

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, 2018 and 2017



**Tarrant County Hospital District
d/b/a JPS Health Network
A Component Unit of Tarrant County, Texas
Years Ended September 30, 2018 and 2017**

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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 financial statements of Tarrant County Hospital District d/b/a JPS Health Network (District), a component unit of Tarrant County, Texas, as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2018 and 2017, 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 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a 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 financial statements that collectively comprise the District's basic financial statements. The other balance sheet and statement of revenues, expenses and changes in net position information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Dallas, Texas
December 13, 2018

**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, 2018 and 2017
(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, 2018 and 2017. It should be read in conjunction with the accompanying financial statements of the District. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- Cash, short-term investments and other noncurrent investments decreased in 2018 by \$38,891 or 6.5% and increased in 2017 by \$19,184 or 3.3%.
- The District's net position decreased in 2018 by \$3,028 or 0.4% and decreased in 2017 by \$3,927 or 0.5%.
- The District reported operating losses in both 2018 (\$394,201) and 2017 (\$378,843). The loss in 2018 increased by \$15,358 or 4.1%, as compared to the operating loss reported in 2017. The operating loss in 2017 increased by \$65,574 or 20.9% from the operating loss reported in 2016.
- Net nonoperating revenues increased by \$16,357 or 4.4% in 2018 compared to 2017 and increased by \$43,089 or 13.0% in 2017 compared to 2016.

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, all liabilities, and all deferred inflows and outflows of resources 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 it. The District’s total net position—the difference between assets, liabilities, and deferred inflows and outflows of resources—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, liabilities, and deferred inflows and outflows of resources reported in the balance sheets. The District’s net position decreased by \$3,028 (0.4%) in 2018 over 2017 and decreased by \$3,927 (0.5%) in 2017 over 2016, as shown in *Table 1*:

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

	2018	2017	2016
Assets			
Cash and short-term investments	\$ 347,006	\$ 403,151	\$ 385,920
Patient accounts receivable, net	62,119	56,722	49,845
Other current assets	89,405	74,224	63,814
Capital assets, net	263,957	268,400	270,884
Other noncurrent assets	209,498	191,658	189,950
Total assets	<u>971,985</u>	<u>994,155</u>	<u>960,413</u>
Deferred Outflows of Resources	<u>24,713</u>	<u>20,228</u>	<u>27,529</u>
Total assets and deferred outflows of resources	<u>\$ 996,698</u>	<u>\$ 1,014,383</u>	<u>\$ 987,942</u>
Liabilities			
Long-term debt	\$ 33,518	\$ 36,827	\$ 40,092
Net pension liability	1,951	13,591	22,613
Other current and noncurrent liabilities	123,785	133,518	91,355
Total liabilities	<u>159,254</u>	<u>183,936</u>	<u>154,060</u>
Deferred Inflows of Resources	<u>14,805</u>	<u>4,780</u>	<u>4,288</u>
Net Position			
Net investment in capital assets	225,944	222,926	227,824
Restricted expendable	1,849	1,698	2,008
Restricted nonexpendable	315	315	315
Unrestricted	594,531	600,728	599,447
Total net position	<u>822,639</u>	<u>825,667</u>	<u>829,594</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 996,698</u>	<u>\$ 1,014,383</u>	<u>\$ 987,942</u>

The most significant changes in the District's assets in 2018 is the decrease in cash and investments and increase in the supplemental Medicaid funding receivable. Cash and investments decreased by \$38,891, or 6.5%, in 2018. This is primarily due to the decrease in restricted cash in 2018 related to the District's role in the Local Provider Participation Fund (LPPF), discussed more fully in *Note 3*. Excluding these funds, the District's cash and investments decreased by \$23,275, or 4.0%, in 2018. The supplemental Medicaid funding receivable increased by \$14,902, or 35.9%, in 2018. This increase is the result of timing differences in the receipt of this funding.

Deferred outflows of resources increased \$4,485, or 22.2%, in 2018 as compared to 2017, primarily as a result of an increase in employer contributions made subsequent to year end, discussed more fully in *Note 13*.

The most significant change in the District's liabilities in 2018 is the decrease in net pension liability, which decreased by \$11,640 or 85.6% in 2018 as compared to 2017. The decrease was primarily due to favorable investment performance in 2018.

Deferred inflows of resources increased \$10,025 or 209.7%, in 2018 as compared to 2017, primarily as a result of the current year difference between expected and actual earnings on pension plan investments used in the measurement of the District's net pension liability, which is discussed more fully in *Note 13*.

The most significant changes in the District's assets in 2017 is the increase in cash and investments and increase in patients accounts receivable. Cash and investments increased by \$19,184, or 3.3%, in 2017. This is primarily due to the receipt of restricted cash in 2017 related to the District's role in the LPPF, discussed above. At September 30, 2017, the District held \$20,244 in LPPF funds that will be disbursed as an intergovernmental transfer in 2018. Patient accounts receivable increased \$6,877, or 13.8%, in 2017 as compared to 2016. This increase is primarily due to the increased volumes of Acclaim during 2017.

Deferred outflows of resources decreased \$7,301, or 26.5%, in 2017 as compared to 2016, primarily as a result of the current year difference between expected and actual earnings on pension plan investments used in the measurement of the District's net pension liability.

The most significant change in the District's liabilities in 2017 is the increase in other current and noncurrent liabilities. Other current and noncurrent liabilities increased by \$42,163, or 46.2%, in 2017 as compared to 2016. This is due, in part, to receipt of restricted cash related to the LPPF program discussed above. The District's accounts payable also increased by \$9,556, or 25.7%, due to increased capital activity near the end of 2017 as compared to 2016. Accrued expenses also increased by \$8,891, or 22.8%, due primarily to the timing of pay periods near the end of 2017 as compared to 2016.

Operating Results and Changes in the District's Net Position

In 2018, the District's net position decreased by \$3,028, or 0.4%, as shown in *Table 2*. This decrease is made up of several components and represents a decrease of 22.9% compared with the decrease in net position for 2017 of \$3,927. The District's change in net position decreased from an increase of \$18,564 in 2016 to a decrease of \$3,927 in 2017.

Table 2: Operating Results and Changes in Net Position

	2018	2017	2016
Operating Revenues			
Net patient service revenue	\$ 442,260	\$ 396,374	\$ 368,255
Supplemental Medicaid funding	132,486	149,779	155,385
Other operating revenue	57,389	61,448	52,396
Total operating revenues	<u>632,135</u>	<u>607,601</u>	<u>576,036</u>
Operating Expenses			
Salaries and wages and employee benefits	599,930	561,576	492,324
Purchased services and professional fees	187,503	187,121	165,166
Supplies	156,142	155,011	151,182
Depreciation and amortization	39,241	38,716	39,715
Other operating expenses	43,520	44,020	40,918
Total operating expenses	<u>1,026,336</u>	<u>986,444</u>	<u>889,305</u>
Operating Loss	<u>(394,201)</u>	<u>(378,843)</u>	<u>(313,269)</u>
Nonoperating Revenues (Expenses)			
Property taxes	380,265	351,118	319,611
Contributed services	-	16,570	8,171
Investment return, interest expense and other	10,908	7,128	3,945
Total nonoperating revenues (expenses)	<u>391,173</u>	<u>374,816</u>	<u>331,727</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants	<u>(3,028)</u>	<u>(4,027)</u>	<u>18,458</u>
Capital Grants	<u>-</u>	<u>100</u>	<u>106</u>
Increase (Decrease) in Net Position	<u>\$ (3,028)</u>	<u>\$ (3,927)</u>	<u>\$ 18,564</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 2018 increased by \$15,358 or 4.1% as compared to 2017. The primary components of the change are:

- An increase in net patient service revenue of \$45,886 or 11.6%
- A decrease in Medicaid supplemental funding of \$17,293 or 11.5%
- A decrease in other operating revenue of \$4,059 or 6.6%
- An increase in salary and related expenses of \$38,354 or 6.8%

The increase in net patient service revenue is primarily attributable to increases in volume and improved payment rates through the Uniform Hospital Rate Increase Program (UHRIP) discussed in *Note 3*. The decrease in Medicaid supplemental funding revenue is primarily due to shifts in funding allocations.

