

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

Independent Auditor's Report and Financial Statements

September 30, 2015 and 2014

**Tarrant County Hospital District
d/b/a JPS Health Network
A Component Unit of Tarrant County, Texas
Years Ended September 30, 2015 and 2014**

Contents

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis	3
Financial Statements	
Balance Sheets.....	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	13
Required Supplementary Information	
Schedule of Changes in District’s Net Pension Liability and Related Ratios	42
Schedule of District Contributions	43
Schedule of Funding Progress – Pension Plan	44
Other Information	
Balance Sheet Information	45
Statement of Revenues, Expenses and Changes in Net Position Information.....	46

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, 2015 and 2014, 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, 2015 and 2014, 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.

Emphasis of Matter

As discussed in *Note 16*, in 2015, the District changed its method of accounting for its defined benefit pension plans as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The other balance sheet and statement of revenues, expenses and changes in net position 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 basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Dallas, Texas
February 2, 2016

**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, 2015 and 2014
(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, 2015 and 2014. It should be read in conjunction with the accompanying financial statements of the District. Unless otherwise indicated, amounts are in thousands.

As discussed in *Note 16*, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, during the year ended September 30, 2015. As part of the implementation of GASB Statement No. 68, management determined it was not practical to restate 2014 and prior years. Therefore, the impact of the implementation of GASB Statement No. 68 was recognized through a restatement of fiscal year 2015 beginning net position.

Financial Highlights

- Cash, short-term investments and other noncurrent investments increased in 2015 by \$85,140 or 20.1% and increased in 2014 by \$34,039 or 8.8%.
- The District's net position increased in each of the past two years with a \$51,763 or 6.8% increase in 2015 and a \$28,371 or 3.9% increase in 2014.
- The District reported operating losses in both 2015 (\$266,599) and 2014 (\$274,530). The loss in 2015 decreased by \$7,931 or 2.9%, as compared to the operating loss reported in 2014. The operating loss in 2014 increased by \$37,852 or 16.0%, from the operating loss reported in 2013.
- Net nonoperating revenues increased by \$15,654 or 5.2% in 2015 compared to 2014 and increased by \$5,598 or 1.9% in 2014 compared to 2013.

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 is the difference between its assets and liabilities reported in the balance sheets. The District's net position increased by \$51,763 (6.8%) in 2015 over 2014 and by \$28,371 (3.9%) in 2014 over 2013, as shown in *Table 1*:

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

	2015	2014	2013
Assets			
Cash and short-term investments	\$ 320,053	\$ 235,148	\$ 202,938
Patient accounts receivable, net	44,838	47,721	53,928
Other current assets	164,261	192,677	161,882
Capital assets, net	289,046	284,087	283,409
Other noncurrent assets	187,536	187,366	187,096
Total assets	<u>1,005,734</u>	<u>946,999</u>	<u>889,253</u>
Deferred Outflows of Resources			
	<u>17,646</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 1,023,380</u>	<u>\$ 946,999</u>	<u>\$ 889,253</u>
Liabilities			
Long-term debt	\$ 43,307	\$ 46,045	\$ 48,742
Net pension liability	9,545	-	-
Other current and noncurrent liabilities	152,495	141,687	109,615
Total liabilities	<u>205,347</u>	<u>187,732</u>	<u>158,357</u>
Deferred Inflows of Resources			
	<u>7,003</u>	<u>-</u>	<u>-</u>
Net Position			
Net investment in capital assets	239,983	233,599	232,625
Restricted expendable	1,646	1,735	1,434
Restricted nonexpendable	315	315	315
Unrestricted	569,086	523,618	496,522
Total net position	<u>811,030</u>	<u>759,267</u>	<u>730,896</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,023,380</u>	<u>\$ 946,999</u>	<u>\$ 889,253</u>

A significant change in the District's assets in 2015 is the increase cash and investments. Cash and investments increased by \$85,140 or 20.1% in 2015 over 2014. This is primarily due to a lower operating loss and increased property tax revenue. In addition, the District adopted GASB Statement No. 68 in 2015 which resulted in the recognition of a net pension liability and related deferred outflows and deferred inflows of resources. This is more fully described in *Note 13*.

The most 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*, were 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 process improvement resulting in increased cash collections.

Operating Results and Changes in the District's Net Position

In 2015, the District's net position increased by \$51,656 or 6.8%, as shown in *Table 2*. This increase is made up of several components and represents an increase of 82.5% compared with the increase in net position for 2014 of \$28,371. The District's change in net position decreased from \$60,260 in 2013 to \$28,371 in 2014.

Table 2: Operating Results and Changes in Net Position

	2015	2014	2013
Operating Revenues			
Net patient service revenue	\$ 337,394	\$ 299,019	\$ 261,427
Supplemental Medicaid funding	191,360	185,143	211,628
Other operating revenue	37,589	42,396	51,384
Total operating revenues	<u>566,343</u>	<u>526,558</u>	<u>524,439</u>
Operating Expenses			
Salaries and wages and employee benefits	442,891	408,976	372,709
Purchased services and professional fees	186,971	189,390	187,917
Supplies	126,017	124,201	121,011
Depreciation and amortization	38,817	40,084	42,491
Other operating expenses	38,246	38,437	36,989
Total operating expenses	<u>832,942</u>	<u>801,088</u>	<u>761,117</u>
Operating Loss	<u>(266,599)</u>	<u>(274,530)</u>	<u>(236,678)</u>
Nonoperating Revenues (Expenses)			
Property taxes	307,019	291,013	283,766
Contributed services	11,296	9,185	12,427
Investment return, interest expense and other	(145)	2,318	725
Total nonoperating revenues (expenses)	<u>318,170</u>	<u>302,516</u>	<u>296,918</u>
Excess of Revenues Over Expenses Before Capital Grants	51,571	27,986	60,240
Capital Grants	<u>85</u>	<u>385</u>	<u>20</u>
Increase in Net Position	<u>\$ 51,656</u>	<u>\$ 28,371</u>	<u>\$ 60,260</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 2015 decreased by \$7,931 or 2.9% as compared to 2014. The primary components of the change are:

- An increase in net patient service revenue of \$38,375 or 12.8%
- An increase in Medicaid supplemental funding of \$6,217 or 3.4%
- A decrease in other operating revenue of \$4,807 or 11.3%
- An increase in salary and related expenses of \$33,915 or 8.3%

The increase in net patient service revenue is primarily attributable to changes in payer mix and the increase in Medicaid supplemental funding revenue is primarily due to shifts in funding allocations.

