

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, 2010 and 2009,
Supplemental Schedules as of September 30, 2010, and
Independent Auditors' Report

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

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DALLAS COUNTY HOSPITAL DISTRICT
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MANAGEMENT’S DISCUSSION AND ANALYSIS
(Unaudited)

Our discussion and analysis of Parkland Health & Hospital System’s (“Parkland”) financial performance provides an overview of the financial activities for the fiscal years that ended on September 30, 2010 (“FY10”) and 2009 (“FY09”). Please read it in conjunction with Parkland’s basic financial statements.

Financial Highlights

- Net assets increased \$106 million (11%) between FY09 and FY10, and net assets increased \$108 million (13%) between FY08 and FY09.
- Total assets increased \$113 million (6%) between FY09 and FY10, and total assets increased \$836 million (80%) between FY08 and FY09.
- The Parkland Foundation’s \$150 million “I Stand For Parkland” campaign has raised more than \$90 million in gifts and commitments, including unrecorded contingent commitments.
- In September, 2009, Parkland issued \$705 million in bonds for use in the construction of a new Parkland campus, anticipated to open in 2014.
- During fiscal year 2010, Parkland made the following significant capital acquisitions:
 - Major contracts for design and program development services for the new Parkland campus, and,
 - New and replacement information systems and medical equipment.

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

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

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

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

The Statements of Cash Flows

The statements 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 balance during the fiscal years.

Table 1: Summary of Assets and Liabilities

(Amounts in thousands)

	2010	2009	Dollar Change	Percentage Change
ASSETS				
ASSETS:				
Current and other assets	\$1,576,324	\$1,544,041	\$ 32,283	2 %
Capital assets – net	<u>411,715</u>	<u>330,604</u>	<u>81,111</u>	<u>25</u>
Total assets	<u>\$1,988,039</u>	<u>\$1,874,645</u>	<u>\$ 113,394</u>	<u>6 %</u>
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Long-term debt outstanding	\$ 707,159	\$ 707,527	\$ (368)	- %
Other liabilities	<u>212,522</u>	<u>205,024</u>	<u>7,498</u>	<u>4</u>
Total liabilities	<u>919,681</u>	<u>912,551</u>	<u>7,130</u>	<u>1</u>
NET ASSETS:				
Invested in capital assets, net of related debt	387,403	320,405	66,998	21
Unrestricted	<u>680,955</u>	<u>641,689</u>	<u>39,266</u>	<u>6</u>
Total net assets	<u>1,068,358</u>	<u>962,094</u>	<u>106,264</u>	<u>11</u>
TOTAL	<u>\$1,988,039</u>	<u>\$1,874,645</u>	<u>\$ 113,394</u>	<u>6 %</u>
	2009	2008	Dollar Change	Percentage Change
ASSETS				
ASSETS:				
Current and other assets	\$1,544,041	\$ 749,979	\$ 794,062	106 %
Capital assets – net	<u>330,604</u>	<u>288,857</u>	<u>41,747</u>	<u>14</u>
Total assets	<u>\$1,874,645</u>	<u>\$1,038,836</u>	<u>\$ 835,809</u>	<u>80 %</u>
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Long-term debt outstanding	\$ 707,527	\$ -	\$ 707,527	N/A
Other liabilities	<u>205,024</u>	<u>184,789</u>	<u>20,235</u>	<u>11</u>
Total liabilities	<u>912,551</u>	<u>184,789</u>	<u>727,762</u>	<u>394</u>
Net assets:				
Invested in capital assets, net of related debt	320,405	288,857	31,548	11
Unrestricted	<u>641,689</u>	<u>565,190</u>	<u>76,499</u>	<u>14</u>
Total net assets	<u>962,094</u>	<u>854,047</u>	<u>108,047</u>	<u>13</u>
TOTAL	<u>\$1,874,645</u>	<u>\$1,038,836</u>	<u>\$ 835,809</u>	<u>80 %</u>

Overall, total assets increased 6% from 2010 to 2009, and total assets increased 80% from 2008 to 2009.

- Current and other assets increased 2% from 2009 to 2010 as a result of additional designations by the Board of Managers for the New Parkland Campus.
- Current and other assets increased 106% from 2008 to 2009 as a result of bonds issued in September, 2009, and the subsequent receipt of cash proceeds.

- Capital assets (net) increased 25% from 2009 to 2010, primarily due to planning and programming for the new Parkland campus, new information systems and equipment, and medical equipment acquisitions.
- Capital assets (net) increased 14% from 2008 to 2009, primarily due to planning and programming for the new Parkland campus, new information systems and equipment, and medical equipment acquisitions.
- Liabilities increased slightly from 2009 to 2010 due to an increase in interest payable.
- Liabilities increased 394% from 2008 to 2009 due to the issuance of \$705 million in bonds.

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

(Amounts in thousands)

	2010	2009	2008
OPERATING REVENUES:			
Net patient services	\$ 475,384	\$ 415,562	\$ 385,442
Disproportionate share, upper payment limit, and trauma	184,124	180,347	180,672
Tobacco settlement	8,254	15,039	17,518
Premiums	437,862	396,211	386,002
Other, net	<u>45,426</u>	<u>72,478</u>	<u>13,233</u>
Total operating revenues	<u>1,151,050</u>	<u>1,079,637</u>	<u>982,867</u>
OPERATING EXPENSES:			
Salaries, wages, and benefits	655,339	622,490	558,068
Purchased medical services	112,922	109,080	110,333
Supplies and other	230,434	221,020	211,006
Pharmaceuticals	92,166	87,844	85,664
Depreciation and amortization	53,756	43,107	36,767
Claims	<u>400,872</u>	<u>346,057</u>	<u>301,832</u>
Total operating expenses	<u>1,545,489</u>	<u>1,429,598</u>	<u>1,303,670</u>
Operating loss	<u>(394,439)</u>	<u>(349,961)</u>	<u>(320,803)</u>
NONOPERATING REVENUES AND EXPENSES	500,703	454,571	444,452
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>3,437</u>	<u>3,976</u>
Change in net assets	<u>106,264</u>	<u>108,047</u>	<u>127,625</u>
NET ASSETS — Beginning of year	<u>962,094</u>	<u>854,047</u>	<u>726,422</u>
NET ASSETS — End of year	<u>\$1,068,358</u>	<u>\$ 962,094</u>	<u>\$ 854,047</u>

Overall, operating revenues increased 6% from 2009 to 2010, and operating revenues increased 10% from 2008 to 2009.