The decrease in other operating revenue is due in large part to decreases associated with donated drugs received during the year.

The increase in salary and related expenses is due to wage increases resulting from the District's retention efforts as well as growth in the number of employed physicians.

The operating loss for 2017 increased by \$65,574 or 20.9% as compared to 2016. The primary components of the change are:

- An increase in net patient service revenue of \$28,119 or 7.6%
- A decrease in Medicaid supplemental funding of \$5,606 or 3.6%
- An increase in other operating revenue of \$9,052 or 17.3%
- An increase in salary and related expenses of \$69,252 or 14.1%
- An increase in professional fees and purchased services of \$21,955 or 13.3%

The increase in net patient service revenue is primarily attributable to increase in volume.

The decrease in Medicaid supplemental funding revenue is primarily due to shifts in funding allocations.

The increase in other operating revenue is due in large part to increases associated with federal grant awards and tobacco settlement revenue.

The increase in professional fees and purchase services is primarily attributable to the increase in use of outside medical services and 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 salary and related expenses is due to wage increases resulting from the District's retention efforts as well as the addition of employed physicians.

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 2018, but an increase in overall property values resulted in a net increase in property tax revenue of \$29,147 or 8.3% from 2017 to 2018. 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 \$16,570 or 100.0% in 2018 as compared to 2017 due to the termination of the agreement with Tarrant County Indigent Care Corporation (TCICC), discussed more fully in *Note 14*.

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 2018, 2017 and 2016, as discussed previously.

Capital Asset and Debt Administration

Capital Assets

At the end of 2018, the District had \$263,957 invested in capital assets, net of accumulated depreciation, as detailed in *Note 7* to the financial statements. In 2018, the District purchased new capital assets costing \$34,798.

At the end of 2017, the District had \$268,400 invested in capital assets, net of accumulated depreciation. In 2017, the District purchased new capital assets costing \$36,837.

Debt

At September 30, 2018, the District had \$36,430 in revenue and general obligation refunding bonds outstanding. 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. The District has a current Aa3 rating from Moody's on the revenue bonds, which was reaffirmed in 2018. The District's general obligation bonds have a current AAA rating and the revenue bonds have a current AA-rating from Standard & Poor's, which was reaffirmed in 2018.

Other Economic Factors

The District is the Anchor facility for the Region 10 Regional Healthcare Partnership (RHP) Delivery System Reform Incentive Payment 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 2019 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 2019 to \$0.224429 per \$100 valuation, which is the same property tax rate from fiscal year 2018.

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, 2018 and 2017
(In Thousands)**

Assets and Deferred Outflows of Resources

	2018	2017
Current Assets		
Cash and cash equivalents	\$ 161,249	\$ 193,091
Restricted cash	4,628	20,244
Short-term investments	181,129	189,816
Patient accounts receivable, net	62,119	56,722
Property taxes receivable, net	5,097	5,037
Supplemental Medicaid funding receivable	56,416	41,514
Internally designated for self-insurance, current portion	105	195
Supplies inventory	11,938	11,187
Prepaid expenses and other assets	15,849	16,291
	<u>498,530</u>	<u>534,097</u>
Noncurrent Cash, Cash Equivalents and Investments		
Internally designated for debt service	666	639
Internally designated for self-insurance	12,030	11,845
Restricted by donors for capital acquisitions and specific operating activities	2,262	1,949
Internally designated for capital acquisitions and operating activities	194,044	177,225
	<u>209,002</u>	<u>191,658</u>
Total noncurrent cash, cash equivalents and investments	<u>209,002</u>	<u>191,658</u>
Other Assets	<u>496</u>	<u>-</u>
Capital Assets, Net	<u>263,957</u>	<u>268,400</u>
Total assets	<u>971,985</u>	<u>994,155</u>
Deferred Outflows of Resources	<u>24,713</u>	<u>20,228</u>
Total assets and deferred outflows of resources	<u>\$ 996,698</u>	<u>\$ 1,014,383</u>

Liabilities, Deferred Inflows of Resources and Net Position

	2018	2017
Current Liabilities		
Accounts payable	\$ 48,754	\$ 46,685
Intergovernmental transfer obligation	4,628	20,244
Accrued expenses	48,843	44,389
Due to third-party payers	4,025	6,428
Current portion of self-insurance costs	7,152	6,152
Current maturities of long-term debt	3,140	3,070
	<hr/>	<hr/>
Total current liabilities	116,542	126,968
Estimated Self-insurance Costs	1,450	1,064
Long-term Debt	33,518	36,827
Net Pension Liability	1,951	13,591
Other Long-term Liabilities	5,793	5,486
	<hr/>	<hr/>
Total liabilities	159,254	183,936
	<hr/>	<hr/>
Deferred Inflows of Resources	14,805	4,780
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	225,944	222,926
Restricted expendable	1,849	1,698
Restricted nonexpendable	315	315
Unrestricted	594,531	600,728
	<hr/>	<hr/>
Total net position	822,639	825,667
	<hr/>	<hr/>
Total liabilities, deferred inflows of resources and net position	\$ 996,698	\$ 1,014,383
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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, 2018 and 2017
(In Thousands)

	2018	2017
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 – \$282,963; 2017 – \$326,770	\$ 442,260	\$ 396,374
Supplemental Medicaid funding	132,486	149,779
Other operating revenue	57,389	61,448
Total operating revenues	632,135	607,601
Operating Expenses		
Salaries and related expenses	599,930	561,576
Professional fees and purchased services	187,503	187,121
Supplies	156,142	155,011
Depreciation and amortization	39,241	38,716
Other	43,520	44,020
Total operating expenses	1,026,336	986,444
Operating Loss	(394,201)	(378,843)
Nonoperating Revenues (Expenses)		
Property tax revenue	380,265	351,118
Contributed services	-	16,570
Contribution revenue	1,621	1,211
Interest expense	(840)	(1,044)
Investment return and other	10,127	6,961
Total nonoperating revenues (expenses)	391,173	374,816
Deficiency of Revenues Over Expenses Before Capital Grants	(3,028)	(4,027)
Capital Grants and Gifts	-	100
Decrease in Net Position	(3,028)	(3,927)
Net Position, Beginning of Year	825,667	829,594
Net Position, End of Year	\$ 822,639	\$ 825,667