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.

The operating loss for 2014 of \$274,530 was \$37,852 more than the operating loss of \$236,678 recognized in 2013. The District had an increase in net patient service revenue of \$37,592 and a decrease in Texas Medicaid supplemental funding of \$26,485. Net patient service revenue increased as a result of patient volumes and changes in payer mix. The decrease in Medicaid Supplemental Funding is due to the impact of the overall planned decrease in Waiver funding pools for 2014 and changes in funding allocation methodology. Salaries and wages increased in 2014 by \$36,267 or 9.7%, as compared to 2013 due to retention efforts and the addition of full time equivalent employees. Other operating revenue decreased in 2014 by \$8,988 or 17.5% as compared to 2013, due to a decrease in funding from the Medicare and Medicaid Electronic Health Records Incentive Program as discussed above.

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 2015, 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 \$16,006 or 5.5% from 2014 to 2015.

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 increased by \$2,111 or 22.98% in 2015 as compared to 2014. Contributed services fluctuate each year based on the costs associated with the physician services provided to the District's indigent patients.

Interest expense decreased by \$123 or 8.43% in 2015 as compared to 2014 due to the District paying down outstanding debt in 2015 and an increase in the amount of interest capitalized in 2015 as compared to 2014.

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 2015, 2014 and 2013, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2015, the District had \$289,046 invested in capital assets, net of accumulated depreciation, as detailed in *Note 7* to the financial statements. In 2015, the District purchased new capital assets costing \$43,942.

At the end of 2014, the District had \$284,087 invested in capital assets, net of accumulated depreciation. In 2014, the District purchased new capital assets costing \$40,868.

Debt

At September 30, 2015, the District had \$45,035 in revenue bonds and certificates of obligations outstanding. The District issued no new debt in 2015. 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. The District has a current Aa3 rating from Moody's and a current AA- rating from 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 RHP'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 2016 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 2016 to \$0.227897 per \$100 valuation, which is consistent with the property tax rate for fiscal year 2015.

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, 2015 and 2014
(In Thousands)**

Assets and Deferred Outflows of Resources

	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and cash equivalents	\$ 205,072	\$ 144,248
Short-term investments	114,981	90,900
Patient accounts receivable, net	44,838	47,721
Property taxes receivable, net	4,535	4,075
Supplemental Medicaid funding receivable	137,082	165,105
Restricted pledges receivable, net	-	10
Internally designated for self-insurance, current portion	255	190
Supplies inventory	8,287	9,640
Prepaid expenses and other assets	14,102	13,657
	<hr/>	<hr/>
Total current assets	529,152	475,546
	<hr/>	<hr/>
Noncurrent Cash and Investments		
Internally designated for debt service	419	333
Internally designated for self-insurance	11,587	11,502
Restricted by donors for capital acquisitions and specific operating activities	1,991	2,069
Internally designated for capital acquisitions and operating activities	173,539	173,462
	<hr/>	<hr/>
Total noncurrent cash and investments	187,536	187,366
	<hr/>	<hr/>
Capital Assets, Net	289,046	284,087
	<hr/>	<hr/>
Total assets	1,005,734	946,999
	<hr/>	<hr/>
Deferred Outflows of Resources	17,646	-
	<hr/>	<hr/>
Total assets and deferred outflows of resources	\$ 1,023,380	\$ 946,999
	<hr/> <hr/>	<hr/> <hr/>

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2015</u>	<u>2014</u>
Current Liabilities		
Accounts payable	\$ 80,186	\$ 89,178
Accrued expenses	57,259	38,784
Due to third-party payers	4,257	3,434
Current portion of self-insurance costs	5,481	5,357
Current maturities of long-term debt	<u>2,470</u>	<u>2,405</u>
Total current liabilities	149,653	139,158
Estimated Self-insurance Costs	1,422	1,370
Long-term Debt	43,307	46,045
Net Pension Liability	9,545	-
Other Long-term Liabilities	<u>1,420</u>	<u>1,159</u>
Total liabilities	<u>205,347</u>	<u>187,732</u>
Deferred Inflows of Resources	<u>7,003</u>	<u>-</u>
Net Position		
Net investment in capital assets	239,983	233,599
Restricted expendable	1,646	1,735
Restricted nonexpendable	315	315
Unrestricted	<u>569,086</u>	<u>523,618</u>
Total net position	<u>811,030</u>	<u>759,267</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,023,380</u>	<u>\$ 946,999</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, 2015 and 2014
(In Thousands)

	2015	2014
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2015 – \$240,669; 2014 – \$349,306	\$ 337,394	\$ 299,019
Supplemental Medicaid funding	191,360	185,143
Other operating revenue	37,589	42,396
Total operating revenues	566,343	526,558
Operating Expenses		
Salaries and related expenses	442,891	408,976
Professional fees and purchased services	186,971	189,390
Supplies	126,017	124,201
Depreciation and amortization	38,817	40,084
Other	38,246	38,437
Total operating expenses	832,942	801,088
Operating Loss	(266,599)	(274,530)
Nonoperating Revenues (Expenses)		
Property tax revenue	307,019	291,013
Contributed services	11,296	9,185
Contribution revenue	1,064	1,306
Contribution expense	(2,500)	-
Interest expense	(1,336)	(1,459)
Investment return and other	2,627	2,471
Total nonoperating revenues (expenses)	318,170	302,516
Excess of Revenues Over Expenses Before Capital Grants	51,571	27,986
Capital Grants and Gifts	85	385
Increase in Net Position	51,656	28,371
Net Position, as Previously Reported	759,267	730,896
Change in Accounting Principle	107	-
Net Position, Beginning of Year, as Restated	759,374	730,896
Net Position, End of Year	\$ 811,030	\$ 759,267

