Dallas County Hospital District

dba Parkland Health & Hospital System
(A Component Unit of Dallas County, Texas)

Financial Statements as of and for the Years
Ended September 30, 2012 and 2011,
Supplemental Schedules as of September 30, 2012, and
Report of Independent Certified Public Accountants

DALLAS COUNTY HOSPITAL DISTRICT
dba Parkland Health & Hospital System
(A Component Unit of Dallas County, Texas)

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Our discussion and analysis of Parkland Health & Hospital System's ("Parkland") financial performance provides an overview of the financial activities for the fiscal years that ended on September 30, 2012 ("FY12") and 2011 ("FY11"). Please read it in conjunction with Parkland's basic financial statements.

Financial Highlights

- Net assets increased $38 million (3%) between FY11 and FY12, and net assets increased $107 million (10%) between FY10 and FY11.
- Total assets increased $123 million (6%) between FY11 and FY12, and total assets increased $112 million (6%) between FY10 and FY11.
- The Parkland Foundation's $150 million "I Stand For Parkland" campaign has raised more than $108 million in gifts and commitments, including unrecorded contingent commitments.
- In September, 2009, Parkland issued $705 million in bonds for use in the construction of a New Parkland Campus, anticipated for completion in 2014.
- During fiscal years 2012 and 2011, Parkland made the following significant capital acquisitions:
  - Design and program development services for the New Parkland Campus, and
  - New and replacement information systems and medical equipment.

  These assets were purchased with operating and bond funds designated for capital acquisitions.

The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Assets

These statements report information about Parkland's resources and its activities that describe the financial results of the fiscal years and Parkland's financial position as of the end of each year.

Net assets is the difference between assets and liabilities. Over time, increases or decreases in Parkland's net assets are one indicator of whether Parkland's financial health is improving or deteriorating. Other non-financial factors, such as changes in Parkland's patient base; measures of the quality of services provided; and the local, state, and federal economic factors should also be considered.

The Statements of Cash Flows

The statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The statements describe sources of cash, uses of cash, and the change in cash balances during the fiscal years.

Table 1: Summary of Assets and Liabilities

(Amounts in thousands)

	2012	2011	Dollar Change	Percentage Change
Assets				
Current and other assets	$ 1,286,429	$ 1,523,726	$ (237,297)	-16%
Capital assets – net	936,716	576,543	360,173	62%
Total assets	2,223,145	2,100,269	122,876	6%
Liabilities and Net Assets				
Long-term debt outstanding	706,424	706,792	(368)	0%
Other liabilities	303,791	218,220	85,571	39%
Total liabilities	1,010,215	925,012	85,203	9%
Net assets:				
Invested in capital assets, net of related debt	529,856	425,833	104,023	24%
Unrestricted	683,074	749,424	(66,350)	-9%
Total net assets	1,212,930	1,175,257	37,673	3%
Total liabilities and net assets	$ 2,223,145	$ 2,100,269	$ 122,876	6%

	2011	2010	Dollar Change	Percentage Change
Assets				
Current and other assets	$ 1,523,726	$ 1,576,324	$ (52,598)	-3%
Capital assets – net	576,543	411,715	164,828	40%
Total assets	2,100,269	1,988,039	112,230	6%
Liabilities and Net Assets				
Long-term debt outstanding	706,792	707,159	(367)	0%
Other liabilities	218,220	212,522	5,698	3%
Total liabilities	925,012	919,681	5,331	1%
Net assets:				
Invested in capital assets, net of related debt	425,833	387,403	38,430	10%
Unrestricted	749,424	680,955	68,469	10%
Total net assets	1,175,257	1,068,358	106,899	10%
Total liabilities and net assets	$ 2,100,269	$ 1,988,039	$ 112,230	6%

Overall, total assets increased 6% from 2011 to 2012, and 6% from 2010 to 2011.

- Current and other assets decreased 16% from 2011 to 2012, and 3% from 2010 to 2011 primarily due to the expenditure of funds for the New Parkland Campus construction.
- Capital assets-net increased 62% from 2011 to 2012, and 40% from 2010 to 2011 primarily due to construction of the New Parkland Campus.
- Liabilities increased 9% from 2011 to 2012 primarily due to increases in payables and retainage related to the construction of the New Parkland Campus as well as an accrual for the fourth quarter regional Upper Payment Limit (UPL) payable of approximately $30.2 million. Liabilities increased 1% from 2010 to 2011 primarily due to an increase in interest payable.

Table 2: Summary of Revenues, Expenses, and Changes in Net Assets

(Amounts in thousands)

	2012	2011	2010
Operating revenues:			
Net patient services	$ 487,039	$ 468,068	$ 475,384
Disproportionate share, upper payment limit, and trauma	194,058	194,723	184,124
Tobacco settlement	8,846	9,340	8,254
Premiums	493,433	487,284	437,862
Other, net	52,071	48,947	45,426
Total operating revenues	1,235,447	1,208,362	1,151,050
Operating expenses:			
Salaries, wages, and benefits	700,089	652,792	655,339
Purchased medical services	133,079	119,711	112,922
Supplies and other	258,000	251,809	230,434
Pharmaceuticals	102,743	94,527	92,166
Depreciation and amortization	57,415	58,995	53,756
Claims	416,700	397,084	400,872
Total operating expenses	1,668,026	1,574,918	1,545,489
Operating loss	(432,579)	(366,556)	(394,439)
Nonoperating revenues	465,509	472,344	500,703
Capital contributions	4,743	1,111	-
Change in net assets	37,673	106,899	106,264
Net assets – beginning of year	1,175,257	1,068,358	962,094
Net assets – end of year	$ 1,212,930	$ 1,175,257	$ 1,068,358

Overall, operating revenues increased 2% from 2011 to 2012 and 5% from 2010 to 2011.

- Net patient services revenue increased 4% from 2011 to 2012 primarily due to increases in the Medicaid reimbursement rate. Net patient services revenue decreased 2% from 2010 to 2011 due to an increase in lower-reimbursed observation patients and a corresponding decrease in higher-reimbursed inpatients related to process and classification changes. Disproportionate share, upper payment limit and trauma revenues remained consistent from 2011 to 2012 and increased 6% from 2010 to 2011 due to higher State of Texas ("State") funding levels.

- Premium revenues increased 1% from 2011 to 2012 due to:
  - Increased volume of 3% (2,422,943 member months in 2012 versus 2,351,164 member months in 2011). Parkland Community Health Plan, Inc. (the "Health Plan") was also mandated to provide pharmacy coverage beginning March 2012. The Plan recognized a $42 million increase in revenue as a result of this change. Offsetting the increase in pharmacy revenue was lower premium yields due to declining membership in the Perinatal membership tier. Perinatal membership declined 36% from 2011 to 2012.
- Premium revenues increased 11% from 2010 to 2011 due to:
  - Increased volume of 5% (2,351,164 member months in 2011 versus 2,232,789 member months in 2010). The Plan also saw a rate increase on a per member per month basis due to the mix of members ($208 per member per month in 2011 versus $196 per member per month in 2010).
- Other operating revenues increased 6% from 2011 to 2012 and 8% from 2010 to 2011, due to increases in replacement drug and tobacco settlement revenues.

Overall, operating expenses increased 6% from 2011 to 2012, and 2% from 2010 to 2011.

- Salaries, wages, and benefits increased by 7% from 2011 to 2012 due to an increase in the number of clinical employees and the use of contract labor to fill vacant positions.
- Salaries, wages, and benefits remained essentially flat in total from 2010 to 2011. However, salaries increased 2% due primarily to additional contract labor in the emergency room. This was offset by a 13% decrease in employee health plan expenses related to plan changes implemented on January 1, 2011.
- Purchased medical services, pharmaceuticals and supplies increased 11% between 2011 and 2012, and 6% between 2010 and 2011, primarily due to higher cost for purchased medical services and higher usage of high cost drugs and blood derivatives.
- Claims increased 5% from 2011 to 2012 as a result of:
  - Increased volume of 3% (2,422,943 member months in 2012 versus 2,351,164 member months in 2011). In addition, pharmacy benefits were included in the Plan's coverage beginning March 2012.
- Claims decreased 1% from 2010 to 2011 as a result of:
  - The termination of two high cost facility agreements and the renegotiation of another hospital contract that had multiple facilities within its system.

Overall, Parkland's operating loss increased by 18% from 2011 to 2012 due to the items mentioned above. As Dallas' only public hospital, Parkland receives property tax revenues primarily to subsidize the cost of services provided to uninsured patients who qualify to receive tax-supported care. Although the expenses incurred to provide these services are recognized as operating expenses, accounting principles generally accepted in the United States of America ("GAAP") reporting rules require that ad valorem tax revenues be reported as nonoperating revenues.

Non-operating revenues decreased 1% from 2011 to 2012, primarily due to a decrease in net investment income of $15 million and a decrease in ad valorem tax support of $4 million resulting from decreased property tax values, offset by an increase in grant revenues of $4 million. Parkland's tax rate increased from 25.4 cents per $100 assessed valuation to 27.4 cents per $100 assessed valuation in 2010 due to the bond issuance resulting in a $21.8 million increase in ad valorem tax revenue. Parkland's tax rate decreased voluntarily from 27.4 cents per $100 assessed valuation to 27.1 cents per $100 assessed valuation in 2011 due to a decrease in funding needed for debt service, resulting in a $21.2 million decrease in ad valorem tax revenue. Taxes are levied by Parkland and collected on behalf of Parkland by Dallas County.

Patient Volumes

Patient volumes at Parkland are measured on an inpatient and outpatient basis. 2012 inpatient discharges of 37,515, which are highly dependent on emergency room volumes, increased 1% from 2011 discharges of 37,290. Emergency department visits increased 1% to 195,947 in 2012 from 193,351 in 2011, due to higher community need. Combined outpatient, on-campus clinic and Community Oriented Primary Care visits decreased 1% to 1,031,311 in 2012 from 1,040,899 in 2011.

Capital Asset and Debt Financing

At the end of fiscal years 2012 and 2011, Parkland had $937 million and $577 million, respectively, in capital assets, net of accumulated depreciation, as detailed in the notes to the financial statements. The components of Parkland's capital assets are as follows:

Table 3: Capital Assets

CAPITAL ASSETS

(Amounts in thousands)	2012	2011	Dollar Change	Percentage Change
Buildings	$ 409,549	$ 396,258	$ 13,291	3%
Construction in progress	18,556	11,406	7,150	63%
Construction in progress New Parkland Campus	548,427	220,712	327,715	148%
Land and improvements	114,401	83,034	31,367	38%
Equipment (including IT projects in progress)	420,203	385,100	35,103	9%
	1,511,136	1,096,510	414,626	38%
Accumulated depreciation and amortization	(574,420)	(519,967)	(54,453)	10%
Capital assets, net	$ 936,716	$ 576,543	$ 360,173	62%

	2011	2010	Dollar Change	Percentage Change
Buildings	$ 396,258	$ 407,749	$ (11,491)	-3%
Construction in progress	11,406	14,787	(3,381)	-23%
Construction in progress New Parkland Campus	220,712	60,972	159,740	262%
Land and improvements	83,034	73,723	9,311	13%
Equipment (including IT projects in progress)	385,100	388,460	(3,360)	-1%
	1,096,510	945,691	150,819	16%
Accumulated depreciation and amortization	(519,967)	(533,976)	14,009	-3%
Capital assets, net	$ 576,543	$ 411,715	$ 164,828	40%

Overall, capital assets increased 62% from 2011 to 2012. Major additions included:

- Land acquisitions related to the New Parkland Campus site, continued construction of the New Parkland Campus and IT projects

Overall, capital assets increased 40% from 2010 to 2011. Major additions included:

- Land acquisitions related to the New Parkland Campus site, continued construction of the New Parkland Campus and IT projects, offset by retirements of certain assets which were substantially depreciated.

Table 4: Debt Financing

	2012	2011
Tax-exempt Series 2009A bonds, including premium	$ 26,194	$ 26,654
Taxable Series 2009B bonds	222,490	222,490
Taxable Series 2009C bonds	457,740	457,740
Total	$ 706,424	$ 706,884

No additional long-term debt was issued in 2011 or 2012.