- Net patient services revenue increased 14% from 2009 to 2010 primarily due to favorable managed care commercial contract enhancements as well as price increases. Net patient services revenue increased 8% from 2008 to 2009 primarily due to managed care and Medicaid contract enhancements and price increases.

- Disproportionate share, upper payment limit and trauma revenues increased 2% from 2009 to 2010 due to higher State of Texas (“State”) funding levels. Disproportionate share, upper payment limit and trauma revenues remained constant from 2008 to 2009, due to similar State funding levels.
- Premium revenues increased 11% from 2009 to 2010 due to:
 - Increased volume of 19% (2,232,789 member months in 2010 versus 1,875,909 member months in 2009), partially offset by decreased revenue per member of 8% (\$196 per member each month in 2010 versus \$211 per member each month in 2009).
- Premium revenues increased 3% from 2008 to 2009 due to:
 - Increased volume of 6% (1,875,909 member months in 2009 versus 1,779,959 member months in 2008), partially offset by decreased revenue per member of 3% (\$211 per member each month in 2009 versus \$217 per member each month in 2008).
- Other operating revenues decreased 37%, due to the 2009 repayment of a 2008 Medicaid recoupment. Other operating revenues increased by 448% from 2008 to 2009 due to that same repayment.

Overall, operating expenses increased 8% from 2009 to 2010, and 10% from 2008 to 2009.

- Salaries, wages, and benefits increased 5% from 2009 to 2010 due to:
 - Employee merit increases,
 - Employee health plan expense increases associated with both an increase in utilization, as well as price increases.
- Salaries, wages, and benefits increased 12% from 2008 to 2009 due to:
 - Employee merit increases,
 - Additional required contributions to the pension plan.
- Purchased medical services, pharmaceuticals and supplies increased 4% between 2009 and 2010, primarily due to a continued increase in implants and medical supplies related to an increase in patient volumes.
- Purchased medical services, pharmaceuticals and supplies increased 3% between 2008 and 2009, primarily due to an increase in implants related to a significant increase in orthopedic and neurology cases, and medical supplies related to an increase in surgical cases and pathology procedures.
- Claims increased 16% from 2009 to 2010 as a result of:
 - An average decrease of 3% in claims cost per member, due to a change in the mix of members whose claim costs are lower per member, as well as a 19% increase in member volume.
- Claims increased 15% from 2008 to 2009 as a result of:
 - An average increase of 8% in claims cost per member, due to a rate increase paid to providers, as well as a 6% increase in member volume.

Overall, Parkland’s operating loss increased 14% from 2009 to 2010 due to the items mentioned above, along with an increase in depreciation associated with the implementation of various information technology systems. It is important to note the calculation of operating loss is the result of the application of accounting principles generally accepted in the United States of America (“GAAP”). As Dallas’ only public hospital, Parkland receives property tax revenues primarily to subsidize the cost of services provided to uninsured patients who qualify to receive tax-supported care. Although the expenses incurred to provide these services are recognized as operating expenses, GAAP reporting rules require that ad valorem tax revenues be reported as nonoperating revenues.

Nonoperating revenues increased 10% from 2009 to 2010, primarily due to an increase in grant revenues of 10% and an increase in investment income of 450%. Nonoperating revenues increased 2% from 2008 to 2009 primarily due to an increase in grants and contributions as well as ad valorem tax support. Parkland's tax rate increased from .254 cents per \$100 assessed valuation to .274 cents per \$100 assessed valuation in 2010 due to the bond issuance. Taxes are levied by Parkland and collected on behalf of Parkland by Dallas County.

Patient Volumes

Patient volumes at Parkland are measured on both the inpatient and outpatient basis. Inpatient discharges were 41,294 in 2010, about the same as the 41,364 in 2009. Emergency department visits increased 21% to 177,428 in 2010 from 147,197 in 2009, due to a workflow restructuring. Combined outpatient, on-campus clinic and Community Oriented Primary Care visits increased 7% to 1,056,949 in 2010 from 983,820 in 2009.

Capital Asset and Debt Financing

At the end of 2010 and 2009, Parkland had \$412 million and \$331 million, respectively, in capital assets, net of accumulated depreciation, as detailed in the notes to the financial statements. The components of Parkland's capital assets are as follows:

Table 3: Capital Assets

(Amounts in thousands)

	2010	2009	Dollar Change	Percentage Change
Buildings	\$ 407,749	\$ 394,167	\$ 13,582	3 %
Construction in progress	14,787	21,453	(6,666)	(31)
Construction in progress New Parkland Campus	60,972	7,978	52,994	664
Land and improvements	73,723	44,635	29,088	65
Equipment (including IT projects in progress)	<u>388,460</u>	<u>347,753</u>	<u>40,707</u>	<u>12</u>
	945,691	815,986	129,705	16
Accumulated depreciation and amortization	<u>(533,976)</u>	<u>(485,382)</u>	<u>(48,594)</u>	<u>10</u>
Capital assets, net	<u>\$ 411,715</u>	<u>\$ 330,604</u>	<u>\$ 81,111</u>	<u>25 %</u>
	2009	2008	Dollar Change	Percentage Change
Buildings	\$ 394,167	\$ 406,310	\$ (12,143)	(3)%
Construction in progress	21,453		21,453	N/A
Construction in progress New Parkland Campus	7,978		7,978	N/A
Land and improvements	44,635	39,337	5,298	13
Equipment (including IT projects in progress)	<u>347,753</u>	<u>296,176</u>	<u>51,577</u>	<u>17</u>
	815,986	741,823	74,163	10
Accumulated depreciation and amortization	<u>(485,382)</u>	<u>(452,966)</u>	<u>(32,416)</u>	<u>7</u>
Capital assets, net	<u>\$ 330,604</u>	<u>\$ 288,857</u>	<u>\$ 41,747</u>	<u>14 %</u>

Overall, capital assets increased 25% from 2009 to 2010. Major additions included:

- Major contracts for design and program development services for the new Parkland campus, and new and replacement information systems and medical equipment.

Overall, capital assets increased 14% from 2008 to 2009. Major additions included:

- Implementation of information systems, land acquisitions and major contracts for architectural, construction and program development services for the new Parkland campus.

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

Table 4: Debt Financing

(Amounts in thousands)

	2010	2009
Tax-exempt Series 2009A bonds, including premium	\$ 26,929	\$ 27,297
Taxable Series 2009B bonds	222,490	222,490
Taxable Series 2009C bonds	<u>457,740</u>	<u>457,740</u>
Total	<u>\$ 707,159</u>	<u>\$ 707,527</u>

Current 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 2010 actual results.