See Notes to Financial Statements

**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, 2015 and 2014

(In Thousands)

	2015	2014
Operating Activities		
Receipts from and on behalf of patients	\$ 346,608	\$ 302,178
Receipts from Texas Medicaid supplemental funding programs	219,383	156,766
Payments to suppliers and contractors	(358,380)	(315,302)
Payments to employees	(425,261)	(405,910)
Other receipts, net	37,962	41,965
Net cash used in operating activities	(179,688)	(220,303)
Noncapital Financing Activities		
Noncapital grants and gifts	1,064	1,306
Property taxes supporting operations	304,410	289,179
Net cash provided by noncapital financing activities	305,474	290,485
Capital and Related Financing Activities		
Principal paid on long-term debt	(2,405)	(2,340)
Interest paid on long-term debt	(1,960)	(2,038)
Property taxes supporting debt service	2,149	2,101
Capital grants and gifts	918	2,051
Proceeds from sale of capital assets	198	80
Purchase of capital assets	(42,260)	(38,548)
Net cash used in capital and related financing activities	(43,360)	(38,694)
Investing Activities		
Purchase of investments	(248,207)	(286,783)
Proceeds from the sale and maturities of short-term investments	221,426	300,715
Interest income and other	3,330	3,257
Net cash provided by (used in) investing activities	(23,451)	17,189
Increase in Cash and Cash Equivalents	58,975	48,677
Cash and Cash Equivalents, Beginning of Year	147,934	99,257
Cash and Cash Equivalents, End of Year	\$ 206,909	\$ 147,934

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, 2015 and 2014
(In Thousands)

	2015	2014
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 205,072	\$ 144,248
Cash and cash equivalents in noncurrent cash and investments	1,837	3,686
	\$ 206,909	\$ 147,934
 Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (266,599)	\$ (274,530)
Depreciation and amortization	38,817	40,084
Gain on disposal of assets	(33)	(324)
Provision for uncollectible accounts	240,669	349,306
Contributed services expense	11,296	9,185
Changes in operating assets and liabilities		
Patient accounts receivable	(237,786)	(343,099)
Texas Medicaid supplemental funding receivable	28,023	(28,377)
Estimated amounts due from and to third-party payers	823	(3,478)
Accounts payable and accrued expenses	5,658	32,648
Other assets and liabilities	(556)	(1,718)
Net cash used in operating activities	\$ (179,688)	\$ (220,303)
 Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 3,705	\$ 2,371
Contributed services revenue <i>(Note 14)</i>	\$ 11,296	\$ 9,185
Amounts pledged to other entities included in accounts payable	\$ 2,500	\$ -

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

Notes to Financial Statements

September 30, 2015 and 2014

(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.

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

Notes to Financial Statements

September 30, 2015 and 2014

(In Thousands)

Government-mandated nonexchange transactions that are not program specific, property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted net 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, 2015 and 2014, 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.

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

Notes to Financial Statements

September 30, 2015 and 2014

(In Thousands)

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>2015</u>	<u>2014</u>
Interest costs capitalized	\$ 348	\$ 279
Interest costs charged to expense	<u>1,336</u>	<u>1,459</u>
Total interest incurred	<u>\$ 1,684</u>	<u>\$ 1,738</u>

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

Notes to Financial Statements

September 30, 2015 and 2014

(In Thousands)

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.

Defined Benefit Pension Plan

The District sponsors a defined benefit pension plan (Plan) as more fully described in *Note 13*. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to and deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources and deferred inflows of resources. As of September 30, 2015, the District's deferred outflows and deferred inflows of resources were related to the District's defined benefit pension plan as described more fully in *Note 13*.

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.

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

Notes to Financial Statements

September 30, 2015 and 2014

(In Thousands)

Net Patient Service Revenue

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

Tobacco Settlement Revenue

The District receives revenue that is the result of a settlement between various counties and hospital districts in Texas and the tobacco industry for tobacco-related health care costs. The District received approximately \$5,773 and \$5,485 in revenue from this settlement for the years ended September 30, 2015 and 2014, respectively. This revenue is recognized as a component of other operating revenue in the accompanying statements of revenues, expenses and changes in net position.

Charity Care

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

Income Taxes

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

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

Notes to Financial Statements

September 30, 2015 and 2014

(In Thousands)

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the American Recovery and Reinvestment Act of 2009, provides for one time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). 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 per eligible physician over five years for Medicare and \$64 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 2015 and 2014, the District recorded revenue from the Medicare program of approximately \$1,046 and \$1,447, respectively. In 2015 and 2014, the District recorded revenue from the Medicaid program of approximately \$400 and \$860 in 2015 and 2014, 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.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. The reclassifications had no effect on the changes in financial position.

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

Notes to Financial Statements

September 30, 2015 and 2014

(In Thousands)

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, 2011.

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 77% and 82% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for both the years ended September 30, 2015 and 2014. 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 decreased in 2015 by approximately \$460 and increased in 2014 by approximately \$2,633, due to changes in previous estimates.

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

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

Notes to Financial Statements

September 30, 2015 and 2014

(In Thousands)

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 \$30,721 and \$39,191 for the years ended September 30, 2015 and 2014, 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 2015, the District recognized approximately \$105,369 and \$55,270 from the UC Pool and DSRIP Pool, respectively. During 2014, the District recognized approximately \$102,072 and \$43,880 from the UC Pool and DSRIP Pool, respectively. 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 CMS, and the programs could be modified or terminated based on new legislation or regulation in future periods. The Waiver is scheduled to expire in September 2016. Management expects the Waiver to be extended or renewed in some form, but it is possible the Waiver will expire with no replacement funding source. This outcome would have a material adverse impact on the District’s operating results.

