | - | 11,502 |
| Restricted by donors for capital acquisitions and specific operating activities | - | - | 2,069 | - | 2,069 |
| Internally designated for capital acquisitions and operating activities | 173,462 | - | - | - | 173,462 |
| | <u>185,297</u> | <u>-</u> | <u>2,069</u> | <u>-</u> | <u>187,366</u> |
| Total noncurrent cash and investments | | | | | |
| | <u>282,621</u> | <u>1,464</u> | <u>2</u> | <u>-</u> | <u>284,087</u> |
| Capital Assets, Net | | | | | |
| Total assets | <u>\$ 920,896</u> | <u>\$ 26,478</u> | <u>\$ 2,525</u> | <u>\$ (2,900)</u> | <u>\$ 946,999</u> |

Liabilities and Net Position

| | Hospital | JPSPG | Foundation | Eliminations | Total |
|---|------------|-----------|------------|--------------|------------|
| Current Liabilities | | | | | |
| Accounts payable | \$ 90,653 | \$ 294 | \$ 10 | \$ (1,779) | \$ 89,178 |
| Accrued expenses | 33,711 | 5,073 | - | - | 38,784 |
| Due to third-party payers | 3,434 | - | - | - | 3,434 |
| Current portion of self-insurance costs | 5,357 | - | - | - | 5,357 |
| Current maturities of long-term debt | 2,405 | - | - | - | 2,405 |
| Total current liabilities | 135,560 | 5,367 | 10 | (1,779) | 139,158 |
| Due to Affiliates | 273 | 805 | 43 | (1,121) | - |
| Estimated Self-insurance Costs | 1,370 | - | - | - | 1,370 |
| Long-term Debt | 46,045 | - | - | - | 46,045 |
| Other Long-term Liabilities | 345 | 814 | - | - | 1,159 |
| Total liabilities | 183,593 | 6,986 | 53 | (2,900) | 187,732 |
| Net Position | | | | | |
| Net investment in capital assets | 232,133 | 1,464 | 2 | - | 233,599 |
| Restricted expendable | - | - | 1,735 | - | 1,735 |
| Restricted nonexpendable | - | - | 315 | - | 315 |
| Unrestricted | 505,170 | 18,028 | 420 | - | 523,618 |
| Total net position | 737,303 | 19,492 | 2,472 | - | 759,267 |
| Total liabilities and net position | \$ 920,896 | \$ 26,478 | \$ 2,525 | \$ (2,900) | \$ 946,999 |

Tarrant County Hospital District
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A Component Unit of Tarrant County, Texas
Statement of Revenues, Expenses and
Changes in Net Position Information
Year Ended September 30, 2014
(In Thousands)

| | Hospital | JPSPG | Foundation | Eliminations | Total |
|---|-------------------|------------------|-------------------|---------------------|-------------------|
| Operating Revenues | | | | | |
| Net patient service revenue | \$ 284,576 | \$ 28,964 | \$ - | \$ (14,521) | \$ 299,019 |
| Supplemental Medicaid funding | 181,481 | 3,662 | - | - | 185,143 |
| Other operating revenue | <u>38,927</u> | <u>9,812</u> | <u>108</u> | <u>(6,451)</u> | <u>42,396</u> |
| Total operating revenues | <u>504,984</u> | <u>42,438</u> | <u>108</u> | <u>(20,972)</u> | <u>526,558</u> |
| Operating Expenses | | | | | |
| Salaries and related expenses | 368,859 | 40,048 | 69 | - | 408,976 |
| Professional fees and purchased services | 208,880 | 2,113 | 408 | (22,011) | 189,390 |
| Supplies | 124,053 | 71 | 79 | (2) | 124,201 |
| Depreciation and amortization | 39,890 | 193 | 1 | - | 40,084 |
| Other | <u>36,561</u> | <u>684</u> | <u>268</u> | <u>924</u> | <u>38,437</u> |
| Total operating expenses | <u>778,243</u> | <u>43,109</u> | <u>825</u> | <u>(21,089)</u> | <u>801,088</u> |
| Operating Income (Loss) | <u>(273,259)</u> | <u>(671)</u> | <u>(717)</u> | <u>117</u> | <u>(274,530)</u> |
| Nonoperating Revenues (Expenses) | | | | | |
| Property tax revenue | 291,013 | - | - | - | 291,013 |
| Contributed services | 9,185 | - | - | - | 9,185 |
| Contributions | 64 | - | 1,332 | (90) | 1,306 |
| Interest expense | (1,459) | - | - | - | (1,459) |
| Investment return and other | <u>2,409</u> | <u>59</u> | <u>30</u> | <u>(27)</u> | <u>2,471</u> |
| Total nonoperating revenues (expenses) | <u>301,212</u> | <u>59</u> | <u>1,362</u> | <u>(117)</u> | <u>302,516</u> |
| Excess of Revenues Over Expenses Before Capital Grants and Gifts | 27,953 | (612) | 645 | - | 27,986 |
| Capital Grants and Gifts | <u>385</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>385</u> |
| Increase (Decrease) in Position | 28,338 | (612) | 645 | - | 28,371 |
| Net Position, Beginning of Year | <u>708,965</u> | <u>20,104</u> | <u>1,827</u> | <u>-</u> | <u>730,896</u> |
| Net Position, End of Year | <u>\$ 737,303</u> | <u>\$ 19,492</u> | <u>\$ 2,472</u> | <u>\$ -</u> | <u>\$ 759,267</u> |

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, 2014**

| Acturial Valuation Date | Acturial Value of Plan Assets | Acturial Accrued Liability (AAL) | Plan Assets Less than AAL | Funded Ratio | Covered Payroll | Plan Assets Less Than AAL as a Percent of Covered Payroll |
|--|--|---|--|-------------------------|----------------------------|--|
| 10/1/2011 | \$ 113,033,130 | \$ 144,578,735 | \$ (31,545,605) | 78.2% | \$ 185,406,171 | (17.0%) |
| 10/1/2012 | 125,180,815 | 159,751,900 | (34,571,085) | 78.4% | 190,463,939 | (18.2%) |
| 10/1/2013 | 145,400,069 | 170,582,964 | (25,182,895) | 85.2% | 178,847,385 | (14.1%) |