Table 5: Performance Compared to Budget

(Amounts in thousands)

	Actual 2010	Budget 2010	Favorable / (Unfavorable)
OPERATING REVENUES:			
Net patient services	\$ 475,384	\$ 434,150	\$ 41,234
Disproportionate share, upper payment limit, and trauma	184,124	178,000	6,124
Tobacco settlement	8,254	13,139	(4,885)
Premiums	437,862	448,320	(10,458)
Other, net	<u>45,426</u>	<u>42,559</u>	<u>2,867</u>
Total operating revenues	<u>1,151,050</u>	<u>1,116,168</u>	<u>34,882</u>
OPERATING EXPENSES:			
Salaries, wages, and benefits	655,339	624,742	(30,597)
Purchased medical services	112,922	116,745	3,823
Supplies and other	230,434	219,051	(11,383)
Pharmaceuticals	92,166	90,253	(1,913)
Depreciation and amortization	53,756	50,000	(3,756)
Claims	<u>400,872</u>	<u>399,672</u>	<u>(1,200)</u>
Total operating expenses	<u>1,545,489</u>	<u>1,500,463</u>	<u>(45,026)</u>
Operating loss	<u>(394,439)</u>	<u>(384,295)</u>	<u>(10,144)</u>
NONOPERATING REVENUES:			
Ad valorem tax support	445,902	450,290	(4,388)
Grants and contributions	19,119	21,532	(2,413)
Investment income	71,776	10,400	61,376
Interest expense	<u>(36,094)</u>	<u>-</u>	<u>(36,094)</u>
Total nonoperating revenues and expenses	<u>500,703</u>	<u>482,222</u>	<u>18,481</u>
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>\$ 106,264</u>	<u>\$ 97,927</u>	<u>\$ 8,337</u>

Economic Factors

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

- Economic conditions leading to a reduction in the valuation of both commercial and residential properties within Dallas County;
- Dallas County's population growth, as well as continued growth in the number of uninsured and working poor;
- Clinical workforce shortages, particularly for neonatal nurse practitioners, surgical nurses, and case managers;
- Continued growth in medical, implant, and pharmaceutical supply costs;
- Continued advances in health care medical equipment and computer technology;

- Federal and state government funding for Medicare, Medicaid, disproportionate share, and upper payment limit programs;
- Health care reform; and,
- Unfunded mandates, such as Homeland Security, the Health Insurance Portability and Accountability Act, and the Emergency Medical Treatment and Active Labor Act.

Significant Financial Practices

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

Assets Limited As To Use

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

Monthly Financial Reporting

The Board of Managers meets monthly and reviews the financial statements from the prior month. This information is presented to show actual monthly and year-to-date revenues and expenses compared to budget and the prior year. Management provides explanations for significant variances.

Pay-As-You-Go Capital Funding

Historically Parkland has maintained the practice to fund capital items under a pay-as-you-go process. This was done to minimize borrowing costs as well as maintain financial flexibility. 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 voter approved \$705 million in bonds for use in the construction of a new Parkland campus and continue their practice related to pay-as-you-go capital funding for routine capital expenditures.

Budget Process

The operating and capital budgets are proposed by Parkland management and endorsed by the Board of Managers. Final approval is obtained from the Dallas County Commissioners Court. The budget remains 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: John Dragovits, Executive Vice President & Chief Financial Officer

By E-Mail: John.Dragovits@phhs.org

INDEPENDENT AUDITORS' REPORT

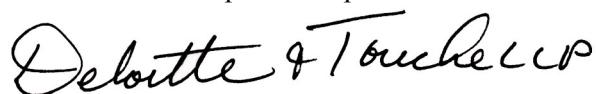
To the Board of Managers of
Dallas County Hospital District
dba Parkland Health & Hospital System

We have audited the accompanying balance sheets of Dallas County Hospital District dba Parkland Health & Hospital System (a component unit of Dallas County, Texas) ("Parkland"), as of September 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of Parkland's management. Our responsibility is to express an opinion on these respective financial statements based on our audit. We did not audit the financial statements of Parkland Foundation, a discretely presented component unit of Parkland. Those financial statements were audited by other auditors whose report thereon has been furnished to us, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Parkland's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Parkland, as of September 30, 2010 and 2009, and their changes in net assets and their cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 8 and the supplemental schedules on page 36 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of Parkland's management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



December 14, 2010

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

BALANCE SHEETS
AS OF SEPTEMBER 30, 2010 AND 2009
(Amounts in thousands)

	2010		2009	
	Hospital and Health Plan	Foundation	Hospital and Health Plan	Foundation
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 108,763	\$ 6,990	\$ 147,515	\$ 7,577
Short-term investments	-	1,374	86,562	414
Assets limited as to use	20,182	-	8,695	-
Ad valorem taxes receivable, less allowance for uncollectible taxes of \$17,290 in 2010 and \$18,096 in 2009	6,277	-	8,235	-
Patient accounts receivable, less allowance for uncollectible accounts	85,971	-	78,313	-
Due from Parkland Foundation	567	-	290	-
Other receivables	59,261	1,119	83,474	6,839
Inventories and other assets	11,885	-	9,022	-
Total current assets	<u>292,906</u>	<u>9,483</u>	<u>422,106</u>	<u>14,830</u>
CAPITAL ASSETS — Net	411,715	-	330,604	-
LONG-TERM INVESTMENTS	201,432	30,579	97,295	13,134
ASSETS LIMITED AS TO USE	1,056,938	-	1,000,277	-
OTHER NONCURRENT ASSETS	<u>25,048</u>	<u>20,978</u>	<u>24,363</u>	<u>19,454</u>
TOTAL	<u>\$1,988,039</u>	<u>\$61,040</u>	<u>\$1,874,645</u>	<u>\$47,418</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	\$ 163,611	11,679	155,952	4,119
Due to Parkland Hospital	-	240	-	109
Due to third-party reimbursement programs	6,025	-	6,272	-
Interest payable	4,880	-	1,410	-
Other current liabilities	22,907	-	28,177	-
Total current liabilities	197,423	11,919	191,811	4,228
Other long-term liabilities	<u>15,099</u>	<u>-</u>	<u>13,213</u>	<u>-</u>
Long term debt	<u>707,159</u>	<u>-</u>	<u>707,527</u>	<u>-</u>
Total liabilities	<u>919,681</u>	<u>11,919</u>	<u>912,551</u>	<u>4,228</u>
COMMITMENTS AND CONTINGENCIES (Note 11)				
NET ASSETS:				
Invested in capital assets, net of related debt	387,403	-	320,405	-
Restricted	-	47,057	-	41,012
Unrestricted	<u>680,955</u>	<u>2,064</u>	<u>641,689</u>	<u>2,178</u>
Total net assets	<u>1,068,358</u>	<u>49,121</u>	<u>962,094</u>	<u>43,190</u>
TOTAL	<u>\$1,988,039</u>	<u>\$61,040</u>	<u>\$1,874,645</u>	<u>\$47,418</u>

See notes to financial statements.