**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, 2018 and 2017
(In Thousands)**

	<u>2018</u>	<u>2017</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 428,543	\$ 391,030
Receipts from supplemental Medicaid funding programs	123,463	145,796
Receipts from Local Provider Participation Fund, net	(15,616)	20,244
Payments to suppliers and contractors	(381,401)	(366,717)
Payments to employees	(601,258)	(554,949)
Other receipts, net	<u>57,927</u>	<u>60,303</u>
Net cash used in operating activities	<u>(388,342)</u>	<u>(304,293)</u>
Noncapital Financing Activities		
Noncapital grants and gifts	1,621	1,211
Property taxes supporting operations	<u>378,231</u>	<u>348,251</u>
Net cash provided by noncapital financing activities	<u>379,852</u>	<u>349,462</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(3,070)	(2,985)
Interest paid on long-term debt	(1,177)	(1,263)
Property taxes supporting debt service	1,974	1,999
Capital grants and gifts	-	100
Proceeds from sale of capital assets	-	197
Purchase of capital assets	<u>(37,488)</u>	<u>(31,176)</u>
Net cash used in capital and related financing activities	<u>(39,761)</u>	<u>(33,128)</u>
Investing Activities		
Purchase of investments	(609,073)	(556,425)
Proceeds from the sale and maturities of short-term investments	599,689	568,570
Interest income and other	<u>10,474</u>	<u>7,818</u>
Net cash provided by investing activities	<u>1,090</u>	<u>19,963</u>
Increase (Decrease) in Cash and Cash Equivalents	(47,161)	32,004
Cash and Cash Equivalents, Beginning of Year	<u>214,884</u>	<u>182,880</u>
Cash and Cash Equivalents, End of Year	<u>\$ 167,723</u>	<u>\$ 214,884</u>

**Tarrant County Hospital District
d/b/a JPS Health Network
A Component Unit of Tarrant County, Texas
Statements of Cash Flows (Continued)
Years Ended September 30, 2018 and 2017
(In Thousands)**

	2018	2017
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 165,877	\$ 213,335
Cash and cash equivalents in noncurrent cash and investments	1,846	1,549
	\$ 167,723	\$ 214,884
 Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (394,201)	\$ (378,843)
Depreciation and amortization	39,241	38,716
Loss on disposal of assets	-	408
Provision for uncollectible accounts	282,963	326,770
Contributed services expense	-	16,570
Changes in operating assets and liabilities		
Patient accounts receivable	(288,360)	(333,647)
Supplemental Medicaid funding receivable	(14,902)	(3,983)
Estimated amounts due from and to third-party payers	(2,403)	1,859
Accounts payable and accrued expenses	(6,235)	30,909
Net pension liability	(11,640)	(9,022)
Deferred outflows of resources	(4,485)	7,301
Deferred inflows of resources	10,025	492
Other assets and liabilities	1,655	(1,823)
Net cash used in operating activities	\$ (388,342)	\$ (304,293)
 Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 3,369	\$ 6,216
Contributed services revenue (Note 14)	\$ -	\$ 16,570

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

Notes to Financial Statements

September 30, 2018 and 2017

(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, 25 ambulatory health centers, a psychiatric emergency center, an emergency department and a designated Level 1 trauma center, three health centers for women, 19 school-based clinics and dental services at 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 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, liabilities, and deferred inflows and outflows of resources 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.

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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, liabilities, deferred inflows and outflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2018 and 2017, 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.

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Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one-year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. 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.

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

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

	2018	2017
Interest costs capitalized	\$ 157	\$ 16
Interest costs charged to expense	840	1,044
Total interest incurred	\$ 997	\$ 1,060

Compensated Absences

District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Defined Benefit Pension Plan

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

Deferred Outflows/Inflows of Resources

Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources and deferred inflows of resources. As of September 30, 2018 and 2017, 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*.

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Net Position

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

Net Patient Service Revenue

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

Tobacco Settlement Revenue

The District receives revenue that is the result of a settlement between various counties and hospital districts in Texas and the tobacco industry for tobacco-related health care costs. The District received approximately \$7,299 and \$7,221 in revenue from this settlement for the years ended September 30, 2018 and 2017, 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.

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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, and Acclaim also carry an exemption from income taxes under IRC Section 501(c)(3). The District, the Foundation, and Acclaim are all subject to federal income tax on any unrelated business taxable income.

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, 2015.

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, 2013.

Approximately 76% and 79% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2018 and 2017, 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.

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

Note 3: Supplemental Medicaid Funding Revenue

Supplemental Medicaid funding revenue included in the statement of revenues, expenses and changes in net position includes revenue received from the Medicaid Disproportionate Share Program (DSH) of approximately \$23,700 and \$31,495 for the years ended September 30, 2018 and 2017, respectively. The funding the District has received is subject to audit and is not representative of funding to be received in future years.

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 2018, the District recognized approximately \$49,526 and \$59,260 from the UC Pool and DSRIP Pool, respectively. During 2017, the District recognized approximately \$62,029 and \$56,255 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 originally effective from December 12, 2011 to September 30, 2016 and extended through December 2017 as HHSC and the Centers for Medicare and Medicaid Services (CMS) negotiated a longer term extension. On December 21, 2017, HHSC received an approved extension from CMS for the period of January 1, 2018 through September 30, 2022. Among other changes, the approved plan requires a change in the methodology used to allocate UC funds and a phase out of the DSRIP program over the five year period. The impact of these changes has not yet been determined, but could have an adverse impact on the District’s operating results.

On March 1, 2018, the District began participating in the Uniform Hospital Rate Increase Program (UHRIP). Under UHRIP, HHSC may direct Medicaid managed care organizations in a service delivery area to provide a uniform percentage rate increase to all hospitals within a particular class of hospital, increasing revenue from services provided to Medicaid managed care beneficiaries. The state’s share of UHRIP funding is funded through intergovernmental transfers from certain hospitals, including the District. Revenue from UHRIP is recognized as a component of net patient service revenue.

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.

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During 2017, the District began participation in a Local Provider Participation Fund (LPPF) in Tarrant County. The District acts as the administrator of the LPPF by assessment and collection of mandatory payments from hospitals in Tarrant County. These payments are to be used to fund intergovernmental transfers representing the state's share of supplemental Medicaid funding programs. During 2018, the District collected \$97,021 in mandatory payments and made intergovernmental transfers of \$112,637.

At September 30, 2018, the District held \$4,628 in mandatory payments that will be transferred in 2019. During 2017, the District collected \$38,907 in mandatory payments and made intergovernmental transfers of \$17,703. At September 30, 2017, the District held \$20,244 in mandatory payments that was transferred in 2018.

Note 4: Property Tax Revenue

The District received approximately 38% and 37% of its support from property taxes in the years ended September 30, 2018 and 2017, 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 \$9,155 and \$9,214 at September 30, 2018 and 2017, respectively.

The District's property tax rate was \$0.223264 and \$0.226591 per \$100 valuation for 2018 and 2017, respectively, for the maintenance and operation fund and property tax revenue for this fund was \$378,291 and \$349,114 for 2018 and 2017, respectively. The District's property tax rate was \$0.001165 and \$0.001301 per \$100 valuation for 2018 and 2017, respectively, for the interest and sinking fund and property tax revenue for this fund was \$1,974 and \$2,004 for 2018 and 2017, 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.