Note 4: Property Tax Revenue

The District received approximately 35% and 36% of its support from property taxes in the years ended September 30, 2015 and 2014, 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 \$9,341 and \$8,877 at September 30, 2015 and 2014, respectively.

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

**Notes to Financial Statements
September 30, 2015 and 2014
(In Thousands)**

The District's property tax rate was \$0.226300 and \$0.226253 per \$100 valuation for 2015 and 2014, respectively, for the maintenance and operation fund and property tax revenue for this fund was \$304,867 and \$288,914 for 2015 and 2014, respectively. The District's property tax rate was \$0.001597 and \$0.001644 per \$100 valuation for 2015 and 2014, respectively, for the interest and sinking fund and property tax revenue for this fund was \$2,152 and \$2,099 for 2015 and 2014, 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, 2015 and 2014, the District's deposits were either insured or collateralized in accordance with state law.

At September 30, 2015, the Foundation's cash accounts exceeded federally insured limits by \$2,009.

Investments

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

At September 30, 2015 and 2014, the District had the following investments and maturities as:

Type	Fair Value	September 30, 2015			
		Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Money market mutual funds	\$ 37	\$ 37	\$ -	\$ -	\$ -
Investment pools	110,841	110,841	-	-	-
U.S. Treasury obligations	716	-	716	-	-
U.S. agencies obligations	45,540	7,982	37,558	-	-
Municipal bonds	5,674	102	5,572	-	-
Commercial paper	29,944	29,944	-	-	-
		<u>\$ 148,906</u>	<u>\$ 43,846</u>	<u>\$ -</u>	<u>\$ -</u>
Mutual funds	528				
	<u>\$ 193,280</u>				

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

Notes to Financial Statements

September 30, 2015 and 2014

(In Thousands)

Type	Fair Value	September 30, 2014			
		Maturities in Years			
		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	531				
	<u>\$ 102,152</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.

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 AA2 to AA3 by Moody’s rating agency. 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’s investments in commercial paper was rated A- to AA- by Standard & Poor’s rating agency.

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.

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

Notes to Financial Statements

September 30, 2015 and 2014

(In Thousands)

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:

	<u>2015</u>	<u>2014</u>
Federal Home Loan Bank	3.7%	8.8%
Federal Farm Credit Bank	5.3%	10.5%
Federal Agricultural Mortgage Corporation	2.8%	5.4%
Federal Home Loan Mortgage Association	10.4%	1.5%
Toyota Motor Credit Commercial Paper	7.8%	0.0%
JP Morgan Securities Commercial Paper	7.7%	0.0%

Summary of Carrying Values

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

	<u>2015</u>	<u>2014</u>
Carrying value		
Deposits	\$ 314,564	\$ 320,552
Investments	<u>193,280</u>	<u>102,152</u>
	<u>\$ 507,844</u>	<u>\$ 422,704</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 205,072	\$ 144,248
Short-term investments	114,981	90,900
Internally designated for self-insurance, current portion	255	190
Noncurrent cash and investments	<u>187,536</u>	<u>187,366</u>
	<u>\$ 507,844</u>	<u>\$ 422,704</u>

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

**Notes to Financial Statements
September 30, 2015 and 2014
(In Thousands)**

Investment Income

Investment income for the years ended September 30, consisted of:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 2,994	\$ 2,816
Net decrease in fair value of investments	<u>(616)</u>	<u>(706)</u>
	<u>\$ 2,378</u>	<u>\$ 2,110</u>

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:

	<u>2015</u>	<u>2014</u>
Medicare	\$ 12,833	\$ 10,758
Medicaid	16,119	20,846
Other third-party payers	31,345	25,803
Patients	<u>93,750</u>	<u>125,949</u>
	154,047	183,356
Less allowance for uncollectible accounts	<u>109,209</u>	<u>135,635</u>
	<u>\$ 44,838</u>	<u>\$ 47,721</u>

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

**Notes to Financial Statements
September 30, 2015 and 2014
(In Thousands)**

Note 8: Accounts Payable and Accrued Expenses

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

	<u>2015</u>	<u>2014</u>
Payable to suppliers and contractors	\$ 37,733	\$ 40,665
Payable to employees (including payroll taxes and benefits)	44,709	38,534
Payable to TCICC (Note 14)	34,736	46,336
Payable to the Plan (Note 13)	12,313	-
Patient credit balances	7,681	2,173
Other accrued liabilities	273	254
	<u>\$ 137,445</u>	<u>\$ 127,962</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.

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 2015 and 2014 is summarized as follows:

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 485	\$ 665
Current year claims incurred and changes in estimates for claims incurred in prior years	254	(61)
Claims and expenses paid	(149)	(119)
	<u>\$ 590</u>	<u>\$ 485</u>

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

**Notes to Financial Statements
September 30, 2015 and 2014
(In Thousands)**

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 2015 and 2014 is summarized as follows:

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 4,260	\$ 2,970
Current year claims incurred and changes in estimates for claims incurred in prior years	38,434	32,533
Claims and expenses paid	<u>(38,644)</u>	<u>(31,243)</u>
Balance, end of year	<u>\$ 4,050</u>	<u>\$ 4,260</u>

Workers' Compensation Claims

The District is self-insured for workers' compensation claims. A provision is accrued for self-insured worker's compensation 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 2015 and 2014 is summarized as follows:

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 1,982	\$ 1,883
Current year claims incurred and changes in estimates for claims incurred in prior years	2,027	1,446
Claims and expenses paid	<u>(1,746)</u>	<u>(1,347)</u>
Balance, end of year	<u>\$ 2,263</u>	<u>\$ 1,982</u>

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

**Notes to Financial Statements
September 30, 2015 and 2014
(In Thousands)**

Note 10: Long-term Debt

A summary of long-term debt is as follows:

	2015	2014
Revenue bonds, Series 2012	\$ 21,595	\$ 23,015
Certificates of obligation, Series 2006	23,440	24,425
	45,035	47,440
Bond premium (discount), net	742	1,010
	\$ 45,777	\$ 48,450

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 3.0% to 5.0%. The Series 2012 Bonds are payable in annual installments of \$1,445 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 \$1,025 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.