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(Amounts in thousands)

	2010		2009	
	Hospital and Health Plan	Foundation	Hospital and Health Plan	Foundation
OPERATING REVENUES:				
Net patient services	\$ 475,384	\$ -	\$ 415,562	\$ -
Disproportionate Share, Upper Payment Limit, and Trauma	184,124	-	180,347	-
Tobacco settlement	8,254	-	15,039	-
Premiums	437,862	-	396,211	-
Other, net	45,426	11,472	72,478	34,895
	1,151,050	11,472	1,079,637	34,895
OPERATING EXPENSES:				
Salaries, wages, and benefits	655,339	-	622,490	-
Purchased medical services	112,922	-	109,080	-
Supplies and other	230,434	5,541	221,020	7,686
Pharmaceuticals	92,166	-	87,844	-
Depreciation and amortization	53,756	-	43,107	-
Claims	400,872	-	346,057	-
	1,545,489	5,541	1,429,598	7,686
OPERATING (LOSS) INCOME	(394,439)	5,931	(349,961)	27,209
NONOPERATING REVENUES (EXPENSES):				
Ad valorem tax support	445,902	-	424,137	-
Grants and contributions	19,119	-	17,392	-
Investment income	71,776	-	13,042	-
Interest expense	(36,094)	-	-	-
	500,703	-	454,571	-
Income before capital contributions	106,264	5,931	104,610	27,209
CAPITAL CONTRIBUTIONS	-	-	3,437	-
Change in net assets	106,264	5,931	108,047	27,209
NET ASSETS — Beginning of year	962,094	43,190	854,047	15,981
NET ASSETS — End of year	\$1,068,358	\$49,121	\$ 962,094	\$43,190

See notes to financial statements

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

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(Amounts in thousands)

	2010	2009
HOSPITAL AND HEALTH PLAN		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from third-party payors and patients	\$ 908,280	\$ 808,065
Payments to suppliers	(852,771)	(749,775)
Payments to employees	(651,748)	(616,308)
Other receipts	<u>266,842</u>	<u>235,007</u>
Net cash used in operating activities	<u>(329,397)</u>	<u>(323,011)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Ad valorem taxes	447,860	423,879
Grants and contributions	<u>18,842</u>	<u>18,198</u>
Net cash provided by noncapital financing activities	<u>466,702</u>	<u>442,077</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contribution	-	3,437
Purchases of capital assets	(121,329)	(85,727)
Bond reimbursement for new hospital expenditures	33,749	-
Interest paid	(35,573)	-
Build America bonds subsidy	12,117	-
Deferred bond issue costs	-	(5,301)
Proceeds from bonds	<u>-</u>	<u>707,527</u>
Net cash provided by (used in) capital and related financing activities	<u>(111,036)</u>	<u>619,936</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	31,133	12,918
Investments:		
Purchases	(1,850,720)	(489,056)
Maturities	1,772,201	285,100
Cash equivalents included in assets limited as to use	-	180,600
Designated assets	<u>(17,635)</u>	<u>(702,263)</u>
Net cash (used in) provided by investing activities	<u>(65,021)</u>	<u>(712,701)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	(38,752)	26,301
CASH AND CASH EQUIVALENTS — Beginning of year	<u>147,515</u>	<u>121,214</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 108,763</u>	<u>\$ 147,515</u>

(Continued)

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

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(Amounts in thousands)

	2010	2009
HOSPITAL AND HEALTH PLAN		
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (394,439)	\$ (349,961)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	53,756	43,107
Loss on disposal of assets	530	874
Change in operating assets and liabilities:		
Patient accounts receivable	(7,658)	(4,072)
Other receivables, inventories and other assets	26,711	(32,789)
Accounts payable and accrued expenses	(3,827)	9,191
Due to third-party reimbursement programs	(247)	(351)
Other current liabilities	(5,271)	7,662
Net pension asset	(838)	(406)
Other long-term liabilities	<u>1,886</u>	<u>3,734</u>
Net cash used in operating activities	<u>\$ (329,397)</u>	<u>\$ (323,011)</u>
SUPPLEMENTAL INFORMATION:		
Unpaid purchases of capital assets in accounts payable and accrued expenses	<u>\$ 20,182</u>	<u>\$ 8,695</u>
Unrealized gain on investments	<u>\$ 24,301</u>	<u>\$ 2,181</u>
See notes to financial statements.		(Concluded)

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

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization — The Dallas County Hospital District, dba Parkland Health & Hospital System (“Parkland”) is a political subdivision of the state of Texas (the “State”), and is a discretely presented component unit of Dallas County, Texas. Dallas County Hospital District is composed of Parkland Memorial Hospital (the “Hospital”); the Parkland Foundation (the “Foundation”); and the Parkland Community Health Plan, Inc. (the “Health Plan”). Parkland is a hospital district, and accordingly, its income is excluded under Section 115 of the Internal Revenue Code (the “Code”), and it is recognized as an organization described in Section 501(c)(3) of the Code, and as such, is exempt from federal income taxes. During 2010 and 2009, all income was related to essential government functions. Both the Hospital and the Foundation have fiscal years ending September 30. The Health Plan’s fiscal year ends December 31. All references to annual periods refer to the year ended September 30.

The Hospital operates 673 beds, 65 neonatal beds, numerous outpatient clinics, and an emergency room. The Hospital also operates the Community Oriented Primary Care clinics in the community and on the Hospital campus. Additionally, the Hospital serves as the major teaching hospital for the University of Texas Southwestern Medical School (UTSMS), which is located adjacent to the Hospital.

The Hospital also manages the Dallas County jail health system. The Dallas County jail is the seventh largest jail in the nation with approximately 7,000 inmates. Parkland provides direct patient care at five facilities and contracts for services at four juvenile facilities.

The Foundation is a nonprofit corporation organized in Texas in 1985 to support and benefit Parkland exclusively. It is an organization as described in Section 501(c)(3) of the Code. The Foundation is a discretely presented component unit of Parkland, which is deemed to have control of the Foundation, since the majority of the Foundation’s Board of Directors are appointed by Parkland’s Board of Managers. Amounts due to the Hospital from the Foundation are included in Accounts payable and accrued expenses and Due to Parkland Hospital in the accompanying balance sheets. The Foundation’s mission is to secure substantial financial resources that advance the clinical, educational, and research quests of Parkland.

