Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas

Auditor's Reports and Financial Statements

December 31, 2014 and 2013

BKD LLP
CPAs & Advisors

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
December 31, 2014 and 2013

Contents

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Independent Auditor's Report

Board of Managers
Bexar County Hospital District
d/b/a University Health System
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying basic financial statements of Bexar County Hospital District d/b/a University Health System (the System), of the business-type activities, the aggregate discretely presented component units and the aggregate remaining fiduciary fund information, collectively a component unit of Bexar County, Texas, as of December 31, 2014 and 2013, which collectively comprise the System's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of University Health System Pension Plan (the Pension Plan), a fiduciary fund of the System. Those 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 the Pension Plan, is based solely on the report of other auditors. We conducted our audits 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 the Pension Plan 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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 the System, its aggregate discretely presented component units and its aggregate remaining fiduciary fund information as of December 31, 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.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2015, on our consideration of the System's internal control over financial reporting and 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 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 System's internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
June 5, 2015

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Management's Discussion and Analysis
Years Ended December 31, 2014 and 2013
(In Thousands)

Introduction

This management's discussion and analysis of the financial performance of Bexar County Hospital District d/b/a University Health System (the System) provides an overview of the System's financial activities for the years ended December 31, 2014 and 2013. It should be read in conjunction with the financial statements of the System.

The System continues to pursue its strategic vision to be the premier health system in south Texas, committed to delivering patient-centered, culturally competent and high quality health care, based on a strong foundation of outcomes-based research and innovative teaching. This vision guides decision-making and operational execution. The Triple-Aim *Plus* concept continues to be the guiding principles of how the System executes its strategy to serve the community. The System continues to be successful in executing the aims of: improving quality, safety and outcomes; improving the patient experience; improving efficiencies and improving access to care. These principles are the foundation of health care transformation and all initiatives pursued are developed in the spirit of transforming care using the Triple-Aim *Plus* goals.

2014 Highlights

A host of significant accomplishments in 2014 are already directly and positively impacting the patients served and positioning the System to effectively meet the challenges and opportunities related to health care reform and the Texas Transformation and Quality Improvement Program 1115 Waiver (the Waiver). Highlights of key initiatives and their outcomes relative to Triple-Aim *Plus* include:

Quality, Safety and Outcomes:

- Achieved significant improvements in quality-of-care outcomes.
- Received American Heart/American Stroke Association's Gold Plus and Target Stroke Award.
- Ranked by U.S. News & World Report as the best hospital in the San Antonio metro area, sixth best in Texas, and among the top 50 nationally in nephrology and urology specialties.
- Implemented PCCI Pieces All-Cause Readmission Reduction Model software to identify patients at risk of readmission for monitoring and interventions.
- The System's NICU earned Level 4 designation (the highest available).
- Received BEST Award and were ranked No. 2 worldwide for employee learning by the Association for Talent Development.
- First Texas hospital to be designated StormReady by the National Weather Service.

The Patient Experience:

- Path to Excellence Award from NRC based on improved patient satisfaction scores.
- 2014 marked first graduating class of Nurse Residency Program, a yearlong course of classroom and hands-on experience designed to improve the transition from nursing student to skilled registered nurse and improving patient care.
- Naco-Perrin Family Health Center accredited as a Level 3 Patient-Centered Medical Home by the NCQA.
- New System app improves navigation and provides access to personalized health information.

Efficiencies:

- The System met 100% of DSRIP milestones under the Waiver.
- Integrated Lean Management across the System.
- Clinical building at Robert B. Green Campus earned LEED Gold for water and energy conservation.
- System reached $1 billion milestone in spending with small, women and minority-owned firms since the launch of the Supplier Diversity Program in 2004.

Access to Care:

- Sky Tower opened on time and within budget on April 14, 2014.
- Successfully moved UT Kids pediatric specialists into University Hospital and Robert B. Green Campus.
- Grant from U.S. Department of Health and Human Services supported ACA coverage enrollment for minority populations.
- The System partnered with Community First Health Plans, Inc. and Superior Health Plan, Inc. on six proposals under the new Texas Network Access Improvement Program.
- Plans were announced for new family health center in east San Antonio in partnership with San Antonio Housing Authority.
- Southwest Independent School District School-based health center opened as the System's second school-based health center.

Financial Highlights:

- Fitch Ratings and Standard and Poor's affirmed their previous ratings of AAA and AA+, respectively, with a stable outlook.
- The System's net position increased by $10.4 million (1.1%) in 2014 and $75.2 million (8.8%) in 2013, given the results of operating and nonoperating activities.
- During 2014, the System's total operating revenue increased by $60.5 million or 10.7%, while expenses increased by $123.9 million or 15.9%. During 2013, the System's total operating revenue increased by $54.5 million or 10.7%, while expenses increased by $76.0 million or 10.8%.
- The System invested $156 million in capital assets in 2014 and $310 million in 2013, as part of the ongoing Capital Improvement Plan.

Financial Analysis of the System

The balance sheets and the statements of revenue, expenses, and changes in net position report information about the System's financial activities. These two statements report the net position of the System and changes in the net position. Increases or decreases in the System's net position are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic conditions, population growth, growth in the number of uninsured and working poor, taxable property values and tax rates, and new or changed state and federal government funding should also be considered.