2012 Budget

Annually, Parkland prepares an operating and capital budget for approval by Parkland's Board of Managers, as well as the Dallas County Commissioners. Table 5 presents the approved budget in comparison to the 2012 actual results.

Table 5: Performance Compared to Budget

(Amounts in thousands)	Actual 2012	Budget 2012	Favorable/ (Unfavorable)
Operating revenues:			
Net patient services	$ 487,039	$ 533,901	$ (46,862)
Disproportionate share, upper payment limit, and trauma	194,058	169,501	24,557
Tobacco settlement	8,846	9,000	(154)
Premiums	493,433	504,377	(10,944)
Other, net	52,071	46,113	5,958
Total operating revenues	1,235,447	1,262,892	(27,445)
Operating expenses:			
Salaries, wages, and benefits	700,089	680,730	(19,359)
Purchased medical services	133,079	128,346	(4,733)
Supplies and other	258,000	236,671	(21,329)
Pharmaceuticals	102,743	94,480	(8,263)
Depreciation and amortization	57,415	58,461	1,046
Claims	416,700	454,441	37,741
Total operating expenses	1,668,026	1,653,129	(14,897)
Operating loss	(432,579)	(390,237)	(42,342)
Nonoperating revenues:			
Ad valorem tax support	420,497	415,947	4,550
Grants and contributions	36,352	38,667	(2,315)
Investment income	28,244	12,000	16,244
Interest expense	(19,584)	-	(19,584)
Total nonoperating revenues	465,509	466,614	(1,105)
Capital contributions	4,743	-	4,743
Change in net assets	$ 37,673	$ 76,377	$ (38,704)

Economic Factors

Parkland's Board of Managers and management continue to monitor and consider many factors that have direct or indirect impact on future operations. These include:

- Economic conditions leading to a reduction in the valuation of both commercial and residential properties within Dallas County;
- Dallas County's population growth, as well as continued growth in the number of uninsured and working poor;
- Clinical workforce shortages, particularly for nurse practitioners, sterile processing technicians and occupational therapists;

- Continued growth in medical, implant, and pharmaceutical supply costs;
- Continued advances in health care medical equipment and computer technology;
- Federal and state government funding for Medicare, Medicaid, disproportionate share, upper payment limit, and 1115 transformation waiver programs;
- Health care reform;
- Unfunded mandates, such as Homeland Security, the Health Insurance Portability and Accountability Act, and the Emergency Medical Treatment and Active Labor Act.

Significant Financial Practices

Parkland maintains several financial practices designed to maintain its creditworthiness and to position Parkland to carry out its constitutionally defined mission of providing health care to the residents of Dallas County, as well as its fiduciary responsibility to the taxpayers of Dallas County. Those practices are as follows:

Assets Limited As To Use

The Board of Managers sets aside funds for both long-term stability and capital improvements.

Monthly Financial Reporting

The Board of Managers 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 explanations for significant variances.

Pay-As-You-Go Capital Funding

Historically Parkland has maintained the practice of funding capital items under a pay-as-you-go process. However, in November 2008, Dallas County voters approved the necessary tax increase to issue bonds to partially fund the New Parkland Campus. In September, 2009, Parkland issued $705 million in voter-approved bonds for use in the construction of a New Parkland Campus. Except for the construction of the New Parkland Campus, Parkland has continued its practice related to pay-as-you-go capital funding for routine capital expenditures.

Budget Process

The operating and capital budgets are proposed by Parkland management and endorsed by the Board of Managers. Final approval is obtained from the Dallas County Commissioners Court. The budgets remain in effect for the entire fiscal year.

Contacting Parkland's Financial Management

This financial report is designed to provide our taxpayers, creditors, patients, and suppliers with a general overview of Parkland's finances and to show Parkland's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact

By Mail:
Parkland Health & Hospital System
5201 Harry Hines
Dallas, Texas 75235
Attention: Ted Shaw, Executive Vice President & Interim Chief Financial Officer

By E-Mail: Ted.Shaw@phhs.org

Report of Independent Certified Public Accountants

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The Board of Managers
Dallas County Hospital District dba Parkland Health & Hospital System

We have audited the accompanying balance sheets of the Dallas County Hospital District dba Parkland Health & Hospital System ("Parkland"), a political subdivision of the state of Texas and a discretely presented component unit of Dallas County, Texas as of September 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Parkland's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Parkland Foundation, a discretely presented component unit of Parkland. Those financial statements were audited by other auditors whose report thereon has been furnished to us with an unqualified opinion. Our opinion as it relates to the amounts included for Parkland Foundation is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Parkland's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Parkland and its discretely presented component unit as of September 30, 2012 and 2011, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 18, 2012 on our consideration of Parkland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Parkland's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United State of America require that the management's discussion and analysis on pages 2 through 9 and the supplemental schedules on page 38 be presented to supplement the basic financial statements. Such information, although not a required 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit 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.

Grant Thornton LLP

Dallas, Texas
December 18, 2012

DALLAS COUNTY HOSPITAL DISTRICT
dba Parkland Health & Hospital System
(A Component Unit of Dallas County, Texas)

BALANCE SHEETS
AS OF SEPTEMBER 30, 2012 AND 2011
(Amounts in thousands)

	2012		2011	
Assets	**Hospital and Health Plan**	**Foundation**	**Hospital and Health Plan**	**Foundation**
Current assets:				
Cash and cash equivalents	$ 121,198	$ 7,060	$ 187,627	$ 8,476
Short-term investments	25,966	11,754	6,420	4,995
Assets limited as to use	60,829	-	76,918	-
Ad valorem taxes receivable, less allowance for uncollectible taxes of $16,886 in 2012 and $17,705 in 2011	4,925	-	4,654	-
Patient accounts receivable, less allowance for uncollectible accounts of $477,916 in 2012 and $493,974 in 2011	87,909	-	86,653	-
Due from Parkland Foundation	399	-	156	-
Other receivables	115,544	8,711	50,108	10,033
Inventories and other assets	14,815	-	14,491	-
Total current assets	431,585	27,525	427,027	23,504
Capital assets – net	936,716	-	576,543	-
Long-term investments	100,758	41,031	111,004	34,513
Assets limited as to use	728,845	-	960,758	-
Other noncurrent assets	25,241	7,586	24,937	13,866
Total assets	$ 2,223,145	$ 76,142	$ 2,100,269	$ 71,883
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	$ 246,643	$ 22,750	$ 155,420	$ 16,318
Due to Parkland Hospital	-	245	-	142
Due to third-party reimbursement programs	9,817	-	13,196	-
Interest payable	4,880	-	4,880	-
Other current liabilities	27,960	-	26,275	-
Total current liabilities	289,300	22,995	199,771	16,460
Other long-term liabilities	14,491	-	18,449	-
Long term debt	706,424	-	706,792	-
Total liabilities	1,010,215	22,995	925,012	16,460
Commitments and contingencies (Note 9)				
Net assets:				
Invested in capital assets, net of related debt	529,856	-	425,833	-
Restricted	-	51,516	-	54,092
Unrestricted	683,074	1,631	749,424	1,331
Total net assets	1,212,930	53,147	1,175,257	55,423
Total liabilities and net assets	$ 2,223,145	$ 76,142	$ 2,100,269	$ 71,883

The accompanying notes are an integral part of these consolidated financial statements.

DALLAS COUNTY HOSPITAL DISTRICT

dba Parkland Health & Hospital System

(A Component Unit of Dallas County, Texas)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2012 AND 2011

(Amounts in thousands)

	2012		2011	
	Hospital and Health Plan	Foundation	Hospital and Health Plan	Foundation
Operating revenues:				
Net patient services	$ 487,039	$ -	$ 468,068	$ -
Disproportionate Share, Upper Payment Limit, and Trauma	194,058	-	194,723	-
Tobacco settlement	8,846	-	9,340	-
Premiums	493,433	-	487,284	-
Other, net	52,071	9,739	48,947	17,306
Total operating revenues	1,235,447	9,739	1,208,362	17,306
Operating expenses:				
Salaries, wages, and benefits	700,089	-	652,792	-
Purchased medical services	133,079	-	119,711	-
Supplies and other	258,000	12,015	251,809	11,004
Pharmaceuticals	102,743	-	94,527	-
Depreciation and amortization	57,415	-	58,995	-
Claims	416,700	-	397,084	-
Total operating expenses	1,668,026	12,015	1,574,918	11,004
Operating (loss) income	(432,579)	(2,276)	(366,556)	6,302
Nonoperating revenues (expenses)				
Ad valorem tax support	420,497	-	424,666	-
Grants and contributions	36,352	-	32,648	-
Investment income	28,244	-	42,929	-
Interest expense, net	(19,584)	-	(27,899)	-
Total nonoperating revenues and expenses	465,509	-	472,344	-
Income (loss) before capital contributions	32,930	(2,276)	105,788	6,302
Capital contributions	4,743	-	1,111	-
Change in net assets	37,673	(2,276)	106,899	6,302
Net assets – beginning of year	1,175,257	55,423	1,068,358	49,121
Net assets – end of year	$ 1,212,930	$ 53,147	$ 1,175,257	$ 55,423

The accompanying notes are an integral part of these consolidated financial statements.

DALLAS COUNTY HOSPITAL DISTRICT

dba Parkland Health & Hospital System

(A Component Unit of Dallas County, Texas)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011

(Amounts in thousands)

	2012	2011
HOSPITAL AND HEALTH PLAN		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from third-party payors and patients	$ 980,896	$ 955,287
Payments to suppliers	(897,377)	(882,462)
Payments to employees	(687,080)	(653,337)
Other receipts	183,601	262,671
Net cash used in operating activities	(419,960)	(317,841)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Ad valorem taxes	420,225	426,290
Grants and contributions	30,109	29,059
Net cash provided by noncapital financing activities	450,334	455,349
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contribution	4,743	1,111
Purchases of capital assets	(338,462)	(192,075)
Interest paid	(39,044)	(39,042)
Build America bonds subsidy	13,299	13,299
Net cash used in capital and related financing activities	(359,464)	(216,707)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	29,911	33,490
Investments:		
Purchases	(240,955)	(398,295)
Maturities	574,758	515,198
Change in Designated assets	6,000	3,998
Net cash provided by investing activities	369,714	154,391
INCREASE IN CASH AND CASH EQUIVALENTS	40,624	75,192
CASH AND CASH EQUIVALENTS — Beginning of year	204,787	129,595
CASH AND CASH EQUIVALENTS — End of year	$ 245,411	$ 204,787

The accompanying notes are an integral part of these consolidated financial statements.

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DALLAS COUNTY HOSPITAL DISTRICT
dba Parkland Health & Hospital System
(A Component Unit of Dallas County, Texas)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011
(Amounts in thousands)

	2012	2011
HOSPITAL AND HEALTH PLAN		
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (432,579)	$ (366,556)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	57,416	58,995
Change in operating assets and liabilities:		
Patient accounts receivable	(1,256)	(682)
Other receivables, inventories and other assets	(68,620)	5,715
Accounts payable and accrued expenses	31,188	(29,164)
Due to third-party reimbursement programs	(3,379)	7,171
Other current liabilities	1,685	3,370
Net pension asset	(457)	(40)
Other long-term liabilities	(3,958)	3,350
Net cash used in operating activities	$ (419,960)	$ (317,841)
SUPPLEMENTAL INFORMATION:		
Unpaid purchases of capital assets in accounts payable and accrued expenses	$ 60,035	$ 20,973
Unrealized gain (loss) on investments	$ (10,566)	$ 2,161
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents listed on the balance sheet	$ 121,198	$ 187,627
Cash and cash equivalents included in assets limited as to use	124,213	17,160
Total cash and cash equivalents	$ 245,411	$ 204,787

(Concluded)

The accompanying notes are an integral part of these consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization — The Dallas County Hospital District, dba Parkland Health & Hospital System ("Parkland"), is a political subdivision of the state of Texas (the "State"), and is a discretely presented component unit of Dallas County, Texas. Dallas County Hospital District is composed of Parkland Memorial Hospital (the "Hospital"); the Parkland Foundation (the "Foundation"); the Parkland Center for Clinical Innovation ("PCCI") and the Parkland Community Health Plan, Inc. (the "Health Plan"). Parkland is a hospital district, and accordingly, its income is excluded under Section 115 of the Internal Revenue Code (the "Code"), and it is recognized as an organization described in Section 501(c)(3) of the Code, and as such, is exempt from federal income taxes. During 2012 and 2011, all income was related to essential government functions. The Hospital, PCCI, and the Foundation have fiscal years ending September 30. The Health Plan's fiscal year ends December 31. All references to annual periods refer to the year ended September 30.