Subsequent to September 30, 2015, the Certificates were refunded with the issuance of the General Obligation Refunding Bonds, Series 2016 (Series 2016 Bonds) issued in the amount of \$22,415. The present value of cash flow savings from this refunding is approximately \$3,960.

The indenture agreements require the District to comply with certain restrictive covenants including minimum insurance coverage and days cash on hand.

The District has a current Aa3 rating from Moody’s and a current AA- rating from Standard & Poor’s.

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

**Notes to Financial Statements
September 30, 2015 and 2014
(In Thousands)**

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

	2015				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds, Series 2012	\$ 23,015	\$ -	\$ 1,420	\$ 21,595	\$ 1,445
Certificates of obligation, Series 2006	24,425	-	985	23,440	1,025
Total long-term debt	<u>\$ 47,440</u>	<u>\$ -</u>	<u>\$ 2,405</u>	<u>\$ 45,035</u>	<u>\$ 2,470</u>

	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>

The debt service requirements as of September 30, 2015, are as follows:

Year Ending September 30, 2015	Principal	Interest	Total
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	2,865	1,480	4,345
2021 – 2025	16,565	5,161	21,726
2026 – 2030	13,170	1,745	14,915
2031	2,025	47	2,072
	<u>\$ 45,035</u>	<u>\$ 15,412</u>	<u>\$ 60,447</u>

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

**Notes to Financial Statements
September 30, 2015 and 2014
(In Thousands)**

The revised debt service requirements after issuance of the Series 2016 Bonds is as follows:

Year Ending September 30, 2015	Principal	Interest	Total
2016	\$ 1,525	\$ 1,133	\$ 2,658
2017	2,985	1,270	4,255
2018	3,070	1,192	4,262
2019	3,140	1,111	4,251
2020	3,255	997	4,252
2021 – 2025	18,120	3,137	21,257
2026 – 2029	<u>11,915</u>	<u>554</u>	<u>12,469</u>
	<u>\$ 44,010</u>	<u>\$ 9,394</u>	<u>\$ 53,404</u>

Note 11: Restricted and Designated Net Position

At September 30, 2015 and 2014, \$1,646 and \$1,735, respectively, of net position were restricted by donors for capital and operating activities.

At September 30, 2015 and 2014, \$173,541 and \$173,462, 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, 2015 and 2014, the District had \$315 of restricted nonexpendable net position which is a general endowment for the Foundation.

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 \$126,033 and \$141,587 for 2015 and 2014, 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 2015 as compared to 2014 is primarily attributable to more of the District’s patients obtaining health insurance coverage through the federal health insurance exchange.

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

**Notes to Financial Statements
September 30, 2015 and 2014
(In Thousands)**

Note 13: Pension Plan

Plan Description

The District sponsors an agent multiple-employer 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.

Benefits Provided

The Plan provides retirement, disability, and death benefits. Retirement benefits for eligible employees are calculated as 1.4% of the employee's final 5-year average compensation plus 0.7% of the employee's final 5-year average compensation, if any, that exceeds \$75,000, with the sum multiplied times the employee's years of service.

Participants with 5 years of participation service are eligible to retire at age 65. Participants may retire at any age after 55 if they have 10 years or vesting service. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately with an actuarial reduction. Death benefits are determined in the same manner as retirement benefits but are payable immediately with an actuarial reduction. An employee who leaves the employer's service may withdraw his or her contributions, plus any accumulated interest.

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 employees covered by the Plan at October 1, 2014 and 2013(measurement date), are:

	2014	2013
Inactive employees or beneficiaries currently receiving benefits	246	221
Inactive employees entitled to but not yet receiving benefits	930	833
Active employees	2,950	3,050
	4,126	4,104

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

Notes to Financial Statements

September 30, 2015 and 2014

(In Thousands)

Contributions

The District's Board has the sole authority to establish and amend the contribution requirements of the active employees. The District's contributions are based on an actuarially determined rate recommended by an independent actuary. The actuarial determined rate is the established amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the District's fiscal year ended September 30, 2015, the average active employee contribution rate (for the period between the two most recent measurement dates) was 1.0% of annual pay, and the District's average contribution rate was 6.5% of annual payroll.

The District's contribution is set to be 6.75% of participant payroll effective October 1, 2014, and will remain at that level as long as the amount thus determined is sufficient to pay the Employer Normal Cost and amortize the Unfunded Actuarial Liability (Net Pension Liability) over a period of not more than 25 years.

The employer contributions were 6.75% of estimated participant compensation for the year ended September 30, 2015. The costs of administering the plan are paid by the plan and are considered in the determination of the employer contribution rate.

Net Pension Liability

The District's net pension liability was measured as of October 1, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The total pension liability in the October 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary increases	5.0%, average, including inflation
<i>Ad hoc</i> cost of living adjustments	Not included
Investment rate of return	7.75%, net of pension plan investment expense, including inflations

Mortality rates were based on the Society of Actuaries RP-2014 Mortality Table with Projection Scale MP-2014.

The actuarial assumptions used in the October 1, 2014, valuation were based on the results of an actuarial experience study for the period 2005-2013.

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

**Notes to Financial Statements
September 30, 2015 and 2014
(In Thousands)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.00%). In addition, the final 7.75% assumption reflected a reduction of 0.10% for adverse deviation.