Net Position

A summary of the System's balance sheets is presented in Table 1 as follows:

TABLE 1
Condensed Balance Sheets

	2014	2013	2012
Assets			
Current and other assets	$ 874,811	$ 1,002,932	$ 1,140,121
Capital assets, net	1,239,534	1,153,389	885,247
Total assets	$ 2,114,345	$ 2,156,321	$ 2,025,368
Liabilities			
Long-term debt	$ 707,379	$ 720,329	$ 732,594
Other liabilities	140,479	200,990	148,453
Total liabilities	847,858	921,319	881,047
Deferred Inflows of Resources - Property Taxes	321,626	300,491	285,003
Net Position			
Net investment in capital assets	548,133	467,111	409,752
Unrestricted	396,728	467,400	449,566
Total net position	944,861	934,511	859,318
Total liabilities, deferred inflows of resources and net position	$ 2,114,345	$ 2,156,321	$ 2,025,368

As seen in Table 1, net position increased by $10.4 million to $944.9 million in 2014, up from $934.5 million in 2013. Net position increased by $75.2 million to $934.5 million in 2013, up from $859.3 million in 2012. The increase in net position results primarily from cost control, achieved through efficiency measures discussed above and revenue recognized from the Waiver. Although the increase in net position was positive by $10.4 million in 2014, it is lower than the past several years due primarily to the impact of bringing new facilities online. In 2014, depreciation expense increased $27.5 million and interest expense increased $18.8 million over 2013.

Summary of Revenue, Expenses and Changes in Net Position

The following table presents a summary of the System's historical revenues and expenses for each of the fiscal years ended December 31, 2014, 2013 and 2012:

TABLE 2
Condensed Statements of Revenue, Expenses and Changes in Net Position

	2014	2013	2012
Operating Revenues			
Net patient service revenue	$ 572,289	$ 514,618	$ 462,133
Other revenue	52,689	49,869	47,807
Total operating revenues	624,978	564,487	509,940
Operating Expenses			
Salaries and employee benefits	372,301	336,077	309,798
Purchased services, supplies and other	459,864	399,701	353,587
Depreciation	73,259	45,733	42,160
Total operating expenses	905,424	781,511	705,545
Operating Loss	(280,446)	(217,024)	(195,605)
Nonoperating Revenues, Net	290,796	292,217	294,197
Increase in Net Position	$ 10,350	$ 75,193	$ 98,592

Sources of Revenue

Table 3 presents a summary of the System's historical sources of revenue:

TABLE 3
Sources of Revenue by Percentage

	2014	2013	2012
Operating Revenues			
Net patient service revenue	62.4%	60.1%	57.5%
Other revenue	5.8%	5.8%	5.9%
Total operating revenues	68.2%	65.9%	63.4%
Nonoperating Revenues (Expenses)			
Investment return	0.2%	0.0%	0.3%
Interest expense	-3.2%	-1.2%	-0.4%
County appropriation - property taxes, net	33.2%	33.7%	34.9%
Proceeds from tobacco settlement	0.7%	0.6%	0.7%
Build America Bond interest subsidy	0.9%	1.0%	1.1%
Total nonoperating revenues	31.8%	34.1%	36.6%
Total revenue	100%	100%	100%

Operating Revenue

During 2014, the System derived approximately 68.2% of its total revenue from operating revenue, compared to 65.9% in 2013 and 63.4% in 2012. Operating revenue increased as a percentage of total revenue due to an increase in net patient service revenue.

Table 4 presents the relative percentages of gross charges billed for patient services by payer for the fiscal years ended December 31, 2014, 2013 and 2012:

TABLE 4
Payer Mix by Percentage

	Year Ended December 31		
	2014	2013	2012
Medicare	22%	22%	20%
Medicaid	23	21	19
Self-pay	31	37	36
Commercial insurance	23	19	24
Other	1	1	1
Total	100%	100%	100%

Nonoperating Revenue

During 2014, the System derived 33.2% of its total revenue from ad valorem taxes (property taxes), compared to 33.7% in 2013 and 34.9% in 2012. The Bexar County Commissioners Court is authorized to levy taxes on property within Bexar County to provide for the maintenance and operations of the System's facilities and for debt service on approved debt issuances.

For the years ended December 31, 2014, 2013 and 2012, respectively, investment return comprised 0.2% and 0.1% and 0.3%, respectively, of total revenue and was made up of interest income, net realized gains/losses and net unrealized market gains/losses.

For the years ended December 31, 2014, 2013 and 2012, tobacco revenue comprised 0.7%, 0.6% and 0.7%, respectively, of total revenue and represented the System's allocation of earnings on the state's permanent trust funds from a settlement with tobacco companies in 1998.

For the years ended December 31, 2014, 2013 and 2012, the Build America Bonds (BABs) interest subsidy comprised 0.9%, 1.0% and 1.1%, respectively, of total revenue and was made up of the $8.3 million in funds paid by the U.S. Treasury to subsidize interest costs on the BABs bond issuances. During 2014 and 2013, the BABs subsidy was reduced by 8.7% due to federal sequestration.