The Hospital operates 699 inpatient beds, 60 neonatal beds, numerous outpatient clinics, and an emergency room. The Hospital also operates the Community Oriented Primary Care clinics in the community and on the Hospital campus. Additionally, the Hospital serves as the major teaching hospital for the UT Southwestern Medical Center at Dallas ("UT Southwestern"), which is located adjacent to the Hospital, in accordance with an affiliation agreement effective September 1, 2006. The Hospital also manages the Dallas County jail health system. The Dallas County jail is the seventh largest jail in the nation with approximately 6,400 inmates. Parkland provides direct patient care at five facilities and contracts for services at four juvenile facilities.

The Foundation is a nonprofit corporation organized in Texas, in 1985, to support and benefit Parkland exclusively. It is an organization as described in Section 501(c)(3) of the Code. The Foundation's mission is to secure substantial financial resources that advance the clinical, educational, and research quests of Parkland.

The Foundation is a discretely presented component unit of Parkland, which is deemed to have control of the Foundation, since the majority of the Foundation's Board of Directors are appointed by Parkland's Board of Managers. The differences in amounts due to the Hospital and due from the Foundation in the accompanying balance sheets are primarily due to the timing of receipt of funds by the Hospital from the Foundation. Financial statements of the Foundation may be obtained by writing to Parkland's accounting office.

The Health Plan is a nonprofit corporation organized in Texas in 1995 and is reported as a blended component unit of Parkland. It is an organization as described in Section 501(c)(4) of the Code. The Health Plan participates in the Texas Medicaid Managed Care Program and the Children's Health Insurance Program. All income of the Health Plan was related business income during 2012 and 2011.

PCCI is a nonprofit research and development corporation organized in Texas in 2012 and is reported as a blended component unit of Parkland. It is an organization as described in Section 501(c)(3) of the Code. PCCI specializes in the development of software that helps clinicians predict patients that are potentially at high risk for an adverse event.

Dallas County taxpayers provide ad valorem tax revenues to Parkland, but Dallas County does not hold title to any of Parkland's assets and does not have any rights to any surpluses of Parkland. The members of Parkland's Board of Managers are appointed by the Dallas County Commissioners Court. The Dallas County Commissioners Court approves Parkland's tax rate and annual budget.

Intraentity Activity — The financial statements include the accounts of Parkland as defined above. All significant intraentity accounts and transactions have been eliminated. Unless otherwise noted, the following footnotes do not include the Foundation.

Significant Accounting Policies — Parkland classifies net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in Capital Assets, Net of Related Debt — This component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Unspent related debt proceeds are excluded from the calculation of invested in capital assets, net of related debt.

Restricted — This component of net assets consists of net assets whose use is restricted through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or laws through constitutional provisions or enabling legislation.

Unrestricted — This component of net assets consists of those assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Parkland uses the accrual method of accounting, whereby revenues are recognized in the accounting period when services are rendered and expenses are recognized when incurred.

Under the provisions of the American Institute of Certified Public Accountants' *Audit and Accounting Guide*, *Health Care Entities*, Parkland is considered a governmental organization and is subject to the pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* Parkland has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Statements of Revenues, Expenses, and Changes in Net Assets — For purposes of financial statement presentation, operating revenues include those generated from direct patient care and related support services. Nonoperating revenues consist of those revenues that are related to financing and investing types of activities and result from nonexchange transactions or investment income. When an expenditure is incurred for the purposes for which there are both restricted and unrestricted net assets available, it is Parkland's policy to apply those expenditures to restricted net assets, to the extent that such are available, and then to unrestricted net assets.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Parkland Foundation Net Assets — Upon receipt, contributions, grants, and other revenue restricted by donors for specific purposes are recorded to the appropriate restricted net asset class. Restricted net assets are generally recognized as additions to unrestricted net assets only to the extent that qualifying expenditures are incurred. Pledges received with substantial contingencies are not reflected in the balance sheet until the contingencies have been fulfilled.

Cash and Cash Equivalents and Investments — Parkland considers all highly liquid investments with original maturities of less than 90 days at date of purchase to be cash equivalents. Cash and cash equivalents include demand deposits and investments in the Texas Local Government Investment Pool ("TexPool"), which is a local government investment pool sponsored by the Texas Comptroller of Public Accounts and managed by Federated Investors. Additional cash and cash equivalents are kept in AAA-rated Securities and Exchange Commission-registered money market mutual funds. All Parkland demand deposits are collateralized with securities pledged to Parkland and held in safekeeping at a third-party bank on behalf of Parkland's depository institution.

Statutes give Parkland the authority to invest the funds in obligations of the United States, as well as direct obligations of the State and other obligations guaranteed or insured by the State or the United States. The following investments are also acceptable: obligations of states, agencies, counties, or cities of any state that have been rated not less than "A" or its equivalent by a nationally recognized investment firm, and certificates of deposit guaranteed, insured, or secured by approved obligations and prime domestic bankers' acceptances. Other authorized investments include prime commercial paper; fully collateralized repurchase agreements; Securities and Exchange Commission-registered, no-load money market mutual funds whose assets consist exclusively of approved obligations; and approved local government investment pools.

All investments at September 30, 2012 and 2011, are reported at fair value based on quoted market prices with realized and unrealized gains and losses included in investment income in the statements of revenues, expenses, and changes in net assets. Obligations of the United States government with maturity dates in excess of one year that are not expected to be expended within one year are reported as long-term investments in the accompanying balance sheets.

Receivables and Payables — The carrying amount of receivables and payables is reported in the balance sheets at approximate fair value due to the short maturity of these instruments.

Patient Accounts Receivable — Patient accounts receivable is presented net of allowances for charity, contractual discounts and bad debts of $478 million and $494 million, as of September 30, 2012 and 2011, respectively.

Inventories — Inventories are stated at the lower of cost (determined on an average-cost basis) or market.

Capital Assets — Capital assets are recorded at cost or, if donated, fair market value at the date of receipt. Costs of major renewals and betterments that extend useful lives are capitalized, while maintenance and repairs are charged to current operations. Assets with a purchase price of $5,000 or more are capitalized and assets with a purchase price of less than $5,000 are expensed. Disposals are removed at carrying cost, less accumulated depreciation, with any resulting gain or loss included in other nonoperating revenue or expense. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets. Estimated useful lives for buildings are 10 to 40 years, and for equipment, 3 to 20 years.

Capitalized interest is calculated based upon interest cost for the period, less investment income related to long term debt for the same period.

Parkland evaluates long-lived assets regularly for impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of assets. An impairment charge is recorded on those assets for which the estimated fair value is below its carrying amount. No material impairment charges to long-lived assets were recorded for the fiscal years ended September 30, 2012 and 2011.

Deferred Bond Issue Costs — The costs associated with the issuance of bonds are being amortized over the term of the respective bond issue, using a method which approximates the effective interest method (see Note 10).

Assets Limited as to Use — Assets limited as to use represent those assets whose use has been legally restricted, including the 2009 Bond proceeds (see Note 10). Resources are also set aside for board-designated purposes or self-insurance arrangements. Current assets limited as to use represent current assets related to capital projects.

Uncompensated Care — Parkland provides services to uninsured patients who qualify for tax-supported care. The program is called Parkland Health*Plus* and is designed for Dallas County indigent patients with family incomes up to 200% of the federal poverty level and no third-party coverage, such as Medicaid, Medicare, or commercial insurance. Parkland recognized ad valorem tax revenues of approximately $420 million and $425 million in 2012 and 2011, respectively, to fund services for qualified patients.

Parkland also provides services to patients who are Dallas County residents and have incomes that exceed the limit for tax-supported health care or whose income cannot be determined. Although these patients are uninsured, they do not qualify for tax-supported health care and are classified as self-pay. Certain of these patients are medically indigent. Certain of these patients have limited financial resources and are unable to pay for the services received, while others may be able to pay for some or all services received, but are unwilling to do so. Charges for services to these patients were approximately $311 million and $359 million in 2012 and 2011, respectively, and are reflected in the statements of revenues, expenses, and changes in net assets as part of net patient services revenue.

Management estimates the cost of uncompensated health care, by applying a ratio of overall costs to gross charges applied to the gross uncompensated charges during the year ended September 30, 2012, at approximately $685 million, of which approximately $409 million is charity care, and for the year ended September 30, 2011, at approximately $605 million, of which approximately $335 million is charity care.

Ad Valorem Taxes — Parkland received approximately 25% of its total revenues from ad valorem taxes in 2012 and 2011. Parkland's ad valorem taxes receivable is net of an allowance for uncollectible taxes of $17 million as of September 30, 2012 and $18 million as of September 30, 2011.

Current taxes are collected beginning in October of each year and become delinquent after January 31. Ad valorem tax revenue is recognized in the year for which taxes are levied. A schedule of ad valorem taxes follows (dollars in thousands):

Fiscal Year		Tax Base	Tax (per $100) Valuation		Net Tax Revenue (1)		Cost of Uncompensated Care		Cost of Uncompensated Care Over Tax Revenue
2011	$	158,916,261	0.271	$	424,666	$	605,572	$	180,906
2012	$	156,257,004	0.271	$	420,497	$	684,739	$	264,242

(1) Net tax revenue includes adjustments for actual collection performance.

Disproportionate Share — The disproportionate share program is a supplemental reimbursement program that allows additional funding for hospitals that provide a significant proportion of Medicaid and indigent care services. Under program guidelines, Parkland may use the funds to benefit the indigent in either current or future periods. Parkland recognizes all funds received under the program as operating revenue in the applicable year, and any amounts relating to that year that are not yet received are included in other receivables in the accompanying balance sheets. There is no guarantee that this program will continue into future years. The proposed program for fiscal year 2013 will include changes to the distribution formula that benefit Parkland while reduced total funds will reduce monies allocated to Parkland. As of September 30, 2012 and 2011, there were no receivables recorded for the disproportionate share program. Total revenue recognized related to the disproportionate share program was $31.1 million and $40.2 million in 2012 and 2011, respectively.

Upper Payment Limit Funds — The upper payment limit ("UPL") program was created by the State to provide additional federal matching funds. Under program guidelines, Parkland may use the funds to benefit the indigent in either current or future periods. Parkland recognizes all funds received under the upper payment limit program as operating revenue in the applicable year, and any amounts relating to that year that are not yet received are included in other receivables in the accompanying balance sheets. The upper payment limit program was discontinued September 30, 2011 in favor of the 1115 Transformation Waiver Funds. As of September 30, 2011, receivables of $24 million were recorded for the upper payment limit funds. Total revenue recognized related to the UPL program was $148.6 million and $147.4 million in 2012 and 2011, respectively.

Affiliation Agreement – In 2007, Parkland entered into an Indigent Care Affiliation Agreement with a number of hospital systems in Dallas County (collectively, the "Affiliated Hospitals") for the purpose of participation in the Private Hospital Medicaid Supplemental Payment Program authorized by Medicaid State Plan Amendment ("Private UPL Program"). Parkland paid $114 million during the year ended September 30, 2012 and $102 million during the year ended September 30, 2011 for the Texas Private UPL Program. Amounts paid under these arrangements are recorded in purchased medical services, in the accompanying statements of revenue, expenses, and changes in net assets.

1115 Transformation Waiver Funds — The 1115 Transformation Waiver began October 1, 2011. Under this waiver, the former UPL programs are discontinued in favor of a reimbursement methodology that balances payment for uncompensated care costs (UC) with the need to improve quality of care for Texas recipients using Delivery System Reform Incentive Payments (DSRIP) funds. Over the 5 year waiver period, UC reimbursement generally moves downward while available DSRIP monies increase, so there is an even split between UC and DSRIP by the last year of the waiver. The program divides the state into 20 Regional Health Partnerships (RHPs), creating an environment where regional collaboration is essential in order to earn available monies. This mixture of new partners, a relatively unknown program, and new costs to create meaningful change in quality create some risk of delayed payments to Parkland. Parkland recognizes all funds received under the program as operating revenue in the applicable year, and any amounts relating to that year that are not yet received are included in other receivables in the accompanying balance sheets. There is no guarantee that this program will continue during the course of the 5 year waiver or that the waiver will be renewed upon initial completion, which could result in a reduction of funding. As of September 30, 2012 the receivable for funds due to Parkland as a result of the 1115 waiver program was $67 million.

