

**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, 2016 and 2015



**Tarrant County Hospital District  
d/b/a JPS Health Network  
A Component Unit of Tarrant County, Texas  
Years Ended September 30, 2016 and 2015**

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## Independent Auditor's Report

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

We have audited the accompanying balance sheets of Tarrant County Hospital District d/b/a JPS Health Network (District), a component unit of Tarrant County, Texas, as of September 30, 2016 and 2015, 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, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***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  
December 20, 2017

**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, 2016 and 2015**  
*(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, 2016 and 2015. It should be read in conjunction with the accompanying financial statements of the District. Unless otherwise indicated, amounts are in thousands.

***Financial Highlights***

- Cash, short-term investments and other noncurrent investments increased in 2016 by \$67,976 or 13.4% and increased in 2015 by \$85,140 or 20.1%.
- The District's net position increased in each of the past two years with a \$18,564 or 2.3% increase in 2016 and a \$51,763 or 6.8% increase in 2015.
- The District reported operating losses in both 2016 (\$313,269) and 2015 (\$266,599). The loss in 2016 increased by \$46,670 or 17.5%, as compared to the operating loss reported in 2015. The operating loss in 2015 decreased by \$7,931 or 2.9%, from the operating loss reported in 2014.
- Net nonoperating revenues increased by \$13,557 or 4.3% in 2016 compared to 2015 and increased by \$15,654 or 5.2% in 2015 compared to 2014.

***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 \$18,564 (2.3%) in 2016 over 2015 and by \$51,763 (6.8%) in 2015 over 2014, as shown in *Table 1*:

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

|                                                                   | <b>2016</b> | <b>2015</b>  | <b>2014</b> |
|-------------------------------------------------------------------|-------------|--------------|-------------|
| <b>Assets</b>                                                     |             |              |             |
| Cash and short-term investments                                   | \$ 385,920  | \$ 320,053   | \$ 235,148  |
| Patient accounts receivable, net                                  | 49,845      | 44,838       | 47,721      |
| Other current assets                                              | 63,814      | 164,261      | 192,677     |
| Capital assets, net                                               | 270,884     | 289,046      | 284,087     |
| Other noncurrent assets                                           | 189,950     | 187,536      | 187,366     |
|                                                                   | <hr/>       | <hr/>        | <hr/>       |
| Total assets                                                      | 960,413     | 1,005,734    | 946,999     |
| <b>Deferred Outflows of Resources</b>                             |             |              |             |
|                                                                   | 27,529      | 17,646       | -           |
|                                                                   | <hr/>       | <hr/>        | <hr/>       |
| Total assets and deferred outflows of resources                   | \$ 987,942  | \$ 1,023,380 | \$ 946,999  |
| <b>Liabilities</b>                                                |             |              |             |
| Long-term debt                                                    | \$ 40,092   | \$ 43,307    | \$ 46,045   |
| Net pension liability                                             | 22,613      | 9,545        | -           |
| Other current and noncurrent liabilities                          | 91,355      | 152,495      | 141,687     |
|                                                                   | <hr/>       | <hr/>        | <hr/>       |
| Total liabilities                                                 | 154,060     | 205,347      | 187,732     |
| <b>Deferred Inflows of Resources</b>                              |             |              |             |
|                                                                   | 4,288       | 7,003        | -           |
|                                                                   | <hr/>       | <hr/>        | <hr/>       |
| <b>Net Position</b>                                               |             |              |             |
| Net investment in capital assets                                  | 227,824     | 239,983      | 233,599     |
| Restricted expendable                                             | 2,008       | 1,646        | 1,735       |
| Restricted nonexpendable                                          | 315         | 315          | 315         |
| Unrestricted                                                      | 599,447     | 569,086      | 523,618     |
|                                                                   | <hr/>       | <hr/>        | <hr/>       |
| Total net position                                                | 829,594     | 811,030      | 759,267     |
|                                                                   | <hr/>       | <hr/>        | <hr/>       |
| Total liabilities, deferred inflows of resources and net position | \$ 987,942  | \$ 1,023,380 | \$ 946,999  |
|                                                                   | <hr/>       | <hr/>        | <hr/>       |

The most significant changes in the District's assets in 2016 is the increase in cash and investments and decrease in amounts due from the state of Texas under supplemental funding programs. Cash and investments increased by \$67,976 or 13.4% in 2016 over 2015. This is primarily due to timing of the funding payments from the Medicaid Disproportionate Share Program and the Medicaid Section 1115(a) demonstration (Waiver) funding pools, discussed more fully in *Note 3*. The related receivable decreased by \$99,551 or 72.6% in 2016 as compared to 2015.

Deferred outflows of resources increased \$9,883, or 56.0%, in 2016 as compared to 2015, primarily as a result of changes in actuarial assumptions and variances between expected and actual earnings on pension plan investments utilized in the valuation of the District's net pension liability as discussed more fully in *Note 13*.

The most significant change in the District's liabilities in 2016 is the decrease in other current and noncurrent liabilities. Other current liabilities decreased by \$60,812 or 40.6% in 2016 over 2015. This is primarily due to timing of the District's contributions to the pension plan and intergovernmental transfers related to the Medicaid Disproportionate Share Program and the Waiver funding pools, discussed more fully in *Note 13 and 3*, respectively.

The most significant change in the District's assets in 2015 was also an increase in cash and investments. Cash and investments increased by \$85,140 or 20.1% in 2015 over 2014. This was 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*.

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

In 2016, the District's net position increased by \$18,564 or 2.3%, as shown in *Table 2*. This increase is made up of several components and represents a decrease of 64.1% compared with the increase in net position for 2015 of \$51,656. The District's change in net position increased from \$28,371 in 2014 to \$51,656 in 2015.

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

|                                                                   | <b>2016</b>      | <b>2015</b>      | <b>2014</b>      |
|-------------------------------------------------------------------|------------------|------------------|------------------|
| <b>Operating Revenues</b>                                         |                  |                  |                  |
| Net patient service revenue                                       | \$ 368,255       | \$ 337,394       | \$ 299,019       |
| Supplemental Medicaid funding                                     | 155,385          | 191,360          | 185,143          |
| Other operating revenue                                           | <u>52,396</u>    | <u>37,589</u>    | <u>42,396</u>    |
| Total operating revenues                                          | <u>576,036</u>   | <u>566,343</u>   | <u>526,558</u>   |
| <b>Operating Expenses</b>                                         |                  |                  |                  |
| Salaries and wages and employee benefits                          | 492,324          | 443,293          | 408,976          |
| Purchased services and professional fees                          | 165,166          | 186,975          | 189,390          |
| Supplies                                                          | 151,182          | 126,017          | 124,201          |
| Depreciation and amortization                                     | 39,715           | 38,817           | 40,084           |
| Other operating expenses                                          | <u>40,918</u>    | <u>37,840</u>    | <u>38,437</u>    |
| Total operating expenses                                          | <u>889,305</u>   | <u>832,942</u>   | <u>801,088</u>   |
| <b>Operating Loss</b>                                             | <u>(313,269)</u> | <u>(266,599)</u> | <u>(274,530)</u> |
| <b>Nonoperating Revenues (Expenses)</b>                           |                  |                  |                  |
| Property taxes                                                    | 319,611          | 307,019          | 291,013          |
| Contributed services                                              | 8,171            | 11,296           | 9,185            |
| Investment return, interest expense and other                     | <u>3,945</u>     | <u>(145)</u>     | <u>2,318</u>     |
| Total nonoperating revenues (expenses)                            | <u>331,727</u>   | <u>318,170</u>   | <u>302,516</u>   |
| <b>Excess of Revenues Over Expenses<br/>Before Capital Grants</b> | 18,458           | 51,571           | 27,986           |
| <b>Capital Grants</b>                                             | <u>106</u>       | <u>85</u>        | <u>385</u>       |
| <b>Increase in Net Position</b>                                   | <u>\$ 18,564</u> | <u>\$ 51,656</u> | <u>\$ 28,371</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, supplemental Medicaid funding revenue 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 2016 increased by \$46,670 or 17.5% as compared to 2015. The primary components of the change are:

- An increase in net patient service revenue of \$30,861 or 9.1%
- A decrease in Medicaid supplemental funding of \$35,975 or 18.8%
- An increase in other operating revenue of \$14,807 or 39.4%
- A decrease in professional fees and purchased services of \$21,809 or 11.7%
- An increase in supplies expense of \$25,165 or 20.0%
- An increase in salary and related expenses of \$49,031 or 11.1%



The increase in net patient service revenue is primarily attributable to increases in volumes and the decrease in Medicaid supplemental funding revenue is primarily due to shifts in funding allocations and the impact of the overall planned decrease in Wavier funding pools for 2016.

The increase in other operating revenue is due in large part to increases in drug rebates associated with the pharmaceutical patient assistance program.

The decrease in professional fees and purchase services is primarily attributable to the reduction in intergovernmental transfers due to shifts in funding allocations and changes in costs associated with an indigent care affiliation agreement, discussed more fully in *Note 14*, in the current year.

The increase in supplies expense is primarily attributable to the costly drugs offered in the current year as well as increases in volumes. There are associated drug rebates received under the pharmaceutical patient assistance program to offset this expense.

The increase in salary and related expenses is due to wage increases resulting from the District's retention efforts and to the addition of full time equivalent employees to address increased volumes.

The operating loss for 2015 of \$266,599 was \$7,931 less than the operating loss of \$274,530 recognized in 2014. The District had an increase in net patient service revenue of \$38,375 and an increase in Texas Medicaid supplemental funding of \$6,217. Net patient service revenue increased as a result of changes in payer mix. The increase in Medicaid Supplemental Funding is due to the shifts in funding allocation methodology. Salaries and related expenses increased in 2015 by \$34,317 or 8.4%, as compared to 2014 due to retention efforts and the addition of full time equivalent employees. Other operating revenue decreased in 2015 by \$4,807 or 11.3% as compared to 2014, due to a decrease in funding from the Medicare and Medicaid Electronic Health Records Incentive Program.

### ***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 2016, 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 \$12,592 or 4.1% from 2015 to 2016. Contributed services represent the difference between the value of services provided to the District's indigent patients by area physicians and the amount the District ultimately paid for those services. Contributed services decreased by \$3,125 or 27.7% in 2016 as compared to 2015. 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 \$94 or 7.0% in 2016 as compared to 2015 due to a decrease in long-term debt and refinancing of the Series 2006 Bonds discussed in *Note 10*.