Operating and Financial Performance

Overall activity of the System, as measured by patient discharges adjusted for outpatient activity, increased 7.5% to 45,392 in 2014 from 42,241 in 2013. The increase in 2014 was due to increased capacity from the opening of the new Sky Tower. The Sky Tower is a one million square foot patient tower that opened on April 14, 2014. Significant growth occurred in the cardiology, trauma and gastroenterology service lines.

In 2014 and 2013, net patient service revenue increased by $57.7 million to $572.3 million or 11.2% related to initiatives to improve charge capture, continuing improvements to the mix of insured patients, higher reimbursement from Texas Medicaid supplemental funding programs and implementation of projects under the Waiver.

In 2014, other operating revenue increased by $2.8 million to $52.7 million or 5.7%. Overall, total operating revenue of $625.0 million increased $60.5 million or 10.7% in 2014 compared to the total of $564.5 million in 2013 that increased by $54.5 million or 10.7%.

Employee compensation increased by $36.2 million or 10.8% in 2014 and $26.3 million or 8.5% in 2013. The increases are attributed to increased staffing, related to the opening of the Sky Tower, the addition of pediatric services, increased activity in the hospital and clinic expansion initiatives.

Purchased services, supplies and other expenses had an overall increase of $60.2 million or 15.1% in 2014 and $46.1 million or 13% in 2013. Significant variances are as follows:

- Medical services increased by $12.6 million or 8.2% in 2014 and by $21.8 million or 16.7% in 2013. The increase in 2014 is primarily related to assuming indigent care physician costs paid by affiliated entities in prior years, increased costs for the pediatric programs assumed in 2013 and increased anesthesia physician costs related to the expansion in the number of operating rooms when the new facilities were opened. The increase in 2013 is primarily related to assuming indigent care physician costs paid by affiliated entities in prior years.

- Purchased services increased $26.0 million or 21.0% in 2014 and increased $18.7 million or 17.9% in 2013. The increase in 2014 is primarily related to professional fees for operational improvements in business and clinical areas, costs to maintain equipment and continued expansion of pediatric services. The increase in 2013 resulted from an increase in transplant costs, services related to DSRIP projects and costs to maintain equipment and utilities.
- Supplies increased by $21.6 million or 17.5% in 2014 and increased $5.6 million or 4.7% in 2013. The increase in 2014 was primarily related to increases in patient volumes related to moving into the Sky Tower, increases in operating rooms with more complex cases and higher pharmaceutical costs. The increase in 2013 was the result of higher activity in interventional radiology and opening two ambulatory surgery centers.

Depreciation expense increased by $27.5 million or 60.2% in 2014 and $3.6 million or 8.5% in 2013. These increases were primarily due to bringing into operations completed projects attributed to the CIP projects in 2014 and 2013.

Overall, total operating expenses increased by $123.9 million to $905.4 million or 15.9% in 2014 and by $76.0 million to $781.5 million or 10.8% in 2013.

Overall, nonoperating revenues (expenses) of $290.8 million decreased by $1.4 million or 0.5% from 2013. Nonoperating revenues (expenses) consists of property tax revenue, investment income, proceeds from the tobacco settlement (the settlement of litigation between the State Attorney General and various tobacco companies), BAB subsidy payments and interest expense on bonds.

In 2014, property taxes were levied to support maintenance and operations (M&O) and debt service (DS). Overall property taxes increased by $15.2 million to $303.9 million compared to the 2013 taxes of $288.7 million. Of the $303.9 million, $262.5 million was to support maintenance and operations. The remaining $41.4 million in property tax revenue is a debt service property tax to fund the payment of principal and interest (debt service) on the Certificates of Obligation issued in 2008, 2009, and 2010.

Capital Assets

During fiscal years 2014 and 2013, the System invested $156.8 million and $310.4 million, respectively, in a broad range of capital assets. Table 5 presents an analysis of capital asset balances between 2014, 2013 and 2012:

TABLE 5
Capital Assets

	2014	2013	2012
Land and land improvements	$ 19,296	$ 19,117	$ 18,199
Building and improvements	1,277,982	568,409	377,862
Equipment	374,462	270,532	230,898
Construction in progress	18,864	675,708	596,428
	1,690,604	1,533,766	1,223,387
Less accumulated depreciation	451,070	380,377	338,140
Property, plant and equipment, net of accumulated depreciation	$ 1,239,534	$ 1,153,389	$ 885,247

Construction in progress (CIP) decreased by $656.8 million in 2014 due to the opening of the Sky Tower, where new operating rooms, emergency department and patient floors were placed in service on April 14, 2014. Other capital assets increased $813.7 million given management's ongoing focus on replacing and upgrading existing equipment and facilities.

In 2014, CIP neared completion with remaining projects at December 31, 2014 being primarily related to additional renovation and equipment improvements for the continuing expansion of pediatric services in affiliation with the University of Texas Health Science Center San Antonio's pediatric teaching program.

