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, 2014

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 REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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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 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"), a political subdivision of the state of Texas and a discretely presented component unit of Dallas County, Texas, and the discretely presented component units of Parkland as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Parkland's basic financial statements, and have issued our report thereon dated December 11, 2014. The financial statements of Parkland Community Health Plan, Inc., Parkland Center for Clinical Innovation, and Parkland Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include internal control over financial reporting or instances of reportable noncompliance associated with Parkland Community Health Plan, Inc., Parkland Center for Clinical Innovation, and Parkland Foundation.

Our report includes a reference to other auditors who audited the financial statements of Parkland Foundation, as described in our report on Parkland's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered Parkland's internal control over financial reporting ("internal control") to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of Parkland's internal control.

A deficiency in internal control 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, such that there is a reasonable possibility that a material misstatement of Parkland's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Grant Thornton

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in Parkland's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency in Parkland's internal control.

Compliance and other matters

As part of obtaining reasonable assurance about whether Parkland's financial statements are free from 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*.

Parkland's response to findings

Parkland's response to our finding, which is described in the accompanying schedule of findings and questioned costs, was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on Parkland's response.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Parkland's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Parkland's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Dallas, Texas
December 11, 2014

Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND THE STATE OF TEXAS *SINGLE AUDIT CIRCULAR*

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To the Board of Managers of
Dallas County Hospital District

Report on compliance for each major federal and state program

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's *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, 2014. 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.

Management's responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to Parkland's federal and state programs.

Auditor's responsibility

Our responsibility is to express an opinion on compliance for each of Parkland's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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*.

The above-mentioned 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 on compliance for each major federal and state program. However, our audit does not provide a legal determination of Parkland's compliance.

Opinion on each major federal and state program

In our opinion, Parkland complied, in all material respects, with the types of compliance 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, 2014.

Report on internal control over compliance

Management of Parkland is responsible for designing, implementing, and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Parkland's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal and state program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State of Texas *Single Audit Circular,* but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Parkland's internal control over compliance.

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 in internal control over compliance 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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 have not been identified.

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and the State of Texas *Single Audit Circular.* Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Dallas, Texas
December 11, 2014

Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS REQUIRED BY OMB CIRCULAR A-133 AND THE STATE OF TEXAS *SINGLE AUDIT CIRCULAR*

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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 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"), a political subdivision of the state of Texas and a discretely presented component unit of Dallas County, Texas, and the discretely presented component units of Parkland as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Parkland's basic financial statements, and our report thereon dated December 11, 2014 expressed unmodified opinions on these financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Parkland's basic financial statements. 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 has been furnished to us, and our opinion, insofar as it relates to the amounts included for Parkland Foundation, is based solely on the report of the other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Parkland's basic financial statements.

The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Grant Thornton LLP

Dallas, Texas
December 11, 2014

DALLAS COUNTY HOSPITAL DISTRICT
(A Component Unit of Dallas County, Texas)
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
AS OF SEPTEMBER 30, 2014

Grant Name	Federal CFDA Number	Identifying Number	Expenditures	Amounts Passed Through to Subrecipients
EXPENDITURES OF FEDERAL AWARDS				
U.S. Department of Health and Human Services				
Direct				
AIDS Education Training Center	93.145	H4AHA00061	$ 1,402,911	$ 726,938
Eliminating Disparities in Perinatal Health - Dallas Healthy Start	93.926	H49MC00157	731,224	
Health Center Cluster - HOMES	93.224	H80CS00039	2,420,649	
Human Immunodeficiency Virus Prevention Projects for Community-Based Organizations	93.939	U65PS002559	342,301	
Poison Stabilization and Enhancement Program	93.253	H4BHS15556	405,989	
Ryan White Part C Outpatient EIS Program	93.918	H76HA00119	849,387	
Ryan White Part D (IV) Women, Infants, Children, Youth and Affected Family Members AIDS Healthcare	93.153	H12HA24817	436,750	
Total Direct from U.S. Department of Health and Human Services			6,589,211	
Passed through from University of Texas Southwestern Medical Center:				
Clinical and Translational Alliance for Research - UT STAR	93.350	GMO-120806	19,965	
Developing a Self-Persuasion Intervention Promoting Adolescent HPV Vaccination	93.393	GMO-130812	23,596	
Improving Chronic Kidney Disease Detection and Care in a High Risk Underserved Population	93.847	GMO-121101	16,049	
Primary Care Residency Expansion	93.510	GMO-110301	435,911	
PROSPR Center: Colon Cancer Screening in a Safety Net	93.397	GMO-120115	71,477	
UT Southwestern Center for Patient Centered Outcomes Research/Research on Healthcare Costs, Quality and Outcomes	93.226	GMO-140103	28,142	
Total passed through University of Texas Southwestern Medical Center			595,140	
Passed through from Texas Department of State Health Services:				
Breast & Cervical Cancer - Centers for Disease Control & Prevention	93.283	2014-044959-001	223,717	
Breast & Cervical Cancer - Temporary Assistance to Needy Families	93.558	2014-044959-001	305,939	
Breast & Cervical Cancer - Social Services Block Grants	93.667	2014-044959-001	63,657	
Breast & Cervical Cancer - Affordable Care Act	93.752	2014-044959-001	5,441	
Child Health & Dental - Maternal & Child Health Services Block Grants to States-Title V	93.994	2014-044592-001	310,398	
HIV Rapid Testing to Clients Accessing the Emergency Room Department	93.940	2013-043082-001	209,938	
Targeted HIV Testing and Linkage to Medical Care	93.940	2103-043077-001	145,508	
Total 93.940			355,446	
Total passed through Texas Department of State Health Services			1,264,598	
Passed through from Women's Health and Family Planning of Texas:				
Family Planning Services-Title X	93.217	none	2,331,959	
Family Planning Services-Title X HIV A	93.217	none	104,967	
Family Planning Services-Title X HIV B	93.217	none	59,583	
Family Planning Long Acting Reproductive Contraception	93.217	none	364,771	
Total passed through Women's Health and Family Planning of Texas			2,861,280	
Passed through from Dallas County Health and Human Services:				
Ryan White Part A Formula	93.914	none	2,416,870	
Ryan White Part A Supplemental	93.914	none	1,458,595	
Ryan White Part A Minority AIDS Initiative	93.914	none	8,948	
Total 93.914			3,884,413	
Ryan White Part B Formula	93.917	none	1,342,435	
Total passed through Dallas County Health and Human Services			5,226,848	
Total U.S. Department of Health and Human Services			16,537,077	

DALLAS COUNTY HOSPITAL DISTRICT
(A Component Unit of Dallas County, Texas)
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
AS OF SEPTEMBER 30, 2014

Grant Name	Federal CFDA Number	Identifying Number	Expenditures	Amounts Passed Through to Subrecipients
Research and Development Cluster				
National Science Foundation				
Passed through from University of Texas Southwestern Medical Center				
Robust Large Scale Electronic Medical Record Data Mining/Computer and Information Science and Engineering	47.070	GMO-141102	$ 1,057	
Total Research and Development Cluster			1,057	
U.S. Department of Transportation				
Passed through from Texas Department of Transportation				
Child Passenger Safety Training	20.600	583EGF8060	65,324	
Give Kids a Boost	20.600	583EGF8059	100,883	
Total U.S. Department of Transportation			166,207	
U.S. Department of Justice				
Passed through from State of Texas Office of the Governor Criminal Justice Division:				
Violence Against Women Act Comprehensive Training	16.588	22965-04	59,394	
Rapid Response for Victims	16.575	19281-07	76,219	
Victims of Crime Assistance Grant-Enhanced Crisis Support Project	16.575	17510-09	76,370	
Victims of Crime Assistance Grant-Comprehensive Intervention & Advocacy	16.575	20105-06	78,683	
Victim Services for Children & Teens	16.575	24709-03	85,441	
Total 16.575			316,713	
Total U.S. Department of Justice			376,107	
TOTAL EXPENDITURES OF FEDERAL AWARDS			17,080,448	726,938

DALLAS COUNTY HOSPITAL DISTRICT
(A Component Unit of Dallas County, Texas)
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
AS OF SEPTEMBER 30, 2014

Grant Name	Identifying Number	Expenditures	Amounts Passed Through to Subrecipients
EXPENDITURES OF STATE AWARDS			
Texas Department of State Health Services:			
Direct			
Breast & Cervical Cancer - Community Health Services	2014-044959-001	$ 136,649	
Epilepsy - Community Health Services	2014-001500-001	321,835	
Primary Health Care - Community Health Services-Primary Health Care	2014-044363-001	380,021	
Senior Outreach Services Project - Community Health Services	2014-044518-001	136,322	
Expanded Primary Health Care	2014-045295-001	2,640,790	
Passed through from Dallas County Health and Human Services			
Texas HIV Health and Social Services		147,056	
Total Texas Department of State Health Services		3,762,674	
Commission on State Emergency Communications-Poison Services	none	1,522,543	
Total Commission on State Emergency Communications		1,522,543	
Office of the Attorney General of Texas:			
Sexual Assault Prevention and Crisis Services (SAPCS-State)	1439801	34,969	
Other Victims Assistance Grant	1443720	40,872	
Total Office of the Attorney General of Texas		75,841	
Texas Health and Human Services Commission			
Nurse Family Partnership	529-08-0110-00009	428,857	
Total Texas Health and Human Services Commission		428,857	
University of Texas Southwestern Medical Center			
Aging and Geriatric Education - Next Steps	GMO-141011	4,442	
Comprehensive Programs to Strengthen Physician Training in Geriatrics	GMO-900101	1,425	
Emergency and Trauma Care Education Partnership Program	GMO-130804	82,757	
Total University of Texas Southwestern Medical Center		88,624	
TOTAL EXPENDITURES OF STATE AWARDS		5,878,538	
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS		$ 22,958,986	$ 726,938

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, 2014

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, 2014. 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 and state 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* and the State of Texas *Single Audit Circular*.

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, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements	
Type of auditors' report issued:	Unmodified
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:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133?	Yes

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, 2014

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 Centers
93.224	Health Center Cluster-HOMES
93.914	Ryan White – Part A
93.917	Ryan White – Part B
93.926	Eliminating Disparities in Perinatal Health-Dallas Healthy Start
Major State Programs:	
2014-045295-001	Expanded Primary Health Care
2014-044363-001	Primary Health Care

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

Federal:	$512,413
State:	$300,000

Auditee qualified as low-risk auditee- Federal?	No
Auditee qualified as low-risk auditee- State?	Yes

SECTION II - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Finding Number: 2014-001

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.
- 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:

- o Integrity of the data within this database may be compromised.
- o Functional integrity of the database management system may be impaired.
- o Unauthorized and/or untested changes may be applied to the data within this database.
- o 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:

<u>Corrective Action Plan</u>

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 II - FINDINGS RELATED TO THE FINANCIAL STATEMENTS - Continued

Updated Corrective Action Plan

Management will implement the following:

1) Short term: IT will use existing audit functionality to audit and track user activity. This can be accomplished immediately.

2) Long term: The long term solution to address this issue will be to provide those users impacted with the ability to carry out their tasks via a front-end menu. With this alternative, the Cache prompt access will then be removed for these users. This solution requires time and resources, as well as sufficient testing, prior to fully migrating to the production environment. This will be accomplished by June 2015.

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

None noted.