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State law requires collateralization of all deposits with federal depository insurance or other qualified investments. At September 30, 2018 and 2017, the District's deposits were either insured or collateralized in accordance with state law.

At September 30, 2018, the Foundation's cash accounts exceeded federally insured limits by \$3,067.

Investments

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

At September 30, 2018 and 2017, the District had the following investments and maturities:

Type	Fair Value	September 30, 2018			
		Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Investment pools	\$ 138,756	\$ 138,756	\$ -	\$ -	\$ -
U.S. Treasury obligations	101,521	101,521	-	-	-
U.S. agencies obligations	105,122	46,890	58,232	-	-
Money market mutual funds	1,050	1,050	-	-	-
Commercial paper	26,160	26,160	-	-	-
		<u>\$ 314,377</u>	<u>\$ 58,232</u>	<u>\$ -</u>	<u>\$ -</u>
Mutual funds	416				
	<u>\$ 373,025</u>				
Type	Fair Value	September 30, 2017			
		Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Investment pools	\$ 117,138	\$ 117,138	\$ -	\$ -	\$ -
U.S. Treasury obligations	29,993	29,993	-	-	-
U.S. agencies obligations	88,749	4,772	83,977	-	-
Municipal bonds	5,506	5,506	-	-	-
Money market mutual funds	974	974	-	-	-
Commercial paper	167,336	167,336	-	-	-
		<u>\$ 325,719</u>	<u>\$ 83,977</u>	<u>\$ -</u>	<u>\$ -</u>
Mutual funds	400				
	<u>\$ 410,096</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 Aaa by Moody’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 Funds 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 Aaa by Moody’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:

	2018	2017
Federal Home Loan Bank	6.3%	5.3%
Federal Home Loan Mortgage Association	6.9%	6.4%
Federal National Mortgage Association	9.8%	7.5%
Federal Farm Credit Bank	5.1%	2.6%
Toyota Motor Credit Commercial Paper	0.0%	7.3%
JP Morgan Securities Commercial Paper	3.8%	8.6%
Philadelphia, PA – Airport Revenue Commercial Paper	1.7%	6.1%
GE Capital Treasury	0.0%	7.5%
American Honda Finance	0.0%	7.3%

Summary of Carrying Values

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

	2018	2017
Carrying value		
Deposits	\$ 183,088	\$ 184,908
Investments	373,025	410,096
	\$ 556,113	\$ 595,004
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 161,249	\$ 193,091
Restricted cash	4,628	20,244
Short-term investments	181,129	189,816
Internally designated for self-insurance, current portion	105	195
Noncurrent cash and investments	209,002	191,658
	\$ 556,113	\$ 595,004

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Investment Income

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

	2018	2017
Interest and dividend income	\$ 10,857	\$ 7,116
Net decrease in fair value of investments	(1,114)	(675)
	\$ 9,743	\$ 6,441

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:

	2018	2017
Medicare	\$ 21,363	\$ 18,662
Medicaid	18,074	18,492
Other third-party payers	35,857	38,748
Patients	97,562	96,585
	172,856	172,487
Less allowance for uncollectible accounts	110,737	115,765
	\$ 62,119	\$ 56,722

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Note 7: Capital Assets

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

	2018				
	Beginning Balance	Additions	Disposals	Transfers and Other	Ending Balance
Land and improvements	\$ 64,145	\$ 123	\$ -	\$ 1,198	\$ 65,466
Buildings and improvements	254,989	-	-	6,531	261,520
Equipment	440,769	20,239	(5,049)	3,087	459,046
Construction in progress	1,902	14,436	-	(10,816)	5,522
	<u>761,805</u>	<u>34,798</u>	<u>(5,049)</u>	<u>-</u>	<u>791,554</u>
Less accumulated depreciation	<u>493,405</u>	<u>39,241</u>	<u>(5,049)</u>	<u>-</u>	<u>527,597</u>
Capital assets, net	<u>\$ 268,400</u>	<u>\$ (4,443)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 263,957</u>

	2017				
	Beginning Balance	Additions	Disposals	Transfers and Other	Ending Balance
Land and improvements	\$ 54,556	\$ 9,586	\$ -	\$ 3	\$ 64,145
Buildings and improvements	249,843	5,070	-	76	254,989
Equipment	442,934	20,152	(22,727)	410	440,769
Construction in progress	362	2,029	-	(489)	1,902
	<u>747,695</u>	<u>36,837</u>	<u>(22,727)</u>	<u>-</u>	<u>761,805</u>
Less accumulated depreciation	<u>476,811</u>	<u>38,716</u>	<u>(22,122)</u>	<u>-</u>	<u>493,405</u>
Capital assets, net	<u>\$ 270,884</u>	<u>\$ (1,879)</u>	<u>\$ (605)</u>	<u>\$ -</u>	<u>\$ 268,400</u>

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Note 8: Accounts Payable and Accrued Expenses

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

	2018	2017
Payable to suppliers and contractors	\$ 46,469	\$ 44,362
Payable to employees (including payroll taxes and benefits)	48,702	44,236
Accrued interest	141	153
Patient credit balances	2,285	2,323
	\$ 97,597	\$ 91,074

Note 9: Risk Management

Medical Malpractice and General Liability Risks

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

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

Activity in the District's accrued medical malpractice claims liability during 2018 and 2017, is summarized as follows:

	2018	2017
Balance, beginning of year	\$ 558	\$ 561
Current year claims incurred and changes in estimates for claims incurred in prior years	261	73
Claims and expenses paid	(37)	(76)
Balance, end of year	\$ 782	\$ 558

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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 2018 and 2017, is summarized as follows:

	2018	2017
Balance, beginning of year	\$ 4,551	\$ 4,040
Current year claims incurred and changes in estimates for claims incurred in prior years	56,787	52,033
Claims and expenses paid	(55,988)	(51,522)
Balance, end of year	\$ 5,350	\$ 4,551

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 2018 and 2017, is summarized as follows:

	2018	2017
Balance, beginning of year	\$ 2,107	\$ 2,189
Current year claims incurred and changes in estimates for claims incurred in prior years	2,286	1,782
Claims and expenses paid	(1,923)	(1,864)
Balance, end of year	\$ 2,470	\$ 2,107

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Note 10: Long-term Debt

A summary of long-term debt is as follows:

	2018	2017
General obligation refunding bonds, Series 2016	\$ 19,300	\$ 20,835
Revenue bonds, Series 2012	17,130	18,665
	36,430	39,500
Bond premium	228	397
	\$ 36,658	\$ 39,897

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 \$1,565 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 \$1,575 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.