In 2013, the System's significant CIP projects included the completion of the central utility plant and NIU expansion, significant kitchen and ambulatory pavilion renovations, as well as continued planning and construction of the Sky Tower. Achievements at the Robert B. Green (RBG) campus included completion of the new LEED Gold certified clinical services building and pharmacy building. These projects were completed within budget. The primary source of the funding for the CIP projects was from proceeds of bonds issued in a prior year.

The System issued no new debt in 2014 and 2013. Long-term debt transactions in 2014 and 2013 are discussed more fully in *Note 8*.

Economic Factors and Key Challenges

The System serves as the anchor facility under the Waiver for RHP 6 which is comprised of 2 counties. A RHP plan was developed to understand and address health care needs in the RHP region and to develop a regional health care model focused on improving the experience of care for patients and their families, improving the health of the region, and reducing the cost of care without compromising quality. The DSRIP plan continues to be implemented and monitored to document improved access for individual and population health at a lower cost, delivered more efficiently.

Staff and the Board of Managers continue to monitor and consider many factors that have a direct or indirect impact on future operations of the System that include the following:

- Extension of the Waiver program which expires September 31, 2016.
- Impacts of the Waiver which could have a material impact on the System's funding for providing indigent care and for funding initiatives to transform the delivery of care to its patients
- Impact of the Patient Protection and Affordable Care Act, the DSH program and other federal legislation
- The growth of population in the System's service area as well as growth in the number of working poor and medically indigent
- Shortages of healthcare professionals including physicians, physician assistants, nurse practitioners, nurses, therapists and information technology professionals
- Continuing advances in computing and medical technology as well as advances in therapies and pharmaceuticals
- Completing the third year implementation of the Lean Management System (LMS) aimed at incorporating lean continuous process improvement principles and techniques into daily management processes to deliver value to our patients with minimum wasted time, supplies and effort
- Implementing a Skilled Nursing Facility Uncompensated Care program to improve access to nonacute services for health system patients.

- Implementation of the Network Access Improvement Program through affiliated HMO's.
- Implementing strategic tactics to improve access by:
    - Focusing on key service lines including:
        - Trauma
        - Transplant
        - Cardiovascular
        - Neurosciences
        - Pediatrics / Children's Health
        - Women's Health Services including perinatal and neonatal care
- Enhanced human capital through recognition programs and continuous learning

The 2015 Operating and Capital Budget continues the process of transformation. The 2015 budget was approached to position the System strategically to expand key service lines to cover the increase in fixed costs associated with new facilities, managing Waiver projects and achieving metrics associated with the 26 DSRIP projects, executing the Pediatric Transition Plan, and mitigating the impact of state and federal legislative cuts. The goal of the System is to use the Waiver and other revenue streams in support of the Triple Aim *Plus*: to improve customer satisfaction; improve quality and outcomes; improve efficiencies; and improve access to care in light of the anticipated growth in insured lives under the Affordable Care Act (commonly referred to as Health Care Reform).

Contacting the System's Financial Manager

This financial report is designed to provide our citizens, customers, bond holders, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. The report is available at www.universityhealthsystem.com. If you have questions about this report or need additional financial information, contact the System's Financial Offices at 4502 Medical Drive, San Antonio, Texas 78229.

University Hospital
4502 Medical Drive
San Antonio, TX 78229

University Health System
www.UniversityHealthSystem.com

University Hospital

University Health Center – Downtown

University Center for Community Health / Texas Diabetes Institute

University Family Health Centers:
- North
- Northwest
- Southeast
- Southwest

University Health System Clinics:
- Eastside
- Good Health Clinic
- Kenwood
- Naco Perrin
- Old Hwy 90
- Salinas
- South Flores
- Westend
- Zarzamora

University Health System Business Center

MAGNET RECOGNITION
AMERICAN NURSES CREDENTIALING CENTER

THE JOINT COMMISSION NATIONAL QUALITY APPROVAL

Report of Management Responsibility

The management of University Health System (the System) is responsible for the preparation and integrity of the financial information presented in this report. The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States as promulgated by the Governmental Accounting Standards Board, and include amounts based on judgments and estimates made by management. Management also prepares the management's discussion and analysis, discreetly presented component units, required supplementary information and other financial information included in the report and is responsible for its accuracy and consistency with the financial statements.

The basic financial statements have been audited by the independent accounting firm of BKD LLP, who was given unrestricted access to all financial records and related data, including the minutes of all meetings of the Board of Managers. Pursuant to the Bylaws, the Board of Managers provides oversight by reviewing and approving annual budgets; fiscal policies and procedures; and monthly financial statements. The Audit Committee reviews and recommends external auditors to the Board of Managers.

The System maintains a system of internal control over financial reporting, which is designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded, that assets are properly safeguarded, and also provides reasonable assurance to our management and the Board of Managers regarding the reliability of our financial statements. The internal control system includes:

- A documented organizational structure and division of responsibility;
- Established policies and procedures which are routinely reviewed by management, regularly communicated to staff and that demand highly ethical conduct from all employees.

The System's Integrity Services Department monitors the operation of the internal control system and reports findings and recommendations to the management and the Board of Managers as appropriate. Corrective actions are taken to address control deficiencies and other opportunities for improvement as they are identified.