SECTION IV - SUMMARY OF PRIOR YEAR AUDIT FINDINGS

For a complete description of the prior year findings, please refer to the OMB Circular A-133 Single Audit report for the period ending September 30, 2013.

Finding Number: 2012-01 and 2013-01

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.

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.

Status

Information Security developed and published 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. This finding was remediated in December 2013.

Finding Number: 2012-02 and 2013-02

Security Access within the Cache Database

See current year finding 2014-001.

Finding Number: 2013-03

Parkland Center for Clinical Innovation Accounting

Condition:

We noted significant adjustments related to accounting activity of Parkland Center for Clinical Innovation ("PCCI"), including adjustments for software costs not appropriately capitalized and benefit expenses not accurately allocated to PCCI from Parkland.

SECTION IV - SUMMARY OF PRIOR YEAR AUDIT FINDINGS-CONTINUED

Recommendation:

We recommend that the accounting policies and procedures focus on the stand-alone nature of PCCI. PCCI should have its own close process that analyzes the financial results of the entity separately from Parkland and uses a materiality level appropriate to the balances of PCCI.

Status:

Accounting implemented additional procedures to ensure that all PCCI general ledger balances are accurate. This included implementation of a close check list, as well as an additional reconciliation procedure to ensure that amounts transferred from Parkland to PCCI are accurate. This finding was remediated in December 2013.

Finding Number: 2013-04

CFDA Title: Health Center Clusters-HOMES
Cash Management
CFDA Number: 93.224

Condition:

During the testing of the Health Center Clusters-HOMES grant, Grant Thornton identified $170,280 charged to the grant general ledger in January 2013. This amount was included in the reimbursement request for January expenditures. In February 2013, this expenditure was identified as an error, and an adjustment was made to the general ledger to reverse the charge; however, no adjustment was made to the subsequent reimbursement requests for this amount. Due to a grant budget limit related to contract costs, Parkland subsequently expended additional amounts under the grant that were not reimbursed; therefore, total grant expenditures were greater than grant reimbursement as of year end.

Recommendation:

We recommend Parkland perform a thorough review of the grant general ledger prior to requesting reimbursements from federal or state grantors. Additionally, Parkland should ensure a standard reconciliation process is implemented to identify any necessary adjustments.

Status:

Grants Management conducts a thorough review of the general ledger prior to requesting reimbursement from grantors. Each item in the general ledger is now reviewed. Grants Management improved the reconciliation process to ensure each reconciling item is identified, labeled and adjusted as necessary. A training session was held with Grant Specialists to review the standard reconciliation process. This finding was remediated in December 2013.

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, 2014 and 2013,
Supplemental Schedules as of September 30, 2014, 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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DALLAS COUNTY HOSPITAL DISTRICT
dba Parkland Health & Hospital System
(A Component Unit of Dallas County, Texas)

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Our discussion and analysis of Parkland Health & Hospital System's ("Parkland") financial performance (excluding affiliates) provides an overview of the financial activities for the fiscal years that ended on September 30, 2014 ("FY14") and 2013 ("FY13"). Please use in conjunction with Parkland's basic financial statements.

Financial Highlights

- Net position increased $1 million (less than 1%) between FY13 and FY14, and net position increased $43 million (4%) between FY12 and FY13.
- Total assets increased $103 million (5%) between FY13 and FY14, and total assets increased $23 million (1%) between FY12 and FY13.
- The Parkland Foundation's $150 million "I Stand For Parkland" campaign has raised more than $141 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. In December 2013, Parkland issued an additional $38 million in bonds for continued new campus construction. The new hospital is scheduled to open in 2015.
- During fiscal years 2014 and 2013, 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 Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position

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 position is the difference between assets and liabilities. Over time, increases or decreases in Parkland's net position 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 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)

	2014	2013	Dollar Change	Percentage Change
Assets				
Current and other assets	$ 636,621	$ 834,000	$ (197,379)	(23.7%)
Capital assets – net	1,536,129	1,235,257	300,872	24.4%
Total assets	2,172,750	2,069,257	103,493	5.0%
Liabilities and Net Position				
Long-term debt outstanding	743,402	699,042	44,360	6.3%
Other liabilities	293,678	235,964	57,714	24.5%
Total liabilities	1,037,080	935,006	102,074	10.9%
Net position				
Invested in capital assets, net of related debt	792,727	554,515	238,212	43.0%
Unrestricted	342,943	579,736	(236,793)	(40.8%)
Total net position	1,135,670	1,134,251	1,419	0.1%
Total liabilities and net position	$ 2,172,750	$ 2,069,257	$ 103,493	5.0%

	2013	2012	Dollar Change	Percentage Change
Assets				
Current and other assets	$ 834,000	$ 1,109,244	$ (275,244)	(24.8%)
Capital assets – net	1,235,257	936,716	298,541	31.9%
Total assets	2,069,257	2,045,960	23,297	1.1%
Liabilities and Net Position				
Long-term debt outstanding	699,042	706,424	(7,382)	
Other liabilities	235,964	248,327	(12,363)	(5.0%)
Total liabilities	935,006	954,751	(19,745)	(2.1%)
Net position				
Invested in capital assets, net of related debt	554,515	529,856	24,659	4.7%
Unrestricted	579,736	561,353	18,383	3.3%
Total net position	1,134,251	1,091,209	43,042	3.9%
Total liabilities and net position	$ 2,069,257	$ 2,045,960	$ 23,297	1.1%

Overall, total assets increased 5% from 2013 to 2014 and increased 1% from 2012 to 2013.

- Current and other assets decreased 24% from 2013 to 2014, and 25% from 2012 to 2013, primarily due to the expenditure of funds for the New Parkland Campus construction.
- Capital assets-net increased 24% from 2013 to 2014, and 32% from 2012 to 2013 primarily due to construction of the New Parkland Campus.
- Liabilities increased 11% from 2013 to 2014 primarily due to an issuance of additional $38 million in bonds, increases in vendor payables and contract retainage related to construction of the New Parkland Campus. Liabilities decreased 2% from 2012 to 2013 primarily due to a decrease in payables and retainage related to the construction of the New Parkland Campus.

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

(Amounts in thousands)

	2014	2013	2012
Operating revenues:			
Net patient services	$ 561,343	$ 520,019	$ 487,039
Government programs	192,602	184,832	194,058
Tobacco settlement	8,214	9,124	8,846
Other, net	61,524	53,095	55,464
Total operating revenues	823,683	767,070	745,407
Operating expenses:			
Salaries, wages, and benefits	803,150	765,890	700,089
Purchased medical services	99,755	63,731	133,079
Supplies and other	231,647	226,037	209,936
Pharmaceuticals	114,167	103,974	102,743
Depreciation and amortization	53,640	58,953	57,416
Total operating expenses	1,302,359	1,218,585	1,203,263
Operating loss	(478,676)	(451,515)	(457,856)
Nonoperating revenues and expenses	476,290	451,093	457,941
Capital contributions	3,805	43,464	10,743
Change in net position	1,419	43,042	10,828
Net position – beginning of year, as restated	1,134,251	1,091,209	1,080,381
Net position – end of year	$ 1,135,670	$ 1,134,251	$ 1,091,209

Overall, operating revenues increased 7% from 2013 to 2014 and 3% from 2012 to 2013.

- Net patient services revenue increased 8% in 2014 over 2013 and 7% in 2013 over 2012 primarily due to an increase in volumes as well as increases in charges.
- Other operating revenues increased 16% in 2014 due to an escalation in replacement drug and supply rebates and other miscellaneous revenues. Other operating revenues decreased 4% from 2012 to 2013 due to the reduction of expired drug and supply refunds.

Overall, operating expenses increased 7% from 2013 to 2014, and 1% from 2012 to 2013.

- Salaries, wages, and benefits increased by 5% from 2013 to 2014 and by 9% from 2012 to 2013 due to an increase in the number of clinical employees and the use of contract labor to fill vacant positions primarily as a result of increased turnover and delays in the hiring process.
- Other operating expenses increased 13% between 2013 and 2014, primarily due to an increase in purchased medical services due to a change in the 1115 Waiver program, as well as an increase in pharmacy expense related to an increase in the pharmaceutical replacement programs. Other operating expenses decreased 12% between 2012 and 2013, because of a decrease in purchased medical services, also related to the 1115 Waiver program.

Overall, Parkland's operating loss increased 6% from 2013 to 2014 due to the items mentioned above. As the only public hospital in Dallas, Parkland receives ad valorem tax revenues primarily to subsidize the cost of services provided to uninsured patients who qualify for 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") require that ad valorem tax revenues be reported as nonoperating revenues.

Nonoperating revenues and expenses increased 6% from 2013 to 2014, primarily due to an increase in ad valorem tax revenues. Nonoperating revenues and expenses decreased 1% from 2012 to 2013 primarily due to a decrease in investment income. Parkland's tax rate increased from 27.1 cents per $100 assessed valuation to 27.6 cents per $100 assessed valuation in 2014 due to the first principal payment of $7 million on the 2009 bonds and a $1 million loss of federal subsidies on the Build America Bonds from budget sequestration. 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. 2014 inpatient discharges of 38,660 decreased 10% from 2013 discharges of 43,059. Patient discharges increased 15% in 2013 compared to the 2012 volume of 37,515. Emergency department visits increased 7% to 229,045 in 2014 from 213,928 in 2013, due to higher community need. The emergency department volumes increased 9% in 2013 compared to the 2012 volume of 195,947. Combined on-campus outpatient clinic and Community Oriented Primary Care visits increased 2% to 1,005,663 in 2014 from 989,455 in 2013. The combined outpatient visits increased 8% over 2012 volume of 916,222.

Capital Asset and Debt Financing

At the end of fiscal years 2014 and 2013, Parkland had $1.5 billion and $1.2 billion, 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 (000s Omitted)

(Amounts in thousands)	2014	2013	Dollar Change	Percentage Change
Buildings	$ 547,492	$ 542,881	$ 4,611	1%
Construction in progress - Other	27,717	12,877	14,840	115%
Construction in progress New Parkland Campus	1,038,879	751,107	287,772	38%
Capital Leases	12,937	-	12,937	100%
Land and improvements	116,314	115,730	584	1%
Equipment (including IT projects in progress)	478,300	445,187	33,113	7%
	2,221,639	1,867,782	353,857	19%
Accumulated depreciation and amortization	(685,510)	(632,525)	(52,985)	8%
Capital assets, net	$ 1,536,129	$ 1,235,257	$ 300,872	24%

	2013	2012	Dollar Change	Percentage Change
Buildings	$ 542,881	$ 409,549	$ 133,332	33%
Construction in progress - Other	12,877	18,556	(5,679)	(31%)
Construction in progress New Parkland Campus	751,107	548,427	202,680	37%
Land and improvements	115,730	114,401	1,329	1%
Equipment (including IT projects in progress)	445,187	420,203	24,984	6%
	1,867,782	1,511,136	356,646	24%
Accumulated depreciation and amortization	(632,525)	(574,420)	(58,105)	10%
Capital assets, net	$ 1,235,257	$ 936,716	$ 298,541	32%

Overall, capital assets increased 24% from 2013 to 2014 and 32% from 2012 to 2013, respectively. The major addition was the continued construction of the New Parkland Campus.

Table 4: Debt Financing Long-term debt increased $38 million due to a bond issue in December 2013 and $13 million for a capital lease arrangement entered into in fiscal 2014. Debt was reduced by principal payments of $7 million on the 2009A bonds during fiscal 2014.