### ***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 2016, 2015 and 2014, as discussed previously.

## **Capital Asset and Debt Administration**

### Capital Assets

At the end of 2016, the District had \$270,884 invested in capital assets, net of accumulated depreciation, as detailed in *Note 7* to the financial statements. In 2016, the District purchased new capital assets costing \$22,193.

At the end of 2015, the District had \$289,046 invested in capital assets, net of accumulated depreciation. In 2015, the District purchased new capital assets costing \$43,942.

### Debt

At September 30, 2016, the District had \$42,485 in revenue and general obligation refunding bonds outstanding. In 2016, the District issued the Series 2016 Bonds to refinance the outstanding Series 2006 Bonds obligation, as discussed in *Note 10*. 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 and Standard & Poor's reaffirmed the District's general obligation bonds in 2016. The District has a current Aa3 rating from Moody's, the District's general obligation bonds have a current AAA rating and the revenue bonds have 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 2017 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 2017 to \$0.227897 per \$100 valuation, which is consistent with the property tax rate for fiscal year 2016.

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, 2016 and 2015  
(In Thousands)**

**Assets and Deferred Outflows of Resources**

|                                                                                 | <u>2016</u>       | <u>2015</u>         |
|---------------------------------------------------------------------------------|-------------------|---------------------|
| <b>Current Assets</b>                                                           |                   |                     |
| Cash and cash equivalents                                                       | \$ 181,308        | \$ 205,072          |
| Short-term investments                                                          | 204,612           | 114,981             |
| Patient accounts receivable, net                                                | 49,845            | 44,838              |
| Property taxes receivable, net                                                  | 4,169             | 4,535               |
| Supplemental Medicaid funding receivable                                        | 37,531            | 137,082             |
| Internally designated for self-insurance, current portion                       | 145               | 255                 |
| Supplies inventory                                                              | 10,446            | 8,287               |
| Prepaid expenses and other assets                                               | 11,523            | 14,102              |
|                                                                                 | <hr/>             | <hr/>               |
| Total current assets                                                            | 499,579           | 529,152             |
|                                                                                 | <hr/>             | <hr/>               |
| <b>Noncurrent Cash and Investments</b>                                          |                   |                     |
| Internally designated for debt service                                          | 600               | 419                 |
| Internally designated for self-insurance                                        | 11,807            | 11,587              |
| Restricted by donors for capital acquisitions and specific operating activities | 1,947             | 1,991               |
| Internally designated for capital acquisitions and operating activities         | 175,401           | 173,539             |
|                                                                                 | <hr/>             | <hr/>               |
| Total noncurrent cash and investments                                           | 189,755           | 187,536             |
|                                                                                 | <hr/>             | <hr/>               |
| <b>Other Assets</b>                                                             | 195               | -                   |
|                                                                                 | <hr/>             | <hr/>               |
| <b>Capital Assets, Net</b>                                                      | 270,884           | 289,046             |
|                                                                                 | <hr/>             | <hr/>               |
| Total assets                                                                    | 960,413           | 1,005,734           |
|                                                                                 | <hr/>             | <hr/>               |
| <b>Deferred Outflows of Resources</b>                                           | 27,529            | 17,646              |
|                                                                                 | <hr/>             | <hr/>               |
| Total assets and deferred outflows of resources                                 | <u>\$ 987,942</u> | <u>\$ 1,023,380</u> |

## Liabilities, Deferred Inflows of Resources and Net Position

|                                                                      | <u>2016</u>       | <u>2015</u>         |
|----------------------------------------------------------------------|-------------------|---------------------|
| <b>Current Liabilities</b>                                           |                   |                     |
| Accounts payable                                                     | \$ 37,129         | \$ 80,186           |
| Accrued expenses                                                     | 38,918            | 57,259              |
| Due to third-party payers                                            | 4,569             | 4,257               |
| Current portion of self-insurance costs                              | 5,240             | 5,481               |
| Current maturities of long-term debt                                 | <u>2,985</u>      | <u>2,470</u>        |
| Total current liabilities                                            | 88,841            | 149,653             |
| <b>Estimated Self-insurance Costs</b>                                | 1,550             | 1,422               |
| <b>Long-term Debt</b>                                                | 40,092            | 43,307              |
| <b>Net Pension Liability</b>                                         | 22,613            | 9,545               |
| <b>Other Long-term Liabilities</b>                                   | <u>964</u>        | <u>1,420</u>        |
| Total liabilities                                                    | <u>154,060</u>    | <u>205,347</u>      |
| <b>Deferred Inflows of Resources</b>                                 | <u>4,288</u>      | <u>7,003</u>        |
| <b>Net Position</b>                                                  |                   |                     |
| Net investment in capital assets                                     | 227,824           | 239,983             |
| Restricted expendable                                                | 2,008             | 1,646               |
| Restricted nonexpendable                                             | 315               | 315                 |
| Unrestricted                                                         | <u>599,447</u>    | <u>569,086</u>      |
| Total net position                                                   | <u>829,594</u>    | <u>811,030</u>      |
| Total liabilities, deferred inflows of resources<br>and net position | <u>\$ 987,942</u> | <u>\$ 1,023,380</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, 2016 and 2015**  
*(In Thousands)*

|                                                                                                              | <b>2016</b>      | <b>2015</b>      |
|--------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Operating Revenues</b>                                                                                    |                  |                  |
| Net patient service revenue, net of provision for uncollectible accounts; 2016 – \$307,925; 2015 – \$243,694 | \$ 368,255       | \$ 337,394       |
| Supplemental Medicaid funding                                                                                | 155,385          | 191,360          |
| Other operating revenue                                                                                      | 52,396           | 37,589           |
| Total operating revenues                                                                                     | 576,036          | 566,343          |
| <b>Operating Expenses</b>                                                                                    |                  |                  |
| Salaries and related expenses                                                                                | 492,324          | 443,293          |
| Professional fees and purchased services                                                                     | 165,166          | 186,975          |
| Supplies                                                                                                     | 151,182          | 126,017          |
| Depreciation and amortization                                                                                | 39,715           | 38,817           |
| Other                                                                                                        | 40,918           | 37,840           |
| Total operating expenses                                                                                     | 889,305          | 832,942          |
| <b>Operating Loss</b>                                                                                        | <b>(313,269)</b> | <b>(266,599)</b> |
| <b>Nonoperating Revenues (Expenses)</b>                                                                      |                  |                  |
| Property tax revenue                                                                                         | 319,611          | 307,019          |
| Contributed services                                                                                         | 8,171            | 11,296           |
| Contribution revenue                                                                                         | 1,305            | 1,064            |
| Contribution expense                                                                                         | -                | (2,500)          |
| Interest expense                                                                                             | (1,430)          | (1,336)          |
| Investment return and other                                                                                  | 4,070            | 2,627            |
| Total nonoperating revenues (expenses)                                                                       | 331,727          | 318,170          |
| <b>Excess of Revenues Over Expenses Before Capital Grants</b>                                                | 18,458           | 51,571           |
| <b>Capital Grants and Gifts</b>                                                                              | 106              | 85               |
| <b>Increase in Net Position</b>                                                                              | 18,564           | 51,656           |
| <b>Net Position, Beginning of Year</b>                                                                       | 811,030          | 759,374          |
| <b>Net Position, End of Year</b>                                                                             | \$ 829,594       | \$ 811,030       |

**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, 2016 and 2015  
(In Thousands)**

|                                                                 | <b>2016</b> | <b>2015</b> |
|-----------------------------------------------------------------|-------------|-------------|
| <b>Operating Activities</b>                                     |             |             |
| Receipts from and on behalf of patients                         | \$ 358,528  | \$ 346,608  |
| Receipts from supplemental Medicaid funding programs            | 254,936     | 219,383     |
| Payments to suppliers and contractors                           | (382,952)   | (358,380)   |
| Payments to employees                                           | (509,155)   | (425,261)   |
| Other receipts, net                                             | 50,731      | 37,962      |
| Net cash used in operating activities                           | (227,912)   | (179,688)   |
| <b>Noncapital Financing Activities</b>                          |             |             |
| Noncapital grants and gifts                                     | 1,305       | 1,064       |
| Property taxes supporting operations                            | 318,004     | 304,410     |
| Net cash provided by noncapital financing activities            | 319,309     | 305,474     |
| <b>Capital and Related Financing Activities</b>                 |             |             |
| Proceeds from issuance of long-term debt                        | 22,415      | -           |
| Principal paid on long-term debt                                | (24,965)    | (2,405)     |
| Interest paid on long-term debt                                 | (1,670)     | (1,960)     |
| Property taxes supporting debt service                          | 1,973       | 2,149       |
| Capital grants and gifts                                        | 106         | 918         |
| Proceeds from sale of capital assets                            | 136         | 198         |
| Purchase of capital assets                                      | (25,301)    | (42,260)    |
| Net cash used in capital and related financing activities       | (27,306)    | (43,360)    |
| <b>Investing Activities</b>                                     |             |             |
| Purchase of investments                                         | (479,207)   | (248,207)   |
| Proceeds from the sale and maturities of short-term investments | 386,561     | 221,426     |
| Interest income and other                                       | 4,526       | 3,330       |
| Net cash used in investing activities                           | (88,120)    | (23,451)    |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>         | (24,029)    | 58,975      |
| <b>Cash and Cash Equivalents, Beginning of Year</b>             | 206,909     | 147,934     |
| <b>Cash and Cash Equivalents, End of Year</b>                   | \$ 182,880  | \$ 206,909  |

**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, 2016 and 2015  
(In Thousands)**

|                                                                                                             | <u>2016</u>         | <u>2015</u>         |
|-------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>                                    |                     |                     |
| Cash and cash equivalents in current assets                                                                 | \$ 181,308          | \$ 205,072          |
| Cash and cash equivalents in noncurrent cash and investments                                                | <u>1,572</u>        | <u>1,837</u>        |
|                                                                                                             | <u>\$ 182,880</u>   | <u>\$ 206,909</u>   |
| <br><b>Reconciliation of Net Operating Revenues (Expenses) to<br/>Net Cash Used in Operating Activities</b> |                     |                     |
| Operating loss                                                                                              | \$ (313,269)        | \$ (266,599)        |
| Depreciation and amortization                                                                               | 39,715              | 38,817              |
| Loss (gain) on disposal of assets                                                                           | 504                 | (33)                |
| Provision for uncollectible accounts                                                                        | 307,925             | 243,694             |
| Contributed services expense                                                                                | 8,171               | 11,296              |
| Changes in operating assets and liabilities                                                                 |                     |                     |
| Patient accounts receivable                                                                                 | (312,932)           | (240,811)           |
| Supplemental Medicaid funding receivable                                                                    | 99,551              | 28,023              |
| Estimated amounts due from and to third-party payers                                                        | 312                 | 823                 |
| Accounts payable and accrued expenses                                                                       | (58,200)            | 5,658               |
| Other assets and liabilities                                                                                | <u>311</u>          | <u>(556)</u>        |
| Net cash used in operating activities                                                                       | <u>\$ (227,912)</u> | <u>\$ (179,688)</u> |
| <br><b>Supplemental Cash Flows Information</b>                                                              |                     |                     |
| Capital asset acquisitions included in accounts payable                                                     | \$ 583              | \$ 3,705            |
| Contributed services revenue (Note 14)                                                                      | \$ 8,171            | \$ 11,296           |
| Amounts pledged to other entities included in accounts payable                                              | \$ -                | \$ 2,500            |



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

**September 30, 2016 and 2015**

*(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.