The Health Plan is a nonprofit corporation organized in Texas in 1995 and is reported as a blended component unit of Parkland. It is an organization as described in Section 501(c)(4) of the Code. The Health Plan participates in the Texas Medicaid Managed Care Program and the Children’s Health Insurance Program. All income was related business income during 2010 and 2009.

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

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

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

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

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

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

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

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

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

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

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

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

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

All investments at September 30, 2010 and 2009, are reported at fair value based on quoted market prices with realized and unrealized gains and losses included in investment income in the statements of revenues, expenses, and changes in net assets. Obligations of the United States government with maturity dates in excess of one year that are not expected to be expended within one year are reported as long-term investments in the accompanying balance sheets.

Patient Accounts Receivable — Patient accounts receivable is presented net of allowances for charity, contractual discounts and bad debts of \$914 million and \$870 million as of September 30, 2010 and 2009, 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 expense 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, 2010 and 2009.

Deferred Bond Issue Costs — The costs associated with the issuance of bonds are being amortized over the term of the respective bond issue, using a method, which approximates the effective interest method (see Note 12).

Assets Limited as to Use — Assets limited as to use represent those assets whose use has been legally restricted, including the 2009 Bonds (see Note 12). Resources are also set aside for board-designated purposes or self-insurance arrangements. Current assets limited as to use represent current liabilities related to capital projects.

Uncompensated Care — Parkland provides services to uninsured patients who qualify for tax-supported care. The program is called Parkland Health*Plus* and is designed for Dallas County indigent patients with family incomes up to 200% of the federal poverty level and no third-party coverage, such as Medicaid, Medicare, or commercial insurance. Parkland recognized ad valorem tax revenues of approximately \$446 million and \$424 million in 2010 and 2009, respectively, to fund services for qualified patients.

Parkland also provides services to patients who are Dallas County residents and have incomes that exceed the limit for tax-supported health care or whose income cannot be determined. Although these patients are uninsured, they do not qualify for tax-supported health care and are classified as self-pay. Certain of these patients are medically indigent. Certain have limited financial resources and are unable to pay for the services received, while others may be able to pay for some or all services received, but are unwilling to do so. Charges for services to these patients were approximately \$301 million and \$260 million in 2010 and 2009, respectively, and are reflected in the statements of revenues, expenses, and changes in net assets as part of net patient services revenue.

Management estimates the cost of uncompensated health care, including charity care, as the excess direct and indirect costs of providing services over the estimated collection amounts. The cost of uncompensated care, including charity care, was approximately \$599 million and approximately \$583 million during the years ended September 30, 2010 and 2009, respectively. Management estimates the cost of charity care as the direct and indirect costs of providing services less the estimated reimbursement from charity programs. The cost of charity care was approximately \$309 million and \$283 million during the years ended September 30, 2010 and 2009, respectively.

Ad Valorem Taxes — Parkland received approximately 26% and 28% of its total revenues from ad valorem taxes in 2010 and 2009, respectively. Parkland's ad valorem taxes receivable is net of an allowance for uncollectible taxes of \$17 million as of September 30, 2010 and \$18 million as of September 30, 2009.

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 (in thousands):

Fiscal Year	Tax Base	Tax (per \$100 Valuation)	Net Tax Revenue (1)	Cost of Uncompensated Care	Cost of Uncompensated Care In Excess of Tax Revenue
2009	\$ 172,018,037	0.254	\$424,137	\$583,222	\$159,085
2010	166,299,180	0.274	445,902	599,161	153,259

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

Disproportionate Share and Upper Payment Limit Funds — The disproportionate share and upper payment limit programs have been created by the State to provide additional federal matching funds. Under program guidelines, Parkland may use the funds to benefit the indigent in either current or future periods. Parkland recognizes all funds received under the disproportionate share and upper payment limit programs as operating revenue in the applicable year, and any amounts relating to that year that are not yet received are included in other receivables in the accompanying balance sheets. Although management is not aware of any changes to the disproportionate share and upper payment limit programs, there is no guarantee that such programs will continue and such programs could be discontinued at any time. As of September 30, 2010 and 2009, receivables of \$31 million and \$58 million, respectively, were recorded for the disproportionate share and upper payment limit funds.

Tobacco Settlement Funds — In the fiscal years ended September 30, 2010 and 2009, 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 15% and 33% in 2010, respectively, and approximately 15% and 34% in 2009, respectively. Allowances for uncollectible amounts are estimated using historical experience, current trend and policy information, aged account balances, and a collectibility analysis. All net patient services revenue in the accompanying statements of revenues, expenses, and changes in net assets is net of contractual adjustments and bad debt provisions totaling approximately \$2.5 billion and \$2.0 billion for the years ended September 30, 2010 and 2009, 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 intermediaries prior to final settlement. Any differences between final audited settlements and amounts accrued at the end of the prior reporting period are included currently in the statements of revenues, expenses, and changes in net assets as an adjustment to the appropriate allowance account. Such adjustments increased net patient services revenue by \$8 million and \$6 million in 2010 and 2009, respectively. Parkland's cost reports have been audited and settled by the fiscal intermediaries through 2006 for Medicare. Medicaid reports have been audited and settled except for the years 2006 and forward. Cost reports for both programs are subject to certain reopenings and appeals as per federal and state regulations.

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

Other Operating Revenues – Other operating revenues in 2009 include a \$28 million repayment by the State for a one-time settlement initially recorded in 2006.

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 \$29 million and \$28 million as of September 30, 2010 and 2009, respectively, and is recorded in the financial statements in accounts payable and accrued expenses.

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

New Accounting Pronouncements — In June, 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addressed derivative instruments, which are often complex financial arrangements used to manage specific risks or to make investments, or to lower the costs of borrowings. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments, and is effective for the year ended September 30, 2010. Parkland has evaluated the impact this pronouncement will have on its combined financial position, the results of its operations, the changes in its net assets, and its cash flows, and determined that it is not applicable.

In January, 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, an amendment to Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” which amends guidance to add new disclosure requirements about recurring and nonrecurring fair value measurements including significant transfers into and out of Levels 1 and 2 and on information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about the inputs and valuation techniques used to measure fair value. This ASU is effective for reporting periods beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2009, except for the Level 3 reconciliation disclosures which are effective for reporting periods beginning after December 15, 2010. Parkland is in the process of evaluating the impact this ASU will have on its combined financial position, the results of its operations, the changes in its net assets, or its cash flows.