(Amounts in thousands)	2014	2013
Tax-exempt Series 2009A bonds, including premium	$ 18,444	$ 25,827
Taxable Series 2009B bonds	222,490	222,490
Taxable Series 2009C bonds	457,740	457,740
Tax Exempt 2013 bonds, including premium	40,058	-
Capital lease	12,937	-
	$ 751,669	$ 706,057

2014 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 2014 actual results.

Table 5: Performance Compared to Budget

(Amounts in thousands)	Actual 2014	Budget 2014	Favorable/ (Unfavorable)
Operating revenues:			
Net patient services	$ 561,343	$ 521,950	$ 39,393
Government programs	192,602	210,933	(18,331)
Tobacco settlement	8,214	9,000	(786)
Other, net	61,524	50,970	10,554
Total operating revenues	823,683	792,853	30,830
Operating expenses:			
Salaries, wages, and benefits	803,150	786,503	(16,647)
Purchased medical services	99,755	86,321	(13,434)
Supplies and other	231,647	236,327	4,680
Pharmaceuticals	114,167	104,919	(9,248)
Depreciation and amortization	53,640	62,077	8,437
Total operating expenses	1,302,359	1,276,147	(26,212)
Operating loss	(478,676)	(483,294)	4,618
Nonoperating revenues and expenses			
Ad valorem tax support	449,537	448,556	981
Loss on retirement of fixed assets	(99)	-	(99)
Grants and contributions	24,309	31,638	(7,329)
Investment income	14,811	3,100	11,711
Interest expense	(12,268)	-	(12,268)
Total nonoperating revenues and expenses	476,290	483,294	(7,004)
Capital contributions	3,805	-	3,805
Change in net position	$ 1,419	$ -	$ 1,419

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:

- Impact of the Affordable Care Act;
- Dallas County's population growth, including growth in the number of uninsured that fall under Parkland's mission;
- Federal and state government funding for Medicare, Medicaid, disproportionate share and 1115 transformation waiver programs; and
- Clinical workforce shortages, particularly in nursing.

Significant Financial Practices

Parkland has adopted 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. In December 2013, Parkland issued an additional $38 million in bonds for continued construction costs for the New Parkland Campus. Except for the construction of the New Parkland Campus, Parkland has continued its practice of 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: Elizabeth McMullen, Vice President Finance and Controller

By E-Mail: Elizabeth.McMullen@phhs.org

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Governing Board
Dallas County Hospital District dba Parkland Health & Hospital System

Report on the financial statements
We have audited the accompanying financial statements 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, and the discretely presented component units as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Parkland's basic financial statements as listed in the table of contents.

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

Auditor's responsibility
Our responsibility is to express opinions 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, which represents 40%, 48% and 11% of assets, net position and revenues, respectively, as of and for the year ended September 30, 2014, and 37%, 37% and 2% of assets, net position and revenues, respectively, as of and for the year ended September 30, 2013, of the aggregate discretely presented component units. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar 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 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 from material misstatement. The financial statements of Parkland Community Health Plan, Inc., Parkland Center for Clinical Innovation, and Parkland Foundation were not audited in accordance with Government Auditing Standards.

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

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

Opinions

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Parkland and its discretely presented component units as of September 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 1, Parkland adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of October 1, 2013. Our opinion is not modified with respect to this matter.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and the supplemental schedules on page 45 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. 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 inquiries, 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.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 11, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Parkland's internal control over financial reporting and compliance.

Grant Thornton LLP

Dallas, Texas
December 11, 2014

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

STATEMENTS OF NET POSITION
AS OF SEPTEMBER 30, 2014 AND 2013
(Amounts in thousands)

2014

		Discretely Presented Component Units			
Assets	**Parkland Health & Hospital System**	**Parkland Community Health Plan, Inc. 12/31/2013**	**Parkland Center for Clinical Innovation**	**Parkland Foundation**	**Total**
Current assets					
Cash and cash equivalents	$ -	$ 39,600	$ -	$ 58,731	$ 98,331
Short-term investments	-	65,619	-	21,862	87,481
Assets limited as to use	81,444	-	-	-	81,444
Ad valorem taxes receivable, less allowance for uncollectibe taxes of $16,886 in 2014 and 2013	4,153	-	-	-	4,153
Patient accounts receivable, less allowance for uncollectible accounts $433,461 in 2014 and $479,894 in 2013	84,405	-	-	-	84,405
Due from affiliates	8,565	-	-	-	8,565
Receivable from government subsidies	165,908	-	-	-	165,908
Other receivables	13,887	5,843	82	3,054	22,866
Inventories and other assets	13,299	-	-	-	13,299
Total current assets	371,661	111,062	82	83,647	566,452
Capital assets – net	1,536,129	-	8,442	-	1,544,571
Long-term investments	-	50,031	-	14,735	64,766
Assets limited as to use	243,684	-	-	-	243,684
Other noncurrent assets	21,276	-	-	13,013	34,289
Total assets	$ 2,172,750	$ 161,093	$ 8,524	$ 111,395	$ 2,453,762
Liabilities and Net Position					
Current liabilities					
Accounts payable and accrued expenses	$ 202,833	$ 49,402	$ 83	$ 10,249	$ 262,567
Due to affiliates	-	390	7,875	143	8,408
Due to third-party reimbursement programs	19,874	-	-	-	19,874
Current portion long term debt	8,267	-	-	-	8,267
Interest payable	5,105	-	-	-	5,105
Other current liabilities	45,052	3,974	467	-	49,493
Total current liabilities	281,131	53,766	8,425	10,392	353,714
Other long-term liabilities	12,547	-	-	-	12,547
Long term debt	743,402	-	-	-	743,402
Total liabilities	1,037,080	53,766	8,425	10,392	1,109,663
Commitments and contingencies (Note 10)					
Net position					
Invested in capital assets, net of related debt	792,727	-	-	-	792,727
Restricted	-	-	-	99,221	99,221
Unrestricted	342,943	107,327	99	1,782	452,151
Total net position	1,135,670	107,327	99	101,003	1,344,099
Total liabilities and net position	$ 2,172,750	$ 161,093	$ 8,524	$ 111,395	$ 2,453,762

2013

		Discretely Presented Component Units			
Assets	**Parkland Health & Hospital System**	**Parkland Community Health Plan, Inc. 12/31/2012**	**Parkland Center for Clinical Innovation**	**Parkland Foundation**	**Total**
Current assets					
Cash and cash equivalents	$ -	$ 43,133	$ -	$ 15,072	$ 58,205
Short-term investments	-	16,568	-	22,431	38,999
Assets limited as to use	35,735	-	-	-	35,735
Ad valorem taxes receivable, less allowance for uncollectibe taxes of $16,886 in 2014 and 2013	4,222	-	-	-	4,222
Patient accounts receivable, less allowance for uncollectible accounts $433,461 in 2014 and $479,894 in 2013	89,530	-	-	-	89,530
Due from affiliates	2,262	-	-	-	2,262
Receivable from government subsidies	171,398	-	-	-	171,398
Other receivables	15,662	12,136	-	1,935	29,733
Inventories and other assets	16,158	-	-	-	16,158
Total current assets	334,967	71,837	-	39,438	446,242
Capital assets – net	1,235,257	-	6,393	-	1,241,650
Long-term investments	-	66,732	-	39,876	106,608
Assets limited as to use	478,193	-	-	-	478,193
Other noncurrent assets	20,840	-	-	6,393	27,233
Total assets	$ 2,069,257	$ 138,569	$ 6,393	$ 85,707	$ 2,299,926
Liabilities and Net Position					
Current liabilities					
Accounts payable and accrued expenses	$ 177,251	$ 49,472	$ -	$ 35,178	261,901
Due to affiliates	-	382	1,380	95	1,857
Due to third-party reimbursement programs	12,463	-	-	-	12,463
Current portion long term debt	7,015	-	-	-	7,015
Interest payable	4,880	-	-	-	4,880
Other current liabilities	19,913	7,851	732	-	28,496
Total current liabilities	221,522	57,705	2,112	35,273	316,612
Other long-term liabilities	14,442	-	-	-	14,442
Long term debt	699,042	-	-	-	699,042
Total liabilities	935,006	57,705	2,112	35,273	1,030,096
Commitments and contingencies (Note 10)					
Net position					
Invested in capital assets, net of related debt	554,515	-	-	-	554,515
Restricted	-	-	-	48,684	48,684
Unrestricted	579,736	80,864	4,281	1,750	666,631
Total net position	1,134,251	80,864	4,281	50,434	1,269,830
Total liabilities and net position	$ 2,069,257	$ 138,569	$ 6,393	$ 85,707	$ 2,299,926

See notes to financial statements.

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(Amounts in thousands)

	2014					2013				
		Discretely Presented Component Units					Discretely Presented Component Units			
	Parkland Health & Hospital System	Parkland Community Health Plan, Inc. 12/31/2013	Parkland Center for Clinical Innovation	Parkland Foundation	Total	Parkland Health & Hospital System	Parkland Community Health Plan, Inc. 12/31/2012	Parkland Center for Clinical Innovation	Parkland Foundation	Total
Operating revenues:										
Net patient services	$ 561,343	$ -	$ -	$ -	$ 561,343	$ 520,019	$ -	$ -	$ -	$ 520,019
Government subsidies	192,602	-	-	-	192,602	184,832	-	-	-	184,832
Tobacco settlement	8,214	-	-	-	8,214	9,124	-	-	-	9,124
Premiums	-	520,542	-	-	520,542	-	514,912	-	-	514,912
Other, net	61,524	-	3,859	61,822	127,205	53,095	1,189	2,062	10,844	67,190
Total operating revenues	823,683	520,542	3,859	61,822	$ 1,409,906	767,070	516,101	2,062	10,844	$ 1,296,077
Operating expenses:										
Salaries, wages, and benefits	803,150	-	4,914	-	808,064	765,890	-	2,878	-	768,768
Purchased medical services	99,755	-	-	-	99,755	63,731	-	-	-	63,731
Supplies and other	231,647	56,424	2,755	11,253	302,079	226,037	53,596	755	13,557	293,945
Pharmaceuticals	114,167	-	-	-	114,167	103,974	-	-	-	103,974
Depreciation	53,640	-	845	-	54,485	58,953	-	-	-	58,953
Claims	-	438,004	-	-	438,004	-	440,097	-	-	440,097
Total operating expenses	1,302,359	494,428	8,514	11,253	1,816,554	1,218,585	493,693	3,633	13,557	1,729,468
Operating (loss) income	(478,676)	26,114	(4,655)	50,569	(406,648)	(451,515)	22,408	(1,571)	(2,713)	(433,391)
Nonoperating revenues (expenses)										
Ad valorem tax support	449,537	-	-	-	449,537	423,889	-	-	-	423,889
Gain/(loss) on sale	(99)	-	-	-	(99)	3,100	-	-	-	3,100
Grants and contributions	24,309	-	788	-	25,097	22,370	-	7,051	-	29,421
Contribution expense	-	-	-	-	-	-	(40,000)	-	-	(40,000)
Investment income	14,811	349	-	-	15,160	14,604	1,299	-	-	15,903
Interest expense	(12,268)	-	(315)	-	(12,583)	(12,870)	-	(1,199)	-	(14,069)
Total nonoperating revenues and expenses	476,290	349	473	-	477,112	451,093	(38,701)	5,852	-	418,244
Income (loss) before capital contributions	(2,386)	26,463	(4,182)	50,569	70,464	(422)	(16,293)	4,281	(2,713)	(15,147)
Capital contributions	3,805	-	-	-	3,805	43,464	-	-	-	43,464
Change in net position	1,419	26,463	(4,182)	50,569	74,269	43,042	(16,293)	4,281	(2,713)	28,317
Net position – beginning of year, as restated	1,134,251	80,864	4,281	50,434	1,269,830	1,091,209	97,157	-	53,147	1,241,513
Net position – end of year	$ 1,135,670	$ 107,327	$ 99	$ 101,003	$ 1,344,099	$ 1,134,251	$ 80,864	$ 4,281	$ 50,434	$ 1,269,830

See notes to financial statements.