Acclaim Physician Group (Acclaim) began operations on May 1, 2016, primarily for the purpose of providing physician services to District patients. The District is the sole corporate member of Acclaim and has the authority to exercise significant control over the financial operations of Acclaim. As such, Acclaim is presented as a blended component unit of the District. Separate financial statements of Acclaim can be obtained by contacting the District's management.

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.

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As of May 1, 2016 when operations commenced at Acclaim, all previously employed physicians of JPSPG became employed physicians of Acclaim. As of October 1, 2015, the effective date of the transfer, all of JPSPG's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of the beginning of the period of approximately \$26,283 were transferred to the Hospital.

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.

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.

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

**September 30, 2016 and 2015**

*(In Thousands)*

***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, 2016 and 2015, 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. Investments in external investment pools qualifying for amortized cost under GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, are carried at amortized cost per share. All other investments are carried at fair value.

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.

**Tarrant County Hospital District  
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**Notes to Financial Statements  
September 30, 2016 and 2015  
(In Thousands)**

**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 acquisition 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>2016</u>     | <u>2015</u>     |
|-----------------------------------|-----------------|-----------------|
| Interest costs capitalized        | \$ 14           | \$ 348          |
| Interest costs charged to expense | <u>1,430</u>    | <u>1,336</u>    |
| Total interest incurred           | <u>\$ 1,444</u> | <u>\$ 1,684</u> |

**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.

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

**September 30, 2016 and 2015**

*(In Thousands)*

***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, 2016 and 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.

***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.

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***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 \$4,680 and \$5,773 in revenue from this settlement for the years ended September 30, 2016 and 2015, 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, the Foundation, JPSPG and Acclaim and also carry an exemption from income taxes under IRC Section 501(c)(3). The District, the Foundation, JPSPG and Acclaim are all subject to federal income tax on any unrelated business taxable income.

***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (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 and Acclaim 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.

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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 2016 and 2015, the District recorded revenue from the Medicare program of approximately \$1,085 and \$1,046, respectively. In 2016 and 2015, the District recorded revenue from the Medicaid program of approximately \$468 and \$400, 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 2015 financial statements to conform to the 2016 financial statement presentation. The reclassifications had no effect on the changes in financial position.

**Note 2: Net Patient Service Revenue**

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

**Medicare.** Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient nonacute services and defined medical education costs are paid based on a cost reimbursement methodology. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. The District's Medicare cost reports have been audited by the Medicare administrative contractor through September 30, 2012.

**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.

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*(In Thousands)*

Approximately 78% and 77% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2016 and 2015, respectively. Settlements under reimbursement agreements with Medicare and Medicaid programs are estimated and recorded in the period the related services are rendered, and are adjusted in future periods as adjustments become known or as the service years are no longer subject to audit, review or investigation. Annual cost reports required under the Medicare and Medicaid programs are subject to routine audits, which may result in adjustments to the amounts ultimately determined to be due under the reimbursement programs. These audits often require several years to reach their financial determination of amounts earned under the programs. As a result, it is reasonably possible that recorded estimates will change materially in the near term. Net patient service revenue increased in 2016 by approximately \$4,885 and decreased in 2015 by approximately \$460, 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.

**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 \$34,489 and \$30,721 for the years ended September 30, 2016 and 2015, 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 (HHSC) 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 revenue from the two funding pools is recognized as earned throughout the related demonstration year. During 2016, the District recognized approximately \$65,034 and \$55,862 from the UC Pool and DSRIP Pool, respectively. During 2015, the District recognized approximately \$105,369 and \$55,270 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 Waiver was effective from December 12, 2011 to September 30, 2016. On May 2, 2016, HHSC announced that CMS agreed to extend the Waiver through December 2017, at current funding levels. During the extension period, HHSC and CMS will continue negotiating a longer term extension.



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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.

**Note 4: Property Tax Revenue**

The District received approximately 35% of its support from property taxes in both years ended September 30, 2016 and 2015, 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 \$9,212 and \$9,341 at September 30, 2016 and 2015, respectively.

The District's property tax rate was \$0.226491 and \$0.226300 per \$100 valuation for 2016 and 2015, respectively, for the maintenance and operation fund and property tax revenue for this fund was \$317,640 and \$304,867 for 2016 and 2015, respectively. The District's property tax rate was \$0.001406 and \$0.001597 per \$100 valuation for 2016 and 2015, respectively, for the interest and sinking fund and property tax revenue for this fund was \$1,971 and \$2,152 for 2016 and 2015, 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, 2016 and 2015, the District's deposits were either insured or collateralized in accordance with state law.

At September 30, 2016, the Foundation's cash accounts exceeded federally insured limits by \$2,185.

**Tarrant County Hospital District  
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**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, 2016 and 2015, the District had the following investments and maturities as:

|                           |                   | <b>September 30, 2016</b>  |                  |             |                     |
|---------------------------|-------------------|----------------------------|------------------|-------------|---------------------|
|                           |                   | <b>Maturities in Years</b> |                  |             |                     |
| <b>Type</b>               | <b>Fair Value</b> | <b>Less Than 1</b>         | <b>1-5</b>       | <b>6-10</b> | <b>More Than 10</b> |
| Investment pools          | \$ 105,728        | \$ 105,728                 | \$ -             | \$ -        | \$ -                |
| U.S. Treasury obligations | 30,712            | 30,712                     | -                | -           | -                   |
| U.S. agencies obligations | 38,085            | 24,116                     | 13,969           | -           | -                   |
| Municipal bonds           | 5,564             | -                          | 5,564            | -           | -                   |
| Commercial paper          | 180,391           | 180,391                    | -                | -           | -                   |
|                           |                   | <u>\$ 340,947</u>          | <u>\$ 19,533</u> | <u>\$ -</u> | <u>\$ -</u>         |
| Mutual funds              | <u>375</u>        |                            |                  |             |                     |
|                           | <u>\$ 360,855</u> |                            |                  |             |                     |

|                           |                   | <b>September 30, 2015</b>  |                  |             |                     |
|---------------------------|-------------------|----------------------------|------------------|-------------|---------------------|
|                           |                   | <b>Maturities in Years</b> |                  |             |                     |
| <b>Type</b>               | <b>Fair Value</b> | <b>Less Than 1</b>         | <b>1-5</b>       | <b>6-10</b> | <b>More Than 10</b> |
| 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              | <u>528</u>        |                            |                  |             |                     |
|                           | <u>\$ 193,280</u> |                            |                  |             |                     |

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*Interest Rate Risk* – As a means of limiting its exposure to fair value losses arising from rising interest rates, the District investment policy requires that total investments have a weighted-average maturity of five years or less. The District’s investments in U.S. Treasury and agency obligations include fixed-rate notes and bonds with a weighted-average maturity of three years. The longer the maturity of a fixed-rate obligation, the greater the impact a change in interest rates will have on its fair value. As interest rates increase, the fair value of the obligations decrease. Likewise, when interest rates decrease, the fair value of the obligations increase. The money market mutual funds are presented as an investment with a maturity of less than one-year because they are redeemable in full immediately.

*Credit Risk* – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the District’s policy to limit its investments to U.S. Treasury and agency obligations or otherwise follow the restriction of the *Texas Public Funds Investment Act*. The District’s investment in U.S. Treasury obligations carry the explicit guarantee of the U.S. government. The debt securities of the U.S. agencies are rated Aa1 to AAA by Moody’s rating agency. The District’s investments in municipal bonds were rated AA by Standard & Poor’s rating agency.

The District also invests in TexPool and TexSTAR, state investment pools (Pools), which are considered investments for financial reporting. The Texas State Comptroller of Public Accounts oversees TexPool. Federated Investors provides asset management and participant services for TexPool’s operations under a contract with the Comptroller. TexSTAR is a local government investment pool offering professionally managed portfolios to government entities in the state of Texas. The governing board of directors selects co-administrators for TexSTAR that provide fund management. The District has an undivided beneficial interest in the pool of assets held by the Pools. Investments must be in compliance with the *Texas Public Fund Investment Act* and 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.

*Custodial Credit Risk* – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the District’s investments are held in safekeeping or trust accounts.

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*Concentration of Credit Risk* – The District places no limit on the amount that may be invested in any one issuer as long as the restrictions of the *Texas Public Funds Investment Act* are followed.