In August 2010, the FASB issued ASU 2010-23, “Health Care Entities (Topic): Measuring Charity Care for Disclosure,” which requires healthcare organizations use costs as the measurement basis for charity care disclosures and that they identify those costs as the direct and indirect costs of providing the charity care. This ASU also requires disclosure of the method used to identify the costs. The ASU is effective for fiscal years beginning after December 15, 2010, retrospective application is required and early adoption is permitted. Parkland is in the process of evaluating the impact this ASU will have on its financial statements, however since this ASU relates to disclosures, the adoption of this ASU is not expected to have any impact on its financial position, the results of its operations, the changes in its net assets, or its cash flows.

Reclassifications — Certain reclassifications have been made to prior year financial statements to conform to current year presentation.

2. DEPOSITS AND INVESTMENTS

As of September 30, 2010 and 2009, Parkland had deposits and investments as follows (in thousands):

Description	2010		2009	
	Fair Value	Weighted-Average Days to Maturity	Fair Value	Weighted-Average Days to Maturity
Bank deposits	\$ 52	N/A	\$ 253	N/A
TexPool deposits	53,190	1	118,548	1
Money market fund deposits	76,353	1	730,977	1
FNMA notes	543,958	992	142,521	663
FHLB notes	303,392	786	186,947	461
FHLMC notes	278,779	973	138,099	879
FFCB notes	120,947	991	20,225	762
Certificates of deposit	-	-	100	357
U.S. Treasury notes	10,644	1,180	2,674	1,611
	<u>\$ 1,387,315</u>		<u>\$ 1,340,344</u>	
Description on Balance Sheet				
Cash and cash equivalents	\$ 108,763		\$ 147,515	
Assets limited as to use — current portion	20,182		8,695	
Assets limited as to use — noncurrent portion	1,056,938		1,000,277	
Short-term investments	-		86,562	
Long-term investments	201,432		97,295	
	<u>\$ 1,387,315</u>		<u>\$ 1,340,344</u>	

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

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

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 in the FNMA at 39% as of September 30, 2010, and the FHLB at 14% as of September 30, 2009.

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

Investment Income — Investment income for the years ended September 30, 2010 and 2009, consisted of the following (in thousands):

	2010	2009
Interest income	\$47,475	\$ 10,861
Unrealized gain on investments	<u>24,301</u>	<u>2,181</u>
Total investment income	<u>\$71,776</u>	<u>\$ 13,042</u>

Foundation — Cash and cash equivalents held by the Foundation are \$7.0 million and \$7.6 million at September 30, 2010 and 2009, respectively. As of September 30, 2010 and 2009, the Foundation had uninsured demand deposits of \$6.7 million and \$7.7 million, respectively.

Description	2010		2009	
	Fair Value	Weighted-Average Days to Maturity	Fair Value	Weighted-Average Days to Maturity
Bank deposits	\$ 6,990	N/A	7,577	N/A
Fixed income securities	30,881	1	13,548	1
Equity	948		-	
Other assets	<u>124</u>		<u>-</u>	
	<u>\$38,943</u>		<u>\$21,125</u>	

Description on Balance Sheet

Cash and cash equivalents	\$ 6,990	\$ 7,577
Short-term investments	1,374	414
Long-term investments	<u>30,579</u>	<u>13,134</u>
	<u>\$38,943</u>	<u>\$21,125</u>

3. ASSETS LIMITED AS TO USE

Assets limited as to use at September 30, 2010 and 2009, consist of the following funds, which are all investments in TexPool, U.S. Treasury, and U.S. government-sponsored enterprises (in thousands):

	2010	2009
Debt service	\$ 697,318	\$ 702,263
Designated for capital uses	373,694	301,689
Other designated	<u>6,108</u>	<u>5,020</u>
Total	1,077,120	1,008,972
Less current portion	<u>20,182</u>	<u>8,695</u>
Long-term portion	<u>\$ 1,056,938</u>	<u>\$ 1,000,277</u>

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

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

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

Foundation — Restricted net assets of \$47.1 million and \$41.0 million at September 30, 2010 and 2009, respectively, are restricted net assets subject to donor-imposed stipulations that will be met by actions of the Foundation or Parkland and/or the passage of time.

4. FAIR VALUES OF FINANCIAL INSTRUMENTS

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, 2010 and 2009. Considerable judgment is required in developing these estimates; accordingly, no assurance can be given that the estimated values presented are indicative of the amounts that would be realized in a free-market exchange.

Parkland's financial instruments at September 30, 2010 and 2009, are as follows (in thousands):

	Fair Value	
	2010	2009
Cash and cash equivalents	\$ 108,763	\$ 147,515
Short-term investments	-	86,562
Assets limited as to use — current		
Cash and cash equivalents	20,182	8,695
Long-term investments	201,432	97,295
Assets limited as to use — noncurrent:		
Cash and cash equivalents	\$ 650	\$ 693,568
Investments	<u>1,056,288</u>	<u>306,709</u>
	<u>\$ 1,056,938</u>	<u>\$ 1,000,277</u>
Investment maturities:		
One year or less	\$ 130,463	\$ 121,607
After one through four years	<u>1,127,257</u>	<u>368,959</u>
Total investments, including assets limited as to use	<u>\$ 1,257,720</u>	<u>\$ 490,566</u>

Parkland adjusts the carrying value of financial instruments classified as assets to reflect their appropriate fair value. The following methods and assumptions were used by Parkland in estimating its fair value disclosures for financial instruments:

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

5. CAPITAL ASSETS

Capital assets at September 30, 2010, are summarized as follows (in thousands):

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
Land and improvements	\$ 44,634	\$ 30,055	\$ (966)	\$ 73,723
Buildings	394,167	16,863	(3,281)	407,749
Equipment	<u>320,081</u>	<u>44,946</u>	<u>(1,444)</u>	<u>363,583</u>
	<u>758,882</u>	<u>91,864</u>	<u>(5,691)</u>	<u>845,055</u>
Buildings	(290,623)	(14,300)	15,377	(289,546)
Equipment	<u>(194,759)</u>	<u>(39,456)</u>	<u>(10,215)</u>	<u>(244,430)</u>
Total accumulated depreciation	<u>(485,382)</u>	<u>(53,756)</u>	<u>5,162</u>	<u>(533,976)</u>
	273,500	38,108	(529)	311,079
Construction in progress	<u>57,104</u>	<u>105,294</u>	<u>(61,762)</u>	<u>100,636</u>
Capital assets — net	<u>\$ 330,604</u>	<u>\$ 143,402</u>	<u>\$ (62,291)</u>	<u>\$ 411,715</u>