DALLAS COUNTY HOSPITAL DISTRICT

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 and 2013
(Amounts in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from third-party payors and patients	$ 566,468	$ 518,398
Payments to suppliers	(451,296)	(484,590)
Payments to employees	(798,038)	(759,556)
Other receipts	295,118	164,820
Net cash used in operating activities	(387,748)	(560,928)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Ad valorem taxes	449,606	424,592
Grants and contributions	24,621	14,288
Net cash noncapital financing activities	474,227	438,880
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contribution	3,805	43,464
Purchases of capital assets	(287,597)	(265,493)
Interest paid	(40,265)	(39,042)
Proceeds from debt issuance	38,250	
Payment of debt principal	(7,015)	
Build America bonds subsidy	12,341	12,720
Net cash used in capital and related financing activities	(280,481)	(248,351)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	5,203	12,922
Investments:		
Purchases	(206,577)	(347,057)
Maturities	330,198	655,902
Change in designated assets	(12,219)	52,291
Net cash from investing activities	116,605	374,058
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(77,397)	3,659
CASH AND CASH EQUIVALENTS — Beginning of year	210,695	207,036
CASH AND CASH EQUIVALENTS — End of year	$ 133,298	$ 210,695

(Continued)

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(Amounts in thousands)

	2014	2013
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (478,676)	$ (451,515)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	53,640	58,953
Change in operating assets and liabilities:		
Patient accounts receivable	5,125	(1,621)
Other receivables, inventories and other assets	9,339	(82,119)
Due from affiliates	(6,615)	(1,407)
Accounts payable and accrued expenses	(780)	(85,454)
Due to third-party reimbursement programs	7,411	2,646
Other current liabilities	25,140	81
Net pension asset	(437)	(443)
Other long-term liabilities	(1,895)	(49)
Net cash used in operating activities	$ (387,748)	$ (560,928)
SUPPLEMENTAL INFORMATION:		
Unpaid purchases of capital assets in accounts payable and accrued expenses	$ 26,363	$ 63,398
Capital assets acquired under capital lease	$ 12,937	$ -
Unrealized loss on investments	$ (247)	$ (6,109)
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents listed on the statements of net position	$ -	$ -
Cash and cash equivalents included in assets limited as to use	133,298	210,695
Total cash and cash equivalents	$ 133,298	$ 210,695

(Concluded)

See notes to 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. Components of the Dallas County Hospital District are Parkland Health & Hospital System ("Parkland"); the Parkland Community Health Plan, Inc. ("Health Plan"); the Parkland Foundation ("Foundation"); and Parkland Center for Clinical Innovation ("PCCI"). Parkland is a hospital district, and accordingly, its income is excluded under Section 115 of the Internal Revenue Code ("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 2014 and 2013, all income was related to essential government functions. Parkland, PCCI, and the Foundation have fiscal years ending September 30. The Health Plan's fiscal year ends December 31.

The Hospital operates 741 inpatient beds, 53 neonatal beds, numerous outpatient clinics, and an emergency room. Parkland 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 6,200 inmates. Parkland provides direct patient care at five adult facilities and contracts for services at five juvenile facilities.

The members of Parkland's Board of Managers are appointed by the Dallas County Commissioners Court. 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 Parkland's surpluses. The Dallas County Commissioners Court approves Parkland's tax rate and annual budget.

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. Because these resources can only be used by, or for the benefit of Parkland, the Foundation is considered a component unit of Parkland. In addition, because Parkland is entitled to these economic resources and they are significant to Parkland, the Foundation is discretely presented in Parkland's financial statements. Financial statements for the Foundation can be obtained from the Parkland Foundation, 2777 N. Stemmons Freeway, Suite 1700, Dallas, Texas 75207, ATTN: David Krause, President and Chief Executive Officer.

The Health Plan is a nonprofit corporation organized in Texas in 1995 and is reported as a component unit of Parkland because its Board of Directors is appointed by Parkland's Board of Managers and Parkland can impose its will on the Health Plan. It is discretely presented because its board is not substantively the same as Parkland's board, it does not provide services entirely, or almost entirely, for the benefit of Parkland, nor does it have any outstanding debt that is expected to be repaid by 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. Financial statements for the Health Plan can be obtained from Parkland Community Health Plan, 2777 N. Stemmons Freeway, Suite 1750, Dallas, Texas 75207, ATTN: Timothy Bahe, Executive Director.

PCCI is a nonprofit research and development corporation organized in Texas in 2012. It is an organization as described in Section 501(c)(3) of the Code. PCCI specializes in real-time predictive and surveillance analytics for healthcare. Its software interprets EMR data in real-time, transforming such data into useful intervention warning tools that assist physicians and hospitals on complex clinical decisions in every field of medicine. PCCI is included in Parkland's financial statements because its Board of Directors is appointed by Parkland's Board of Managers and Parkland can impose its will on PCCI as defined in Governmental Accounting Standards Board ("GASB") Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements Nos. 14 and 34*. PCCI is reported as a discretely presented component unit because its Board of Directors is not substantively the same as Parkland's Board of Managers. It does not provide services entirely, or almost entirely, for the benefit of Parkland, nor does it have any outstanding debt that is expected to be repaid by Parkland. Financial statements for PCCI can be obtained from Parkland Center for Clinical Innovation, 8435 N. Stemmons Freeway, Suite 1150, Dallas, Texas 75247, ATTN: Jarred Mayrosh, Chief Financial Officer and Executive Vice President.

Unless otherwise noted, the following footnotes do not include the Foundation, the Health Plan or PCCI.

Principles of Reporting – The financial statements include the accounts of Parkland, the Health Plan, the Foundation and PCCI, as described above. In fiscal year 2013, Parkland implemented GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements Nos. 14 and 34*. As a result, Parkland reported the Health Plan and PCCI, as well as the Foundation, as discretely presented component units in its financial statements. Parkland's management believes the separate presentation of Parkland and each discretely presented component unit to be the most reflective of Parkland's activities. Previously, the Health Plan was presented in Parkland's financial statements as a blended component unit.

The following are transactions between Parkland and its component units:

Parkland provides certain administrative services to the Health Plan including employment of all individuals who perform the daily business functions of the Health Plan. The Health Plan pays Parkland a management fee, which is recorded as an expense for the Health Plan. The management fee revenue for 2014 of $4.7 million and 2013 of $4.7 million are based on Parkland's fiscal year end. In 2013, as permitted by the state of Texas, the Health Plan's Board of Directors approved allocations of surplus capital to Parkland in support of the new Parkland campus project. Funds transferred to Parkland under this agreement are reflected as revenues to Parkland and expenses to the Health Plan in the statements of revenues, expenses and changes in net position.

Parkland supports the Foundation by employment of all individuals performing the daily business functions of the Foundation and payments for goods and services. These costs are recognized as in-kind contributions and expenses in the Foundation's financial statements. In addition, in fiscal year 2014 and 2013, the Foundation made a contribution to Parkland of $5 million and $8 million, respectively, in support of the new Parkland construction project recorded in capital contributions in the statements of revenues, expenses and changes in net position.

Parkland also supports PCCI with payments for goods and services, and by employment of all individuals performing the daily business functions of PCCI. In fiscal year 2013, Parkland sold intellectual property associated with PCCI's software system, PIECES™ to PCCI. PIECES™ is an electronic coordination and clinical decision support system that collects and analyzes data in real time using predictive models to assist healthcare providers in anticipating and preventing adverse clinical events. The intellectual property was sold by Parkland to PCCI at fair value. This transaction is recorded as an asset of $4.5 million and payable to Parkland on PCCI's statements of net position, and a receivable of $4.5 million on Parkland's statements of net position. Interest is recognized on the outstanding receivable by Parkland.

Significant Accounting Policies — Net position is classified 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 position 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 position consists of those 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 position 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.

Parkland is considered a governmental organization and is subject to the pronouncements of 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 Position — 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 position available, it is Parkland's policy to apply those expenditures to restricted net position, to the extent that such are available, and then to unrestricted net position.

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 statements of net position until the contingencies have been fulfilled.

Cash, 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 insured by the Federal Deposit Insurance Corporation ("FDIC") or 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, 2014 and 2013, 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 position. 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 statements of net position.

Receivables and Payables — The carrying amount of receivables and payables is reported in the statements of net position 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 $433.5 million and $479.9 million, as of September 30, 2014 and 2013, 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, 2014 and 2013.

Assets Limited as to Use — Assets limited as to use represents those assets whose use has been legally restricted, including bond proceeds (see Note 11). Resources are also set aside for board-designated purposes or self-insurance arrangements. It has been the general practice of Parkland, due to the timing of cash flows, to temporarily use board designated funds to fund operating activities. Current assets limited as to use represent assets related to capital projects and debt service to be paid in the next year.

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 $449.5 million and $423.9 million in 2014 and 2013, respectively, to fund services for qualified patients and debt service obligations.

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. Additionally, 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. Costs for services to these patients were approximately $411.4 million and $342.9 million in 2014 and 2013, respectively, and are reflected in the statements of revenues, expenses and changes in net position 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, 2014, at approximately $751 million, of which approximately $380 million is charity care, and for the year ended September 30, 2013, at approximately $700 million, of which approximately $376 million is charity care.

Ad Valorem Taxes — Parkland received approximately 34.2% of its total revenues from ad valorem taxes in 2014 and 33.0% in 2013. Parkland's ad valorem taxes receivable is net of an allowance for uncollectible taxes of $16.9 million as of September 30, 2014 and 2013.

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
2013	$158,444,448	0.271	$423,889	$699,804	$275,915
2014	164,838,428	0.276	449,537	750,810	301,273

(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 statements of net position. There is no guarantee that this program will continue into future years. The program for fiscal year 2013 changed the distribution formula that benefited Parkland. Total revenue recognized related to the disproportionate share program was $65.3 million and $43.9 million in 2014 and 2013, respectively.

1115 Transformation Waiver Funds — The 1115 Transformation Waiver began October 1, 2011. Under this waiver, the former Upper Payment Limit ("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. Parkland serves as an "anchor" hospital for one of these regions. This mixture of new partners, a relatively new program, and new costs to create meaningful change in quality create some risk of delayed payments to Parkland. There is no guarantee that this program will be renewed upon initial completion, which could result in a reduction of funding. Also, as the disproportionate share distribution formula increases, the total amount allocated for 1115 Waiver programs decreases. Revenue recognized related to the 1115 Waiver was $126.2 million and $139.5 million in 2014 and 2013, respectively. Parkland recognizes all funds received under the program as operating revenue in the statement of revenues, expenses and changes in net position, and any amounts relating to that year that are not yet received are included in other receivables, net of amounts to be distributed to other participating hospitals in the region, in the accompanying statements of net position. These amounts involve a considerable amount of judgment and are subject to audit and final reconciliation by the Texas Health and Human Services Commission ("HHSC").