The following table reflects the District’s investments in single issuers that represent more than 5% of total investments:

|                                                     | <b>2016</b> | <b>2015</b> |
|-----------------------------------------------------|-------------|-------------|
| Federal Farm Credit Bank                            | 1.4%        | 5.3%        |
| Federal Home Loan Mortgage Association              | 5.8%        | 10.4%       |
| Toyota Motor Credit Commercial Paper                | 8.2%        | 7.8%        |
| JP Morgan Securities Commercial Paper               | 14.0%       | 7.7%        |
| Kaiser Foundation Hospital Commercial Paper         | 12.4%       | 0.0%        |
| Nestle Finance Int'l Commercial Paper               | 8.3%        | 0.0%        |
| Philadelphia, PA - Airport Revenue Commercial Paper | 6.9%        | 0.0%        |

**Summary of Carrying Values**

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

|                                                           | <b>2016</b>       | <b>2015</b>       |
|-----------------------------------------------------------|-------------------|-------------------|
| Carrying value                                            |                   |                   |
| Deposits                                                  | \$ 214,965        | \$ 314,564        |
| Investments                                               | 360,855           | 193,280           |
|                                                           | <u>\$ 575,820</u> | <u>\$ 507,844</u> |
| Included in the following balance sheet captions          |                   |                   |
| Cash and cash equivalents                                 | \$ 181,308        | \$ 205,072        |
| Short-term investments                                    | 204,612           | 114,981           |
| Internally designated for self-insurance, current portion | 145               | 255               |
| Noncurrent cash and investments                           | 189,755           | 187,536           |
|                                                           | <u>\$ 575,820</u> | <u>\$ 507,844</u> |

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**Investment Income**

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

|                                           | <u>2016</u>     | <u>2015</u>     |
|-------------------------------------------|-----------------|-----------------|
| Interest and dividend income              | \$ 4,594        | \$ 2,994        |
| Net decrease in fair value of investments | <u>(641)</u>    | <u>(616)</u>    |
|                                           | <u>\$ 3,953</u> | <u>\$ 2,378</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>2016</u>      | <u>2015</u>      |
|-------------------------------------------|------------------|------------------|
| Medicare                                  | \$ 16,559        | \$ 13,911        |
| Medicaid                                  | 17,768           | 17,078           |
| Other third-party payers                  | 30,126           | 28,179           |
| Patients                                  | <u>92,821</u>    | <u>70,476</u>    |
|                                           | 157,274          | 129,644          |
| Less allowance for uncollectible accounts | <u>107,429</u>   | <u>84,806</u>    |
|                                           | <u>\$ 49,845</u> | <u>\$ 44,838</u> |

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**Note 7: Capital Assets**

Capital assets activity for the years ended September 30, were:

|                               | <b>2016</b>                  |                    |                  |                                |                           |
|-------------------------------|------------------------------|--------------------|------------------|--------------------------------|---------------------------|
|                               | <b>Beginning<br/>Balance</b> | <b>Additions</b>   | <b>Disposals</b> | <b>Transfers<br/>and Other</b> | <b>Ending<br/>Balance</b> |
| Land and improvements         | \$ 54,510                    | \$ -               | \$ -             | \$ 46                          | \$ 54,556                 |
| Buildings and improvements    | 247,538                      | -                  | -                | 2,305                          | 249,843                   |
| Equipment                     | 430,640                      | 17,512             | (9,211)          | 3,993                          | 442,934                   |
| Construction in progress      | 2,025                        | 4,681              | -                | (6,344)                        | 362                       |
|                               | <u>734,713</u>               | <u>22,193</u>      | <u>(9,211)</u>   | <u>-</u>                       | <u>747,695</u>            |
| Less accumulated depreciation | <u>445,667</u>               | <u>39,715</u>      | <u>(8,571)</u>   | <u>-</u>                       | <u>476,811</u>            |
| Capital assets, net           | <u>\$ 289,046</u>            | <u>\$ (17,522)</u> | <u>\$ (640)</u>  | <u>\$ -</u>                    | <u>\$ 270,884</u>         |
|                               |                              |                    |                  |                                |                           |
|                               | <b>2015</b>                  |                    |                  |                                |                           |
|                               | <b>Beginning<br/>Balance</b> | <b>Additions</b>   | <b>Disposals</b> | <b>Transfers<br/>and Other</b> | <b>Ending<br/>Balance</b> |
| Land and improvements         | \$ 52,618                    | \$ 1,892           | \$ -             | \$ -                           | \$ 54,510                 |
| Buildings and improvements    | 241,353                      | 325                | (4,775)          | 10,635                         | 247,538                   |
| Equipment                     | 395,687                      | 16,396             | (2,608)          | 21,165                         | 430,640                   |
| Construction in progress      | 8,496                        | 25,329             | -                | (31,800)                       | 2,025                     |
|                               | <u>698,154</u>               | <u>43,942</u>      | <u>(7,383)</u>   | <u>-</u>                       | <u>734,713</u>            |
| Less accumulated depreciation | <u>414,067</u>               | <u>38,817</u>      | <u>(7,217)</u>   | <u>-</u>                       | <u>445,667</u>            |
| Capital assets, net           | <u>\$ 284,087</u>            | <u>\$ 5,125</u>    | <u>\$ (166)</u>  | <u>\$ -</u>                    | <u>\$ 289,046</u>         |

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**Note 8: Accounts Payable and Accrued Expenses**

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

|                                                             | 2016      | 2015       |
|-------------------------------------------------------------|-----------|------------|
| Payable to suppliers and contractors                        | \$ 34,641 | \$ 38,006  |
| Payable to employees (including payroll taxes and benefits) | 38,757    | 44,709     |
| Payable to TCICC (Note 14)                                  | -         | 34,736     |
| Payable to the Plan (Note 13)                               | -         | 12,313     |
| Patient credit balances                                     | 2,649     | 7,681      |
|                                                             | \$ 76,047 | \$ 137,445 |

**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.

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Activity in the District's accrued medical malpractice claims liability during 2016 and 2015, is summarized as follows:

|                                                                                          | <b>2016</b> | <b>2015</b> |
|------------------------------------------------------------------------------------------|-------------|-------------|
| Balance, beginning of year                                                               | \$ 590      | \$ 485      |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 226         | 254         |
| Claims and expenses paid                                                                 | (255)       | (149)       |
| Balance, end of year                                                                     | \$ 561      | \$ 590      |

***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 2016 and 2015, is summarized as follows:

|                                                                                          | <b>2016</b> | <b>2015</b> |
|------------------------------------------------------------------------------------------|-------------|-------------|
| Balance, beginning of year                                                               | \$ 4,050    | \$ 4,260    |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 44,228      | 38,434      |
| Claims and expenses paid                                                                 | (44,238)    | (38,644)    |
| Balance, end of year                                                                     | \$ 4,040    | \$ 4,050    |



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**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 2016 and 2015, is summarized as follows:

|                                                                                          | <u>2016</u>     | <u>2015</u>     |
|------------------------------------------------------------------------------------------|-----------------|-----------------|
| Balance, beginning of year                                                               | \$ 2,263        | \$ 1,982        |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 1,870           | 2,027           |
| Claims and expenses paid                                                                 | <u>(1,944)</u>  | <u>(1,746)</u>  |
| Balance, end of year                                                                     | <u>\$ 2,189</u> | <u>\$ 2,263</u> |

**Note 10: Long-term Debt**

A summary of long-term debt is as follows:

|                                                 | <u>2016</u>      | <u>2015</u>      |
|-------------------------------------------------|------------------|------------------|
| General obligation refunding bonds, Series 2016 | \$ 22,335        | \$ -             |
| Revenue bonds, Series 2012                      | 20,150           | 21,595           |
| Certificates of obligation, Series 2006         | <u>-</u>         | <u>23,440</u>    |
|                                                 | 42,485           | 45,035           |
| Bond premium (discount), net                    | <u>592</u>       | <u>742</u>       |
|                                                 | <u>\$ 43,077</u> | <u>\$ 45,777</u> |

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***General Obligation Refunding Bonds – Series 2016***

The Series 2016 general obligation refunding bonds consist of Tarrant County Hospital District Limited Tax Refunding Bonds, Series 2016 (Series 2016 Bonds) in the original amount of \$22,415 dated January 1, 2016, which bear interest at 2.24%. The Series 2016 Bonds are payable in annual installments of \$1,500 to \$1,955 through February 15, 2029. The Series 2016 Bonds are secured by ad valorem tax revenues. The proceeds from the Series 2016 Bonds were used to advance refund the Series 2006 Bonds.

***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 \$1,485 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 consisted of Tarrant County Hospital District Certificates of Obligation, Series 2006 (Certificates) in the original amount of \$30,330 dated March 1, 2006, which bore interest at 4.0% to 5.0%. The Certificates were secured by the net revenues of the District, including ad valorem revenue. All of the Certificates still outstanding could be redeemed at the District's option on or after February 15, 2016, at par value plus accrued interest. The District advance refunded the outstanding obligation on the Series 2006 Bonds with proceeds from the Series 2016 Bonds. The loss on the advance refunding was approximately \$70. The present value of cash flow savings from the advanced refunding is approximately \$3,960.

The indenture agreements require the District to comply with certain restrictive covenants including minimum insurance coverage and debt service requirements.

The District has a current Aa3 rating from Moody's and a current AAA rating from Standard & Poor's.

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

|                                                 | 2016              |                  |                  |                  |                 |
|-------------------------------------------------|-------------------|------------------|------------------|------------------|-----------------|
|                                                 | Beginning Balance | Additions        | Deductions       | Ending Balance   | Current Portion |
| Long-term debt                                  |                   |                  |                  |                  |                 |
| General obligation refunding bonds, Series 2016 | \$ -              | \$ 22,415        | \$ 80            | \$ 22,335        | \$ 1,500        |
| Revenue bonds, Series 2012                      | 21,595            | -                | 1,445            | 20,150           | 1,485           |
| Certificates of obligation, Series 2006         | 23,440            | -                | 23,440           | -                | -               |
| Total long-term debt                            | <u>\$ 45,035</u>  | <u>\$ 22,415</u> | <u>\$ 24,965</u> | <u>\$ 42,485</u> | <u>\$ 2,985</u> |

  

|                                         | 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> |

The debt service requirements as of September 30, 2016, are as follows:

| Year Ending<br>September 30, 2016 | Principal        | Interest        | Total            |
|-----------------------------------|------------------|-----------------|------------------|
| 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                              | 3,375            | 878             | 4,253            |
| 2022-2026                         | 18,710           | 2,547           | 21,257           |
| 2027-2029                         | 7,950            | 267             | 8,217            |
|                                   | <u>\$ 42,485</u> | <u>\$ 8,262</u> | <u>\$ 50,747</u> |

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*(In Thousands)*

**Note 11: Restricted and Designated Net Position**

At September 30, 2016 and 2015, \$2,008 and \$1,646, respectively, of net position were restricted by donors for capital and operating activities.

At September 30, 2016 and 2015, \$175,401 and \$173,539, 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, 2016 and 2015, 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 \$141,344 and \$126,033 for 2016 and 2015, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross charity care charges. The increase in uncompensated care cost in 2016 as compared to 2015 is primarily attributable to increases in volumes in 2016.

**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.

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**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, 2015 and 2014 (measurement date), are:

|                                                                  | 2015  | 2014  |
|------------------------------------------------------------------|-------|-------|
| Inactive employees or beneficiaries currently receiving benefits | 269   | 246   |
| Inactive employees entitled to but not yet receiving benefits    | 1,020 | 930   |
| Active employees                                                 | 3,014 | 2,950 |
|                                                                  | 4,303 | 4,126 |

**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, 2016, the average active employee contribution rate (for the period between the two most recent measurement dates) was 1.00% of annual pay, and the District’s average contribution rate was 6.75% of annual payroll.