Tobacco Settlement Funds — In the fiscal years ended September 30, 2012 and 2011, Parkland received a portion of its funds from the settlement of the State's lawsuit against the tobacco industry. Under the program guidelines, Parkland is free to use the funds in either current or future periods without restriction. Parkland recognizes all funds received from the settlement as operating revenue in the period funds are received.

Net Patient Services Revenue — Parkland has agreements with third-party payors that provide for reimbursement to Parkland at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between Parkland's established rates for services and the amounts reimbursed by third-party payors. Parkland's more significant third-party payors are the Medicare and Medicaid programs, which accounted for gross charges of approximately 13% and 32% in 2012, respectively, and approximately 14% and 31% in 2011, respectively. Allowances for uncollectible amounts are estimated using historical experience, current trends and policy information, aged account balances, and a collectibility analysis. All net patient services revenue in the accompanying statements of revenues, expenses, and changes in net assets is net of contractual adjustments and bad debt provisions totaling approximately $3.2 billion and $2.9 billion for the years ended September 30, 2012 and 2011, respectively.

In accordance with provisions of the Medicare and Medicaid programs, inpatient services to Medicare and Medicaid beneficiaries are paid at prospectively determined rates per discharge based on a patient classification system utilizing clinical, diagnostic, and other factors. Medicare outpatient services are reimbursed on a prospective basis through ambulatory payment classifications, which are based on clinical resources used in performing the procedure. Medicaid outpatient services are paid based on the lower of reasonable costs or customary charges, a fee schedule, or blended rates. For certain costs, as defined by the Medicare program, including kidney acquisition, medical education, and bad debts, additional reimbursement is provided based on cost pass-through payments and the cost report.

Cost-reimbursable items are reimbursed to Parkland at a tentative rate, with final settlement determined after submission of annual cost reports by Parkland, which are subject to audit by the fiscal intermediaries prior to final settlement. Any differences between final audited settlements and amounts accrued at the end of the prior reporting period are included currently in the statements of revenues, expenses, and changes in net assets as an adjustment to the appropriate allowance account. Such adjustments increased net patient services revenue by $10.8 million and $5 million in 2012 and 2011, respectively. Parkland's cost reports have been audited and settled by the fiscal intermediaries through 2007 for Medicare and Medicaid. Cost reports for both programs are subject to certain re-openings and appeals as per federal and state regulations.

Premium Revenues — Premium revenues are recognized in the period in which the members of the Health Plan are entitled to receive health care services. Premiums collected in advance are deferred. Revenues for delivery supplemental payments received for Medicaid-eligible births under the Health Plan are recognized based on claims information from Texas hospitals and information from the State and include estimates for incurred, but unreported births at year-end.

Grant Revenue — Grant revenues are recognized in the period in which expenditures related to the grant are incurred or the period in which grant funds become available. The Obama Administration's February 2009 stimulus bill, American Recovery and Reinvestment Act ("ARRA"), established rules for the "meaningful use" of electronic health records. Government incentives for implementing electronic medical records were established under the Health Information Technology for Economic and Clinical Health Act. The U.S. Department of Health and Human Services released final "meaningful use" rules during 2010 on how health care providers could access federal economic stimulus money by using electronic medical records. Health care providers are eligible to receive these incentives during 2011 and 2012. Parkland recognized revenue of $8.3 and $8.4 million in federal stimulus funds related to their implementation of electronic medical records during 2012 and 2011, respectively. These amounts have been recorded as grant revenue.

Compensated Absences — Parkland accrues an estimated liability for compensated absences as they are earned by employees based on Parkland's policy. Parkland's liability related to compensated absences was $32.7 million and $31 million as of September 30, 2012 and 2011, respectively, and is recorded in the financial statements in accounts payable and accrued expenses.

Pharmaceutical Costs — Parkland participates in replacement pharmaceutical programs on behalf of patients who enroll and meet eligibility requirements of these programs.

New Accounting Pronouncements — In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and 34*. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. This statement also clarifies the reporting of equity interests in legally separate organizations. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. Parkland is in the process of evaluating the impact this statement will have on its financial position, the results of its operations, the changes in its net assets, and its cash flows.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement directly incorporates into GASB's authoritative literature certain pronouncements issued by FASB and its predecessors on or before November 30, 1989 to the extent that they do not conflict with or contradict GASB pronouncements. In that manner, GASB Statement No. 62 eliminates the need for financial statement preparers to determine which FASB and AICPA pronouncement provisions apply to state and local governments. The requirements of GASB Statement No. 62 are effective for financial statements for periods beginning after December 15, 2011; however, GASB encourages early implementation. Parkland has evaluated the impact this pronouncement will have on its financial position, the results of its operations, the changes in its net assets, and its cash flows, and determined that all applicable provisions have already been applied to Parkland's financial statements.

2. DEPOSITS AND INVESTMENTS

As of September 30, 2012 and 2011, Parkland had deposits and investments as follows (dollars in thousands):

	2012		2011	
Description	**Fair Value**	**Weighted-Average Days to Maturity**	**Fair Value**	**Weighted-Average Days to Maturity**
Bank deposits	$ 1,098	N/A	$ 50	N/A
Texpool deposits	156,055	1	119,691	1
Money market	88,261	1	85,046	1
FNMA	309,486	602	494,290	911
FHLB	118,828	304	206,826	689
FHLMC	317,146	532	303,147	940
FFCB	39,716	521	129,620	670
US Treasury	7,006	504	4,057	449
	$ 1,037,596		$ 1,342,727	

Description on Balance Sheet	2012	2011
Cash and cash equivalents	$ 121,198	$ 187,627
Assets limited as to use -- current portion	60,829	76,918
Assets limited as to use-- noncurrent portion	728,845	960,758
Short-term investments	25,966	6,420
Long-term investments	100,758	111,004
	$ 1,037,596	$ 1,342,727

Investment Maturities	2012	2011
One year or less	$ 150,257	$ 110,485
After one through five years	510,188	816,908
After five through ten years	-	-
After ten years	131,737	210,547
	$ 792,182	$ 1,137,940

Estimated fair values have been determined by Parkland using appropriate valuation methodologies by third parties, quoted market prices, and information available to management as of September 30, 2012 and 2011. Considerable judgment is required in developing these estimates; accordingly, no assurance can be given that the estimated values presented are indicative of the amounts that would be realized in a free-market exchange. Parkland adjusts the carrying value of financial instruments classified as assets to reflect their appropriate fair value.

Interest Rate Risk — Parkland invests in fixed-rate debt securities with approximately one- to four year maturities. Interest rate risk is limited by the short-term nature of these investments.

Credit Risk — Parkland has a comprehensive investment policy that is designed to comply with State law and the Public Funds Investment Act. Parkland's investments in U.S. Treasury notes carry the explicit guarantee of the U.S. government. The debt securities issued by Federal National Mortgage Association (FNMA), the Federal Home Loan Bank (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), and the Federal Farm Credit Bureau (FFCB) are rated AAA by Standard & Poor's rating agency. TexPool's portfolio consists exclusively of U.S. government securities; repurchase agreements collateralized by U.S. government securities; and AAA-rated, no-load money market mutual funds. All demand deposits are collateralized by Federal Deposit Insurance Company (FDIC) insurance, with securities pledged to Parkland, and held in safekeeping at a third-party bank on behalf of Parkland's depository institutions.

Concentration of Credit Risk — Per Parkland's investment policy, no more than 40% of the investment portfolio can be invested in any one issuer of U.S. government agencies and government-sponsored enterprises, including, but not limited to, the FNMA, the FHLB, and the FHLMC. The largest percentage in any one issuer is invested in the FHLMC at 31% as of September 30, 2012, and the FNMA at 37% as of September 30, 2011.

Custodial Credit Risk — Per Parkland's investment policy, all investments are held in Parkland's name in safekeeping at Parkland's depository institutions.

Investment Income — Investment income for the years ended September 30, 2012 and 2011, consisted of the following (in thousands):

	2012	2011
Interest income	$ 38,810	$ 40,768
Unrealized gain (loss) on investments	(10,566)	2,161
Total investment income	$ 28,244	$ 42,929

Foundation — Cash and cash equivalents held by the Foundation are $7.1 million and $8.5 million at September 30, 2012 and 2011, respectively.

Parkland Foundation Cash and Cash Equivalents and Investments:

	2012			2011		
Description		**Fair Value**	**Weighted-Average Days to Maturity**		**Fair Value**	**Weighted-Average Days to Maturity**
Bank deposits	$	7,060	N/A	$	7,221	N/A
Brokerage company deposits		-	N/A		1,255	N/A
Fixed income securities		51,377	515		38,385	1,070
Equity securities		1,127			947	
Other assets		281			176	
	$	59,845		$	47,984	

Description on Balance Sheet				
Cash and cash equivalents	$	7,060	$	8,476
Short-term investments		11,754		4,995
Long-term investments		41,031		34,513
	$	59,845	$	47,984

3. ASSETS LIMITED AS TO USE

Assets limited as to use at September 30, 2012 and 2011, consist of the following funds, which are all investments in TexPool, U.S. Treasury, and U.S. government-sponsored enterprises (in thousands):

	2012	2011
Debt service	$ 10,911	$ 10,253
Bond proceeds for construction	304,410	561,080
Designated for capital uses	469,793	462,019
Other designated	4,560	4,324
Total	789,674	1,037,676
Less current portion	(60,829)	(76,918)
Long-term portion	$ 728,845	$ 960,758

Debt Service — Assets limited as to use for debt service represent those assets related to the 2009 bond issues whose use is legally restricted.

Bonds proceeds for construction – Bonds proceeds used for construction represent the unspent proceeds on the bonds issued to fund the construction of the New Parkland campus.

Designated for Capital Uses — Assets limited as to use designated for capital uses represent funds designated at the discretion of the Board of Managers for annual additions to capital assets, as well as funding for a combination of renovations and new facilities.

Other Designated — Other assets limited as to use include funds designated by the Board of Managers to fund Parkland's hospital professional liability program.

Foundation Restricted Net Assets — Restricted net assets of $51.5 million and $54.1 million at September 30, 2012 and 2011, respectively, are restricted net assets subject to donor-imposed stipulations that will be met by actions of the Foundation or Parkland and/or the passage of time.

4. CAPITAL ASSETS

Capital assets at September 30, 2012, are summarized as follows (in thousands):

	Beginning Balance	Additions / Transfers	Retirements/ Transfers	Ending Balance
Land and improvements	$ 83,034	$ 31,417	$ (50)	$ 114,401
Buildings	396,258	13,347	(56)	409,549
Equipment	362,310	36,994	(2,927)	396,377
Total	841,602	81,758	(3,033)	920,327
Land Improvements	(2,900)	(676)	4	(3,572)
Buildings	(271,821)	(16,824)	56	(288,589)
Equipment	(245,244)	(40,001)	2,986	(282,259)
Total accumulated depreciation	(519,965)	(57,501)	3,046	(574,420)
Net	321,637	24,256	14	345,907
Construction in progress	254,906	394,697	(58,794)	590,809
Capital assets - net	$ 576,543	$ 418,953	$ (58,780)	$ 936,716

Capital assets at September 30, 2011, are summarized as follows (in thousands):

	Beginning Balance	Additions / Transfers	Retirements/ Transfers	Ending Balance
Land and improvements	$ 73,723	$ 10,519	$ (1,208)	$ 83,034
Buildings	407,749	17,111	(28,602)	396,258
Equipment	363,583	42,223	(43,496)	362,310
Total	845,055	69,853	(73,306)	841,602
Land improvements	(4,633)	(90)	1,823	(2,900)
Buildings	(284,913)	(15,058)	28,150	(271,821)
Equipment	(244,430)	(42,029)	41,215	(245,244)
Total accumulated depreciation	(533,976)	(57,177)	71,188	(519,965)
Net	311,079	12,676	(2,118)	321,637
Construction in progress	100,636	214,976	(60,706)	254,906
Capital assets - net	$ 411,715	$ 227,652	$ (62,824)	$ 576,543

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at September 30, 2012 and 2011, consist of the following (in thousands):

	2012	2011
Accounts payable	$ 140,059	$ 58,318
Accrued payroll and benefits	48,692	40,680
Other employee benefits	5,780	5,227
Accrued claims		
Health Plan reserves for incurred, but unreported claims	40,673	44,657
Employee health care benefit liability	7,085	2,350
Workers' compensation liability	4,354	4,188
Total accounts payable and accrued expenses	$ 246,643	$ 155,420

The liabilities described in the table below as of September 30, 2012 and 2011, are based on requirements that a liability for claims be reported if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These liabilities include estimates for both reported claims and incurred, but not reported claims. As a result of settled claims, the frequency of new claims, and other economic and social factors, claims liabilities are reevaluated periodically.