University Health System

George B. Hernandez, Jr.
President/Chief Executive Officer

Reed Hurley
Executive Vice President /
Chief Financial Officer

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Balance Sheets
December 31, 2014 and 2013
(In Thousands)

	2014					2013				
		Component Units					Component Units			
Assets	System	CFHP	Foundation	Eliminations	Total	System	CFHP	Foundation	Eliminations	Total
Current Assets										
Cash and cash equivalents	$ 195,480	$ 31,453	$ 5,167	$ -	$ 232,100	$ 155,301	$ 47,819	$ 4,849	$ -	$ 207,969
Short-term investments	-	4,055	-	-	4,055	39,974	-	-	-	39,974
Patient accounts receivable, net	77,147	-	-	-	77,147	73,146	-	-	-	73,146
Property taxes receivable, net	160,407	-	-	-	160,407	179,547	-	-	-	179,547
Estimated amounts due from third-party payers	91,130	-	-	-	91,130	81,066	-	-	-	81,066
Prepaid expenses and other current assets	40,351	5,637	986	(1,265)	45,709	34,799	4,646	417	(1,172)	38,690
Total current assets	564,515	41,145	6,153	(1,265)	610,548	563,833	52,465	5,266	(1,172)	620,392
Noncurrent Cash and Investments										
Noncurrent investments	-	64,293	-	-	64,293	5	26,123	-	-	26,128
Internally designated for capital acquisitions improvements	86,891	-	-	-	86,891	178,770	-	-	-	178,770
Internally designated for contingencies	178,451	-	-	-	178,451	162,352	-	-	-	162,352
Held by trustee for professsional self-insurance	4,957	-	-	-	4,957	4,904	-	-	-	4,904
Held by trustee for capital acquisition	24,272	-	-	-	24,272	74,992	-	-	-	74,992
Total noncurrent cash and investments	294,571	64,293	-	-	358,864	421,023	26,123	-	-	447,146
Capital Assets, Net	1,239,534	1,380	-	-	1,240,914	1,153,389	1,570	-	-	1,154,959
Other Assets										
Long-term patient accounts receivables, net	9,664	-	-	-	9,664	12,418	-	-	-	12,418
Other	6,061	80	350	-	6,491	5,658	1,114	533	-	7,305
Total other assets	15,725	80	350	-	16,155	18,076	1,114	533	-	19,723
Total assets	$ 2,114,345	$ 106,898	$ 6,503	$ (1,265)	$ 2,226,481	$ 2,156,321	$ 81,272	$ 5,799	$ (1,172)	$ 2,242,220

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Balance Sheets (Continued)
December 31, 2014 and 2013
(In Thousands)

Liabilities, Deferred Inflows of Resources and Net Position	2014					2013				
		Component Units					Component Units			
	System	CFHP	Foundation	Eliminations	Total	System	CFHP	Foundation	Eliminations	Total
Current Liabilities										
Current maturities of long-term debt	$ 13,560	$ -	$ -	$ -	$ 13,560	$ 12,495	$ -	$ -	$ -	$ 12,495
Accounts payable and accrued expenses	112,672	19,181	106	(1,265)	130,694	167,620	10,452	84	(1,172)	176,984
Medical claims payable	-	26,927	-	-	26,927	-	22,112	-	-	22,112
Estimated amounts due to third-party payers	25,712	-	-	-	25,712	28,221	-	-	-	28,221
Total current liabilities	151,944	46,108	106	(1,265)	196,893	208,336	32,564	84	(1,172)	239,812
Estimated Self-insurance Costs	2,095	-	-	-	2,095	5,149	-	-	-	5,149
Long-term Debt	693,819	-	-	-	693,819	707,834	-	-	-	707,834
Total liabilities	847,858	46,108	106	(1,265)	892,807	921,319	32,564	84	(1,172)	952,795
Deferred Inflows of Resources - Property Taxes	321,626	-	-	-	321,626	300,491	-	-	-	300,491
Net Position										
Net investment in capital assets	548,133	1,380	-	-	549,513	467,111	1,570	-	-	468,681
Restricted - expendable	-	2,100	4,619	-	6,719	-	2,101	3,955	-	6,056
Restricted - non-expendable	-	-	294	-	294	-	-	301	-	301
Unrestricted	396,728	57,310	1,484	-	455,522	467,400	45,037	1,459	-	513,896
Total net position	944,861	60,790	6,397	-	1,012,048	934,511	48,708	5,715	-	988,934
Total liabilities, deferred inflows of resources and net position	$ 2,114,345	$ 106,898	$ 6,503	$ (1,265)	$ 2,226,481	$ 2,156,321	$ 81,272	$ 5,799	$ (1,172)	$ 2,242,220

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2014 and 2013
(In Thousands)