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The District's contribution is set to be 6.75% of participant payroll effective October 1, 2015, 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, 2016. 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, 2015 and 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, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                                          |                                                                        |
|------------------------------------------|------------------------------------------------------------------------|
| Inflation                                | 3.25%                                                                  |
| Salary increases                         | 5.0%, average, including inflation                                     |
| <i>Ad hoc</i> cost of living adjustments | Not included                                                           |
| Investment rate of return                | 7.25%, net of pension plan<br>investment expense, including inflations |

Mortality rates were based on the Society of Actuaries RP-2014 Mortality Table with Projection Scale MP-2015.

The actuarial assumptions used in the October 1, 2015, valuation were based on the results of an actuarial experience study for the period 2010-2015.

The long-term expected rate of return used in the October 1, 2015, valuation 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 (3.25%). In addition, the final 7.25% assumption reflected a reduction of 0.08% for adverse deviation.

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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                                | 3.00%                                                               |
| 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.

The long-term expected rate of return used in the October 1, 2014, valuation 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 expected arithmetic real rates of return for each major asset class are summarized in the following table:

| <b>Asset Class</b>   | <b>Target Allocation</b> | <b>2015<br/>Long-Term<br/>Expected Real<br/>Rate of Return</b> | <b>2014<br/>Long-Term<br/>Expected Real<br/>Rate of Return</b> |
|----------------------|--------------------------|----------------------------------------------------------------|----------------------------------------------------------------|
| Domestic equity      | 65%                      | 5.2%                                                           | 5.8%                                                           |
| International equity | 10%                      | 5.5%                                                           | 6.2%                                                           |
| Fixed income         | 25%                      | 1.7%                                                           | 1.7%                                                           |
| Total                | 100%                     |                                                                |                                                                |

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**Discount Rate**

The discount rate used to measure the total pension liability was 7.25% and 7.75% at October 1, 2015 and 2014, respectively. 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.

Changes in the total pension liability, plan fiduciary net position and the net pension liability are:

|                                                                  | 2016                                 |                                          |                                                  |
|------------------------------------------------------------------|--------------------------------------|------------------------------------------|--------------------------------------------------|
|                                                                  | Total<br>Pension<br>Liability<br>(a) | Plan<br>Fiduciary<br>Net Position<br>(b) | Net<br>Pension<br>Liability (Asset)<br>(a) - (b) |
| Balances at September 30, 2015                                   | \$ 194,004                           | \$ 184,459                               | \$ 9,545                                         |
| Changes for the year                                             |                                      |                                          |                                                  |
| Service cost                                                     | 12,181                               | -                                        | 12,181                                           |
| Interest on total pension liability                              | 14,805                               | -                                        | 14,805                                           |
| Differences between expected<br>and actual experience            | 1,720                                | -                                        | 1,720                                            |
| Contributions—employee                                           | -                                    | 1,641                                    | (1,641)                                          |
| Contributions—employer                                           | -                                    | 12,313                                   | (12,313)                                         |
| Net investment loss                                              | -                                    | (2,629)                                  | 2,629                                            |
| Benefit payments, including refunds<br>of employee contributions | (6,069)                              | (6,069)                                  | -                                                |
| Administrative expenses                                          | -                                    | (587)                                    | 587                                              |
| Assumption changes                                               | (4,900)                              | -                                        | (4,900)                                          |
| Net changes                                                      | 17,737                               | 4,669                                    | 13,068                                           |
| Balances at September 30, 2016                                   | \$ 211,741                           | \$ 189,128                               | \$ 22,613                                        |



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|                                                                  | 2015                                 |                                          |                                                  |
|------------------------------------------------------------------|--------------------------------------|------------------------------------------|--------------------------------------------------|
|                                                                  | Total<br>Pension<br>Liability<br>(a) | Plan<br>Fiduciary<br>Net Position<br>(b) | Net<br>Pension<br>Liability (Asset)<br>(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<br>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<br>of employee contributions | (7,021)                              | (7,021)                                  | -                                                |
| Administrative expenses                                          | -                                    | (407)                                    | 407                                              |
| Assumption changes                                               | 6,650                                | -                                        | 6,650                                            |
| Net changes                                                      | 23,421                               | 25,905                                   | (2,484)                                          |
| Balances at September 30, 2015                                   | \$ 194,004                           | \$ 184,459                               | \$ 9,545                                         |

The net pension liability of the District has been calculated using a discount rate of 7.25% and 7.75% at October 1, 2015 and 2014, respectively. The following presents the net pension liability using a discount rate 1% higher and 1% lower than the current rate as of September 30, 2016 and 2015.

|  | 1% Decrease<br>6.25 %                                        | Current Discount<br>Rate<br>7.25 % | 1% Increase<br>8.25 % |
|--|--------------------------------------------------------------|------------------------------------|-----------------------|
|  | District's net pension liability<br>as of September 30, 2016 | \$ 49,486                          | \$ 22,613             |

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|                                                              | 1% Decrease<br>6.75 % | Prior<br>Discount Rate<br>7.75 % | 1% Increase<br>8.75 % |
|--------------------------------------------------------------|-----------------------|----------------------------------|-----------------------|
| District's net pension liability<br>as of September 30, 2015 | \$ 35,635             | \$ 9,545                         | \$ (11,931)           |
|                                                              | \$ 35,635             | \$ 9,545                         | \$ (11,931)           |

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

For the year ended September 30, 2016 and 2015, the District recognized pension expense of \$14,048 and \$10,810, respectively. At September 30, 2016 and 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|                                                                             | 2016                                 |                                     |
|-----------------------------------------------------------------------------|--------------------------------------|-------------------------------------|
|                                                                             | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
| Differences between expected and actual experience                          | \$ 1,353                             | \$ 433                              |
| Employer contributions subsequent to the measurement date                   | 13,579                               | -                                   |
| Changes of assumptions                                                      | 4,016                                | 3,855                               |
| Net difference between projected and<br>actual earnings on plan investments | 8,581                                | -                                   |
|                                                                             | \$ 27,529                            | \$ 4,288                            |

|                                                                             | 2015                                 |                                     |
|-----------------------------------------------------------------------------|--------------------------------------|-------------------------------------|
|                                                                             | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>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<br>actual earnings on plan investments | -                                    | 6,428                               |
|                                                                             | \$ 17,646                            | \$ 7,003                            |

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At September 30, 2016 and 2015, the District reported \$13,579 and \$12,313, respectively, 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, 2017 and 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources at September 30, 2016, related to pensions will be recognized in pension expense as follows:

|                          |    |              |
|--------------------------|----|--------------|
| Year ending September 30 |    |              |
| 2017                     | \$ | 2,240        |
| 2018                     |    | 2,240        |
| 2019                     |    | 2,240        |
| 2020                     |    | 2,942        |
|                          |    | <u>9,662</u> |
|                          | \$ | <u>9,662</u> |

***Pension Plan Fiduciary Net Position***

As of October 1, 2015 and 2014, the Plan's fiduciary net position was comprised of the following:

|                                  | <u>2015</u>       | <u>2014</u>       |
|----------------------------------|-------------------|-------------------|
| Cash and cash equivalents        | \$ 274            | \$ 77             |
| Investments, at fair value       |                   |                   |
| Common stocks                    | 75,508            | 72,370            |
| Mutual funds                     | 316,089           | 250,081           |
| Common/collective trust funds    | 243,276           | 208,347           |
| 103-12 investment fund           | 28,283            | 25,816            |
| Government securities            | 103               | -                 |
|                                  | <u>663,259</u>    | <u>556,614</u>    |
| Total investments at fair value  | \$ 663,259        | \$ 556,614        |
| Total Plan Fiduciary Net Pension | <u>\$ 663,533</u> | <u>\$ 556,691</u> |

The District's interest in the Plan net position as of the measurement date of October 1, 2015 and 2014, was \$189,128 and \$184,459, respectively.

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*Investment Policy* – Investment policy decisions are established and maintained by the Trustees of the THA Retirement Plan for Member Hospitals. The Trustees have several asset mix alternatives from which participating employers may choose in order to control risk. The Trustees employ and select investment managers with the advice of investment counsel which is completely independent of the investment managers.

The primary goal of a pension fund is to help pay the cost of the pension plan while providing adequate security to meet the benefits promised under the plan. As a consequence, two important dimensions of a pension plan’s investment program are expected return and expected risk.

The plan trustees diversify plan investments among asset classes, recognizing that there is a relationship between the level of risk assumed in an investment program and the level of return that should be expected. Appropriate diversification better enables to balance risk and return. The fund’s diversification guidelines are set forth below:

| <b>Asset Class/Style</b>   | <b>Target Asset Mix</b> |
|----------------------------|-------------------------|
| Large Cap U.S Equities     | 50%                     |
| Small Cap U.S. Equities    | 15%                     |
| International Equities     | 10%                     |
| <b>Total Equities</b>      | <b>75%</b>              |
| Intermediate fixed income  | 25%                     |
| Long duration fixed income | 0%                      |
| <b>Total fixed income</b>  | <b>25%</b>              |

The Trustees maintain a portfolio structure that may combine active and passive management in order to balance the objectives of enhanced return and cost control.

Passive equity and fixed income portfolios invest in a substantially similar manner as that of the underlying benchmark.

Active equity managers have the following requirements:

- The equity portion of the portfolio should not be less than 90 percent of the portfolio, measured at market value.
- Equity holdings in any one economic sector should not exceed the greater of 30 percent of the portfolio or 10 percentage points above the sector weight in the benchmark.

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- Equity holdings in any single company (including common stock and convertible securities) should not exceed 10 percent of the portfolio.

Active Fixed Income managers have the following requirements:

- The primary investments should be government, corporate and mortgage securities.
- Holdings in obligations of any single entity (with the exception of the U.S. government and/or its agencies) should not exceed 5 percent of the portfolio.

The common collective trust fund investment objective is to approximate as closely as practicable, before expenses, to the performance of the S&P 500 Index over the long term.

The 103-12 investment fund objective is to approximate as closely as practicable to the performance of the MSCI EAFE Index.

*Investment Rate of Return* – The annual money-weighted rate of return on pension plan investments, net of expenses, which expresses net investment performance adjusted for changing amounts actually invested each month was (1.8%) for the 12 months ended October 1, 2015.

*Credit Risk* – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Plan's policy to limit its holdings in obligations of any single entity, excluding U.S. government and its agencies, to 5% of the portfolio.