The target allocation and best estimates of rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	65%	5.8%
International equity	10%	6.2%
Fixed income	25%	1.7%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75% at October 1, 2014. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

**Notes to Financial Statements
September 30, 2015 and 2014
(In Thousands)**

Changes in the total pension liability, plan fiduciary net position and the net pension liability for the year ended September 30, 2015, are:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at September 30, 2014	\$ 170,583	\$ 158,554	\$ 12,029
Changes for the year:			
Service cost	11,556	-	11,556
Interest on total pension liability	12,953	-	12,953
Differences between expected and actual experience	(717)	-	(717)
Contributions - employee	-	1,574	(1,574)
Contributions - employer	-	11,625	(11,625)
Net investment income	-	20,134	(20,134)
Benefit payments, including refunds of employee contributions	(7,021)	(7,021)	-
Administrative expenses	-	(407)	407
Assumption changes	6,650	-	6,650
Net changes	<u>23,421</u>	<u>25,905</u>	<u>(2,484)</u>
Balances at September 30, 2015	<u>\$ 194,004</u>	<u>\$ 184,459</u>	<u>\$ 9,545</u>

The net pension liability of the District has been calculated using a discount rate of 7.75%. The following presents the net pension (asset) liability using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease 6.75 %	Current Discount Rate 7.75 %	1% Increase 8.75 %
District's net pension (asset) liability	<u>\$ 35,635</u>	<u>\$ 9,545</u>	<u>\$ (11,931)</u>

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

**Notes to Financial Statements
September 30, 2015 and 2014
(In Thousands)**

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2015, the District recognized pension expense of \$10,810. At September 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 575
Employer contributions subsequent to the measurement date	12,313	
Changes of assumptions	5,333	-
Net difference between projected and actual earnings on plan investments	-	6,428
	\$ 17,646	\$ 7,003

At September 30, 2015, the District reported \$12,313 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability at September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources at September 30, 2015, related to pensions will be recognized in pension expense as follows:

Year ending September 30:		
2016	\$	(432)
2017		(432)
2018		(432)
2019		(432)
2020		58
	\$	(1,670)

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued financial report of THA for the year ended December 31, 2014.

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

**Notes to Financial Statements
September 30, 2015 and 2014
(In Thousands)**

Funding Status and Funding Progress

Prior to adoption of GASB 68, and as of October 1, 2013, the plan was 85.2% funded. The actuarial accrued liability for benefits was \$170,583 and the actuarial value of assets was \$145,400 resulting in an unfunded actuarial accrued liability (UAAL) of \$25,183. The covered payroll (annual payroll of active employees covered by the plan) was \$178,847, and the ratio of the UAAL to the covered payroll was 14.1% for the year ended September 30, 2014.

Annual Pension Cost

For the year ended September 30, 2014, the District's annual pension cost was \$11,625, which is equal to the annual required contributions as determined in the actuarial valuations dated October 1, 2013.

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 entry age normal 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) 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%	-

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 \$3,925 and \$3,963 for the years ended September 30, 2015 and 2014, respectively.

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

Notes to Financial Statements

September 30, 2015 and 2014

(In Thousands)

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 \$10,162 and \$9,070 for the years ended September 30, 2015 and 2014, 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. Contributions to this plan are included in noncurrent cash and investments and the plan liability is recorded in other long-term liabilities in the balance sheets. As of September 30, 2015 and 2014, \$345 and \$0, respectively, in contributions are included in noncurrent cash and investments and \$477 and \$345, respectively, was due under this plan. Approximately \$150 of benefit expense was recognized in 2015.

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.

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

**Notes to Financial Statements
September 30, 2015 and 2014
(In Thousands)**

Services provided by TCICC were valued at approximately \$45,308 and \$36,124 for the years ended September 30, 2015 and 2014, respectively. As part of the affiliation agreement, the District provided \$34,012 and \$26,939 in funding to the program for the years ended September 30, 2015 and 2014, 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 \$11,296 and \$9,185 for 2015 and 2014, 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, 2015 and 2014:

	September 30, 2015				
	Hospital	JPSPG	Foundation	Eliminations	Total
Assets and Deferred Outflows of Resources					
Current assets	\$ 499,808	\$ 30,266	\$ 529	\$ (1,451)	\$ 529,152
Due from affiliates	889	2,225	25	(3,139)	-
Noncurrent cash and investments	185,377	-	2,159	-	187,536
Capital assets, net	287,773	1,271	2	-	289,046
Total assets	973,847	33,762	2,715	(4,590)	1,005,734
Deferred outflows of resources	17,646	-	-	-	17,646
Total assets and deferred outflows of resources	\$ 991,493	\$ 33,762	\$ 2,715	\$ (4,590)	\$ 1,023,380
Liabilities, Deferred Inflows of Resources and Net Position					
Current liabilities	\$ 145,381	\$ 5,687	\$ 36	\$ (1,451)	\$ 149,653
Due to affiliates	2,250	855	34	(3,139)	-
Estimated self-insurance costs	1,422	-	-	-	1,422
Long-term debt	43,307	-	-	-	43,307
Net pension liability	9,545	-	-	-	9,545
Other long-term liabilities	483	937	-	-	1,420
Total liabilities	202,388	7,479	70	(4,590)	205,347
Deferred inflows of resources	7,003	-	-	-	7,003
Net Position					
Net investment in capital assets	238,710	1,271	2	-	239,983
Restricted expendable	-	-	1,646	-	1,646
Restricted nonexpendable	-	-	315	-	315
Unrestricted	543,392	25,012	682	-	569,086
Total net position	782,102	26,283	2,645	-	811,030
Total liabilities, deferred inflows of resources and net position	\$ 991,493	\$ 33,762	\$ 2,715	\$ (4,590)	\$ 1,023,380

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

**Notes to Financial Statements
September 30, 2015 and 2014
(In Thousands)**

	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>

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, 2015 and 2014.

	September 30, 2015				
	Hospital	JPSPG	Foundation	Eliminations	Total
Operating revenues	\$ 535,774	\$ 49,627	\$ 161	\$ (19,219)	\$ 566,343
Operating expenses	808,330	42,894	2,394	(20,676)	832,942
Operating income (loss)	<u>(272,556)</u>	<u>6,733</u>	<u>(2,233)</u>	<u>1,457</u>	<u>(266,599)</u>
Nonoperating revenues (expenses)	317,163	58	2,406	(1,457)	318,170
Capital grants	85	-	-	-	85
Increase (decrease) in net position	<u>44,692</u>	<u>6,791</u>	<u>173</u>	<u>-</u>	<u>51,656</u>
Net position, as previously reported	737,303	19,492	2,472	-	759,267
Change in accounting principle	107	-	-	-	107
Net position, beginning of year, as restated	<u>737,410</u>	<u>19,492</u>	<u>2,472</u>	<u>-</u>	<u>759,374</u>
Net position, end of year	<u>\$ 782,102</u>	<u>\$ 26,283</u>	<u>\$ 2,645</u>	<u>\$ -</u>	<u>\$ 811,030</u>

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

Notes to Financial Statements

September 30, 2015 and 2014

(In Thousands)

	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)	(273,259)	(671)	(717)	117	(274,530)
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	<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>

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, 2015 and 2014.