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

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
General obligation refunding bonds, Series 2016	\$ 20,835	\$ -	\$ 1,535	\$ 19,300	\$ 1,565
Revenue bonds, Series 2012	<u>18,665</u>	<u>-</u>	<u>1,535</u>	<u>17,130</u>	<u>1,575</u>
Total long-term debt	<u>\$ 39,500</u>	<u>\$ -</u>	<u>\$ 3,070</u>	<u>\$ 36,430</u>	<u>\$ 3,140</u>
	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
General obligation refunding bonds, Series 2016	\$ 22,335	\$ -	\$ 1,500	\$ 20,835	\$ 1,535
Revenue bonds, Series 2012	<u>20,150</u>	<u>-</u>	<u>1,485</u>	<u>18,665</u>	<u>1,535</u>
Total long-term debt	<u>\$ 42,485</u>	<u>\$ -</u>	<u>\$ 2,985</u>	<u>\$ 39,500</u>	<u>\$ 3,070</u>

The debt service requirements as of September 30, 2018, are as follows:

Year Ending September 30, 2018	Principal	Interest	Total
2019	\$ 3,140	\$ 1,111	\$ 4,251
2020	3,255	997	4,252
2021	3,375	878	4,253
2022	3,495	754	4,249
2023	3,625	625	4,250
2024-2028	17,585	1,413	18,998
2028-2029	<u>1,955</u>	<u>22</u>	<u>1,977</u>
	<u>\$ 36,430</u>	<u>\$ 5,800</u>	<u>\$ 42,230</u>

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Note 11: Restricted and Designated Net Position

At September 30, 2018 and 2017, \$1,849 and \$1,698, respectively, of net position were restricted by donors for capital and operating activities.

At September 30, 2018 and 2017, \$194,044 and \$177,225, 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, 2018 and 2017, 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 \$177,430 and \$153,059 for 2018 and 2017, 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 2018 as compared to 2017 is primarily attributable to increases in volumes and changes in payer mix.

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 five-year average compensation plus 0.7% of the employee’s final five-year average compensation, if any, that exceeds \$75,000, with the sum multiplied times the employee’s years of service.

Participants with five 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. Unreduced Early Retirement is available at age 62 if they have 10 years of 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, 2017 and 2016 (measurement date), are:

	2017	2016
Inactive employees or beneficiaries currently receiving benefits	340	304
Inactive employees entitled to but not yet receiving benefits	1,309	1,150
Active employees	3,811	3,108
	5,460	4,562

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, 2018, 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. Effective October 1, 2018, an amendment to the pension plan increases the annual employee contribution from 1.00% of annual pay to 2.00% of annual pay.

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The District's contribution rate is based on a rate determined to be 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 District's contribution rate may be lowered in future years given the current funded status of the plan.

The employer contributions were 6.75% of estimated participant compensation for both the years ended September 30, 2018 and 2017. 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, 2017 and 2016, 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, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
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 investment expense, including inflations

Mortality rates were based on the Society of Actuaries RP-2014 Mortality Table, projected from the 2006 base year with Projection Scale MP-2017.

The actuarial assumptions used in the October 1, 2017, valuation were based on the results of an actuarial experience study for the period 2011-2016.

The long-term expected rate of return used in the October 1, 2017, 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 (2.25%). In addition, the final 7.25% assumption reflected a reduction of 0.14% for adverse deviation.

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The total pension liability in the October 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
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 investment expense, including inflations

Mortality rates were based on the Society of Actuaries RP-2016 Mortality Table, projected from the 2006 base year with Projection Scale MP-2016.

The actuarial assumptions used in the October 1, 2016, 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, 2016, 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 (2.50%). In addition, the final 7.25% assumption reflected a reduction of 0.20% for adverse deviation.

The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	2017 Long-term Expected Real Rate of Return	2016 Long-term Expected Real Rate of Return
Domestic equity	65%	6.3%	6.1%
International equity	10%	5.5%	5.5%
Fixed income	25%	2.0%	1.7%
Total	100%		

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Discount Rate

The discount rate used to measure the total pension liability was 7.25% at October 1, 2017 and 2016. 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:

	2018		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at September 30, 2017	\$ 231,364	\$ 217,773	\$ 13,591
Changes for the year			
Service cost	12,604	-	12,604
Interest on total pension liability	17,416	-	17,416
Differences between expected and actual experience	5,794	-	5,794
Contributions – employee	-	1,933	(1,933)
Contributions – employer	-	14,443	(14,443)
Net investment income	-	29,994	(29,994)
Benefit payments, including refunds of employee contributions	(6,590)	(6,590)	-
Administrative expenses	(515)	(515)	-
Assumption changes	(1,084)	-	(1,084)
Net changes	27,625	39,265	(11,640)
Balances at September 30, 2018	\$ 258,989	\$ 257,038	\$ 1,951

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	2017		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at September 30, 2016	\$ 211,741	\$ 189,128	\$ 22,613
Changes for the year			
Service cost	12,028	-	12,028
Interest on total pension liability	15,931	-	15,931
Differences between expected and actual experience	1,522	-	1,522
Contributions – employee	-	1,805	(1,805)
Contributions – employer	-	13,579	(13,579)
Net investment loss	-	20,967	(20,967)
Benefit payments, including refunds of employee contributions	(7,210)	(7,210)	-
Administrative expenses	(496)	(496)	-
Assumption changes	(2,152)	-	(2,152)
Net changes	19,623	28,645	(9,022)
Balances at September 30, 2017	\$ 231,364	\$ 217,773	\$ 13,591

The net pension liability of the District has been calculated using a discount rate of 7.25% at October 1, 2017. The following presents the net pension liability using a discount rate 1% higher and 1% lower than the current rate as of September 30, 2018.

	1% Decrease 6.25 %	Current Discount Rate 7.25 %	1% Increase 8.25 %
	District's net pension liability (asset) as of September 30, 2017	\$ 34,015	\$ 1,951

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

For the year ended September 30, 2018 and 2017, the District recognized pension expense of \$11,207 and \$13,213, respectively. At September 30, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,025	\$ 149
Employer contributions subsequent to the measurement date	17,305	-
Changes of assumptions	1,383	3,822
Net difference between projected and actual earnings on plan investments	-	10,834
	\$ 24,713	\$ 14,805

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,173	\$ 291
Employer contributions subsequent to the measurement date	14,443	-
Changes of assumptions	2,699	4,489
Net difference between projected and actual earnings on plan investments	913	-
	\$ 20,228	\$ 4,780

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At September 30, 2018 and 2017, the District reported \$17,305 and \$14,443, 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, 2019 and 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources at September 30, 2018, related to pensions will be recognized in pension expense as follows:

Year ending September 30		
2019	\$	(1,242)
2020		(541)
2021		(3,419)
2022		(2,195)
		<u>(7,397)</u>
	\$	<u>(7,397)</u>

Pension Plan Fiduciary Net Position

As of October 1, 2017 and 2016, the master pension trust fund was comprised of the following:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 38,094	\$ 8,723
Investments, at fair value		
Common stocks	93,111	84,819
Mutual funds	269,469	247,206
Common/collective trust funds	406,693	372,785
103-12 investment fund	40,302	35,094
Government securities	-	103
	<u>809,575</u>	<u>740,007</u>
Total investments at fair value	\$ 809,575	\$ 740,007
Total Plan Fiduciary Net Pension	<u>\$ 847,669</u>	<u>\$ 748,730</u>

The Plan's interest in the master pension trust fund as of the measurement date of October 1, 2017 and 2016, was \$257,038 and \$217,773, 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 the trust to balance risk and return. The asset mix selected by the District is set forth below:

Asset Class/Style	Target Asset Mix
Large Cap U.S equities	50%
Small Cap U.S. equities	15%
International equities	10%
Total equities	75%
Intermediate fixed income	24%
Cash	1%
Total fixed income	25%

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.