	2014					2013				
		Component Units					Component Units			
	System	CFHP	Foundation	Eliminations	Total	System	CFHP	Foundation	Eliminations	Total
Operating Revenues										
Net patient service revenue	$ 572,289	$ -	$ -	$ -	$ 572,289	$ 514,618	$ -	$ -	$ -	$ 514,618
Premium revenue	-	310,530	-	-	310,530	-	264,720	-	-	264,720
Other revenue	52,689	2,291	1,992	(4,130)	52,842	49,869	1,963	1,924	(3,479)	50,277
Total operating revenues	624,978	312,821	1,992	(4,130)	935,661	564,487	266,683	1,924	(3,479)	829,615
Operating Expenses										
Salaries and employee benefits	372,301	16,105	-	(1,542)	386,864	336,077	13,278	-	(1,516)	347,839
Medical claims expense	-	266,756	-	-	266,756	-	233,004	-	-	233,004
Purchased services	149,280	2,910	-	(2,588)	149,602	123,330	2,884	-	(1,963)	124,251
Medical services	165,214	-	-	-	165,214	152,625	-	-	-	152,625
Supplies and other	145,370	14,629	1,304	-	161,303	123,746	10,642	1,203	-	135,591
Depreciation	73,259	604	-	-	73,863	45,733	694	-	-	46,427
Total operating expenses	905,424	301,004	1,304	(4,130)	1,203,602	781,511	260,502	1,203	(3,479)	1,039,737
Operating Income (Loss)	(280,446)	11,817	688	-	(267,941)	(217,024)	6,181	721	-	(210,122)
Nonoperating Revenues (Expenses)										
Investment return	2,034	265	(6)	-	2,293	588	76	7	-	671
Interest expense	(29,427)	-	-	-	(29,427)	(10,602)	-	-	-	(10,602)
Property tax revenue, net	303,951	-	-	-	303,951	288,737	-	-	-	288,737
Proceeds from tobacco settlement	5,982	-	-	-	5,982	5,200	-	-	-	5,200
Build America Bond interest subsidy	8,256	-	-	-	8,256	8,294	-	-	-	8,294
Total nonoperating revenues, net	290,796	265	(6)	-	291,055	292,217	76	7	-	292,300
Changes in Net Position	10,350	12,082	682	-	23,114	75,193	6,257	728	-	82,178
Net Position, Beginning of Year	934,511	48,708	5,715	-	988,934	859,318	42,451	4,987	-	906,756
Net Position, End of Year	$ 944,861	$ 60,790	$ 6,397	$ -	$ 1,012,048	$ 934,511	$ 48,708	$ 5,715	$ -	$ 988,934

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Statements of Cash Flows
Years Ended December 31, 2014 and 2013
(In Thousands)

	2014	2013
Operating Activities		
Receipts from and on behalf of patients	$ 548,594	$ 506,208
Payments to suppliers and contractors	(490,816)	(379,879)
Payments to or on behalf of employees	(372,082)	(332,002)
Other receipts, net	52,260	49,869
Net cash used in operating activities	(262,044)	(155,804)
Noncapital Financing Activities		
Receipt of property taxes supporting operations	297,328	253,483
Proceeds received from tobacco settlement	5,982	5,200
Net cash provided by noncapital financing activities	303,310	258,683
Capital and Related Financing Activities		
Receipt of property taxes for debt service	46,897	42,463
Principal paid on long-term debt	(12,495)	(11,735)
Interest paid on long-term debt	(30,016)	(11,437)
Receipt of Build America Bond interest subsidy	8,271	8,546
Purchase of capital assets	(182,203)	(292,576)
Net cash used in capital and related financing activities	(169,546)	(264,739)
Investing Activities		
Interest on investments	2,034	588
Purchase of investments	(156,902)	(256,803)
Proceeds from disposition of investments	323,327	470,105
Net cash provided by investing activities	168,459	213,890
Increase in Cash and Cash Equivalents	40,179	52,030
Cash and Cash Equivalents, Beginning of Year	155,301	103,271
Cash and Cash Equivalents, End of Year	$ 195,480	$ 155,301

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Statements of Cash Flows (Continued)
Years Ended December 31, 2014 and 2013
(In Thousands)

	2014	2013
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (280,446)	$ (217,024)
Depreciation	73,259	45,733
Provision for uncollectible accounts	103,718	92,972
Changes in operating assets and liabilities		
Patient accounts receivable, net	(104,965)	(97,625)
Estimated third-party payer settlements	(12,573)	(3,757)
Accounts payable and accrued expenses	(35,630)	26,525
Other assets and liabilities	(5,407)	(2,628)
Net cash used in operating activities	$ (262,044)	$ (155,804)
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable and accrued expenses	$ 7,934	$ 30,171

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Pension Plan – Statements of Plan Net Position
December 31, 2014 and 2013
(In Thousands)

	2014	2013
Assets		
Cash equivalents	$ 2,215	$ 4,204
Receivables:		
Accrued income	13	2
Accrued employer contributions	328	279
Total receivables	341	281
Investments:		
Marketable securities:		
Mutual funds - common stocks	54,750	51,094
Common stocks	31,996	17,271
Mutual funds - fixed income securities	49,685	43,124
Pooled international equity fund	62,577	56,399
Total marketable securities	199,008	167,888
Alternative investments:		
Investment in Portfolio Advisors Private Equity Fund VI and VII, L.P.	19,184	13,961
Investment in Advisory Research Small Cap Value Equity Fund II, L.P.	-	17,787
Investment in Crestline Offshore Fund, Ltd.	13,115	11,494
Investment in Private Advisors Stable Value ERISA Fund, LTD	12,812	11,489
Investment in Heitman Real Estate Trust	24,465	21,594
Total alternative investments	69,576	76,325
Total investments	268,584	244,213
Total assets	271,140	248,698
Liabilities		
Accounts payable and accrued expenses	279	113
Net position held in trust for pension benefits	$ 270,861	$ 248,585