	September 30, 2015				
	Hospital	JPSPG	Foundation	Eliminations	Total
Net cash provided by (used in):					
Operating activities	\$ (181,174)	\$ 1,312	\$ 174	\$ -	\$ (179,688)
Noncapital financing activities	305,474	-	-	-	305,474
Capital and related financing activities	(43,360)	-	-	-	(43,360)
Investing activities	(23,519)	58	10	-	(23,451)
Increase in cash and cash equivalents	57,421	1,370	184	-	58,975
Cash and cash equivalents, beginning of year	<u>127,548</u>	<u>18,305</u>	<u>2,081</u>	<u>-</u>	<u>147,934</u>
Cash and cash equivalents, end of year	<u>\$ 184,969</u>	<u>\$ 19,675</u>	<u>\$ 2,265</u>	<u>\$ -</u>	<u>\$ 206,909</u>

	September 30, 2014				
	Hospital	JPSPG	Foundation	Eliminations	Total
Net cash provided by (used in):					
Operating activities	\$ (224,636)	\$ 3,743	\$ 590	\$ -	\$ (220,303)
Noncapital financing activities	290,485	-	-	-	290,485
Capital and related financing activities	(38,531)	(163)	-	-	(38,694)
Investing activities	17,116	59	14	-	17,189
Increase in cash and cash equivalents	44,434	3,639	604	-	48,677
Cash and cash equivalents, beginning of year	<u>83,114</u>	<u>14,666</u>	<u>1,477</u>	<u>-</u>	<u>99,257</u>
Cash and cash equivalents, end of year	<u>\$ 127,548</u>	<u>\$ 18,305</u>	<u>\$ 2,081</u>	<u>\$ -</u>	<u>\$ 147,934</u>

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

Notes to Financial Statements

September 30, 2015 and 2014

(In Thousands)

Note 16: Change in Accounting Principle

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*(GASB 68), which was amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, issued in November 2013. 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 an asset or liability in their financial statements that is equal to the net pension asset or liability. Historically, governmental entities have only been required to record a liability, if any, for the difference between annual pension cost (APC) and the amount of APC contributed to the plan. Restatement of the 2014 financial statements is not practical because prior year information calculated under the provisions of GASB 68 is not available, accordingly, the District has reported the cumulative effect of applying GASB 68 as a restatement of net position as of October 1, 2014. This restatement increased previously reported net position by \$107 to recognize net pension liabilities of \$12,029 and deferred outflows of \$12,136.

Required Supplementary Information

**Tarrant County Hospital District
d/b/a JPS Health Network
A Component Unit of Tarrant County, Texas**
Schedule of Changes in District's Net Position Liability and Related Ratios
Year Ending September 30,
(In Thousands)

	2015
Total pension liability	
Service cost	\$ 11,556
Interest on total pension liability	12,953
Changes of benefit terms	-
Differences between expected and actual experiend	(717)
Changes of assumptions	6,650
Benefit payments, including refunds of employee contributions	(7,021)
	23,421
Net change in total pension liability	
	23,421
Total pension liability—beginning	170,583
Total pension liability—ending (a)	\$ 194,004
Plan fiduciary net position	
Contributions—employer	\$ 11,625
Contributions—employee	1,574
Net investment income	20,134
Benefit payments, including refunds of employee contributions	(7,021)
Administrative expense	(407)
	25,905
Net change in plan fiduciary net position	
	25,905
Plan fiduciary net position—beginning	158,554
Plan fiduciary net position—ending (b)	\$ 184,459
District's net pension liability—ending (a) – (b)	\$ 9,545
Plan fiduciary net position as a percentage of the total pension liability	95.08%
Covered-employee payroll	\$ 178,847
District's net pension liability as a percentage of covered-employee payroll	5.34%

Notes to Schedule:

Changes of assumptions:

- 1) Mortality updated to new table published by Society of Actuaries (November 2014)
- 2) Future wage increases above age 40 adjusted to reflect recent experience

This schedule is presented as of October 1, 2014, which is the measurement date.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available. All amounts are in thousands, unless otherwise indicated.

**Tarrant County Hospital District
d/b/a JPS Health Network
A Component Unit of Tarrant County, Texas
Schedule of District Contributions
Year Ending September 30,
(In Thousands)**

Year Ending September 30,	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered- employee payroll	Contributions as a percentage of covered- employee payroll
2015	\$ 12,313	\$ 12,313	-	\$ 182,418	6.75%

Notes to Schedule:

Valuation date: October 1, 2014

Actuarially determined contribution rates are calculated as of October 1, 2014, which is the most recent valuation date prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	20 years at October 1, 2014; recalculated annually; employer contribution rate constant unless amortization period > 25 years or ≤ 0 years
Asset valuation method	5-year smoothed market
Inflation	3.0%
Salary increases	5.0%, average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Retirement age	60
Mortality	RP-2014 Total Employee Mortality Table, Projected with Scale MP-2014 mortality improvement scale

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available. All amounts are in thousands unless otherwise indicated.