In September 2014, HHSC was notified by the Centers for Medicare & Medicaid Services ("CMS") of a deferral of UC payments. Management understands that a deferral is not a denial. The CMS position poses questions related to potentially impermissible provider related donations for the previously approved program. HHSC has vigorously defended the current 1115 Transformation Waiver and has formally requested that this deferral promptly be lifted. They cite access to care and a previous successful review of the program as reasons the deferral is not appropriate. Parkland has recorded revenue based on the facts outlined by HHSC, as well as on the previous approval of the indigent care model by CMS. On December 1, 2014, Parkland received notification that CMS plans to lift the current deferral and work with HHSC and Texas stakeholders in the coming year to understand and resolve concerns CMS has regarding Texas' financing arrangement for supplemental payments to private hospitals.

Tobacco Settlement Funds — In the fiscal years ended September 30, 2014 and 2013, 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 14% and 30%, respectively, in both 2014 and 2013. Allowances for uncollectible amounts are estimated using historical experience, current trends and policy information, aged account balances, and a collectability analysis. Net patient services revenue in the accompanying statements of revenues, expenses and changes in net position is net of contractual adjustments and bad debt provisions totaling approximately $3.9 billion and $3.6 billion for the years ended September 30, 2014 and 2013, 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 position as an adjustment to the appropriate allowance account. Such adjustments increased net patient services revenue by $1.3 million and $5.7 million in 2014 and 2013, respectively. Parkland's cost reports have been audited and settled by the fiscal intermediaries through 2010 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 — The Health Plan's 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 2013 and 2014. Parkland recognized revenue of $0.8 million and $2.5 million in federal stimulus funds related to their implementation of electronic medical records during 2014 and 2013, respectively. These amounts have been recorded as grants and contributions on the statements of revenues, expenses and changes in net position.

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 $37.0 million and $36.0 million as of September 30, 2014 and 2013, 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

GASB Statement No. 61 **–** *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements Nos. 14 and 34*. As discussed above, Parkland adopted GASB Statement No. 61 for fiscal year 2013. Application of this standard changed the presentation of the Health Plan to a discretely presented component unit. The Health Plan was previously presented as a blended component unit. As a result, the cumulative effect of this statement has been reported as a restatement of the beginning net position of Parkland and the Health Plan as of September 30, 2012.

GASB 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 statement periods beginning after December 15, 2011. Parkland has evaluated the impact this pronouncement will have on its financial position, the results of its operations, and its cash flows, and determined that all applicable provisions have already been applied to Parkland's financial statements.

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. All applicable provisions have been applied to Parkland's financial statements as of fiscal year 2013.

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The statement's provisions are effective for financial statement periods beginning after December 15, 2012. All applicable provisions have been applied to Parkland's financial statements as of fiscal year 2014.

Prior to adoption, debt issuance costs included all costs to issue the bonds and were reported as an asset which was amortized over the life of the bonds. This statement requires debt issuance costs, except any portion related to prepaid insurance costs, to be recognized as an expense in the period incurred. The implementation resulted in a restatement of beginning net assets as follows:

	Summary of Restatements			
	Net Position	Other Noncurrent Assets	Total Assets	Supplies and Other Expense
September 30, 2012, as previously reported	$ 1,096,054	$ 25,242	$ 2,050,805	$ 210,088
Reduction for expensed bond issuance costs	(4,845)	(4,845)	(4,845)	(152)
September 30, 2012, as restated	$ 1,091,209	$ 20,397	$ 2,045,960	$ 209,936
September 30, 2013, as previously reported	$ 1,138,944	$ 25,533	$ 2,073,950	$ 226,189
Reduction for expensed bond issuance costs	(4,693)	(4,693)	(4,693)	(152)
September 30, 2013, as restated	$ 1,134,251	$ 20,840	$ 2,069,257	$ 226,037

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27.* The statement's objective is to improve accounting and financial reporting by pension plan sponsors. The statement requires recognition of the entire net pension liability and a more comprehensive measure of pension expense, as well as new footnote disclosures and required supplemental information. The statement is effective for financial statements prepared by state and local governments for periods beginning after June 15, 2014. Parkland is evaluating the impact this statement will have on its financial position, the results of its operations and its cash flows.

GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68.* The Statement is required to be applied simultaneously with the provisions of Statement No. 68 which is effective for financial statements for periods beginning after June 15, 2014.

2. DEPOSITS AND INVESTMENTS

As of September 30, 2014 and 2013, Parkland had deposits and investments as follows (dollars in thousands):

	2014		2013	
Description	**Fair Value**	**Weighted-Average Days to Maturity**	**Fair Value**	**Weighted-Average Days to Maturity**
Bank Deposits	$ 311	N/A	$ 426	N/A
Texpool deposits	86,800	1	147,387	1
Money market	15,421	1	17,669	1
FNMA	62,728	920	136,569	726
FHLB	47,439	834	105,109	254
FHLMC	65,581	539	70,303	589
FFCB	17,459	1,008	36,465	715
US treasury	29,389	760	-	-
	$ 325,128		$ 513,928	

Description on Statement of Net Position	2014	2013
Cash and cash equivalents	$ -	$ -
Assets limited as to use --current portion	81,444	35,735
Assets limited as to use-- noncurrent portion	243,684	478,193
	$ 325,128	$ 513,928

Investment Maturities	2014	2013
One year or less	$ 18,557	$ 71,573
After one through five years	176,798	235,359
After five through ten years	-	-
After ten years	27,241	41,514
	$ 222,596	$ 348,446

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, 2014 and 2013. Parkland adjusts the carrying value of financial instruments classified as assets to reflect their appropriate fair value. For fiscal year 2014, deferral of payments from supplemental Medicaid programs resulted in a reduction of cash and cash equivalents. As of September 30, 2014, Parkland had not yet received $165.9 million of accrued revenue related to the supplemental programs. Cash and cash equivalents included in assets limited as to use were $133.3 million as of September 30, 2014 and $210.7 million as of September 30, 2013.

Interest Rate Risk — Parkland invests in fixed-rate debt securities with estimated average maturities of approximately one to six years. 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. 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 FDIC insurance and with securities pledged to Parkland 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 with FHLMC at 20% as of September 30, 2014, and the FNMA at 27% as of September 30, 2013.

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

Investment Income — Investment income for the years ended September 30, 2014 and 2013, consisted of the following (in thousands):

	2014	2013
Interest income	$ 16,395	$ 20,713
Unrealized loss on investments	(1,584)	(6,109)
Total investment income	$ 14,811	$ 14,604

3. ASSETS LIMITED AS TO USE

Assets limited as to use at September 30, 2014 and 2013, consist of the following funds, which are all investments in TexPool and U.S. government-sponsored enterprises (in thousands):

	2014	2013
Debt Service	$ 13,083	$ 11,264
Bond proceeds for construction	-	22,993
Designated for capital uses	339,043	520,097
Other designated	3,767	4,787
Due from cash	(30,765)	(45,213)
Total	325,128	513,928
Less current portion	(81,444)	(35,735)
Long term portion	$ 243,684	$ 478,193

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

Bond proceeds for construction – Bond 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 equipment, as well as funding for a combination of renovations and new facilities.

Other designated — Other assets limited as to use includes funds designated by the board of managers to fund Parkland's hospital professional liability program.

Due to/from cash – Assets limited as to use includes funds designated at the discretion of the board of managers which may be used temporarily to fund operating activities due to the timing of cash flows.

4. CAPITAL ASSETS

Capital assets at September 30, 2014, are summarized as follows (in thousands):

	Beginning Balance	Additions / Transfers In	Retirements/ Transfers Out	Ending Balance
Capital Assets:				
Land and improvements	$ 115,730	$ 584	$ -	$ 116,314
Buildings	542,881	4,611	-	547,492
Capital Leases	-	12,937	-	12,937
Equipment	445,187	33,942	(829)	478,300
Total	1,103,798	52,074	(829)	1,155,043
Less accumulated depreciation for:				
Land Improvements	(3,936)	(503)	-	(4,439)
Buildings	(308,312)	(16,934)	-	(325,246)
Capital Leases	-	-	-	-
Equipment	(320,277)	(36,203)	655	(355,825)
Total accumulated depreciation	(632,525)	(53,640)	655	(685,510)
Net	471,273	(1,566)	(174)	469,533
Construction in progress	763,984	341,690	(39,078)	1,066,596
Capital assets - net	$ 1,235,257	$ 340,124	$ (39,252)	$ 1,536,129

Capital assets at September 30, 2013, are summarized as follows (in thousands):

	Beginning Balance	Additions / Transfers	Retirements/ Transfers	Ending Balance
Captial Assets:				
Land and improvements	$ 114,401	$ 1,329	$ -	$ 115,730
Buildings	409,549	133,332	-	542,881
Equipment	396,377	49,715	(905)	445,187
Total	920,327	184,376	(905)	1,103,798
Less accumulated depreciation for:				
Land Improvements	(3,572)	(364)	-	(3,936)
Buildings	(288,589)	(19,723)	-	(308,312)
Equipment	(282,259)	(38,871)	853	(320,277)
Total accumulated depreciation	(574,420)	(58,958)	853	(632,525)
Net	345,907	125,418	(52)	471,273
Construction in progress	590,809	357,499	(184,324)	763,984
Capital assets - net	$ 936,716	$ 482,917	$ (184,376)	$ 1,235,257

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses, at September 30, 2014 and 2013, consist of the following (in thousands):

	2014	2013
Accounts payable	$ 45,453	$ 19,259
Accrued expenses	79,143	85,305
Accrued payroll	62,791	58,417
Employee health care benefit liability	9,298	8,516
Other employee benefits	6,148	5,754
Total accounts payable and accrued expenses	$ 202,833	$ 177,251

The liabilities, described in the table below as of September 30, 2014 and 2013, 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
Hospital professional and general liability:				
2013	$ 4,522	2,186	(1,759)	$ 4,949
2014	$ 4,949	2,042	(2,991)	$ 4,000
Employee health care benefit liability:				
2013	$ 7,085	87,173	(85,742)	$ 8,516
2014	$ 8,516	102,512	(101,730)	$ 9,298
Workers' compensation liability:				
2013	$ 4,354	1,674	(1,241)	$ 4,787
2014	$ 4,787	1,695	(1,321)	$ 5,161

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. The employee health care benefit liability is reported in accounts payable and accrued expenses in the statements of net position.

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 2% discount rate for 2014 and 2013 and is reported in accounts payable and accrued expenses in the statements of net position.

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 2% discount rate for 2014 and 2013 and is reported in other long term liabilities in the statements of net position.