Capital assets at September 30, 2009, are summarized as follows (in thousands):

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
Land and improvements	\$ 39,337	\$ 5,297	\$ -	\$ 44,634
Buildings	380,314	18,049	(4,196)	394,167
Equipment	<u>270,111</u>	<u>70,110</u>	<u>(20,140)</u>	<u>320,081</u>
	<u>689,762</u>	<u>93,456</u>	<u>(24,336)</u>	<u>758,882</u>
Buildings	(276,623)	(14,000)	-	(290,623)
Equipment	<u>(176,343)</u>	<u>(29,107)</u>	<u>10,691</u>	<u>(194,759)</u>
Total accumulated depreciation	<u>(452,966)</u>	<u>(43,107)</u>	<u>10,691</u>	<u>(485,382)</u>
	236,796	50,349	(13,645)	273,500
Construction in progress	<u>52,061</u>	<u>66,593</u>	<u>(61,550)</u>	<u>57,104</u>
Capital assets — net	<u>\$ 288,857</u>	<u>\$ 116,942</u>	<u>\$ (75,195)</u>	<u>\$ 330,604</u>

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at September 30, 2010 and 2009, consist of the following (in thousands):

	2010	2009
Accounts payable and accrued expenses	\$ 57,502	\$ 61,638
Health Plan reserves for incurred, but unreported claims liability	53,158	45,792
Accrued payroll	45,986	40,512
Employee health care benefit liability	1,345	2,467
Other employee benefits	<u>5,620</u>	<u>5,543</u>
	<u>\$ 163,611</u>	<u>\$ 155,952</u>

The liabilities described below as of September 30, 2010 and 2009, 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.

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 liability 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 is using an actuarially determined 3% discount rate for 2010 and 5% for 2009.

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 reserves for this liability are included in accounts payable and accrued expenses in the accompanying balance sheets.

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 is using an actuarially determined 3% discount rate for 2010 and 5% for 2009. These reserves are included in accounts payable and accrued expenses in the accompanying balance sheets.

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

These reserves are estimated by the use of completion factors applied to historical lag patterns and cost trends. Medical cost adjustments to prior-period estimates are reflected in the current period, and changes in these estimate adjustments could be significant. These reserves are included in accounts payable and accrued expenses in the accompanying balance sheets.

Changes in the Hospital professional and general liability, employee health care benefit liability, workers' compensation liability, and Health Plan reserves for incurred, but unreported claims liability amounts in the years ended September 30, 2010 and 2009, were as follows (in thousands):

	Balance at Beginning of Year	Current-Year Claims & Changes in Estimates	Claim Payments	Balance at End of Year
Hospital professional and general liability:				
2009	\$ 4,194	\$ 1,006	\$ (1,550)	\$ 3,650
2010	3,650	986	(684)	3,952
Employee health care benefit liability:				
2009	4,406	58,349	(60,288)	2,467
2010	2,467	81,692	(82,814)	1,345
Workers' compensation liability:				
2009	4,900	1,027	(1,297)	4,630
2010	4,630	1,690	(1,690)	4,630
Health Plan reserves for incurred, but unreported claims liability:				
2009	40,837	344,257	(339,302)	45,792
2010	45,792	400,872	(393,506)	53,158

7. OPERATING LEASES

Parkland leases facilities under operating leases that expire over periods of up to six years. Renewal and purchase options are available on certain of these leases. At September 30, 2010, future minimum rental payments applicable to the operating leases were as follows (in thousands):

Years Ending	
2011	\$ 3,778
2012	3,198
2013	1,653
2014	1,511
2015	1,020
2016	<u>152</u>
Total	<u>\$ 11,312</u>

Rental expense for all operating leases was approximately \$4.0 million and \$3.1 million in 2010 and 2009, respectively.

Parkland is also a lessor primarily of land and parking space under operating leases. Renewal options are available on certain of these leases. The land is carried at a cost of \$1.4 million and the parking space is carried at a cost of \$8.9 million in both 2010 and 2009. Rentals received under these arrangements are recorded in other operating revenue, net in the accompanying statements of revenue, expenses, and changes in net assets. The accumulated depreciation on the parking space is \$8.3 million and \$8.0 million at September 30, 2010 and 2009.

Minimum future rentals to be received under operating leases at September 30, 2010, are as follows (in thousands):

Years Ending	Amount
2011	\$ 936
2012	785
2013	495
2014	225
2015	225
2016–2020	941
2021–2025	638
2026–2030	638
2031–2035	638
2036–2040	229
2041–2045	229
2046–2050	229
2051–2055	229
2056–2060	229
2061–2065	229
2066–2070	229
2071–2075	229
2076–2080	229
2081–2085	229
2086–2087	<u>91</u>
 Total	 <u>\$ 7,900</u>

8. AFFILIATION AGREEMENTS

In 2007, Parkland entered into an Indigent Care Affiliation Agreement with a number of hospital systems in Dallas County (collectively, the “Affiliated Hospitals”) for the purpose of participation in the Private Hospital Medicaid Supplemental Payment Program authorized by Medicaid State Plan Amendment (“Private UPL Program”).

Parkland paid \$93 million during the year ended September 30, 2010 and \$81 million during the year ended September 30, 2009 for the Texas Private UPL Program.

Additionally, Parkland has other contracts with UTSMS, Children’s Medical Center of Dallas, and Zale Lipshy University Hospital for certain patient and nonpatient services to both provide and receive services.

9. 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, 2009 and 2008, which is included in the actuarial valuation as of January 1, 2010 and 2009, respectively, was approximately \$435 million and \$390 million, respectively. For the years ended September 30, 2010 and 2009, Parkland’s total payroll was approximately \$561 million and \$543 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.

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 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.