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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 greatest of 30 percent of the portfolio or 10 percentage points above the sector weight in the benchmark.
- 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 (13.2%) for the 12 months ended October 1, 2017.

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.

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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 25% of the portfolio or 10% above the sector weight in the benchmark and limit equity holdings in any single company to 7% 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.

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

	<u>2017</u>	<u>2016</u>
State Street S&P 500 Index NL Fund	35.7%	35.6%
Vanguard Small Cap Index	14.4%	14.4%
State Street Aggregate Bond Index NL Fund	12.2%	13.8%
PIMCO Total Return	12.4%	13.9%
Dodge & Cox International Stock	5.0%	4.8%

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.

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The fair value of the pension plan assets at October 1, 2017 and 2016, were as follows:

	Fair Value Measurements Using			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
October 1, 2017				
Investments by fair value level				
Common stocks	\$ 93,111	\$ 93,111	\$ -	\$ -
Mutual funds	269,469	269,469	-	-
Total investments by fair value level	<u>362,580</u>	<u>\$ 362,580</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at the net asset value (NAV) (A)				
Common/collective trust fund	406,693			
103-12 investment fund	<u>40,302</u>			
Total investments measured at the NAV	<u>446,995</u>			
Total investments measured at fair value	<u>\$ 809,575</u>			
October 1, 2016				
Investments by fair value level				
Common stocks	\$ 84,819	\$ 84,819	\$ -	\$ -
Mutual funds	247,206	247,206	-	-
Government securities	103	-	103	-
Total investments by fair value level	<u>332,128</u>	<u>\$ 332,025</u>	<u>\$ 103</u>	<u>\$ -</u>
Investments measured at the net asset value (NAV) (A)				
Common/collective trust fund	372,785			
103-12 investment fund	<u>35,094</u>			
Total investments measured at the NAV	<u>407,879</u>			
Total investments measured at fair value	<u>\$ 740,007</u>			

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- (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, 2017 or 2016.

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.

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 \$6,902 and \$6,492 for the years ended September 30, 2018 and 2017, 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 \$16,163 and \$13,198 for the years ended September 30, 2018 and 2017, respectively.

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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, 2018 and 2017, \$1,050 and \$974, respectively, in contributions are included in noncurrent cash and investments and \$918 and \$912, respectively, was due under this plan. Approximately \$35 and \$92 of benefit expense was recognized in 2018 and 2017, respectively.

Note 14: Related Party Transactions

The District was 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 during 2017. This agreement was intended to increase funding for the Medicaid population and to access federal funding for the indigent population of Tarrant County through supplemental Medicaid funding programs.

Under this program, the District contributed 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.

Effective October 1, 2017, the agreement with TCICC was terminated and the related medical direction and indigent care services again began being funded by the District.

Services provided by TCICC were valued at approximately \$48,552 for the year ended September 30, 2017. As part of the affiliation agreement, the District provided \$31,982 in funding to the program for the years ended September 30, 2017. The District recognized 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 \$16,570 for 2017.

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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

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:

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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)
September 30, 2018				
Investments by fair value level				
U.S. Treasury obligations	\$ 101,521	\$ 101,521	\$ -	\$ -
U.S. agency obligations	105,122	28,212	76,910	-
Investment pool	112,415	-	112,415	-
Commercial paper	26,160	-	26,160	-
Money market mutual funds	1,050	1,050	-	-
Mutual funds	416	416	-	-
Total investments by fair value level	346,684	<u>\$ 131,199</u>	<u>\$ 215,485</u>	<u>\$ -</u>
Investment Pool Carried at Amortized Cost	<u>26,341</u>			
Total investments	<u>\$ 373,025</u>			
September 30, 2017				
Investments by fair value level				
U.S. Treasury obligations	\$ 29,993	\$ 29,993	\$ -	\$ -
U.S. agency obligations	88,749	17,333	71,416	-
Investment pool	116,012	-	116,012	-
Municipal bonds	5,506	-	5,506	-
Commercial paper	167,336	-	167,336	-
Money market mutual funds	974	974	-	-
Mutual funds	400	400	-	-
Total investments by fair value level	408,970	<u>\$ 48,700</u>	<u>\$ 360,270</u>	<u>\$ -</u>
Investment Pool Carried at Amortized Cost	<u>1,126</u>			
Total investments	<u>\$ 410,096</u>			

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

Notes to Financial Statements

September 30, 2018 and 2017

(In Thousands)

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, 2018 or 2017.

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, 2018 and 2017.

	September 30, 2018				
	Hospital	Acclaim	Foundation	Eliminations	Total
Assets and Deferred Outflows of Resources					
Current assets	\$ 490,045	\$ 16,833	\$ 1,667	\$ (10,015)	\$ 498,530
Due from affiliates	40,255	124	47	(40,426)	-
Noncurrent cash and investments	206,740	-	2,262	-	209,002
Capital assets, net	263,756	201	-	-	263,957
Other assets	496	-	-	-	496
Total assets	1,001,292	17,158	3,976	(50,441)	971,985
Deferred outflows of resources	24,713	-	-	-	24,713
Total assets and deferred outflows of resources	\$ 1,026,005	\$ 17,158	\$ 3,976	\$ (50,441)	\$ 996,698

**Tarrant County Hospital District
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Notes to Financial Statements

September 30, 2018 and 2017

(In Thousands)