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Pension Plan – Statements of Changes in Plan Net Position
Years Ended December 31, 2014 and 2013
(In Thousands)

	2014	2013
Additions:		
Contributions:		
Plan member	$ 5,212	$ 4,872
Employer	18,070	16,447
	23,282	21,319
Net investment income:		
Interest income	12	1,338
Dividend income	3,311	1,918
Net appreciation in fair value of investments	11,039	36,102
Investment expenses	(749)	(700)
	13,613	38,658
Total additions	36,895	59,977
Deductions:		
Benefit payments	14,440	12,206
Administrative expenses	179	164
Total deductions	14,619	12,370
Change in net position held in trust for pension benefits	22,276	47,607
Net position - beginning of year	248,585	200,978
Net position - end of year	$ 270,861	$ 248,585

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Retiree Health Trust – Statements of Plan Net Position
December 31, 2014 and 2013
(In Thousands)

	2014	2013
Assets		
Current assets		
Money market mutual funds	$ 1,220	$ 1,451
Noncurrent assets		
Mutual funds - equities	24,366	22,163
Mutual funds - fixed income	7,403	5,003
Total assets	32,989	28,617
Liabilities		
Accounts payable and accrued expenses	5	5
Net position held in trust for other postemployment benefits	$ 32,984	$ 28,612

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Retiree Health Trust – Statements of Changes in Plan Net Position
Years Ended December 31, 2014 and 2013
(In Thousands)

	2014	2013
Additions:		
Contributions	$ 1,194	$ 1,400
Net investment income:		
Interest and dividend income	637	571
Net realized gains and appreciaiton in fair value of investments	2,547	4,726
Investment expense	-	(9)
Total additions	4,378	6,688
Deductions:		
Administrative expenses	6	8
Change in net position held in trust for other postemployment benefits	4,372	6,680
Net position - beginning of year	28,612	21,932
Net position - end of year	$ 32,984	$ 28,612

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Notes to Financial Statements
December 31, 2014 and 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The Bexar County Hospital District d/b/a University Health System (the System) is a hospital district established under Article IX, Section 4 of the Texas Constitution and Chapter 281 of the Texas Health and Safety Code. It is a political subdivision of the state of Texas, created to provide medical and hospital care to the needy and indigent of Bexar County, and is a discrete component unit of Bexar County (legally separate from Bexar County, Texas). Its Board of Managers (the Board) is composed of seven members appointed by the Commissioners Court of Bexar County for staggered terms of two years (or until a successor is appointed and qualified). Board members are "public officers" under the Texas Constitution who, as a body, exercise sovereign functions of government largely independent of the control of others, and serve without pay.

The System is the fourth-largest public health system in the state of Texas and employs approximately 6,000 employees who operate San Antonio's only civilian level 1 trauma center; the University Center for Community Health, devoted to the prevention and treatment of diabetes; the University Health Center – Downtown; four University Family Health Centers; University Dialysis – Southeast; South Dialysis; nine preventive health clinics and a health care program at Bexar County's correctional facilities. Its network of community outpatient and inpatient facilities provides primary care, preventive care and specialty outpatient care throughout Bexar County. Additionally, the System has had a long-standing affiliation with the University of Texas Health Science Center at San Antonio (UTHSCSA). The System's facilities serves as the major teaching facilities for many of UTHSCSA's health care programs, including the graduate medical education (GME) program. The System is exempt from federal income tax under Section 115(a) of the Internal Revenue Code (IRC).

The System has established various affiliated nonprofit, tax-exempt organizations to facilitate the funding, delivery and management of its health care mission. The accompanying financial statements present the System and its component units, entities for which the System is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended units are appropriately presented as funds of the primary government. Discretely presented component units are reported in separate columns in the financial statements to emphasize that they are legally separate from the government.

Blended component unit. Community Medicine Associates (CMA) is a Texas nonprofit health organization certified by the Texas State Board of Medical Examiners pursuant to Section 501(a) of the Texas Medical Practice Act, now codified at Section 162.001 of the Texas Occupations Code. CMA provides primary care physician services at the System's University Family Health Centers. CMA is exempt from federal income tax under Section 501(c)(3) of the IRC.

The System is the sole corporate member of CMA and has the authority to exercise significant control over the financial operations of CMA. The System's governing board is responsible for all financial decisions related to CMA, there exists a financial benefit or burden relationship between the System and CMA and the System's management has operational responsibility for CMA. As such, CMA is presented as a blended component unit of the System. CMA does not issue separate financial statements.

Laundry Services of Texas, Inc. (LST) was formed to establish membership in Central Texas Laundry Linen, LLC (CTL). Owned by three regional health care organizations, CTL was formed to provide linen services to businesses and institutions in the region. The System's governing board is responsible for all financial decisions related to LST, there exists a financial benefit or burden relationship between the System and LST and the System's management has operational responsibility for LST. As such, the financial statements of LST are presented as a blended component unit of the System. LST does not issue separate financial statements.