*Custodial Credit Risk* – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan 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 Plan's investments are held in trust accounts.

*Concentration of Credit Risk* – It is the Plan's policy to limit equity holdings in any one economic sector to the greater of 30% of the portfolio or 10% above the sector weight in the benchmark and limit equity holdings in any single company to 10% of the portfolio. Additionally, the Plan's policy limits holdings in fixed income obligations of any single entity, excluding U.S. government and its agencies, to 5% of the portfolio.

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The following table reflects the Plan's investments in single issuers that represent more than 5% of total investments:

|                                           | <u>2015</u> | <u>2014</u> |
|-------------------------------------------|-------------|-------------|
| State Street S&P 500 Index NL Fund        | 36.7%       | 37.4%       |
| Vanguard Small Cap Index                  | 14.4%       | 14.8%       |
| Dodge & Cox International Stock           | 4.2%        | 5.2%        |
| State Street Aggregate Bond Index NL Fund | 13.8%       | 10.7%       |
| PIMCO Total Return                        | 14.9%       | 10.7%       |

Following is a description of the valuation methodologies and inputs used for pension plan assets measured at fair value on a recurring basis, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

The fair value of the pension plan assets at October 1, 2015 and 2014, were as follows:

|                                                              | <u>Carrying<br/>Amount</u> | <u>Fair Value Measurements Using</u>                                                      |                                                                      |                                                              |
|--------------------------------------------------------------|----------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------|
|                                                              |                            | <u>Quoted<br/>Prices in<br/>Active Markets<br/>for Identical<br/>Assets<br/>(Level 1)</u> | <u>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</u> | <u>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</u> |
| <b>October 1, 2015</b>                                       |                            |                                                                                           |                                                                      |                                                              |
| <b>Investments by fair value level</b>                       |                            |                                                                                           |                                                                      |                                                              |
| Common stocks                                                | \$ 75,508                  | \$ 75,508                                                                                 | \$ -                                                                 | \$ -                                                         |
| Mutual funds                                                 | 316,089                    | 316,089                                                                                   | -                                                                    | -                                                            |
| Government securities                                        | 103                        | -                                                                                         | 103                                                                  | -                                                            |
| Total investments by fair value level                        | <u>391,700</u>             | <u>\$ 391,597</u>                                                                         | <u>\$ 103</u>                                                        | <u>\$ -</u>                                                  |
| <b>Investments measured at the net asset value (NAV) (A)</b> |                            |                                                                                           |                                                                      |                                                              |
| Common/collective trust fund                                 | 243,276                    |                                                                                           |                                                                      |                                                              |
| 103-12 investment fund                                       | <u>28,283</u>              |                                                                                           |                                                                      |                                                              |
| Total investments measured at the NAV                        | <u>271,559</u>             |                                                                                           |                                                                      |                                                              |
| Total investments measured at fair value                     | <u>\$ 663,259</u>          |                                                                                           |                                                                      |                                                              |

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|                                                              | Carrying Amount   | Fair Value Measurements Using                                  |                                               |                                           |
|--------------------------------------------------------------|-------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
|                                                              |                   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <b>October 1, 2014</b>                                       |                   |                                                                |                                               |                                           |
| <b>Investments by fair value level</b>                       |                   |                                                                |                                               |                                           |
| Common stocks                                                | \$ 72,370         | \$ 72,370                                                      | \$ -                                          | \$ -                                      |
| Mutual funds                                                 | 250,081           | 250,081                                                        | -                                             | -                                         |
| Total investments by fair value level                        | <u>322,451</u>    | <u>\$ 322,451</u>                                              | <u>\$ -</u>                                   | <u>\$ -</u>                               |
| <b>Investments measured at the net asset value (NAV) (A)</b> |                   |                                                                |                                               |                                           |
| Common/collective trust fund                                 | 208,347           |                                                                |                                               |                                           |
| 103-12 investment fund                                       | <u>25,816</u>     |                                                                |                                               |                                           |
| Total investments measured at the NAV                        | <u>234,163</u>    |                                                                |                                               |                                           |
| Total investments measured at fair value                     | <u>\$ 556,614</u> |                                                                |                                               |                                           |

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts disclosed for total plan investments at fair value.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Plan did not hold any Level 3 securities at October 1, 2015 or 2014.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) are presented as above. There were no unfunded commitments or redemption restrictions for these funds.

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**Other Benefit Plans**

The District has an IRC Section 401(a) plan that includes an employer match calculated as 50% of an employee's contribution to the IRC Section 403(b) plan discussed below, up to 4% of pay. The contributions for the employer match on the plan were approximately \$4,314 and \$3,925 for the years ended September 30, 2016 and 2015, respectively.

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

The District also offers its employees a tax-deferred annuity plan created in accordance with IRC Section 403(b). The Plan, available to all District employees, permits them to defer a portion of their salary until future years. All amounts of compensation deferred under the Plan and income attributable to those amounts are solely the property of the employee. Thus, the Plan amounts are not reported in the financial statements. Employee contributions were \$11,326 and \$10,162 for the years ended September 30, 2016 and 2015, 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, 2016 and 2015, \$824 and \$345, respectively, in contributions are included in noncurrent cash and investments and \$877 and \$477, respectively, was due under this plan. Approximately \$478 and \$150 of benefit expense was recognized in 2016 and 2015, respectively.

**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.



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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.

Services provided by TCICC were valued at approximately \$33,721 and \$45,308 for the years ended September 30, 2016 and 2015, respectively. As part of the affiliation agreement, the District provided \$25,549 and \$34,012 in funding to the program for the years ended September 30, 2016 and 2015, 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 \$8,171 and \$11,296 for 2016 and 2015, 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: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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**Recurring Measurements**

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30:

|                                                  | Carrying Amount   | Fair Value Measurements Using                                  |                                               |                                           |
|--------------------------------------------------|-------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
|                                                  |                   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <b>September 30, 2016</b>                        |                   |                                                                |                                               |                                           |
| Investments by fair value level                  |                   |                                                                |                                               |                                           |
| U.S. Treasury obligations                        | \$ 30,712         | \$ -                                                           | \$ 30,712                                     | \$ -                                      |
| U.S. agency obligations                          | 38,085            | -                                                              | 38,085                                        | -                                         |
| Investment pool                                  | 104,610           | -                                                              | 104,610                                       | -                                         |
| Municipal bonds                                  | 5,564             | -                                                              | 5,564                                         | -                                         |
| Commercial paper                                 | 180,391           | -                                                              | 180,391                                       | -                                         |
| Mutual funds                                     | 375               | 375                                                            | -                                             | -                                         |
| Total investments by fair value level            | 359,737           | \$ 375                                                         | \$ 359,362                                    | \$ -                                      |
| <b>Investment pool carried at amortized cost</b> | <u>1,118</u>      |                                                                |                                               |                                           |
| Total investments                                | <u>\$ 360,855</u> |                                                                |                                               |                                           |

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|                                                      | Carrying<br>Amount | Fair Value Measurements Using                                                 |                                                           |                                                    |
|------------------------------------------------------|--------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                                      |                    | Quoted<br>Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>September 30, 2015</b>                            |                    |                                                                               |                                                           |                                                    |
| Investments by fair value level                      |                    |                                                                               |                                                           |                                                    |
| U.S. Treasury obligations                            | \$ 716             | \$ -                                                                          | \$ 716                                                    | \$ -                                               |
| U.S. agency obligations                              | 45,540             | -                                                                             | 45,540                                                    | -                                                  |
| Investment pool                                      | 109,378            | -                                                                             | 109,378                                                   | -                                                  |
| Municipal bonds                                      | 5,674              | -                                                                             | 5,674                                                     | -                                                  |
| Commercial paper                                     | 29,944             | -                                                                             | 29,944                                                    | -                                                  |
| Money market mutual funds                            | 37                 | -                                                                             | 37                                                        | -                                                  |
| Mutual funds                                         | 528                | 528                                                                           | -                                                         | -                                                  |
| Total investments by fair value level                | 191,817            | \$ 528                                                                        | \$ 191,289                                                | \$ -                                               |
| <b>Investment pool carried at<br/>amortized cost</b> | 1,463              |                                                                               |                                                           |                                                    |
| Total investments                                    | \$ 193,280         |                                                                               |                                                           |                                                    |

**Investments**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The District held no Level 3 investments as of September 30, 2016 or 2015.

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**Note 16: Condensed Combining Information**

The following tables include condensed combining balance sheet information for the District and its blended component units as of September 30, 2016 and 2015:

|                                                                    | September 30, 2016 |                  |                 |                    |                   |
|--------------------------------------------------------------------|--------------------|------------------|-----------------|--------------------|-------------------|
|                                                                    | Hospital           | Acclaim          | Foundation      | Eliminations       | Total             |
| <b>Assets and Deferred Outflows of Resources</b>                   |                    |                  |                 |                    |                   |
| Current assets                                                     | \$ 494,078         | \$ 7,204         | \$ 1,160        | \$ (2,863)         | \$ 499,579        |
| Due from affiliates                                                | 14,164             | 7,608            | 27              | (21,799)           | -                 |
| Noncurrent cash and investments                                    | 187,808            | -                | 1,947           | -                  | 189,755           |
| Capital assets, net                                                | 270,883            | -                | 1               | -                  | 270,884           |
| Other noncurrent assets                                            | -                  | -                | 195             | -                  | 195               |
| Total assets                                                       | <u>966,933</u>     | <u>14,812</u>    | <u>3,330</u>    | <u>(24,662)</u>    | <u>960,413</u>    |
| Deferred outflows of resources                                     | <u>27,529</u>      | <u>-</u>         | <u>-</u>        | <u>-</u>           | <u>27,529</u>     |
| Total assets and deferred outflows of resources                    | <u>\$ 994,462</u>  | <u>\$ 14,812</u> | <u>\$ 3,330</u> | <u>\$ (24,662)</u> | <u>\$ 987,942</u> |
| <b>Liabilities, Deferred Inflows of Resources and Net Position</b> |                    |                  |                 |                    |                   |
| Current liabilities                                                | \$ 85,767          | \$ 5,920         | \$ 17           | \$ (2,863)         | \$ 88,841         |
| Due to affiliates                                                  | 7,635              | 14,086           | 78              | (21,799)           | -                 |
| Estimated self-insurance costs                                     | 1,550              | -                | -               | -                  | 1,550             |
| Long-term debt                                                     | 40,092             | -                | -               | -                  | 40,092            |
| Net pension liability                                              | 22,613             | -                | -               | -                  | 22,613            |
| Other long-term liabilities                                        | 964                | -                | -               | -                  | 964               |
| Total liabilities                                                  | <u>158,621</u>     | <u>20,006</u>    | <u>95</u>       | <u>(24,662)</u>    | <u>154,060</u>    |
| Deferred inflows of resources                                      | <u>4,288</u>       | <u>-</u>         | <u>-</u>        | <u>-</u>           | <u>4,288</u>      |
| Net Position                                                       |                    |                  |                 |                    |                   |
| Net investment in capital assets                                   | 227,823            | -                | 1               | -                  | 227,824           |
| Restricted expendable                                              | -                  | -                | 2,008           | -                  | 2,008             |
| Restricted nonexpendable                                           | -                  | -                | 315             | -                  | 315               |
| Unrestricted                                                       | <u>603,730</u>     | <u>(5,194)</u>   | <u>911</u>      | <u>-</u>           | <u>599,447</u>    |
| Total net position                                                 | <u>831,553</u>     | <u>(5,194)</u>   | <u>3,235</u>    | <u>-</u>           | <u>829,594</u>    |
| Total liabilities, deferred inflows of resources and net position  | <u>\$ 994,462</u>  | <u>\$ 14,812</u> | <u>\$ 3,330</u> | <u>\$ (24,662)</u> | <u>\$ 987,942</u> |