6. OPERATING LEASES

Parkland leases facilities under operating leases that expire over periods of up to nine years. Renewal and purchase options are available on certain of these leases. At September 30, 2014, future minimum rental payments applicable to the operating leases were as follows (in thousands):

Years Ending	Amount
2015	$ 4,235
2016	2,104
2017	1,486
2018	1,412
2019	829
2020-2023	525
Total	$ 10,591

Rental expense for all operating leases is included in supplies and other expenses on the statement of revenues, expenses, and changes in net position. Rental expense was approximately $4.7 million and $4.5 million in 2014 and 2013, 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 revenues, expenses, and changes in net position. Minimum future rentals to be received under operating leases at September 30, 2014, are as follows (in thousands):

Years Ending	Amount
2015	$ 1,095
2016	674
2017	341
2018	171
2019	148
2020-2024	746
2025-2029	763
2030-2034	731
2035-2039	385
2040-2044	376
2045-2049	407
2050-2054	441
2055-2059	477
2060-2064	517
2065-2069	560
2070-2074	606
2075-2079	656
2080-2084	710
2085-2088	607
Total	$ 10,411

7. CAPITAL LEASE

In July 2014, Parkland entered into a 25 year capital lease with Frazier Revitalization, Inc. for construction of Hatcher Station Health Center, a 44,378 square foot community clinic. The clinic is in a low income area of Dallas that will support patient population needs. The clinic is currently under construction with an estimated completion in March 2015.

Total rental payments over the 25 year lease term are $36.2 million. Parkland is also responsible for the operating expenses, taxes and insurance on the building. The lease has a seven year, or any future time thereafter, purchase option at the then fair value. There is no renewal option in the lease.

The asset and related obligation are recorded at the present value of $12.9 million. The capital lease asset will be depreciated over the 25 year life which will begin upon completion of construction and at which time the lease payments will commence.

At September 30, 2014, future minimum rental payments applicable to the capital lease were as follows (in thousands):

Years Ending		Amount
2015	$	873
2016		1,309
2017		1,309
2018		1,309
2019		1,309
2020-2040		30,074
Total minimum future lease payment		36,183
Less: Amount representing interest		(23,246)
Present value of net minimum lease payments	$	12,937

The capital lease has a current liability of $37.2 thousand and long term liability of $12.9 million.

Parkland's investments in capital assets under capital lease, which are included in construction in progress as of September 30, 2014, is $12,936,717.

8. 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, 2013 and 2012, which is included in the actuarial valuation as of January 1, 2014 and 2013, respectively, was approximately $564.0 million and $534.8 million. For the years ended September 30, 2014 and 2013, Parkland's total payroll was approximately $706.1 million and $659.7 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. In accordance with the Governmental Accounting Standards Board pronouncements applicable to benefit plan accounting and reporting, revenues, including contributions, are recognized when earned and expenses are recognized when the underlying transaction or event occurs, regardless of the timing of related cash flows. Benefit payments to participants are recorded upon distribution.

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, 2014 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.

The Plan's assets include investments reported at fair value. Investments in mutual funds, corporate equities, and fixed income securities are reported at fair value based on published market prices. Short-term money market funds are reported at cost, which approximates fair value. Investments in common collective trusts and hedge funds are reported at net asset value as a practical expedient for fair value.

Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8% 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, 2014, were as follows (in thousands):

Annual required contribution	$ 22,811
Interest on net pension asset	(1,702)
Adjustment to annual required contribution	1,256
Annual pension cost	22,365
Contributions	22,119
Decrease in net pension asset	(246)
Net pension asset — beginning of year	19,873
Net pension asset — end of year	$ 19,627

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, 2014	$ 22,365	99 %	$ 19,627
September 30, 2013	20,840	96 %	19,873
September 30, 2012	15,579	98 %	20,749

During the years ended September 30, 2014 and 2013, $27.0 million and $24.7 million, respectively, of employee contributions were made in accordance with the established contribution requirements described above. Parkland contributed approximately $22.1 million to the Plan during the year ended September 30, 2014, in accordance with contribution requirements determined by the January 1, 2014 actuarial valuation. Parkland contributed approximately $20.0 million to the Plan during the year ended September 30, 2013, in accordance with contribution requirements determined by the January 1, 2013 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, 2014, 2013, and 2012, the actuarial value of assets was sufficient to fund 83%, 80%, and 86%, respectively, of the actuarial accrued liability. The unfunded liability as a percentage of the annual payroll for employees covered as of January 1, 2014, 2013, and 2012 was 25%, 28%, and 18%, 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, 2014 and 2013 was approximately $627.4 million and $573.4 million, respectively. Parkland's total payroll was approximately $706.1 million and $659.7 million for the years ended September 30, 2014 and 2013, 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, 2014, were approximately $17.6 million from Parkland and $41.3 million from employees, or 6.6% of covered payroll. The required contribution by Parkland for 2014 has been increased by $0.4 million representing increased employee participation contributions. Contributions for the year ended September 30, 2013, were approximately $17.2 million from Parkland and $37.8 million from employees, or 6.6% of covered payroll. The required contribution by Parkland for 2013 was increased by $0.4 million representing increased employee participation contributions.

Postretirement Benefits Other Than Pension ("OPEB") — In addition to providing pension benefits, Parkland provides certain health care benefits for retired employees until age 65 (the "OPEB Plan"). As of January 1, 2014 and 2013, the number of retirees and eligible beneficiaries of the OPEB Plan were 64 and 69, 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 OPEB Plan provisions were modified to discontinue allowing new enrollees in the OPEB Plan effective January 1, 2013.

Parkland's annual OPEB cost or expense is calculated based on the annual required contribution ("ARC"), an amount actuarially determined. 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, 2014, 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	$ 64
Interest on net OPEB obligation	237
Adjustment to annual required contribution	(190)
Annual OPEB cost	111
Contributions	(513)
Decrease in net OPEB obligation	(402)
Net OPEB obligation — beginning of year	4,745
Net OPEB obligation — end of year	$ 4,343

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, 2014	$ 111	463%	$ 4,343
September 30, 2013	144	431%	4,745
September 30, 2012	227	275%	5,222

As of the January 1, 2014 and 2013 actuarial valuation dates, the OPEB Plan was not prefunded. Contributions made were for current year costs incurred only. As of January 1, 2014, the actuarially accrued liability for benefits was $1.6 million, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $1.6 million As of January 1, 2013, the actuarially accrued liability for benefits was $2.3 million, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $2.3 million.

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, 2014 and 2013 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.

9. 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, 2014 and 2013, is as follows:

	2014	2013
Commercial insurance	35%	29%
Medicaid	35%	40%
Medicare	22%	18%
Patients	8%	13%
Total	100%	100%

10. 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. 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 exclusion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. 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. The CMS assessment found that Parkland was not fully compliant. Accordingly, in September 2011, CMS notified Parkland that it intended to terminate Parkland's participation in the Medicare and Medicaid programs 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").

After an additional series of CMS audits in June 2013, CMS notified Parkland in August 2013 that Parkland was in substantial compliance with the Conditions of Participation, that Parkland had successfully completed the requirements of the SIA, and that CMS was rescinding its Termination Notice. On August 22, 2013, CMS notified Parkland that it had restored Parkland's deemed status for full participation in the federal healthcare programs.

In August 2014, surveyors from CMS again found that Parkland was not in compliance with the CMS Conditions of Participation, and Parkland was again notified that CMS intended to terminate Parkland's participation in the Medicare and Medicaid programs. After an additional survey in September 2014, CMS removed the immediate jeopardy to patient health and safety finding but found that Parkland remained out of compliance with the CMS Conditions of Participation. A third survey in October 2014 found Parkland was in substantial compliance with the applicable regulations and in November 2014, CMS formally restored Parkland's deemed status for full participation in these federal programs.

Parkland has been named as a defendant or co-defendant in certain legal actions alleging medical malpractice, negligence, civil rights, and employment claims. Parkland maintains employment practices liability insurance.

As a local governmental unit, Parkland is subject to the provisions of the Texas statute known as the Texas Tort Claims Act, including the provisions thereof which limit liability in tort claims involving personal injury and death caused by a condition or use of tangible personal or real property. Currently, Parkland's liability is limited under the Act to money damages in a maximum amount of $100,000 for each person, $300,000 for each single occurrence for bodily injury or death, and $100,000 for each single occurrence for injury to or destruction of property. These liability limitations apply to claims and lawsuits covered by the Texas Tort Claims Act and do not apply to other types of claims and lawsuits, including, among others, civil rights and employment related litigation.

As to litigation or other proceedings pending, or to its knowledge, threatened in any court, agency or other administrative body (either state or federal) that are not specifically disclosed in these footnotes, Parkland intends to vigorously defend these matters and pursue its counterclaims, if any. Furthermore, as to such matters Parkland is either currently unable to estimate the ultimate aggregate amount of monetary gain, loss or financial impact of these matters, or does not currently believe these proceedings will have a material adverse impact; provided, however, adverse resolution of these actions and counterclaims could have a material adverse effect on our business, financial condition or results of operations.

Parkland has established and currently maintains, in lieu of any policy of liability insurance against damage or loss, a program of self-insurance which is maintained at or above the amounts which annually, in the opinion of an independent actuary, who is a fellow of the Casualty Actuary Society, are required to satisfy future losses which may result from past acts or omissions not subject to statutory limitation.

In response to a *qui tam* lawsuit filed in March 2010 alleging that Parkland had submitted certain claims for payment relating to the provision of physical medicine and rehabilitation services that were impermissible under then applicable Medicare and Medicaid program billing regulations, Parkland entered a settlement agreement in May 2013 with the United States of America, acting through the United States Department of Justice and on behalf of the Office of Inspector General ("OIG-HHS") of the United States Department of Health and Human Services, and the State of Texas. Under the settlement agreement, Parkland paid $1.4 million to settle the allegations and entered into a five-year Corporate Integrity Agreement (the "CIA") with the OIG-HHS. Under the CIA, among other things Parkland agreed to (1) implement corrective action to improve systemic performance in compliance, ethics, clinical quality and patient safety; (2) measure, analyze, and track quality indicators, including adverse patient events, and implement written policies and procedures designed to ensure Parkland's compliance with the federal healthcare program requirements on billing and reimbursement; (3) engage an outside monitoring organization to review Parkland's submission of claims for reimbursement from federal healthcare programs; and (4) engage an outside monitoring organization to review Parkland's clinical quality systems Under the CIA, if Parkland fails to comply with its provisions, Parkland is entitled to notice of such non-compliance from the OIG-HHS and an opportunity to cure any alleged non-compliance. The CIA also contains provisions for imposition of monetary penalties for any non-compliance that is not timely cured by Parkland. Further, for any material breaches of the CIA that are not cured by Parkland, the CIA provides that Parkland could be excluded from participation in the Medicare and Medicaid programs, but the CIA also contains dispute resolution provisions for any proceeding seeking to exclude Parkland from participation in the Medicare and Medicaid programs for non-compliance.

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, 2014, Parkland had commitments outstanding of approximately $135 million related to the construction of the New Parkland Campus.

11. 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 $705.0 million. The Bonds were authorized by an affirmative vote of the Dallas County electorate on November 4, 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 "AA+" by Standard & Poor's and "AA+" by 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. As of September 30, 2014, $7.0 million of the Series 2009A bonds were paid on their maturity date of August 15, 2014.

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. 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. 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.

Under the provisions of the Build America Bond program's Direct Payment Method, the Taxable Series 2009B and Series 2009C Bonds qualify for interest rate subsidies from the U.S. Treasury of 35% of the interest costs paid on each payment date. Under the Sequestration Transparency Act ("Sequestration") of 2012, the Federal subsidies were reduced by 8.7% effective for payments to issuers between March 2, 2013 and September 30, 2013. The Sequestration reduction of the subsidies was lowered to 7.2% effective for payments to issuers between October 1, 2013 and September 30, 2014. The Sequestration loss to Parkland was $1.0 million in fiscal year 2014. The Sequestration loss to Parkland was $.5 million in fiscal year 2013.