**Tarrant County Hospital District
d/b/a JPS Health Network
A Component Unit of Tarrant County, Texas
Schedule of Funding Progress
September 30, 2014**

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	\$113,033,130	\$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%)

Other Information

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

Balance Sheet Information

September 30, 2015

(In Thousands)

Assets and Deferred Outflow of Resources

	Hospital	JPSPG	Foundation	Eliminations	Total
Current Assets					
Cash and cash equivalents	\$ 184,934	\$ 19,675	\$ 463	\$ -	\$ 205,072
Short-term investments	114,981	-	-	-	114,981
Patient accounts receivable, net	43,968	2,321	-	(1,451)	44,838
Property taxes receivable, net	4,535	-	-	-	4,535
Supplemental Medicaid funding receivable	129,929	7,153	-	-	137,082
Restricted pledges receivable, net	-	-	-	-	-
Internally designated for self-insurance, current portion	255	-	-	-	255
Supplies inventory	8,287	-	-	-	8,287
Prepaid expenses and other assets	12,919	1,117	66	-	14,102
	<u>499,808</u>	<u>30,266</u>	<u>529</u>	<u>(1,451)</u>	<u>529,152</u>
Total current assets					
	<u>889</u>	<u>2,225</u>	<u>25</u>	<u>(3,139)</u>	<u>-</u>
Due from Affiliates					
Noncurrent Cash and Investments					
Internally designated for debt service	419	-	-	-	419
Internally designated for self-insurance	11,587	-	-	-	11,587
Restricted by donors for capital acquisitions and specific operating activities	-	-	1,991	-	1,991
Internally designated for capital acquisitions and operating activities	173,371	-	168	-	173,539
	<u>185,377</u>	<u>-</u>	<u>2,159</u>	<u>-</u>	<u>187,536</u>
Total noncurrent cash and investments					
	<u>287,773</u>	<u>1,271</u>	<u>2</u>	<u>-</u>	<u>289,046</u>
Capital Assets, Net					
Total assets	973,847	33,762	2,715	(4,590)	1,005,734
Deferred Outflows of Resources					
	<u>17,646</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,646</u>
Total assets and deferred outflows of resources	<u>\$ 991,493</u>	<u>\$ 33,762</u>	<u>\$ 2,715</u>	<u>\$ (4,590)</u>	<u>\$ 1,023,380</u>

**Liabilities, Deferred Inflows of Resources
and Net Position**

	Hospital	JPSPG	Foundation	Eliminations	Total
Current Liabilities					
Accounts payable	\$ 81,363	\$ 238	\$ 36	\$ (1,451)	\$ 80,186
Accrued expenses	51,810	5,449	-	-	57,259
Due to third-party payers	4,257	-	-	-	4,257
Current portion of self-insurance costs	5,481	-	-	-	5,481
Current maturities of long-term debt	2,470	-	-	-	2,470
Total current liabilities	145,381	5,687	36	(1,451)	149,653
Due to Affiliates	2,250	855	34	(3,139)	-
Estimated Self-insurance Costs	1,422	-	-	-	1,422
Long-term Debt	43,307	-	-	-	43,307
Net Pension Liability	9,545	-	-	-	9,545
Other Long-term Liabilities	483	937	-	-	1,420
Total liabilities	202,388	7,479	70	(4,590)	205,347
Deferred Inflows of Resources	7,003	-	-	-	7,003
Net Position					
Net investment in capital assets	238,710	1,271	2	-	239,983
Restricted expendable	-	-	1,646	-	1,646
Restricted nonexpendable	-	-	315	-	315
Unrestricted	543,392	25,012	682	-	569,086
Total net position	782,102	26,283	2,645	-	811,030
Total liabilities, deferred inflows of resources and net position	\$ 991,493	\$ 33,762	\$ 2,715	\$ (4,590)	\$ 1,023,380

**Tarrant County Hospital District
d/b/a JPS Health Network
A Component Unit of Tarrant County, Texas
Statement of Revenues, Expenses and
Changes in Net Position Information
Year Ended September 30, 2015
(In Thousands)**

	Hospital	JPSPG	Foundation	Eliminations	Total
Operating Revenues					
Net patient service revenue	\$ 318,192	\$ 30,268	\$ -	\$ (11,066)	\$ 337,394
Supplemental Medicaid funding	181,618	9,742	-	-	191,360
Other operating revenue	35,964	9,617	161	(8,153)	37,589
	<u>535,774</u>	<u>49,627</u>	<u>161</u>	<u>(19,219)</u>	<u>566,343</u>
Operating Expenses					
Salaries and related expenses	402,988	39,843	60	-	442,891
Professional fees and purchased services	205,088	1,993	461	(20,571)	186,971
Supplies	125,826	72	165	(46)	126,017
Depreciation and amortization	38,624	193	-	-	38,817
Other	35,804	793	1,708	(59)	38,246
	<u>808,330</u>	<u>42,894</u>	<u>2,394</u>	<u>(20,676)</u>	<u>832,942</u>
Operating Income (Loss)	<u>(272,556)</u>	<u>6,733</u>	<u>(2,233)</u>	<u>1,457</u>	<u>(266,599)</u>
Nonoperating Revenues (Expenses)					
Property tax revenue	307,019	-	-	-	307,019
Contributed services	11,296	-	-	-	11,296
Contribution revenue	64	-	2,405	(1,405)	1,064
Contribution expense	(2,500)	-	-	-	(2,500)
Interest expense	(1,336)	-	-	-	(1,336)
Investment return and other	2,620	58	1	(52)	2,627
	<u>317,163</u>	<u>58</u>	<u>2,406</u>	<u>(1,457)</u>	<u>318,170</u>
Excess of Revenues Over Expenses Before Capital Grants and Gifts	44,607	6,791	173	-	51,571
Capital Grants and Gifts	85	-	-	-	85
Increase in Net Position	<u>44,692</u>	<u>6,791</u>	<u>173</u>	<u>-</u>	<u>51,656</u>
Net Position, as Previously Reported	737,303	19,492	2,472	-	759,267
Change in Accounting Principle	107	-	-	-	107
Net Position, Beginning of Year, as Restated	<u>737,410</u>	<u>19,492</u>	<u>2,472</u>	<u>-</u>	<u>759,374</u>
Net Position, End of Year	<u>\$ 782,102</u>	<u>\$ 26,283</u>	<u>\$ 2,645</u>	<u>\$ -</u>	<u>\$ 811,030</u>