		Balance at Beginning of Year	Current-Year Claims & Changes in Estimates	Claim Payments		Balance at End of Year
Health Plan reserves for incurred, but unreported claims:						
2011	$	53,158	397,084	(405,585)	$	44,657
2012	$	44,657	416,700	(420,684)	$	40,673
Employee health care benefit liability:						
2011	$	1,345	71,473	(70,468)	$	2,350
2012	$	2,350	80,023	(75,288)	$	7,085
Workers' compensation liability:						
2011	$	4,630	1,415	(1,857)	$	4,188
2012	$	4,188	1,902	(1,736)	$	4,354
Hospital professional and general liability:						
2011	$	3,952	1,312	(940)	$	4,324
2012	$	4,324	1,770	(1,572)	$	4,522

Health Plan Reserves for Incurred, but Unreported Claims — The Health Plan provides reserves for estimated incurred, but unreported and reported, but unpaid physician, hospital, and pharmacy services rendered to members enrolled in the Health Plan during the period.

These reserves are estimated by the use of completion factors applied to historical lag patterns and cost trends. Actual medical costs to prior-period estimates are reflected in the current period and may be significantly different than the earlier estimates.

Employee Health Care Benefit Liability — Parkland manages a self-insurance program that provides for the payment of employee health claims. Parkland records estimated self-insurance costs for health claims as current liabilities. The amount of the estimated liability is derived from a claims modeling system. To obtain coverage, employees authorize payroll withholdings to pay the employee portion of contributions for individual and dependent coverage. Claims are paid by a third-party administrator acting on behalf of Parkland. The administrative contract between Parkland and the third-party administrator is renewable annually, and administrative fees are included in the contractual provisions.

Workers' Compensation Liability — Parkland maintains a self-insurance plan for workers' compensation benefits, managed by a third-party administrator. Parkland records estimated self-insurance costs for workers' compensation as current liabilities. The amount provided for the estimated liability is based on settlement of claims. The funding estimate used an actuarially determined 1.5% discount rate for 2012 and 2% for 2011.

Hospital Professional and General Liability — Parkland is involved in certain legal actions and claims arising in the ordinary course of operations. Parkland records estimated self-insurance costs for medical malpractice and general liabilities as other current and other long-term liabilities. The amounts provided for funding and the estimated liabilities are based on settlement of claims limited to $100,000 per claim and $300,000 per occurrence in accordance with the limited liability provisions of the Texas Tort Claim Act. The funding estimate used an actuarially determined 1.5% discount rate for 2012 and 2% for 2011.

6. OPERATING LEASES

Parkland leases facilities under operating leases that expire over periods of up to four years. Renewal and purchase options are available on certain of these leases. At September 30, 2012, future minimum rental payments applicable to the operating leases were as follows (in thousands):

Years Ending	Amount
2013	4,041
2014	3,762
2015	3,195
2016	895
Total	$ 11,893

Rental expense for all operating leases is included in "Supplies and Other" on the statement of revenues, expenses, and changes in net assets. Rental expense was approximately $4.7 million and $4.2 million in 2012 and 2011, respectively.

Parkland is also a lessor of land, office space and parking space under operating leases. Renewal options are available on certain of these leases. Rentals received under these arrangements are recorded in other operating revenue, net in the accompanying statements of revenue, expenses, and changes in net assets. Minimum future rentals to be received under operating leases at September 30, 2012, are as follows (in thousands):

Years Ending		Amount
2013	$	1,328
2014		470
2015		349
2016		298
2017		209
2018-2022		850
2023-2027		704
2028-2032		640
2033-2037		430
2038-2042		229
2043-2047		229
2048-2052		229
2053-2057		229
2058-2062		229
2063-2067		229
2068-2072		229
2073-2077		229
2078-2082		229
2083-2087		204
Total	$	7,543

7. RETIREMENT PLANS

Defined Benefit Plan — Parkland maintains the Dallas County Hospital District Retirement Income Plan, a single-employer, defined benefit pension plan (the "Plan"), which covers substantially all of its full-time employees. The Plan is administered by the Board of Managers of Parkland (the "Board"). Plan provisions and contribution requirements are established and may be amended by the Board. The annual payroll for employees covered by the Plan for the years ended December 31, 2011 and 2010, which is included in the actuarial valuation as of January 1, 2012 and 2011, respectively, was approximately $493 million and $481 million, respectively. For the years ended September 30, 2012 and 2011, Parkland's total payroll was approximately $604 million and $578 million, respectively.

Employees are required to contribute 4.5% of their annual salaries to the Plan. Parkland is required by the Plan to contribute the remaining amounts necessary to fund the Plan using actuarial methods. Effective January 1, 2014, the required employee contribution to the Plan will increase to 4.7% of their annual salaries.

Employees attaining the age of 65 who have completed five or more years of service are entitled to annual benefits of 1.25% of their final average annual earnings for each year of service prior to 1982, plus 2.5% of their final average earnings for each year of service after 1981 up to a maximum of 60% of final average earnings, subject to Internal Revenue Service limitations. The Plan permits early retirement, for which the participant is eligible for a reduced benefit at age 55, provided the employee has completed five years of service.

Effective July 1, 2010, the Plan was amended to assure parity with Social Security benefits for some participants. The greater of the above described "normal" benefit accrual rates or the following alternative rates will apply: 4% of the Participant's final average earnings up to $10,000 multiplied by his years of service (capped at 25 years) plus 2% of that portion of the final average earnings, if any, which is between $10,000 and $30,000, multiplied by his years of service (capped at 25 years). For calendar years following 2010, the breakpoint values of $10,000 and $30,000 will be indexed to the Social Security Taxable Wage Base. The plan document was restated effective January 1, 2011 to incorporate three prior amendments.

If an employee terminates his or her employment with Parkland prior to the completion of five years of service, the employee is entitled to a refund of his or her contribution. After five years of service, the employee, upon termination, is entitled to the pension accrued to the date of termination, payable commencing at his or her normal retirement date or at the age of 55 upon early retirement. Actual benefits to be paid, however, may vary depending on, among other things, actual retirement date, form of payment elected, and certain limitations as described in the Plan document.

Parkland's funding policy is to make periodic actuarially determined employer contributions in amounts designed to accumulate sufficient assets to pay benefits when due. The projected unit credit method is used to determine both the funding and the pension benefit obligation.

Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.25% per year, compounded annually; (b) projected salary increases of 4%; (c) inflation of 4.25%, and (d) the assumption that benefits will not increase after retirement. The amortization method used is the level percentage of projected open payroll over a period of 30 years. The actuarial value of assets is equal to a five-year rolling phase-in of the excess of actual investment income over expected investment income, based on the market value.

Parkland's annual pension cost and net pension asset related to the Plan for the year ended September 30, 2012, were as follows (in thousands):

Annual required contribution	$ 16,022
Interest on net pension asset	(1,683)
Adjustment to annual required contribution	1,240
Annual pension cost	15,579
Contributions	15,243
Increase/decrease in net pension asset	(336)
Net pension asset — beginning of year	21,085
Net pension asset — end of year	$ 20,749

The annual pension costs related to the Plan are as follows (in thousands):

Years Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
September 30, 2012	$ 15,579	98 %	$ 20,749
September 30, 2011	16,024	109 %	21,085
September 30, 2010	16,141	104 %	19,696

During the years ended September 30, 2012 and 2011, $21.9 million and $22.1 million, respectively, of employee contributions were made in accordance with the established contribution requirements described above. Parkland contributed approximately $15.2 million to the Plan during the year ended September 30, 2012, in accordance with contribution requirements determined by the January 1, 2012 actuarial valuation. Parkland contributed approximately $17.4 million to the Plan during the year ended September 30, 2011, in accordance with contribution requirements determined by the January 1, 2011 actuarial valuation. Three-year historical trend information presenting the progress in accumulating sufficient assets to pay benefits when due is presented in the supplemental schedule outside the basic financial statements, based on the Plan's year-end of December 31.

The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. This report may be obtained by writing to Parkland's accounting office. At January 1, 2012, 2011, and 2010, the actuarial value of assets was sufficient to fund 86.2%, 87.3%, and 86.5%, respectively, of the actuarial accrued liability. The unfunded liability as a percentage of the annual payroll for employees covered as of January 1, 2012, 2011, and 2010 was 18.0%, 16.0%, and 15.9%, respectively.

Defined Contribution Plan — Parkland also maintains a voluntary defined contribution plan covering all employees with at least one year of service. The defined contribution plan is administered by the Parkland Board of Managers. The defined contribution plan provisions and contribution requirements are established and may be amended by the Board. The payroll for employees covered by the defined contribution plan for the years ended September 30, 2012 and 2011 was approximately $529 million and $514 million, respectively. Parkland's total payroll was approximately $604 million and $578 million for the years ended September 30, 2012 and 2011, respectively. Eligible employees can choose to contribute from 2% to 20% of their base salaries. Parkland will match employees' contributions 100%, up to 6% of their base salaries. Employees are fully vested at all times in their voluntary contributions, plus earnings thereon. Vesting in Parkland's matching contributions is based on years of service. After one year of service, employees vest at the rate of 20% per year for five years. Should an employee terminate prior to vesting completely in Parkland's contributions, the unvested portion can be used to reduce Parkland's matching contributions in the aggregate in the following year.

Contributions for the year ended September 30, 2012, were approximately $16.8 million from Parkland and $35.1 million from employees, or 6.6% of covered payroll. The required contribution by Parkland for 2012 has been reduced by $0.7 million representing forfeitures of prior Parkland contributions and related investment income for nonvested amounts of employees withdrawing from the Plan upon termination. Contributions for the year ended September 30, 2011, were approximately $16.9 million from Parkland and $35.4 million from employees, or 6.8% of covered payroll. The required contribution by Parkland for 2011 has been reduced by $0.8 million representing forfeitures of prior Parkland contributions and related investment income for nonvested amounts of employees withdrawing from the Plan upon termination.

Postretirement Benefits Other Than Pension — In addition to providing pension benefits, Parkland provides certain health care benefits for retired employees until age 65 (the "OPEB Plan"). Effective October 1, 2007, Parkland adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The effect of adoption was to change recognition of postretirement benefit expenses from a cash basis as claims were paid to an accrual basis. As of January 1, 2012 and 2011, the number of retirees and eligible beneficiaries were 58 and 108, respectively.

The OPEB Plan is administered by the Parkland Board of Managers. The OPEB Plan provisions and contribution requirements are established and may be amended by the Board. The OPEB Plan does not issue a publicly available financial report. In September 2011, the Plan provisions were modified to discontinue allowing new enrollees in the Plan effective January 1, 2013.