	September 30, 2018				
	Hospital	Acclaim	Foundation	Eliminations	Total
Liabilities, Deferred Inflows of Resources and Net Position					
Current liabilities	\$ 113,403	\$ 13,074	\$ 80	\$ (10,015)	\$ 116,542
Due to affiliates	171	40,097	158	(40,426)	-
Estimated self-insurance costs	1,450	-	-	-	1,450
Long-term debt	33,518	-	-	-	33,518
Net pension liability	1,951	-	-	-	1,951
Other long-term liabilities	4,933	860	-	-	5,793
Total liabilities	<u>155,426</u>	<u>54,031</u>	<u>238</u>	<u>(50,441)</u>	<u>159,254</u>
Deferred inflows of resources	14,805	-	-	-	14,805
Net Position					
Net investment in capital assets	225,743	201	-	-	225,944
Restricted expendable	-	-	1,849	-	1,849
Restricted nonexpendable	-	-	315	-	315
Unrestricted	630,031	(37,074)	1,574	-	594,531
Total net position	<u>855,774</u>	<u>(36,873)</u>	<u>3,738</u>	<u>-</u>	<u>822,639</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,026,005</u>	<u>\$ 17,158</u>	<u>\$ 3,976</u>	<u>\$ (50,441)</u>	<u>\$ 996,698</u>
September 30, 2017					
	Hospital	Acclaim	Foundation	Eliminations	Total
Assets					
Current assets	\$ 521,922	\$ 20,682	\$ 1,213	\$ (9,720)	\$ 534,097
Due from affiliates	32,233	2,433	36	(34,702)	-
Noncurrent cash and investments	189,709	-	1,949	-	191,658
Capital assets, net	268,387	12	1	-	268,400
Total assets	<u>1,012,251</u>	<u>23,127</u>	<u>3,199</u>	<u>(44,422)</u>	<u>994,155</u>
Deferred outflows of resources	20,228	-	-	-	20,228
Total assets and deferred outflows of resources	<u>\$ 1,032,479</u>	<u>\$ 23,127</u>	<u>\$ 3,199</u>	<u>\$ (44,422)</u>	<u>\$ 1,014,383</u>
Liabilities and Net Position					
Current liabilities	\$ 126,745	\$ 9,840	\$ 103	\$ (9,720)	\$ 126,968
Due to affiliates	2,469	32,188	45	(34,702)	-
Estimated self-insurance costs	1,064	-	-	-	1,064
Long-term debt	36,827	-	-	-	36,827
Net pension liabilities	13,591	-	-	-	13,591
Other long-term liabilities	4,487	999	-	-	5,486
Total liabilities	<u>185,183</u>	<u>43,027</u>	<u>148</u>	<u>(44,422)</u>	<u>183,936</u>
Deferred inflows of resources	4,780	-	-	-	4,780
Net Position					
Net investment in capital assets	222,913	12	1	-	222,926
Restricted expendable	-	-	1,698	-	1,698
Restricted nonexpendable	-	-	315	-	315
Unrestricted	619,603	(19,912)	1,037	-	600,728
Total net position	<u>842,516</u>	<u>(19,900)</u>	<u>3,051</u>	<u>-</u>	<u>825,667</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,032,479</u>	<u>\$ 23,127</u>	<u>\$ 3,199</u>	<u>\$ (44,422)</u>	<u>\$ 1,014,383</u>

**Tarrant County Hospital District
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**Notes to Financial Statements
September 30, 2018 and 2017
(In Thousands)**

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, 2018 and 2017:

	September 30, 2018				
	Hospital	Acclaim	Foundation	Eliminations	Total
Operating revenues	\$ 582,125	\$ 116,637	\$ 274	\$ (66,901)	\$ 632,135
Operating expenses	<u>958,600</u>	<u>133,622</u>	<u>2,951</u>	<u>(68,837)</u>	<u>1,026,336</u>
Operating income (loss)	(376,475)	(16,985)	(2,677)	1,936	(394,201)
Nonoperating revenues (expenses)	<u>389,733</u>	<u>12</u>	<u>3,364</u>	<u>(1,936)</u>	<u>391,173</u>
Increase (decrease) in net position	13,258	(16,973)	687	-	(3,028)
Net position, beginning of year	<u>842,516</u>	<u>(19,900)</u>	<u>3,051</u>	<u>-</u>	<u>825,667</u>
Net position, end of year	<u>\$ 855,774</u>	<u>\$ (36,873)</u>	<u>\$ 3,738</u>	<u>\$ -</u>	<u>\$ 822,639</u>

	September 30, 2017				
	Hospital	Acclaim	Foundation	Eliminations	Total
Operating revenues	\$ 555,947	\$ 97,313	\$ 151	\$ (45,810)	\$ 607,601
Operating expenses	<u>918,881</u>	<u>112,036</u>	<u>3,153</u>	<u>(47,626)</u>	<u>986,444</u>
Operating income (loss)	(362,934)	(14,723)	(3,002)	1,816	(378,843)
Nonoperating revenues (expenses)	<u>373,797</u>	<u>17</u>	<u>2,818</u>	<u>(1,816)</u>	<u>374,816</u>
Capital grants	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>
Increase (decrease) in net position	10,963	(14,706)	(184)	-	(3,927)
Net Position, Beginning of Year	<u>831,553</u>	<u>(5,194)</u>	<u>3,235</u>	<u>-</u>	<u>829,594</u>
Net Position, End of Year	<u>\$ 842,516</u>	<u>\$ (19,900)</u>	<u>\$ 3,051</u>	<u>\$ -</u>	<u>\$ 825,667</u>

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

Notes to Financial Statements

September 30, 2018 and 2017

(In Thousands)

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, 2018 and 2017:

	September 30, 2018				
	Hospital	Acclaim	Foundation	Eliminations	Total
Net cash provided by (used in)					
Operating activities	\$ (390,440)	\$ 1,271	\$ 827	\$ -	\$ (388,342)
Noncapital financing activities	379,852	-	-	-	379,852
Capital and related financing activities	(39,572)	(189)	-	-	(39,761)
Investing activities	1,004	12	74	-	1,090
Increase in cash and cash equivalents	(49,156)	1,094	901	-	(47,161)
Cash and Cash Equivalents, Beginning of Year	212,267	-	2,617	-	214,884
Cash and Cash Equivalents, End of Year	\$ 163,111	\$ 1,094	\$ 3,518	\$ -	\$ 167,723

	September 30, 2017				
	Hospital	Acclaim	Foundation	Eliminations	Total
Net cash provided by (used in)					
Operating activities	\$ (303,129)	\$ (1,217)	\$ 53	\$ -	\$ (304,293)
Noncapital financing activities	349,462	-	-	-	349,462
Capital and related financing activities	(33,116)	(12)	-	-	(33,128)
Investing activities	19,883	17	63	-	19,963
Increase in cash and cash equivalents	33,100	(1,212)	116	-	32,004
Cash and Cash Equivalents, Beginning of Year	179,167	1,212	2,501	-	182,880
Cash and Cash Equivalents, End of Year	\$ 212,267	\$ -	\$ 2,617	\$ -	\$ 214,884

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 Pension Liability and Related Ratios
Year Ended September 30, 2018
(In Thousands)

	2018	2017	2016	2015
Total Pension Liability				
Service cost	\$ 12,604	\$ 12,028	\$ 12,181	\$ 11,556
Interest on total pension liability	17,416	15,931	14,805	12,953
Differences between expected and actual experience	5,794	1,522	1,720	(717)
Changes of assumptions	(1,084)	(2,152)	(4,900)	6,650
Benefit payments, including refunds of employee contributions	(6,590)	(7,210)	(6,069)	(7,021)
Administrative expenses	(515)	(496)	-	-
Net change in total pension liability	27,625	19,623	17,737	23,421
Total pension liability—beginning	231,364	211,741	194,004	170,583
Total pension liability—ending (a)	\$ 258,989	\$ 231,364	\$ 211,741	\$ 194,004
Plan fiduciary net position				
Contributions—employer	\$ 14,443	\$ 13,579	\$ 12,313	\$ 11,625
Contributions—employee	1,933	1,805	1,641	1,574
Net investment income (loss)	29,994	20,967	(2,629)	20,134
Benefit payments, including refunds of employee contributions	(6,590)	(7,210)	(6,069)	(7,021)
Administrative expense	(515)	(496)	(587)	(407)
Net change in plan fiduciary net position	39,265	28,645	4,669	25,905
Plan fiduciary net position—beginning	217,773	189,128	184,459	158,554
Plan fiduciary net position—ending (b)	\$ 257,038	\$ 217,773	\$ 189,128	\$ 184,459
District's net pension liability—ending (a) – (b)	\$ 1,951	\$ 13,591	\$ 22,613	\$ 9,545
Plan fiduciary net position as a percentage of the total pension liability	99.25%	94.13%	89.32%	95.08%
Covered-employee payroll	\$ 213,963	\$ 201,170	\$ 182,418	\$ 178,847
District's net pension liability as a percentage of covered-employee payroll	0.91%	6.76%	12.40%	5.34%