The remaining bonds authorized by the 2008 election were delivered on December 11, 2013. These Tax-Exempt Series 2013 Bonds were issued with a total principal amount of $38.3 million, bear interest at effective rates ranging from 1.3% to 4.7% (stated fixed interest rates between 4.0% and 5.0%), and mature from August 15, 2018 to 2038. Parkland may redeem, at its option, the bonds having stated maturity dates on or after August 15, 2024 on August 15, 2023 or on any date thereafter, in whole or in part, at the par amount plus any accrued interest. The Term Bonds maturing on August 15, 2038 are subject to mandatory sinking fund redemption prior to their stated maturity each year beginning August 15, 2034. Proceeds of the Bonds were used to fund the replacement hospital campus pursuant to Parkland's master facility plan. Payment of principal and interest on the Series 2013 Bonds is supported by parking revenues up to $3.0 million annually and by a tax levy for required debt service payments above $3.0 million.

The following is a summary of long-term debt for the years ended September 30, 2014 and 2013 (in thousands):

	2014 Beginning Balance	Additions	Amortization of Premiums	Reductions	2014 Ending Balance
Tax-exempt Series 2009A Bonds	$ 24,770	$ -	$ -	$ (7,015)	$ 17,755
Tax-Exempt Series 2009A Bonds premium	1,057	-	(368)	-	689
Taxable Series 2009B bonds	222,490	-	-	-	222,490
Taxable Series 2009C bonds	457,740	-	-	-	457,740
Tax Exempt 2013 Bonds	-	38,250		-	38,250
Tax Exempt 2013 Bonds premium	-	1,946	(138)	-	1,808
Capital Lease	-	12,937	-	-	12,937
Total Debt	$ 706,057	$ 53,133	$ (506)	$ (7,015)	$ 751,669

Short Term Debt	$ 8,267
Long Term Debt	743,402
Total Debt	$ 751,669

	2013 Beginning Balance	Additions	Amortization of Premiums	Reductions	2013 Ending Balance
Tax-exempt Series 2009A Bonds	$ 24,770	$ -	$ -	$ -	$ 24,770
Tax-Exempt Series 2009A Bonds premium	1,424	-	(367)	-	1,057
Taxable Series 2009B bonds	222,490	-	-	-	222,490
Taxable Series 2009C bonds	457,740	-	-	-	457,740
Total Debt	$ 706,424	$ -	$ (367)	$ -	$ 706,057

Short Term Debt	$ 7,015
Long Term Debt	699,042
Total Debt	$ 706,057

Long-term debt maturities (including mandatory redemptions), interest payments, net of subsidy, and total debt service at September 30, 2014 are as follows (in thousands):

Years Ending September 30,	Principal Payments and Mandatory Redemptions	Interest Payments, Net of Subsidy	Total Debt Service
2015	$ 8,230	$ 28,212	$ 36,442
2016	9,525	27,858	37,383
2017	14,710	27,456	42,166
2018	15,995	27,044	43,039
2019	16,485	26,556	43,041
2020-2024	91,240	123,962	215,202
2025-2029	109,515	105,688	215,203
2030-2034	133,694	81,505	215,199
2035-2039	159,590	52,283	211,873
2040-2044	177,250	20,664	197,914
Subtotal	736,234	521,228	1,257,462
Bond premium	4,489	-	4,489
Accumulated amortization	(1,991)	-	(1,991)
Total	$ 738,732	$ 521,228	$ 1,259,960

As of September 30, 2014, the aggregate fair market value of the Bonds was approximately $837.0 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 2014 is below the limit at $0.276 per $100 valuation.

Interest costs totaled $40.0 million for fiscal year 2014 and $38.7 million for fiscal year 2013. Of total interest costs, $12.3 million and $12.9 million was expensed during 2014 and 2013, respectively. The remaining $27.7 million and $25.8 million was capitalized during 2014 and 2013, respectively.

Refer to Footnote 7 for capital lease obligation of $12.9 million.

* * * * * *

SUPPLEMENTAL SCHEDULES

DALLAS COUNTY HOSPITAL DISTRICT
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, 2012 (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
2012	$ 556.9	$ 645.8	$ 88.9	86.2%	$ 493.4	18.0%
2013	590.1	737.9	147.8	80.0%	534.8	27.6%
2014	670.8	812.8	142.0	82.5%	564.0	25.2%

SCHEDULE OF FUNDING PROGRESS OF OTHER POST EMPLOYMENT BENEFITS, THREE-YEAR HISTORICAL TREND BEGINNING JANUARY 1, 2012 (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	Annual Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
2012	$ -	$ 2.9	$ 2.9	$ 450.6	0.6%
2013	-	2.3	2.3	N/A	N/A
2014	-	1.6	1.6	N/A	N/A

December 11, 2014

Parkland

Grant Thornton LLP
1717 Main Street, Suite 1500
Dallas, Texas 75201

Dear Sir or Madam:

We are providing this letter in connection with your audits of the financial statements of Dallas County Hospital District dba Parkland Health & Hospital System (a political subdivision of the state of Texas and a discretely presented component unit of Dallas County, Texas) ("Parkland"), which collectively comprise the statements of net position, statements of revenues, expenses, and changes in net position, and cash flows as of September 30, 2014 and 2013 and the years then ended of Parkland and the discretely presented component units, and the related notes to the financial statements. We understand that your audits were made for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and whether the supplementary information is fairly presented, in all material respects, in relation to the financial statements as a whole.

We have fulfilled our responsibility, as set out in the terms of the Engagement Letter, for the preparation and fair presentation in the financial statements of the respective financial position of Parkland and the discretely presented component units, and the respective statements of revenue, expenses, and changes in net position and cash flows, where applicable, in accordance with US GAAP. We acknowledge our responsibility for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements applicable Parkland. We further acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud, including programs and controls to prevent and detect fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered to be material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of the surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves, as of December 11, 2014, the following representations made to you during your audits.

1. The financial statements referred to above, including the related notes, have been prepared and are fairly presented in conformity with US GAAP.

2. The financial statements include all component units and properly disclose all other related organizations.

3. We have prepared an accurate and complete Schedule of Expenditures of.Federal and State Awards in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular and have included expenditures made during the period being audited for all awards provided by federal and state agencies in the form of grants, federal and state cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

4. We have provided you with:
   a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements, including all financial records, documentation of internal control over financial reporting, and related information
   b. Additional information you have requested for audit purposes
   c. Unrestricted access to persons from whom you determined it was necessary to obtain audit evidence
   d. Minutes of the meetings of governing boards of managers and committees of the boards or summaries of actions of recent meetings for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries.

5. There have been no communications, written or oral, from regulatory agencies or others concerning noncompliance with, or deficiencies in, financial reporting practices.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements. The adjusting journal entries for the period ended September 30, 2014, which have been proposed by you, are approved by us and will also be recorded in Parkland's accounting records.

7. We believe that the effects of the uncorrected financial statement misstatements, including omitted disclosures, in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

8. We have considered the results of sub recipient audits and believe there are no adjustments that are necessary to our books and records.

9. We have disclosed to you all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting of which we are aware.

10. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have no knowledge of abuse, fraud, or suspected fraud affecting the Entity involving:
    a. Management
    b. Employees who have significant roles in internal control, or
    c. Others where the fraud could have a material effect on the financial statements.

11. We have no knowledge of any allegations of fraud or suspected fraud affecting Parkland's financial statements received in communications from employees, former employees, analysts, regulators, or others.

12. There are no known violations or possible violations of, or no known instances of noncompliance or suspected noncompliance with, laws, regulations, or the provisions of contracts or grant agreements whose effects should be considered by management when preparing the financial statements, as a basis for recording a loss contingency, for disclosure, or for auditor reporting on noncompliance. We have complied with all laws, regulations, and the provisions of contracts and grant agreements, including all laws and regulations in adopting, approving, and amending budgets.

13. We have identified and disclosed to you all laws, regulations, and the provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.

14. We have established and maintained a process to address and track the status of audit findings, conclusions, and recommendations. We have provided to you our views on such matters, as well as planned corrective actions to be included in the report. We have also identified and informed you of findings and recommendations from previous audits, attestation engagements, or other studies that could have a material effect on the financial statements and whether any related recommendations were implemented or corrective actions taken.

15. Parkland has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

16. We have disclosed to you the identity of Parkland's related parties and all related party relationships and transactions of which we are aware. Related party relationships and transactions and related amounts receivable from or payable to related parties (including sales, purchases, loans, transfers, leasing arrangements, and guarantees) have been properly accounted for and disclosed in the financial statements in accordance with US GAAP.

    We understand that "related parties" include (1) affiliates of Parkland; (2) entities for which investments in their equity securities would be required to be accounted for by the equity method by the investing entity; (3) trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; (4) principal owners of Parkland and members of their immediate families; and (5) management of Parkland and members of their immediate families.

    Related parties also include (1) other parties with which Parkland may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests; and (2) other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests that related to Parkland or Parkland business.

17. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with US GAAP (*FASB Accounting Standards Codification*™ (ASC) 275, *Risks and Uncertainties*) are properly disclosed in the financial statements.

    Significant estimates are estimates at the date of the statement of financial position that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

18. The methods and significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable, consistently applied, and result in a measurement appropriate for financial statement and disclosure purposes. Disclosures related to these estimates and fair value measurements are adequate, complete, and accurate. No events have occurred subsequent to the date of the financial statements through the date of this letter that would require adjustment to these estimates and fair value measurements, or the related disclosures included in the financial statements.

19. Financial instruments with off-balance sheet risk and financial instruments with concentrations of credit risk have been properly accounted for and disclosed in the financial statements, including disclosures about:
    a. The extent, nature, and terms of the financial instruments
    b. The amount of credit risk, including significant concentrations of credit risk
    c. Information about the collateral supporting the financial instruments

20. Guarantees, whether written or oral, under which Parkland is contingently liable have been properly accounted for and disclosed in the financial statements.

21. Capital assets are properly capitalized, reported, and if applicable, depreciated.

22. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

23. Provisions for uncollectible receivables have been properly identified and recorded.

24. Risk disclosures associated with deposit and investment securities and derivative transactions are presented in accordance with GASB requirements.

25. The policy regarding whether to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available is appropriately disclosed and that net position is properly recognized under the policy.

26. There are no known actual or possible litigation, claims or assessments that our legal counsel has advised us are probable of assertion whose effects should be considered by management when preparing the financial statements and that should be accounted for and disclosed in accordance with US GAAP (ASC 450, *Contingencies*), except as disclosed in the financial statements.

27. There are no other liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with US GAAP (ASC 450), except as disclosed in the financial statements.

28. Parkland has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as disclosed in the financial statements.

29. We acknowledge our responsibility for management's discussion and analysis and the Schedule of Funding Progress of Defined Benefit Pension Plan, which the Governmental Accounting Standards Board considers to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Such required supplementary information is measured and presented in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. The methods of measurement and presentation of the required supplementary information are consistent with those used in the prior period. We have disclosed to you the significant assumptions and interpretations underlying the measurement and presentation of the required supplementary information.