Parkland's annual other postemployment benefit ("OPEB") cost or expense is calculated based on the annual required contribution ("ARC"), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities, or funding excess, over a period not to exceed 30 years. The following table shows the components of Parkland's OPEB cost for the year ended September 30, 2012, the amount actually contributed to the OPEB Plan, and changes in Parkland's net OPEB obligation to the OPEB Plan (in thousands):

Annual required contribution	$ 171
Interest on net OPEB obligation	281
Adjustment to annual required contribution	(225)
Annual OPEB cost	227
Contributions	(624)
Decrease in net OPEB obligation	(397)
Net OPEB obligation — beginning of year	5,618
Net OPEB obligation — end of year	$ 5,221

Parkland's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation were as follows (in thousands):

Years Ended	**Annual OPEB Cost**	**Percentage of OPEB Contributed**	**Net OPEB Obligation**
September 30, 2012	$ 227	275%	$ 5,221
September 30, 2011	305	197%	5,618
September 30, 2010	3,462	29%	5,913

As of the January 1, 2012 and 2011 actuarial valuation dates, the OPEB Plan was not prefunded. Contributions made were for current year costs incurred only. As of January 1, 2012, the actuarially accrued liability for benefits was $2.9 million, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $2.9 million. As of January 1, 2011, the actuarially accrued liability for benefits was $3.5 million, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $3.5 million. The covered payroll (annual payroll of active employees covered by the OPEB Plan) was $450.6 million and $465.5 million for January 1, 2012 and 2011, respectively. The ratio of the unfunded actuarial accrued liability to the covered payroll was 0.6% and 0.8% as of January 1, 2012 and 2011, respectively.

Actuarial valuations of the OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the annual required contributions of Parkland and the funded status of the OPEB Plan are subject to continual revision as actual results are compared with past expectation and new estimates are made about the future.

In the January 1, 2012 and 2011 actuarial valuations, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5% investment rate of return. The amortization method used is the level percentage of projected open payroll over a period of 30 years.

8. CONCENTRATIONS OF PATIENT ACCOUNTS RECEIVABLE CREDIT RISK

Parkland grants credit without collateral to its patients, most of whom are Dallas County residents. The mix of receivables from patients and third-party payors as of September 30, 2012 and 2011, is as follows:

	2012	2011
Commercial insurance	25%	29%
Medicaid	48%	48%
Medicare	21%	21%
Patients	6%	2%
Total	100%	100%

9. COMMITMENTS AND CONTINGENCIES

Parkland is involved in litigation and compliance investigations arising in the normal course of business or as a result of routine internal compliance reviews conducted by management. The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. While no fines, penalties, or claims for repayment have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. Management believes that Parkland has appropriately reserved for any existing or unasserted claims related to such potential regulatory actions and the ultimate outcome will not have a material effect on the financial statements.

In July 2011, surveyors from the Centers for Medicare and Medicaid Services (CMS) assessed Parkland's compliance with the CMS Conditions of Participation, the health and safety standards health care organizations must meet in order to participate in the Medicare and Medicaid programs, including the Emergency Medical Treatment and Active Labor Act (collectively, the "COP"). The survey was in response to a patient complaint.

The CMS assessments found that Parkland was not fully compliant with the COP. Accordingly, in September 2011, CMS notified Parkland that it intended to terminate Parkland's participation in the Medicare and Medicaid program due to failure to meet certain standards. Recognizing the vital role Parkland serves in providing health care to the people of Dallas County, CMS suspended that termination when Parkland entered into a Systems Improvement Agreement ("SIA"). Under the terms of the SIA, Parkland agreed to: a) engage a team of independent consultants who will analyze Parkland operations in their entirety under the COP and, within 60 days of their engagement, provide a report to CMS outlining areas of improvement to ensure full compliance with all COP; b) assist the independent consultants in the development of a written plan outlining what specific actions Parkland must take to achieve substantial compliance with all COP; c) within 60 days of their engagement, assist the independent consultants with reviewing Parkland's existing Quality Assessment and Performance Improvement (QAPI) program to develop a comprehensive, hospital-wide, and effective QAPI program for implementation; d) and engage a full-time, independent, on-site Compliance Officer to provide oversight and coordination of Parkland's implementation of the COP and QAPI action plans designed to ensure Parkland's substantial compliance.

Effective November 8, 2011, Parkland engaged Alvarez & Marsal Healthcare Industry Group LLC (A&M) to serve as the Independent Consultative Experts (ICE) to fulfill the requirements of the SIA. Since its appointment as ICE, A&M has completed the "gap analysis" survey, drafted a Corrective Action Plan (CAP), which was approved by CMS, and has issued monthly progress reports indicating Parkland's compliance with the CAP. The SIA anticipates that within six months to a year after it approves the independent consultant's plan to ensure full compliance with all COP, CMS will conduct a full survey of hospital system operations to confirm whether Parkland has returned to compliance with all Medicare COP. The CMS survey is expected to be conducted sometime in late winter, early spring 2013; however, the timing of any survey is completely within the discretion of CMS.

Parkland remains fully committed to providing high quality health care services to its patients and the communities it serves. Parkland intends to work expeditiously and collaboratively with CMS and the independent consultants to resolve the matters identified by CMS as deficient under the COP and noted in its reports posted on Parkland's website, although there can be no assurance we will be able to do so. Failure to resolve these matters would have a material adverse effect on Parkland's finances, as 44% of Parkland's total revenues are generated from services to Medicare and Medicaid program patients. Subject to the provisions and conditions of the SIA and during its term, Parkland will continue to fully participate in the Medicare and Medicaid programs. If Parkland successfully implements the requirements of the SIA, it will continue to fully participate in the Medicare and Medicaid programs after the SIA expires.

The Patient Protection and Affordable Care Act (PPACA), was signed into law on March 23, 2010. The Health Care and Education Affordability Reconciliation Act (Reconciliation Act), which contains a number of amendments to PPACA, was signed into law on March 30, 2010. These healthcare bills (collectively, the "Reform Legislation") seek to increase the number of persons with access to health insurance in the United States by requiring substantially all U.S. citizens to maintain medical insurance coverage. The Reform Legislation makes a number of other changes to Medicare and Medicaid, such as reductions to the annual market basket update for federal fiscal years 2010 through 2019, a productivity offset to the market basket update beginning October 1, 2011 and a reduction to the disproportionate share payments. The various provisions in the Reform Legislation that directly or indirectly affect reimbursement are scheduled to take effect over a number of years.

Also included in the Reform Legislation are provisions aimed at reducing fraud, waste, and abuse in the healthcare industry. These provisions allocate significant additional resources to federal enforcement agencies and expand the use of private contractors to recover potentially inappropriate Medicare and Medicaid payments. The Reform Legislation amends several existing federal laws, including the Medicare Anti-Kickback Statute and the False Claims Act, making it easier for government agencies and private plaintiffs to prevail in lawsuits brought against healthcare providers. These amendments also make it easier for potentially severe fines and penalties to be imposed on healthcare providers accused of violating applicable laws and regulations.

Management cannot predict the positive or negative impact the Reform Legislation may have on Parkland's financial position, results of operations, changes in net assets, or cash flows.

As of September 30, 2012, Parkland had commitments outstanding of approximately $409 million related to the construction of the New Parkland Campus.

10. LONG-TERM DEBT

Limited Tax Bonds — On September 17, 2009, Parkland issued three series of Dallas County Hospital District Limited Tax Bonds ("the Bonds"), with a total principal amount of $705 million. The Bonds were authorized by an affirmative vote of the Dallas County electorate on November 3, 2008, and were issued pursuant to an order by the Dallas County Commissioner's Court. Proceeds of the Bonds will be used to fund the replacement hospital campus pursuant to Parkland's master facility plan. The Bonds pay interest on February 15th and August 15th each year, based upon a 360 day year consisting of twelve 30-day months. Payment of principal and interest on the Bonds is supported by a tax levy—initially $0.02 per $100 of taxable assessed valuation—on the taxable residential real estate, commercial real estate, and business personal property of Dallas County. The Bonds are rated "AAA" by both Standard & Poor's and Fitch.

Tax-Exempt Series 2009A Bonds were issued with a total principal amount of $24.8 million, bear interest at effective rates ranging from 2.06% to 2.59% (stated fixed interest rates of 3.0% and 5.0%), mature from August 15, 2014 to 2016, and were sold at a premium of $2.5 million. The Tax-Exempt Series 2009A Bonds are not subject to redemption prior to maturity.

Taxable Series 2009B Bonds were issued in accordance with provisions of the Build America Bonds program with a total principal amount of $222.5 million, bear interest at fixed interest rates (before interest rate subsidy) ranging from 4.948% to 6.171%, mature from August 15, 2020 through August 15, 2034, and were sold at par. Under the provisions of the Build America Bond program's Direct Payment Method, the Taxable Series 2009B Bonds qualify for interest rate subsidies from the U.S. Treasury of 35% of the interest costs paid on each payment date. The Taxable Series 2009B Bonds are subject to redemption prior to maturity on August 15, 2019 or on any date thereafter, in whole or in part, at the option of Parkland, at the par amount plus any accrued interest. Prior to August 15, 2019, the Taxable Series 2009B Bonds are subject to "make-whole" redemption, at a redemption price which is the greater of (a) the issue price, or (b) the sum of the present value of the remaining scheduled payments of principal and interest to maturity date of the bonds to be redeemed, discounted at the Treasury Rate plus 25 basis points. If the interest rate subsidy from the U.S. Treasury is reduced or eliminated, the Taxable Series 2009B Bonds may be redeemed, at the option of Parkland, at the Extraordinary redemption price which is the greater of (a) the issue price, or (b) the sum of the present value of the remaining scheduled payments of principal and interest to maturity date of the bonds to be redeemed, discounted at the Treasury Rate plus 100 basis points.

Taxable Series 2009C Bonds were issued in accordance with provisions of the Build America Bonds program with a total principal amount of $457.7 million, bear interest at fixed interest rates (before interest rate subsidy) ranging from 4.148% to 5.621%, mature from August 15, 2017 through August 15, 2044, and were sold at par. Under the provisions of the Build America Bond program's Direct Payment Method, the Taxable Series 2009C Bonds qualify for interest rate subsidies from the U.S. Treasury of 35% of the interest costs paid on each payment date. The Taxable Series 2009C Bonds are subject to "make-whole" redemption, at a redemption price which is the greater of (a) the issue price, or (b) the sum of the present value of the remaining scheduled payments of principal and interest to maturity date of the bonds to be redeemed, discounted at the Treasury Rate plus 25 basis points. If the interest rate subsidy from the U.S. Treasury is reduced or eliminated, the Taxable Series 2009C Bonds may be redeemed, at the option of Parkland, at the Extraordinary redemption price which is the greater of (a) the issue price, or (b) the sum of the present value of the remaining scheduled payments of principal and interest to maturity date of the bonds to be redeemed, discounted at the Treasury Rate plus 100 basis points.

Long-term debt maturities (including mandatory redemptions), interest payments, net of subsidy, and total debt service at September 30, 2012 are as follows (in thousands):

Years Ending September 30,	Payments and Mandatory Redemptions	Interest Payments, Net of Subsidy	Total Debt Service
2013	$ -	$ 25,743	$ 25,743
2014	7,015	25,743	32,758
2015	8,230	25,454	33,684
2016	9,525	25,100	34,625
2017	14,710	24,698	39,408
2018-2022	79,815	116,897	196,712
2023-2027	94,545	102,651	197,196
2028-2032	113,850	83,513	197,363
2033-2037	137,610	59,474	197,084
2038-2042	164,960	32,168	197,128
2043-2044	74,740	4,121	78,861
Subtotal	705,000	525,562	1,230,562
Bond premium	2,542	-	2,542
Accumulated amortization	(1,118)	-	(1,118)
Total	$ 706,424	$ 525,562	$ 1,231,986

As of September 30, 2012, the aggregate fair market value of the Bonds was approximately $873 million based on quoted market prices. Parkland is subject to federal arbitrage regulations which limit investment yields on bond proceeds.

Parkland's ability to issue debt payable from taxes is limited by tax rate limitations imposed by the Texas State Constitution. Parkland's ad valorem tax rate for all purposes cannot exceed $0.75 per $100 valuation. Parkland's ad valorem tax rate for fiscal year 2012 is below the limit at $0.271 per $100 valuation.

In the 2008 bond election, Parkland informed the voters that it may issue an additional series of bonds in the estimated amount of $42 million for the new hospital campus. There exists no immediate commitment by Parkland to issue such bonds.

Interest costs totaled $38.7 million for both fiscal years 2012 and 2011. Of total interest costs, $19.6 million and $27.9 million was expensed during 2012 and 2011, respectively. The remaining $19.1 million and $10.8 million was capitalized during 2012 and 2011, respectively.

11. SUBSEQUENT EVENTS

In connection with the preparation of the financial statements, subsequent events have been evaluated by Parkland through December 18, 2012, which was the date the financial statements were available for issuance, and concluded that no additional disclosures are required.