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

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

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

Parkland's annual pension cost and net pension asset related to the Plan for the year ended September 30, 2010, were as follows (in thousands):

Annual required contribution	\$ 16,564
Interest on net pension asset	(1,607)
Adjustment to annual required contribution	<u>1,184</u>
Annual pension cost	16,141
Contributions	<u>16,776</u>
Increase in net pension asset	635
Net pension asset — beginning of year	<u>19,061</u>
Net pension asset — end of year	<u><u>\$ 19,696</u></u>

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, 2010	\$ 16,141	104 %	\$ 19,696
September 30, 2009	11,228	104	19,061
September 30, 2008	11,197	100	18,656

During the years ended September 30, 2010 and 2009, \$23.2 million and \$20.7 million, respectively, of employee contributions were made in accordance with the established contribution requirements described above. Parkland contributed approximately \$16.8 million to the Plan during the year ended September 30, 2010, in accordance with contribution requirements determined by the January 1, 2010 actuarial valuation. Parkland contributed approximately \$16.4 million to the Plan during the year ended September 30, 2009, in accordance with contribution requirements determined by the January 1, 2009 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, 2010, 2009, and 2008, the actuarial value of assets was sufficient to fund 86.5%, 81.5%, and 93.9%, respectively, of the actuarial accrued liability. The unfunded liability as a percentage of the annual payroll for employees covered as of January 1, 2010, 2009, and 2008 was 15.9%, 21.6%, and 7.1%, 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 Board. 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, 2010 and 2009, was approximately \$502 million and \$479 million, respectively. Parkland's total payroll was approximately \$561 million and \$543 million for the years ended September 30, 2010 and 2009, 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, 2010, were approximately \$18.1 million from Parkland and \$35.4 million from employees, or 7.1% of covered payroll. The required contribution by Parkland for 2010 has been reduced by \$0.1 million representing forfeitures of prior Parkland contributions and related investment income for nonvested amounts of employees withdrawing from the Plan upon termination. Contributions for the year ended September 30, 2009, were approximately \$16.0 million from Parkland and \$32.6 million from employees, or 6.8% of covered payroll. The required contribution by Parkland for 2009 has been reduced by \$0.3 million representing forfeitures of prior Parkland contributions and related investment income for nonvested amounts of employees withdrawing from the Plan upon termination.

Postretirement Benefits Other Than Pension — In addition to providing pension benefits, Parkland provides certain health care benefits for retired employees until age 65 (the "OPEB Plan"). Effective October 1, 2007, Parkland adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The effect of adoption was to change recognition of postretirement benefit expenses from a cash basis as claims were paid to an accrual basis. As of January 1, 2010 and 2009, the number of retirees and eligible beneficiaries were 105.

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.

Parkland's annual other postemployment benefit ("OPEB") cost or expense is calculated based on the annual required contribution ("ARC"), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities, or funding excess, over a period not to exceed 30 years. The following table shows the components of Parkland's OPEB cost for the year ended September 30, 2010, 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	\$ 3,428
Interest on net OPEB obligation	173
Adjustment to annual required contribution	<u>(139)</u>
Annual OPEB cost	3,462
Contributions	<u>(1,006)</u>
Increase in net OPEB obligation	2,456
Net OPEB obligation — beginning of year	<u>3,457</u>
Net OPEB obligation — end of year	<u>\$ 5,913</u>

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, 2010	\$ 3,462	29 %	\$ 5,913
September 30, 2009	2,649	32	3,457
September 30, 2008	2,323	28	1,662

As of January 1, 2010 and 2009 actuarial valuation dates, the OPEB Plan was not prefunded. Contributions made were for current year costs incurred only. As of January 1, 2010, the actuarially accrued liability for benefits was \$25.1 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$25.1 million. As of January 1, 2009, the actuarially accrued liability for benefits was \$20.4 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$20.4 million. The covered payroll (annual payroll of active employees covered by the OPEB Plan) was \$475.7 million and \$434.4 million for January 1, 2010 and 2009, respectively. The ratio of the unfunded actuarial accrued liability to the covered payroll was 5.3% and 4.7% as of January 1, 2010 and 2009, respectively.

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

In the January 1, 2010 and 2009 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.

10. 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, 2010 and 2009, is as follows:

	2010	2009
Commercial insurance	29 %	31 %
Medicaid	45	45
Medicare	23	21
Patients	<u>3</u>	<u>3</u>
Total	<u>100 %</u>	<u>100 %</u>

11. COMMITMENTS AND CONTINGENCIES

Parkland is involved in litigation and compliance investigations arising in the normal course of business or as a result of routine internal compliance reviews conducted by management. The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and

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

The Patient Protection and Affordable Care Act (PPACA), was signed into law on March 23, 2010. In addition, 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 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, 2010, Parkland had commitments outstanding of approximately \$73 million related to the construction of the new Parkland campus.

12. LONG-TERM DEBT

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

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

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

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

Long-term debt maturities (including mandatory redemptions), interest payments, net of subsidy, and total debt service at September 30, 2010 are as follows (in thousands):

Years Ending September 30,	Principal Payments and Mandatory Redemptions	Interest Payments, Net of Subsidy	Total Debt Service
2011	\$ -	\$ 25,743	\$ 25,743
2012	-	25,743	25,743
2013	-	25,743	25,743
2014	7,015	25,743	32,758
2015	8,230	25,454	33,684
2016–2020	70,685	121,398	192,083
2021–2025	88,070	108,818	196,888
2026–2030	105,600	91,906	197,506
2031–2035	127,585	69,490	197,075
2035–2039	153,515	43,591	197,106
2040–2044	<u>144,300</u>	<u>13,417</u>	<u>157,717</u>
Subtotal	705,000	577,046	1,282,046
Bond premium	2,542	-	2,542
Accumulated amortization	<u>(383)</u>	<u>-</u>	<u>(383)</u>
Total	<u>\$ 707,159</u>	<u>\$ 577,046</u>	<u>\$ 1,284,205</u>

The long-term debt change consists of premium amortization of \$0.4 million.

As of September 30, 2010, the aggregate fair market value of the Bonds was approximately \$783 million. 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 2010 is well below the limit at \$0.274 per \$100 valuation.

In the 2008 bond election, Parkland informed the voters that it may issue an additional series of bonds - not supported by tax revenues - in the estimated amount of \$42 million for new parking facilities. There exists no commitment by Parkland to issue such bonds.

Interest costs capitalized during 2010 and 2009 were \$2.5 million and \$0.9 million, respectively.

13. SUBSEQUENT EVENTS

In connection with the preparation of the financial statements, subsequent events have been evaluated by Parkland through December 14, 2010, which was the date the financial statement were available for issuance, and concluded that no additional disclosures are required.

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SUPPLEMENTAL SCHEDULES

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

SCHEDULE OF FUNDING PROGRESS OF DEFINED BENEFIT PENSION PLAN,
THREE-YEAR HISTORICAL TREND BEGINNING JANUARY 1, 2008
(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
2008	432.3	460.6	28.3	93.9	400.5	7.1
2009	413.1	507.0	93.9	81.5	434.4	21.6
2010	486.4	562.0	75.6	86.5	475.7	15.9

SCHEDULE OF FUNDING PROGRESS OF OTHER POST EMPLOYMENT BENEFITS
TWO-YEAR HISTORICAL TREND BEGINNING JANUARY 1, 2009
(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
2009	-	20.4	20.4	- %	434.4	4.7
2010	-	25.1	25.1	-	475.7	5.3