30. The methods and significant assumptions used to determine fair values of financial instruments are as follows: investments are reported at fair value based on quoted market prices; and investments in investment pools are reported at $1.00 per share. The methods and significant assumptions used have been consistently applied and result in a measure of fair value appropriate for financial measurement and disclosure purposes. In addition, to the best of our knowledge and belief, there have been no subsequent events through the date of this letter that would require adjustment to the fair value measurements and disclosures included in the financial statements.

31. Deposits and investment securities are properly classified in categories of custodial credit risk, concentration of credit risk, credit risk, and interest rate risk.

32. Parkland is in compliance with the Public Funds Investment Act (PFIA) and did not invest in any unauthorized investments during the year ended September 30, 2014.

33. Parkland is in compliance with the provisions of Internal Revenue Code (IRC), its income is exclude under Section 115 of the IRC, and it is recognized as an organization described in Section 501(c)(3) of the IRC, and as such, is exempt from federal income taxes as evidenced by a determination letter.

34. Tax-exempt bonds issued have retained their tax-exempt status.

35. We agree with the findings of specialists in evaluating the following at September 30, 2014: the benefit obligations related to the Parkland Employees Retirement Plan, the actuarial assumptions and methods used to measure pension liabilities and costs, the self-insurance reserve for professional and general liability and workers' compensation liability risks and the fair value of intellectual property. We have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give nor cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have an impact on the independence or objectivity of the specialists.

36. Provision has been made, when material, for estimated retroactive adjustments by third-party payors under reimbursement agreements.

37. Adequate consideration has been given to, and appropriate provision made for, estimated adjustments to revenue, such as for denied claims and changes to Diagnosis Related Group ("DRG") assignments.

38. Receivables recorded for the Uncompensated Care (UC) and Delivery Supplemental Reform Incentive Payment (DSRIP) programs are based on management's best estimate and are recorded at net realizable value.

39. All accrediting organizations, fiscal intermediary, and third-party payor reports and information have been made available.

40. Receivables recorded in the financial statements represent valid claims against debtors for services or other charges arising on or before the net position date and have been appropriately reduced to their estimated net realizable value.

41. All required Medicare, Medicaid, and similar reports have been properly filed, and we are responsible for the accuracy and propriety of all cost reports filed. All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payors.

42. The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.

43. Adequate consideration has been given to, and appropriate provision made for, audit adjustments by intermediaries, third-party payors, or other regulatory agencies.

44. All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.

45. Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based on historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes Parkland is entitled to all amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.

46. There are no known violations of laws or regulations, such as those related to Medicare and Medicaid antifraud and abuse statutes, including but not limited to the Medicare and Medicaid Anti-Kickback Statute, Limitations on Certain Physician Referrals (the Stark Law), and the False Claims Act, in any jurisdiction, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency other than those disclosed or accrued in the financial statements.

47. All borrowing against Assets Limited As To Use are from board-designated funds and do not violate any existing policies of Parkland. The Board is aware of the amounts borrowed.

48. Billings to third-party payors comply in all material respects with applicable coding guidelines (for example, ICD-9-CM and CPT-4) and applicable laws and regulations (including those dealing with Medicare and Medicaid antifraud and abuse), and billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies (for example, the Food and Drug Administration), if required; and properly rendered.

49. In September 2014, HHSC was notified by the Centers for Medicare & Medicaid Services ("CMS") of a deferral of UC payments. Management understands that a deferral is not a denial. CMS poses questions related to potentially impermissible provider related donations for the previously approved program. HHSC has vigorously defended the current 1115 Transformation Waiver and has formally requested that this deferral promptly be lifted. They cited access to care and a previous successful review of the program as reasons the deferral is not appropriate. Parkland has recorded revenue based on the facts outlined by HHSC, as well as on the previous approval of the indigent care model by CMS. On December 1, 2014, Parkland received notification that CMS plans to lift tbe current deferral and work with HHSC and Texas stakeholders in the coming year to understand and resolve concerns CMS has regarding Texas' financing arrangement for supplemental payments to private bospitals.

50. On May 22, 2013, Parkland entered into a settlement agreement with the United States Department of Justice and the Medical Fraud Unit of the Texas Attorney General's office to resolve a qui tam or "whistleblower" lawsuits files in March 2010. Management believes that Parkland is in material compliance with the requirements of the Corporate Integrity Agreement required under this settlement, including all applicable reporting to the monitoring agency.

51. Parkland is subject to the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and State of Texas Single Audit Circular because it expensed more than $500,000 in federal and state awards during the year.

52. All events subsequent to the date of the financial statements through the date of this letter and for which US GAAP requires recognition or disclosure have been recognized or disclosed.

OMB Circular A-133 Compliance Report

We are also providing this letter in connection with your audit of Parkland's compliance 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 (hereinafter referred to as "compliance requirements") for the year ended September 30, 2014 for the purpose of expressing an opinion as to whether Parkland complied with such requirements. We confirm that we are responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements applicable to each of Parkland's federal and state programs. We also acknowledge our responsibility for establishing and maintaining effective internal control over compliance for federal and state programs that provides reasonable assurance that Parkland is administering federal and state programs and managing federal and state awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on its federal and state programs. We also acknowledge our responsibility for taking corrective action on audit findings.

We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves, as of December 11, 2014, the following representations made to you during your audit.

1. In accordance with the Single Audit Act and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas Single Audit Circular, we have complied, in all material respects, with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each federal and state program except as noted in the Summary of Findings and Questioned Costs.

2. We have identified and disclosed to you the federal and state programs, related activities, and requirements of laws, regulations, and the provisions of contracts and grant agreement that are considered to have a direct and material effect on each major federal program.

3. Except as otherwise disclosed, we have established and maintained effective internal control over compliance for federal and state programs that provides reasonable assurance that Parkland is administering federal and state programs and managing federal and state awards in compliance with laws, regulations, and the provisions of contracts and grants that could have a material effect on its federal and state programs.

4. We have made available or provided to you all compliance records and related data, including:
   a. Contracts and grant agreements, any related amendments, and any other correspondence with federal and state agencies or pass-through entities related to federal and state programs and related activities.
   b. Documentation related to the compliance requirements and compliance therewith, including information related to federal and state program financial reports and claims for advances and reimbursements.
   c. True copies of the federal and state program financial reports submitted, or electronically transmitted, to the federal agency or pass-through entity.
   d. Our interpretation of any compliance requirements that have varying interpretations and related communications from regulatory agencies supporting our interpretation.
   e. Documentation of internal control over compliance.

5. In accordance with our responsibility to take corrective action on audit findings, we have:
   a. Established and maintained a process to address and track the status of audit findings, conclusions, and recommendations, and provided to you our views on such matters, as well as planned corrective actions.
   b. Identified and informed you of prior audit findings and recommendations from federal and state awarding agencies and pass-through entities, previous audits and attestation engagements, internal or external monitoring, or other studies.
   c. Provided to you all information on the status of the follow-up on prior audit findings, including all management decisions and whether any related recommendations were implemented or corrective actions taken.

6. We have identified and disclosed to you all:
   a. Amounts questioned and known noncompliance, whether intentional or unintentional, with the requirements of federal and state awards, including those resulting from other audits or program reviews. The matters are included in the Schedule of Findings and Questioned Costs.
   b. Known control deficiencies, including significant deficiencies and material weaknesses, in the design or operation of internal control over compliance.
   c. Communications from regulatory agencies, grantors, pass-through entities, internal auditors, and other practitioners concerning possible noncompliance, including communications received subsequent to September 30, 2014 and through the date of this letter.

7. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal and State Awards.

8. We have charged costs to federal and state awards in accordance with applicable cost circulars.

9. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.

10. When necessary, we have issued management decisions on a timely basis after our receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements, and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.

11. There are no contracts or other agreements with service organizations with regard to the compliance requirements for any of the major federal or state programs.

12. We are responsible for, and have accurately prepared, the Summary Schedule of Prior Audit Findings to include all findings related to the Entity's compliance or internal control over compliance that are required by OMB Circular A-133.

13. We have accurately completed the appropriate sections of the Data Collection Form.

14. We have no knowledge of abuse, fraud, or suspected fraud affecting the federal and state programs of Parkland involving:
    a. Management
    b. Employees who have significant roles in internal control over compliance, or
    c. Others where the fraud could have a material effect on compliance.

15. We have no knowledge of any allegations of abuse, fraud, or suspected fraud affecting the federal and state programs of Parkland received in communications from employees, former employees, analysts, regulators, or others with regard to the compliance requirements for any of the major federal or state programs.

16. We acknowledge our responsibility for the preparation of the Schedule of Expenditures of Federal and State Awards in accordance with accounting principles generally accepted in the United States of America and OMB Circular A-133 and the State of Texas Single Audit Circular. Such supplementary information, including its form and content, is fairly presented in accordance therewith. The methods of measurement and presentation of the supplementary information are consistent with those used in the prior period. There are no significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

17. Subsequent to September 30, 2014 and through the date of this letter:
    a. No events have occurred that would affect Parkland's compliance with the compliance requirements.
    b. There were no known instances of noncompliance with such requirements.
    c. There were no findings received or related corrective actions taken.
    d. There were no changes in internal control over compliance or other factors that might significantly affect such internal control, including any corrective action taken by management with regard to significant deficiencies or material weaknesses.

Very truly yours,

For representations applicable to DALLAS COUNTY HOSPITAL DISTRICT dba Parkland Health & Hospital System

By: ______________________________
Dr. Fred Cerise
President and Chief Executive Officer of Parkland Health & Hospital System

By: ______________________________
Liz McMullen
Vice President and Controller of Parkland Health & Hospital System

By: ______________________________
Shelia Fisher
Director-Grants Management of Parkland Health & Hospital System

For representations applicable to the Parkland Community Health Plan

By: ______________________________
Tim Bahe
Executive Director of Parkland Community Health Plan

For representations applicable to the Parkland Foundation

By: ______________________________
David Krause
President and Chief Executive Officer of Parkland Foundation

For representations applicable to the Parkland Center for Clinical Innovation

By: ______________________________
Tawny Schaffer
Vice President of Finance, Parkland Center for Clinical Innovation

By: ______________________________
Jarred Mayrosh
Executive Vice President and Chief Financial Officer, Parkland Center for Clinical Innovation

Dallas County Hospital District

SUMMARY OF PASSED ADJUSTED JOURNAL ENTRIES

September 30, 2014

	Increase (Decrease) to:			
Description	**Assets**	**Liabilities**	**Net Position**	**Change in Net Position**
Unrecorded adjustments				
1 Cash Deposit Clearing	845,508			
Other Receivable	(845,508)			
To reclass unapplied cash to Accounts Receivable.				
2 Prepaid Assets	1,887,174			
Accounts Payable - Trade		1,887,174		
To reclass debit balances in A/P.				
3 Salary Expense				(580,105)
Accrued Salary		580,105		
To accrue for 2014 salaries not paid as of year end.				
Impact of prior year passed entries				39,300
Net impact	$ 1,887,174	$ 2,467,279	$ -	$ (540,805)
Financial Statement Totals:	$ 2,172,750,000	$ 1,037,080,000	$ 1,135,670,000	$ 1,419,000
Financial Statement Impact:	0.09%	0.24%	0.00%	-38.11%

Omitted disclosure:

The following is a description of an omitted disclosure identified during the audit that was not made by the Hospital:

- Capitalized lease obligations are not separately identified in the statement of net position as capital lease obligations and appropriately classified as current vs. noncurrent amounts.