* * * * * *

SUPPLEMENTAL SCHEDULES

DALLAS COUNTY HOSPITAL DISTRICT
dba Parkland Health & Hospital System
(A Component Unit of Dallas County, Texas)

SCHEDULE OF FUNDING PROGRESS OF DEFINED BENEFIT PENSION PLAN, THREE-YEAR HISTORICAL TREND BEGINNING JANUARY 1, 2010 (AS REQUIRED BY GASB STATEMENT NO. 50) (UNAUDITED)

(Amounts in millions)

Actuarial Valuation Date as of January 1	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
2010	$ 486.4	$ 562.0	$ 75.6	86.5%	$ 475.7	15.9%
2011	526.1	602.8	76.7	87.3%	480.8	16.0%
2012	556.9	645.8	88.9	86.2%	493.4	18.0%

SCHEDULE OF FUNDING PROGRESS OF OTHER POST EMPLOYMENT BENEFITS, THREE-YEAR HISTORICAL TREND BEGINNING JANUARY 1, 2010 (AS REQUIRED BY GASB STATEMENT NO. 50) (UNAUDITED)

(Amounts in millions)

Actuarial Valuation Date as of January 1	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
2010	$ -	$ 25.1	$ 25.1	0%	$ 475.7	5.3%
2011	-	3.5	3.5	0%	465.5	0.8%
2012	-	2.9	2.9	0%	450.6	0.6%

Federal and State Financial Assistance Programs

Dallas County Hospital District
dba Parkland Health & Hospital System
(A Component Unit of Dallas County, Texas)

Year ended September 30, 2012

Dallas County Hospital District
dba Parkland Health & Hospital System
(A Component Unit of Dallas County, Texas)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

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To the Board of Managers of
Dallas County Hospital District

We have audited the financial statements of Dallas County Hospital District dba Parkland Health & Hospital System ("Parkland"), a political subdivision of the state of Texas and a discretely presented component unit of Dallas County, Texas, as of and for the year ended September 30, 2012, and have issued our report thereon dated December 18, 2012. We did not audit the financial statements of Parkland Foundation, a discretely presented component unit of Parkland. Those financial statements were audited by other auditors whose report thereon has been furnished to us with an unqualified opinion. Our opinion as it relates to the amounts included for Parkland Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Parkland's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Parkland's internal control over financial reporting. Accordingly, we express no such opinion.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in Parkland's internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Our audit was also not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2012-01 and 2012-02, that we consider to be significant deficiencies in Parkland's internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Parkland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We did not audit Parkland's written response to the matters described in the accompanying Schedule of Findings and Questioned Costs and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Managers, others within Parkland, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Dallas, Texas
December 18, 2012

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE RELATED TO MAJOR PROGRAMS (OMB CIRCULAR A-133 AND THE STATE OF TEXAS SINGLE AUDIT CIRCULAR) AND ON INTERNAL CONTROL OVER COMPLIANCE

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To the Board of Managers of
Dallas County Hospital District

Compliance

We have audited the compliance of Dallas County Hospital District dba Parkland Health & Hospital System ("Parkland"), a political subdivision of the state of Texas and a discretely presented component unit of Dallas County, Texas, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the State of Texas *Single Audit Circular* that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2012. Parkland's major federal and state programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of Parkland's management. Our responsibility is to express an opinion on Parkland's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas *Single Audit Circular*. Those standards, OMB Circular A-133 and the State of Texas *Single Audit Circular* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about Parkland's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Parkland's compliance with those requirements.

In our opinion, Parkland complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of Parkland is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal and state programs. In planning and performing our audit, we considered Parkland's internal control over compliance with requirements that could have a direct and material effect on a major federal and state program as a basis for designing audit procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of Parkland's internal control over compliance. Accordingly, we express no such opinion.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in Parkland's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

We did not audit Parkland's written response to the matters described in the accompanying Schedule of Findings and Questioned Costs and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Managers, others within Parkland, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Dallas, Texas
December 18, 2012

Grant Thornton

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

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To the Board of Managers of
Dallas County Hospital District

We have audited, in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Dallas County Hospital District dba Parkland Health & Hospital System ("Parkland") as of and for the years ended September 30, 2012, and our report dated December 18, 2012 expressed an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. We did not audit the financial statements of Parkland Foundation, a discretely presented component unit of Parkland. Those financial statements were audited by other auditors whose report thereon has been furnished to us with an unqualified opinion. Our opinion as it relates to the amounts included for Parkland Foundation, is based solely on the report of the other auditors.

The accompanying Schedule of Expenditures of Federal and State Awards for the year ended September 30, 2012 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and the State of Texas *Single Audit Circular* and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with US GAAS. In our opinion, the Schedule of Expenditures of Federal and State Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Grant Thornton LLP

Dallas, Texas
December 18, 2012

Dallas County Hospital District
dba Parkland Health & Hospital System
(A Component Unit of Dallas County, Texas)

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the year ended September 30, 2012

Grant Program Title	Federal CFDA Number	Identifying Number	Total Expenditures	Amounts Passed Through to Subrecipients
EXPENDITURES OF FEDERAL AWARDS				
U.S. Department of Health and Human Services				
AIDS Education Training Center	93.145	H4AHA00061	$ 1,187,904	$ 469,429
Health Center Cluster - HOMES	93.224	H80CS00039	2,036,113	
Poison Stabilization and Enhancement Program	93.253	H4BHS15556	544,796	
Health Care and Other Facilities (Pharmacy)	93.887	C76HF19873	130,273	
Ryan White Part C Outpatient EIS Program	93.918	H76HA00119	762,610	
Eliminating Disparities in Perinatal Health - Dallas Healthy Start	93.926	H49MC00157	807,104	
Human Immunodeficiency Virus Prevention Projects for Community-Based Organizations	93.943	1U65PS002559	339,297	
Total Direct U.S. Department of Health and Human Services			5,808,097	
Passed through from University of Texas Southwestern Medical Center:				
Dallas Family Alliance Network	93.153	GMO-801207	167,706	
Youth Angle	93.153	GMO-800931	106,742	
Total 93.153			274,448	
PROSPR Center: Colon Cancer Screening in a Safety Net	93.397	GMO-120115	144,073	
Primary Care Residency Expansion	93.510	GMO-110301	187,041	
Improving Chronic Kidney Disease Detection and Care in a High Risk Underserved Population	93.847	GMO-121101	76,237	
Total passed through from University of Texas Southwestern Medical Center			681,799	
Passed through from Texas Department of State Health Services:				
Epidemiology Poison Public Health Emergency Preparedness	93.069	2011-038661	60,594	
Epidemiology Poison Public Health Emergency Preparedness	93.069	2012-041272	7,767	
Total 93.069			68,361	
Family Planning - Community Health Services-Title X HIV	93.217	2012-040224	138,447	
Family Planning - Title X	93.217	2012-039921	439,459	
Total 93.217			577,906	
Breast & Cervical Cancer - Centers for Disease Control & Prevention	93.283	2011-038389	188,055	
Breast & Cervical Cancer - Social Services Block Grants	93.283	2012-041175	83,269	
Breast & Cervical Cancer Patient Navigation - Community Health Services	93.283	2011-039752	22,425	
Total 93.283			293,749	
Targeted HIV Testing and Linkage to Medical Care	93.523	2012-040651	77,629	
Breast & Cervical Cancer - Temporary Assistance to Needy Families	93.558	2012-041175	9,466	

Dallas County Hospital District
dba Parkland Health & Hospital System
(A Component Unit of Dallas County, Texas)

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED

For the year ended September 30, 2012

Grant Program Title	Federal CFDA Number	Identifying Number	Total Expenditures	Amounts Passed Through to Subrecipients
Family Planning - Community Health Services-Title XX	93.667	2012-039868	402,642	
Family Planning - Title X-Fee for Service	93.667	2012-040698	989,552	
Total 93.667			1,392,194	
American Recovery and Reinvestment Act-Mother-Friendly Worksite Initiative	93.723	2011-038226	23,214	
Child Health & Dental - Maternal & Child Health Services Block Grants to States-Title V	93.994	2012-039415	312,168	
Prenatal - Maternal & Child Health Services Block Grants to States-Title V	93.994	2012-039670	1,136,809	
Total 93.994			1,448,977	
Total passed through from Texas Department of State Health Services			3,891,496	
Passed through from Dallas County Health and Human Services:				
Ryan White Part A Formula	93.914		1,071,819	
Ryan White Part A Supplemental	93.914		974,863	
Total 93.914			2,046,682	
Ryan White Part B Formula	93.917		422,844	
Total passed through from Dallas County Health and Human Services			2,469,526	
Passed through from Office of the Attorney General of Texas:				
Sexual Assault Prevention & Crisis Services-Federal	93.991, 93.136	1230531	903	
Total passed through from Office of the Attorney General of Texas			903	
Passed through the from University of Texas Health Science Center at Fort Worth:				
GOOD News Trial	93.837	RN0044-2011-002	3,295	
Total passed through from University of Texas Health Science Center at Fort Worth			3,295	
Passed through from the University of Washington				
Health Promotion Research Center	93.135	727922	12,372	
Total passed through from the University of Washington			12,372	
Total U.S. Department of Health and Human Services			12,867,488	469,429

Dallas County Hospital District
dba Parkland Health & Hospital System
(A Component Unit of Dallas County, Texas)

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED

For the year ended September 30, 2012

Grant Program Title	Federal CFDA Number	Identifying Number	Total Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Transportation				
Passed through from Texas Department of Transportation:				
Give Kids a Boost	20.613	2012-IPCOGD-G-1YR-0094	80,916	
Total U.S. Department of Transportation			80,916	
U.S. Department of Justice				
Passed through from State of Texas Office of the Governor Criminal Justice Division:				
Victims of Crime Assistance Grant-Enhanced Crisis Support Project	16.575	17510-07	76,021	
Victims of Crime Assistance Grant-Comprehensive Intervention & Advocacy	16.575	20105-04	76,186	
Victim Services for Children & Teens	16.575	24709-01	73,137	
Total 16.575			225,344	
Violence Against Women Act Comprehensive Training	16.588	22965-02	55,111	
Total U.S. Department of Justice			280,455	
U.S. Department of Housing and Urban Development				
Passed through from City of Dallas:				
Community Development Block Grant for Geriatrics	14.218	CTGH184309	5,203	
Total U.S. Department of Housing and Urban Development			5,203	
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 13,234,062	$ 469,429

EXPENDITURES OF STATE AWARDS

Grant Program Title	Federal CFDA Number	Identifying Number	Total Expenditures	Amounts Passed Through to Subrecipients
Texas Department of State Health Services				
Breast & Cervical Cancer - Community Health Services		2011-038389, 2012-041175	515,599	
Epilepsy - Community Health Services		2012-039759	229,635	
Family Planning - Maternal & Child Health Services Block Grants to States - Title V FP		2012-039818	168,749	
Healthy Texas Babies - FIMR		2012-040622	61,398	
HIV Rapid Testing to Clients Accessing Emergency Services		2012-040596	154,851	
Primary Health Care - Community Health Services-Primary Health Care		2012-035692	293,578	
Senior Outreach Services Project - Community Health Services		2012-039735	149,003	

Dallas County Hospital District
dba Parkland Health & Hospital System
(A Component Unit of Dallas County, Texas)

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED

For the year ended September 30, 2012

Grant Program Title	Federal CFDA Number	Identifying Number	Total Expenditures	Amounts Passed Through to Subrecipients
Passed through from University of Texas Health Science Center at San Antonio:				
Project Support- FREW inegrated Mental Health		MOU 5-4	54,402	
Passed through from Dallas County Health and Human Services:				
Texas HIV Health and Social Services			69,126	
Total Texas Department of State Health Services			1,696,341	
Commission on State Emergency Communications				
Poison Services			1,060,987	
Total Commission on State Emergency Communications			1,060,987	
Office of the Governor				
Passed through from Texas Criminal Justice Division:				
421 Criminal Justice Division Grant - Rapid Response		19281-05	61,501	
Total Office of the Governor			61,501	
Office of the Attorney General of Texas:				
Sexual Assault Prevention and Crisis Services (SAPCS-State)		1227297	32,951	
Other Victims Assistance Grant		1228683	39,257	
Total Office of the Attorney General of Texas			72,208	
Texas Health and Human Services Commission				
Nurse Family Partnership		529-08-0110-0009	410,301	
Total Texas Health and Human Services Commission			410,301	
University of Texas Southwestern Medical Center				
Comprehensive Programs to Strengthen Physician Training in Geriatrics		GMO-900101	5,658	
Multicomponent Intervention Promoting HPV Vaccination in Safety Net-Clinics (CPRIT)		GMO-100801	17,901	
Total University of Texas Southwestern Medical Center			23,559	
TOTAL EXPENDITURES OF STATE AWARDS			$ 3,324,897	
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS			$ 16,558,959	$ 469,429

See notes to schedule of expenditures of federal and state awards.