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|                                                                   | September 30, 2015 |                  |                 |                   |                     |
|-------------------------------------------------------------------|--------------------|------------------|-----------------|-------------------|---------------------|
|                                                                   | Hospital           | JPSPG            | Foundation      | Eliminations      | Total               |
| <b>Assets</b>                                                     |                    |                  |                 |                   |                     |
| 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                                                      | <u>973,847</u>     | <u>33,762</u>    | <u>2,715</u>    | <u>(4,590)</u>    | <u>1,005,734</u>    |
| Deferred outflows of resources                                    | 17,646             | -                | -               | -                 | 17,646              |
| 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> |
| <b>Liabilities and Net Position</b>                               |                    |                  |                 |                   |                     |
| 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 liabilities                                           | 9,545              | -                | -               | -                 | 9,545               |
| Other long-term liabilities                                       | 483                | 937              | -               | -                 | 1,420               |
| Total liabilities                                                 | <u>202,388</u>     | <u>7,479</u>     | <u>70</u>       | <u>(4,590)</u>    | <u>205,347</u>      |
| Deferred inflows of resources                                     | 7,003              | -                | -               | -                 | 7,003               |
| <b>Net Position</b>                                               |                    |                  |                 |                   |                     |
| 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                                                | <u>782,102</u>     | <u>26,283</u>    | <u>2,645</u>    | <u>-</u>          | <u>811,030</u>      |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 991,493</u>  | <u>\$ 33,762</u> | <u>\$ 2,715</u> | <u>\$ (4,590)</u> | <u>\$ 1,023,380</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, 2016 and 2015:

|                                     | September 30, 2016 |             |                   |                 |              |                   |
|-------------------------------------|--------------------|-------------|-------------------|-----------------|--------------|-------------------|
|                                     | Hospital           | JPSPG       | Acclaim           | Foundation      | Eliminations | Total             |
| Operating revenues                  | \$ 571,852         | \$ -        | \$ 18,591         | \$ 130          | \$ (14,537)  | \$ 576,036        |
| Operating expenses                  | 879,287            | -           | 23,789            | 2,512           | (16,283)     | 889,305           |
| Operating income (loss)             | (307,435)          | -           | (5,198)           | (2,382)         | 1,746        | (313,269)         |
| Nonoperating revenues (expenses)    | 330,497            | -           | 4                 | 2,972           | (1,746)      | 331,727           |
| Capital grants                      | 106                | -           | -                 | -               | -            | 106               |
| Transfer of JPSPG net position      | 26,283             | (26,283)    | -                 | -               | -            | -                 |
| Increase (decrease) in net position | 49,451             | (26,283)    | (5,194)           | 590             | -            | 18,564            |
| Net position, beginning of year     | 782,102            | 26,283      | -                 | 2,645           | -            | 811,030           |
| Net position, end of year           | <u>\$ 831,553</u>  | <u>\$ -</u> | <u>\$ (5,194)</u> | <u>\$ 3,235</u> | <u>\$ -</u>  | <u>\$ 829,594</u> |

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

**Notes to Financial Statements**

**September 30, 2016 and 2015**

*(In Thousands)*

|                                        | 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)                | (272,556)          | 6,733            | (2,233)         | 1,457        | (266,599)         |
| Nonoperating revenues (expenses)       | 317,163            | 58               | 2,406           | (1,457)      | 318,170           |
| Capital grants                         | 85                 | -                | -               | -            | 85                |
| Increase in net position               | 44,692             | 6,791            | 173             | -            | 51,656            |
| <b>Net position, beginning of year</b> | <u>737,410</u>     | <u>19,492</u>    | <u>2,472</u>    | <u>-</u>     | <u>759,374</u>    |
| <b>Net position, end of year</b>       | <u>\$ 782,102</u>  | <u>\$ 26,283</u> | <u>\$ 2,645</u> | <u>\$ -</u>  | <u>\$ 811,030</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, 2016 and 2015:

|                                                     | September 30, 2016 |               |                 |                 |              |                   |
|-----------------------------------------------------|--------------------|---------------|-----------------|-----------------|--------------|-------------------|
|                                                     | Hospital           | JPSPG         | Acclaim         | Foundation      | Eliminations | Total             |
| Net cash provided by (used in)                      |                    |               |                 |                 |              |                   |
| Operating activities                                | \$ (229,171)       | \$ -          | \$ 1,065        | \$ 194          | \$ -         | \$ (227,912)      |
| Noncapital financing activities                     | 338,984            | (19,675)      | -               | -               | -            | 319,309           |
| Capital and related financing activities            | (27,306)           | -             | -               | -               | -            | (27,306)          |
| Investing activities                                | (88,166)           | -             | 4               | 42              | -            | (88,120)          |
| Increase in cash and cash equivalents               | (5,659)            | (19,675)      | 1,069           | 236             | -            | (24,029)          |
| <b>Cash and cash equivalents, beginning of year</b> | <u>184,969</u>     | <u>19,675</u> | <u>-</u>        | <u>2,265</u>    | <u>-</u>     | <u>206,909</u>    |
| <b>Cash and cash equivalents, end of year</b>       | <u>\$ 179,310</u>  | <u>\$ -</u>   | <u>\$ 1,069</u> | <u>\$ 2,501</u> | <u>\$ -</u>  | <u>\$ 182,880</u> |

|                                                     | 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            |
| <b>Cash and cash equivalents, beginning of year</b> | <u>127,548</u>     | <u>18,305</u>    | <u>2,081</u>    | <u>-</u>     | <u>147,934</u>    |
| <b>Cash and cash equivalents, end of year</b>       | <u>\$ 184,969</u>  | <u>\$ 19,675</u> | <u>\$ 2,265</u> | <u>\$ -</u>  | <u>\$ 206,909</u> |

## **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)*

|                                                                                     | <u>2016</u>              | <u>2015</u>              |
|-------------------------------------------------------------------------------------|--------------------------|--------------------------|
| <b>Total pension liability</b>                                                      |                          |                          |
| Service cost                                                                        | \$ 12,181                | \$ 11,556                |
| Interest on total pension liability                                                 | 14,805                   | 12,953                   |
| Differences between expected and actual experience                                  | 1,720                    | (717)                    |
| Changes of assumptions                                                              | (4,900)                  | 6,650                    |
| Benefit payments, including refunds of employee contributions                       | <u>(6,069)</u>           | <u>(7,021)</u>           |
| <b>Net change in total pension liability</b>                                        | 17,737                   | 23,421                   |
| <b>Total pension liability—beginning</b>                                            | <u>194,004</u>           | <u>170,583</u>           |
| <b>Total pension liability—ending (a)</b>                                           | <u><u>\$ 211,741</u></u> | <u><u>\$ 194,004</u></u> |
| <b>Plan fiduciary net position</b>                                                  |                          |                          |
| Contributions—employer                                                              | \$ 12,313                | \$ 11,625                |
| Contributions—employee                                                              | 1,641                    | 1,574                    |
| Net investment income (loss)                                                        | (2,629)                  | 20,134                   |
| Benefit payments, including refunds of employee contributions                       | (6,069)                  | (7,021)                  |
| Administrative expense                                                              | <u>(587)</u>             | <u>(407)</u>             |
| <b>Net change in plan fiduciary net position</b>                                    | 4,669                    | 25,905                   |
| <b>Plan fiduciary net position—beginning</b>                                        | <u>184,459</u>           | <u>158,554</u>           |
| <b>Plan fiduciary net position—ending (b)</b>                                       | <u><u>\$ 189,128</u></u> | <u><u>\$ 184,459</u></u> |
| <b>District's net pension liability—ending (a) – (b)</b>                            | <u><u>\$ 22,613</u></u>  | <u><u>\$ 9,545</u></u>   |
| <b>Plan fiduciary net position as a percentage of the total pension liability</b>   | 89.32%                   | 95.08%                   |
| <b>Covered-employee payroll</b>                                                     | \$ 182,418               | \$ 178,847               |
| <b>District's net pension liability as a percentage of covered-employee payroll</b> | 12.40%                   | 5.34%                    |

**Notes to Schedule:**

Changes of assumptions:

- 1) Investment return reduced to 7.25%
- 2) Mortality updated to RP-2014 projected from 2006 base year using MP-2015
- 3) Withdrawal/Termination and Retirement Rates changed to reflect recent experience
- 4) Aggregate Payroll Growth Assumption and Form of Payment Assumption change to reflect recent experience.

This schedule is presented as of October 1, 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<br>September 30, | Actuarially<br>determined<br>contribution | Contributions<br>in relation to<br>the actuarially<br>determined<br>contribution | Contribution<br>deficiency<br>(excess) | Covered-<br>employee<br>payroll | Contributions<br>as a<br>percentage of<br>covered-<br>employee<br>payroll |
|------------------------------|-------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------|---------------------------------|---------------------------------------------------------------------------|
| 2016                         | \$ 13,579                                 | \$ 13,579                                                                        | \$ -                                   | \$ 201,170                      | 6.75%                                                                     |
| 2015                         | \$ 12,313                                 | \$ 12,313                                                                        | \$ -                                   | \$ 182,418                      | 6.75%                                                                     |

**Notes to Schedule:**

Valuation date: October 1, 2015

Actuarially determined contribution rates are calculated as of October 1, 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 | 9 years at October 1, 2015; recalculated annually; employer contribution rate constant unless amortization period > 25 years or ≤ 0 years |
| Asset valuation method        | 5-year smoothed market                                                                                                                    |
| Inflation                     | 3.25%                                                                                                                                     |
| Salary increases              | 5.0%, average, including inflation                                                                                                        |
| Investment rate of return     | 7.25%, net of pension plan investment expense, including inflation                                                                        |
| Retirement age                | 60                                                                                                                                        |
| Mortality                     | RP-2014 Total Employee Mortality Table, Projected from 2006 base year with Scale MP-2015 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.