Notes to Schedule:

Changes of assumptions:

1) Mortality updated to RP-2014 projected from 2006 base year using MP-2017

2) IRC Sections 401(a)(17) and 415 Limitations adjusted future increases in limits from 2.50% to 2.25%

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 Ended September 30, 2018
(In Thousands)**

Year Ending September 30,	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered- employee payroll	Contributions as a percentage of covered- employee payroll
2018	\$ 17,305	\$ 17,305	\$ -	\$ 256,366	6.75%
2017	\$ 14,443	\$ 14,443	\$ -	\$ 213,963	6.75%
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, 2017

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	"Closed group" level dollar of payroll
Remaining amortization period	6 years at October 1, 2017; recalculated annually; employer contribution rate constant unless amortization period > 25 years or ≤ 0 years
Asset valuation method	5-year smoothed market
Inflation	2.25%
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 using the MP-2017 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, 2018

(In Thousands)

Assets and Deferred Outflow of Resources

	Hospital	Acclaim	Foundation	Eliminations	Total
Current Assets					
Cash and cash equivalents	\$ 158,721	\$ 1,094	\$ 1,434	\$ -	\$ 161,249
Restricted cash	4,628	-	-	-	4,628
Short-term investments	181,129	-	-	-	181,129
Patient accounts receivable, net	58,108	6,561	-	(2,550)	62,119
Property taxes receivable, net	5,097	-	-	-	5,097
Supplemental Medicaid funding receivable	56,416	-	-	-	56,416
Internally designated for self-insurance, current portion	105	-	-	-	105
Supplies inventory	11,938	-	-	-	11,938
Prepaid expenses and other assets	13,903	9,178	233	(7,465)	15,849
	<u>490,045</u>	<u>16,833</u>	<u>1,667</u>	<u>(10,015)</u>	<u>498,530</u>
Total current assets					
Due from Affiliates	<u>40,255</u>	<u>124</u>	<u>47</u>	<u>(40,426)</u>	<u>-</u>
Noncurrent Cash, Cash Equivalents and Investments					
Internally designated for debt service	666	-	-	-	666
Internally designated for self-insurance	12,030	-	-	-	12,030
Restricted by donors for capital acquisitions and specific operating activities	-	-	2,262	-	2,262
Internally designated for capital acquisitions and operating activities	194,044	-	-	-	194,044
	<u>206,740</u>	<u>-</u>	<u>2,262</u>	<u>-</u>	<u>209,002</u>
Total noncurrent cash, cash equivalents and investments					
Other Assets	<u>496</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>496</u>
Capital Assets, Net	<u>263,756</u>	<u>201</u>	<u>-</u>	<u>-</u>	<u>263,957</u>
Total assets	1,001,292	17,158	3,976	(50,441)	971,985
Deferred Outflows of Resources	<u>24,713</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,713</u>
Total assets and deferred outflows of resources	<u>\$ 1,026,005</u>	<u>\$ 17,158</u>	<u>\$ 3,976</u>	<u>\$ (50,441)</u>	<u>\$ 996,698</u>

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

	Hospital	Acclaim	Foundation	Eliminations	Total
Current Liabilities					
Accounts payable	\$ 54,916	\$ 3,773	\$ 80	\$ (10,015)	\$ 48,754
Intergovernmental transfer obligation	4,628	-	-	-	4,628
Accrued expenses	39,894	8,949	-	-	48,843
Due to third-party payers	4,025	-	-	-	4,025
Current portion of self-insurance costs	6,800	352	-	-	7,152
Current maturities of long-term debt	3,140	-	-	-	3,140
	<u>113,403</u>	<u>13,074</u>	<u>80</u>	<u>(10,015)</u>	<u>116,542</u>
Due to Affiliates	171	40,097	158	(40,426)	-
Estimated Self-insurance Costs	1,450	-	-	-	1,450
Long-term Debt	33,518	-	-	-	33,518
Net Pension Liability	1,951	-	-	-	1,951
Other Long-term Liabilities	<u>4,933</u>	<u>860</u>	<u>-</u>	<u>-</u>	<u>5,793</u>
	<u>155,426</u>	<u>54,031</u>	<u>238</u>	<u>(50,441)</u>	<u>159,254</u>
Deferred Inflows of Resources	<u>14,805</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,805</u>
Net Position					
Net investment in capital assets	225,743	201	-	-	225,944
Restricted expendable	-	-	1,849	-	1,849
Restricted nonexpendable	-	-	315	-	315
Unrestricted	630,031	(37,074)	1,574	-	594,531
	<u>855,774</u>	<u>(36,873)</u>	<u>3,738</u>	<u>-</u>	<u>822,639</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,026,005</u>	<u>\$ 17,158</u>	<u>\$ 3,976</u>	<u>\$ (50,441)</u>	<u>\$ 996,698</u>

**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, 2018
(In Thousands)**

	<u>Hospital</u>	<u>Acclaim</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Operating Revenues					
Net patient service revenue	\$ 398,941	\$ 72,978	\$ -	\$ (29,659)	\$ 442,260
Supplemental Medicaid funding	132,486	-	-	-	132,486
Other operating revenue	50,698	43,659	274	(37,242)	57,389
Total operating revenues	<u>582,125</u>	<u>116,637</u>	<u>274</u>	<u>(66,901)</u>	<u>632,135</u>
Operating Expenses					
Salaries and related expenses	489,276	109,897	875	(118)	599,930
Professional fees and purchased services	235,261	19,064	1,024	(67,846)	187,503
Supplies	154,873	1,060	209	-	156,142
Depreciation and amortization	39,228	13	-	-	39,241
Other	39,962	3,588	843	(873)	43,520
Total operating expenses	<u>958,600</u>	<u>133,622</u>	<u>2,951</u>	<u>(68,837)</u>	<u>1,026,336</u>
Operating Income (Loss)	<u>(376,475)</u>	<u>(16,985)</u>	<u>(2,677)</u>	<u>1,936</u>	<u>(394,201)</u>
Nonoperating Revenues (Expenses)					
Property tax revenue	380,265	-	-	-	380,265
Contribution revenue	258	-	3,299	(1,936)	1,621
Interest expense	(840)	-	-	-	(840)
Investment return and other	10,050	12	65	-	10,127
Total nonoperating revenues (expenses)	<u>389,733</u>	<u>12</u>	<u>3,364</u>	<u>(1,936)</u>	<u>391,173</u>
Excess (Deficiency) of Revenues Over Expenses and Increase (Decrease) in Net Position	13,258	(16,973)	687	-	(3,028)
Net Position, Beginning of Year	<u>842,516</u>	<u>(19,900)</u>	<u>3,051</u>	<u>-</u>	<u>825,667</u>
Net Position, End of Year	<u>\$ 855,774</u>	<u>\$ (36,873)</u>	<u>\$ 3,738</u>	<u>\$ -</u>	<u>\$ 822,639</u>