Dallas County Hospital District
dba Parkland Health & Hospital System
(A Component Unit of Dallas County, Texas)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the year ended September 30, 2012

NOTE 1 - GENERAL

The accompanying schedule of expenditures of federal and state awards presents the activity of all federal and state awards of the Dallas County Hospital District, dba Parkland Health & Hospital System ("Parkland"). Parkland's reporting entity is defined in Note 1 to Parkland's basic financial statements as of and for the year ended September 30, 2012. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, and state awards are included in the schedule. The federal information in the schedule of expenditures of federal and state awards is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal and state awards is presented on the accrual basis of accounting.

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Dallas County Hospital District
dba Parkland Health & Hospital System
(A Component Unit of Dallas County, Texas)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended September 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements	
Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No
Federal and State Awards	
Internal control over major programs:	
• Material weakness identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133?	No

Dallas County Hospital District
dba Parkland Health & Hospital System
(A Component Unit of Dallas County, Texas)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended September 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS - Continued

Identification of major programs:

CFDA/State Identifying Number	Name of Federal and State Program or Cluster
Major Federal Programs:	
93.145	AIDS Education Training Center
93.253	Poison Stabilization and Enhancement Program
93.510	Primary Care Residency Expansion
93.887	Health Care and Other Facilities (Pharmacy)
93.914	Ryan White – Part A Formula
	Ryan White – Part A Supplement
93.917	Ryan White – Part B Formula
93.943	Human Immunodeficiency Virus Prevention Projects for Community-Based Organizations
93.994	Maternal & Child Health Services Block Grants to States - Title V
Major State Programs:	
	Commission on State Emergency Communications - Poison Services
2011-038389, 2012-041175	Texas Department of State Health Services – Breast & Cervical Cancer - Community Health Services
529-08-0110-0009	Texas Health and Human Services Commission – Nurse Family Partnership

Dollar threshold used to distinguish between Type A and Type B programs:

Federal:	$397,795
State:	$300,000

Auditee qualified as low-risk auditee? Yes

SECTION II - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Finding Number: 2012-01

Security Access within the EPIC system

Condition:

The ability to perform security and batch administration within EPIC was not appropriately restricted at time of testing. At time of testing, over 200 EPIC user accounts were assigned access to the "EPIC Analyst" role which (per inquiry with IT personnel) granted the ability to administer EPIC user ID's and associated permissions as well as EPIC batch jobs.

Effect:

This condition poses the following risks to Parkland:

- Inappropriate financial transactions may be generated by individuals with this access
- Security administration processes may not be defined or adequately resourced
- Security administration processes may not function consistently or reliably over time to control access to information assets
- Internal access to information assets may not be restricted on the basis of legitimate business need
- Individuals' access rights and changes thereto may not be implemented by competent management authority
- Program execution management process may not be adequately defined or resourced
- Unauthorized and / or untested changes may be made to the system impairing functional integrity of applications, data, or controls

SECTION II - FINDINGS RELATED TO THE FINANCIAL STATEMENTS - Continued

Cause:

Lack of controls surrounding the review of EPIC user accounts for appropriate access based on user function, specifically related to financial transactions initiated.

Recommendation:

A review process should be implemented to monitor access to perform security administration (i.e. create, modify and delete user accounts; grant, modify and remove permissions) and batch administration within EPIC, specifically related to financial transactions.

Views of Responsible Officials and Planned Corrective Actions:

Information Security will develop and publish an "Elevated Privileges Standard" that identifies those attributes of an individual's job function or role that require elevated privilege such as System Analyst or Administrator.

Information Security will maintain an internal procedure that:
(1) reviews, at least 2 times a year, those accounts that have system analyst access within Epic and
(2) determines the appropriateness of such access as measured against the standard and with the appropriate leadership for the accounts being reviewed.

Finding Number: 2012-02

Security Access within the Cache Database

Condition:

End-user access within the production Cache database behind EPIC was not appropriately restricted at time of testing. Specifically:

- Information (name, title, department and/or employment status) for user / owner of 175 accounts could not be determined through inspection of active employee roster, active directory user listing or through inquiry with IT personnel.

SECTION II - FINDINGS RELATED TO THE FINANCIAL STATEMENTS - Continued

- 105 enabled accounts within this database were associated with a terminated employee or contractor.
- 85 non-IT personnel had greater-than-read access into this database.

Effect:

This condition poses the following risks to the organization:

- Integrity of the data within this database may be compromised.
- Functional integrity of the database management system may be impaired.
- Unauthorized and / or untested changes may be applied to the data within this database.
- Access to data residing in this database may not be restricted based on valid business need.

Cause:

Lack of controls surrounding the review of Cache user accounts for appropriate access based on user function.

Recommendation:

Access to Epic's production Cache database should be restricted based on valid business need. All accounts with Epic's production Cache database access not associated with an active employee or contractor should be disabled or deleted. Access to Epic's production Cache database granted to non-IT personnel should be restricted to read-only unless a business need exists for these individuals to have greater than read-only access.

Views of Responsible Officials and Planned Corrective Actions:

To address this item, Information Security will create and put in place a procedure for the validation of end-user access to the Epic Cache database. This will be developed with the teams that administer end-user access to the Epic Cache database. The Epic Cache support team will perform the actual work effort.

SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO THE EXPENDITURES OF FEDERAL AND STATE AWARDS

None

SECTION IV - SUMMARY OF PRIOR YEAR AUDIT FINDINGS

For a complete description of the prior year audit findings, please refer to the OMB Circular A-133 Single Audit – Federal Awards report for the period ending September 30, 2011.

Finding Number: **2011-01** **Security Access within the EPIC system**

See current year finding 2012-01.

Finding Number: **2011-02** **Credit Balances in Patient Accounts Receivable**

Condition:

Credit balances in patient accounts receivable are processed in the patient accounting system by Patient Financial Services. These credit balances are either refunded to the payor or recorded as an adjustment to net revenue at the time of processing, depending on the nature of the credit balance. However, credit balances which represent refunds of overpayments are not recorded as a liability in the general ledger. In addition, there is no formal accounting policy or procedure related to the recording of credit balances in the general ledger and related review of these transactions.

Recommendation:

Credit balances in patient accounts receivable which represent refunds should be recorded as liabilities in the financial statements. The accounting department should establish a policy and procedure for analyzing credit balances in patient accounts receivable and correct classification of liabilities due to refunds.

Views of Responsible Officials and Planned Corrective Actions:

The accounting department will develop formal policies and procedures for analyzing, reviewing, and recording patient accounts receivable credit balances. This finding was remediated during fiscal year 2012.

Finding Number: **2011-03**

CFDA Title: Health Care and Other Facilities

CDFA Number: 93.887

Condition:

It was noted that one expense accrual for the month of March 2011 was not paid for with Parkland funds prior to reimbursement being requested from the Federal Government.

SECTION IV - SUMMARY OF PRIOR YEAR AUDIT FINDINGS - Continued

Recommendation:

We recommend that Parkland strengthen controls to ensure actual payment has been made prior to submitting request for reimbursement.

Views of Responsible Officials and Planned Corrective Actions:
Grants Management routinely processes monthly reimbursement requests after the 15th of each month to ensure payment has been made for the expense. If any special circumstances arise that require processing prior to the 15th of the month, we will ensure the actual payment has been made for the expense. This will be added to our standard operating procedures.
Responsible Official: Shelia Fisher, Grants Manager
Completion Date: November 2011
Corrective action plan implemented November 2011.

Finding Number: **2011-04**

CFDA Title: ARRA – Grants to Health Center Programs

CFDA Number: **93.703**

Condition:

Construction contracts are monitored through the facilities department. Parkland officials within this department were not aware of the requirement to monitor and review the certified payrolls. Parkland did include in their construction contracts a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the Department of Labor regulations.

Recommendation:

We recommend Parkland implement controls to ensure applicable employees are made aware of the requirements of the Davis-Bacon Act. In addition, we recommend improved communications between the facilities department and grants department to ensure effective communication of grant requirements.

Views of Responsible Officials and Planned Corrective Actions:

Upon notification of a grant award, Grants Management will facilitate a briefing with the departments that have a significant role in implementing the grant program.
Responsible Official: Shelia Fisher, Grants Manager
Completion Date: November 2011
Corrective action plan implemented in November 2011.

SECTION IV - SUMMARY OF PRIOR YEAR AUDIT FINDINGS - Continued

Parkland will develop a fiscal directive to educate applicable employees on the Davis-Bacon requirements and to monitor the application of Davis-Bacon requirements where applicable.
Responsible Official: Shelia Fisher, Grants Manager and Beverly Miller, Sr. Staff Accountant
Targeted Completion Date: February 2012.
Corrective action plan implemented February 2012.

Finding Number:	**2011-05**
CFDA Title:	Poison Control Stabilization and Enhancement Grants ARRA – Grants to Health Center Programs Health Care and Other Facilities
CFDA Number:	93.253 93.703 93.887

Condition:

Parkland's Purchasing department outsources certain verification services, which includes suspension and debarment verification, to Vendor Credentialing Service (VCS). Although the agreement with VCS indicates they will perform the EPLS search for all vendors, VCS does not retain documentation of the results of the search from the EPLS. As such, there was no documentation that Parkland performed a verification check. A subsequent search for the vendors on the EPLS website showed none were listed as suspended or debarred.

Recommendation:

We recommend that Parkland implement controls to ensure a copy of the EPLS search completed by VCS at the time of award is retained as part of Parkland's internal vendor contract files.

Views of Responsible Officials and Planned Corrective Actions:

Parkland will ensure a copy of the EPLS search is retained as a part of Parkland's internal vendor contract files.

The copies related to Grants will be forwarded to Grants Management.
Responsible Official: Carl Hice, Director of Purchasing
Completion Date: February 2012
Corrective action plan implemented February 2012.

SECTION IV - SUMMARY OF PRIOR YEAR AUDIT FINDINGS - Continued

Finding Number: **2011-06**

CFDA Title: ARRA – Grants to Health Center Programs

CFDA Number: 93.703

Condition:

It was noted that program income for this grant was incorrectly recorded in the accounting records within another federal grant.

Recommendation:

We recommend that Parkland implement controls to ensure all grants that generate program income are properly recorded in the accounting records to ensure use of program income in accordance with program requirements.

Views of Responsible Officials and Planned Corrective Actions:

Upon receipt of a grant award, Grants Management will facilitate the process to ensure the department requests a payor code for grants that generate program income.
Responsible Official: Shelia Fisher, Grants Manager and the impacted departmental Program Manager
Completion Date: November 2011
Corrective action plan implemented November 2011.

Finding Number: **2011-07**

CFDA Title: Maternal and Child Health
Services Block Grant to the States –
Breast and Cervical Cancer Services
Poison Stabilization and Enhancement Program
Ryan White Part B Formula

CFDA Number: 93.994
93.253
93.917

Criteria or Specific Requirement:

Grantees are required to submit financial reports timely to the pass-through entity or the Federal or State agency.

Condition:

Parkland did not submit reports within the required deadlines.

SECTION IV - SUMMARY OF PRIOR YEAR AUDIT FINDINGS - Continued

Recommendation:

We recommend adequate controls be put in place to ensure timely reporting occurs.

Views of Responsible Officials and Planned Corrective Actions:

The late reports did not result in adverse action from the grantor. Grants Management will utilize the report matrix to monitor due dates.
Responsible Official: Shelia Fisher, Grants Manager
Completion Date: November 2011
Corrective action plan implemented November 2011.