## **Other Information**

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

**Balance Sheet Information**

**September 30, 2016**

*(In Thousands)*

**Assets and Deferred Outflow of Resources**

|                                                                                 | <b>Hospital</b>   | <b>Acclaim</b>   | <b>Foundation</b> | <b>Eliminations</b> | <b>Total</b>      |
|---------------------------------------------------------------------------------|-------------------|------------------|-------------------|---------------------|-------------------|
| <b>Current Assets</b>                                                           |                   |                  |                   |                     |                   |
| Cash and cash equivalents                                                       | \$ 179,227        | \$ 1,212         | \$ 869            | \$ -                | \$ 181,308        |
| Short-term investments                                                          | 204,612           | -                | -                 | -                   | 204,612           |
| Patient accounts receivable, net                                                | 48,064            | 2,733            | -                 | (952)               | 49,845            |
| Property taxes receivable, net                                                  | 4,169             | -                | -                 | -                   | 4,169             |
| Supplemental Medicaid funding receivable                                        | 36,178            | 1,353            | -                 | -                   | 37,531            |
| Internally designated for self-insurance, current portion                       | 145               | -                | -                 | -                   | 145               |
| Supplies inventory                                                              | 10,446            | -                | -                 | -                   | 10,446            |
| Prepaid expenses and other assets                                               | 11,237            | 1,906            | 291               | (1,911)             | 11,523            |
| Total current assets                                                            | <u>494,078</u>    | <u>7,204</u>     | <u>1,160</u>      | <u>(2,863)</u>      | <u>499,579</u>    |
| <b>Due from Affiliates</b>                                                      | <u>14,164</u>     | <u>7,608</u>     | <u>27</u>         | <u>(21,799)</u>     | <u>-</u>          |
| <b>Noncurrent Cash and Investments</b>                                          |                   |                  |                   |                     |                   |
| Internally designated for debt service                                          | 600               | -                | -                 | -                   | 600               |
| Internally designated for self-insurance                                        | 11,807            | -                | -                 | -                   | 11,807            |
| Restricted by donors for capital acquisitions and specific operating activities | -                 | -                | 1,947             | -                   | 1,947             |
| Internally designated for capital acquisitions and operating activities         | 175,401           | -                | -                 | -                   | 175,401           |
| Total noncurrent cash and investments                                           | <u>187,808</u>    | <u>-</u>         | <u>1,947</u>      | <u>-</u>            | <u>189,755</u>    |
| <b>Other Assets</b>                                                             | <u>-</u>          | <u>-</u>         | <u>195</u>        | <u>-</u>            | <u>195</u>        |
| <b>Capital Assets, Net</b>                                                      | <u>270,883</u>    | <u>-</u>         | <u>1</u>          | <u>-</u>            | <u>270,884</u>    |
| Total assets                                                                    | 966,933           | 14,812           | 3,330             | (24,662)            | 960,413           |
| <b>Deferred Outflows of Resources</b>                                           | <u>27,529</u>     | <u>-</u>         | <u>-</u>          | <u>-</u>            | <u>27,529</u>     |
| Total assets and deferred outflows of resources                                 | <u>\$ 994,462</u> | <u>\$ 14,812</u> | <u>\$ 3,330</u>   | <u>\$ (24,662)</u>  | <u>\$ 987,942</u> |

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

|                                                                      | <b>Hospital</b> | <b>Acclaim</b> | <b>Foundation</b> | <b>Eliminations</b> | <b>Total</b> |
|----------------------------------------------------------------------|-----------------|----------------|-------------------|---------------------|--------------|
| <b>Current Liabilities</b>                                           |                 |                |                   |                     |              |
| Accounts payable                                                     | \$ 39,214       | \$ 761         | \$ 17             | \$ (2,863)          | \$ 37,129    |
| Accrued expenses                                                     | 33,866          | 5,052          | -                 | -                   | 38,918       |
| Due to third-party payers                                            | 4,569           | -              | -                 | -                   | 4,569        |
| Current portion of self-insurance costs                              | 5,133           | 107            | -                 | -                   | 5,240        |
| Current maturities of long-term debt                                 | 2,985           | -              | -                 | -                   | 2,985        |
| Total current liabilities                                            | 85,767          | 5,920          | 17                | (2,863)             | 88,841       |
| <b>Due to Affiliates</b>                                             | 7,635           | 14,086         | 78                | (21,799)            | -            |
| <b>Estimated Self-insurance Costs</b>                                | 1,550           | -              | -                 | -                   | 1,550        |
| <b>Long-term Debt</b>                                                | 40,092          | -              | -                 | -                   | 40,092       |
| <b>Net Pension Liability</b>                                         | 22,613          | -              | -                 | -                   | 22,613       |
| <b>Other Long-term Liabilities</b>                                   | 964             | -              | -                 | -                   | 964          |
| Total liabilities                                                    | 158,621         | 20,006         | 95                | (24,662)            | 154,060      |
| <b>Deferred Inflows of Resources</b>                                 | 4,288           | -              | -                 | -                   | 4,288        |
| <b>Net Position</b>                                                  |                 |                |                   |                     |              |
| Net investment in capital assets                                     | 227,823         | -              | 1                 | -                   | 227,824      |
| Restricted expendable                                                | -               | -              | 2,008             | -                   | 2,008        |
| Restricted nonexpendable                                             | -               | -              | 315               | -                   | 315          |
| Unrestricted                                                         | 603,730         | (5,194)        | 911               | -                   | 599,447      |
| Total net position                                                   | 831,553         | (5,194)        | 3,235             | -                   | 829,594      |
| Total liabilities, deferred inflows of<br>resources and net position | \$ 994,462      | \$ 14,812      | \$ 3,330          | \$ (24,662)         | \$ 987,942   |

**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, 2016  
(In Thousands)**

|                                                                                          | Hospital          | JPSPG           | Acclaim           | Foundation      | Eliminations    | Total             |
|------------------------------------------------------------------------------------------|-------------------|-----------------|-------------------|-----------------|-----------------|-------------------|
| <b>Operating Revenues</b>                                                                |                   |                 |                   |                 |                 |                   |
| Net patient service revenue                                                              | \$ 366,553        | \$ -            | \$ 4,173          | \$ -            | \$ (2,471)      | \$ 368,255        |
| Supplemental Medicaid funding                                                            | 154,032           | -               | 1,353             | -               | -               | 155,385           |
| Other operating revenue                                                                  | 51,267            | -               | 13,065            | 130             | (12,066)        | 52,396            |
|                                                                                          | <u>571,852</u>    | <u>-</u>        | <u>18,591</u>     | <u>130</u>      | <u>(14,537)</u> | <u>576,036</u>    |
| Total operating revenues                                                                 |                   |                 |                   |                 |                 |                   |
| <b>Operating Expenses</b>                                                                |                   |                 |                   |                 |                 |                   |
| Salaries and related expenses                                                            | 470,077           | -               | 21,620            | 627             | -               | 492,324           |
| Professional fees and purchased services                                                 | 178,801           | -               | 1,243             | 705             | (15,583)        | 165,166           |
| Supplies                                                                                 | 150,499           | -               | 517               | 251             | (85)            | 151,182           |
| Depreciation and amortization                                                            | 39,715            | -               | -                 | -               | -               | 39,715            |
| Other                                                                                    | 40,195            | -               | 409               | 929             | (615)           | 40,918            |
|                                                                                          | <u>879,287</u>    | <u>-</u>        | <u>23,789</u>     | <u>2,512</u>    | <u>(16,283)</u> | <u>889,305</u>    |
| Total operating expenses                                                                 |                   |                 |                   |                 |                 |                   |
| <b>Operating Income (Loss)</b>                                                           | <u>(307,435)</u>  | <u>-</u>        | <u>(5,198)</u>    | <u>(2,382)</u>  | <u>1,746</u>    | <u>(313,269)</u>  |
| <b>Nonoperating Revenues (Expenses)</b>                                                  |                   |                 |                   |                 |                 |                   |
| Property tax revenue                                                                     | 319,611           | -               | -                 | -               | -               | 319,611           |
| Contributed services                                                                     | 8,171             | -               | -                 | -               | -               | 8,171             |
| Contribution revenue                                                                     | 222               | -               | -                 | 2,939           | (1,856)         | 1,305             |
| Interest expense                                                                         | (1,430)           | -               | -                 | -               | -               | (1,430)           |
| Investment return and other                                                              | 3,923             | -               | 4                 | 33              | 110             | 4,070             |
|                                                                                          | <u>330,497</u>    | <u>-</u>        | <u>4</u>          | <u>2,972</u>    | <u>(1,746)</u>  | <u>331,727</u>    |
| Total nonoperating revenues (expenses)                                                   |                   |                 |                   |                 |                 |                   |
| <b>Excess (Deficiency) of Revenues Over Expenses<br/>Before Capital Grants and Gifts</b> | 23,062            | -               | (5,194)           | 590             | -               | 18,458            |
| <b>Capital Grants and Gifts</b>                                                          | 106               | -               | -                 | -               | -               | 106               |
| <b>Transfer of JPSPG Net Position</b>                                                    | 26,283            | (26,283)        | -                 | -               | -               | -                 |
| <b>Increase (Decrease) in Net Position</b>                                               | <u>49,451</u>     | <u>(26,283)</u> | <u>(5,194)</u>    | <u>590</u>      | <u>-</u>        | <u>18,564</u>     |
| <b>Net Position, Beginning of Year</b>                                                   | <u>782,102</u>    | <u>26,283</u>   | <u>-</u>          | <u>2,645</u>    | <u>-</u>        | <u>811,030</u>    |
| <b>Net Position, End of Year</b>                                                         | <u>\$ 831,553</u> | <u>\$ -</u>     | <u>\$ (5,194)</u> | <u>\$ 3,235</u> | <u>\$ -</u>     | <u>\$ 829,594</u> |