Discretely presented component units. The System is the sole corporate member of Community First Health Plans (CFHP). CFHP was established in 1994 to assist the System with providing and arranging health care services in accordance with the Texas Health Maintenance Organization Act (Chapter 20A, Vernon's Texas Insurance Code). CFHP is organized as a health maintenance organization (HMO) licensed in Texas to provide comprehensive health care services to its members principally through its contractual relationships with physician groups, ancillary providers and hospitals, including the System. CFHP is reported as a discretely presented component unit of the System since CFHP's Board of Directors is appointed by the System's Board and the System can impose its will on CFHP. Separately issued financial reports are available for CFHP and may be obtained by contacting Community First Health Plans, 12238 Silicon Drive, Suite 100, San Antonio, Texas 78249.

The System is the sole corporate member of the University Health System Foundation (the Foundation). The Foundation was created in 1984 to raise funds for the System. The Foundation is exempt from federal income tax under Section 501(c)(3) of the IRC and is a legally separate entity from the System. The Foundation is reported as a discretely presented component unit of the System since the Foundation's Board of Directors is appointed by the System's Board and the System can impose its will on the Foundation. Separately issued financial reports are available for the Foundation and may be obtained by contacting the System's administrative offices.

Pension and retiree health care trust funds. The University Health System Pension Plan (the Plan) is a single-employer defined benefit retirement plan designated as a public retirement system as defined in and authorized by Section 810.001 of the Texas Government Code and a government plan within the meaning of the IRC Section 414(d). The Plan is administered by the System and is fiscally dependent on the System. The Plan is reported as a fiduciary fund in the funds statements. Separate financial statements of the Plan are available at the System's administrative offices.

The University Health System Retiree Health Trust (the OPEB Trust) is a single-employer defined benefit retirement health care system established and administered by the System and is fiscally dependent on the System. The OPEB Trust is reported as a fiduciary fund in the funds statements. Separate financial statements of the OPEB Trust are available at the System's administrative offices.

Other significant relationships. The System and Vanguard Health System (VHS) mutually control Texas AirLife, Inc. d/b/a San Antonio AirLife, Inc. (AirLife), a Texas nonprofit corporation, which provides air ambulance services to Bexar County and South Texas. The System and VHS retain control over AirLife through the retention of specific reserve powers, including the appointment of AirLife board members. AirLife is exempt from federal income tax under Section 501(c)(3) of the IRC. The System owns a 50% interest in AirLife.

In 2013, the System was a member of the Hospital Laundry Cooperative Association (HLCA), an organization established under Chapter 301, Subchapter B of the Texas Health and Safety Code. Prior to 2014, the System's economic interest in HLCA was determined by "units of interest" under the terms of a membership agreement executed by the System on August 17, 1995. Prior to 2014, HLCA was a taxable cooperative under the IRC and the System owned a 15% interest in HLCA. During 2014, HLCA converted from a taxable cooperative to a limited liability corporation and changed its name to CTL. With this change, the System's ownership percentage increased to approximately 24%.

The System's ownership in AirLife and CTL (formerly known as HLCA) is recorded using the equity method of accounting in the accompanying basic financial statements.

In 1994, UTHSCSA established University Physicians Group (UPG), a Texas nonprofit corporation organized under Section 501(a) of Article 4495b of the Texas Medical Practice Act, now codified at Section 162.001 of the Texas Occupations Code. Effective May 1, 2006, UPG legally changed its name to UT Medicine San Antonio (UT Medicine). UT Medicine serves as a contracting vehicle for physician services with the System and other payers, including managed care organizations.

Effective June 6, 2000, the System and Bexar County became the sole sponsors for the Center for Health Care Services (CHCS). The terms of the relationship are governed by a Sponsorship Agreement with Bexar County dated May 2, 2000. CHCS is a community center established under Chapter 534 of the Texas Health and Safety Code to provide a comprehensive array of mental health, mental retardation, and drug and alcohol abuse services throughout Bexar County. CHCS was originally established by a coalition of 17 local taxing authorities in 1966.

The Department of Aging and Disability Services (DADS) required CHCS to divest its dual roles as a local authority and provider of mental retardation services, which it did by transferring its responsibility for mental retardation authority to the Alamo Area Council of Governments (AACOG) effective September 1, 2006. The System entered into a memorandum of understanding with AACOG to connect the sponsorship obligations for mental retardation from CHCS to AACOG.

The balances and transactions of UT Medicine, CHCS and AACOG are not combined or otherwise included in the accompanying basic financial statements, but the System's transactions with these organizations are included.

Unless otherwise noted, the following notes do not include CFHP, the Foundation, the Pension Plan or the OPEB Trust and the values reported in the tables are in thousands.

Basis of Accounting and Presentation

The financial statements of the System have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The System first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

In accordance with GASB Statement No. 34, the assets and net position of the Plan and the OPEB Trust are presented separately from those of the System. The Plan is used to account for assets held in trust for the benefit of the employees of the System for the defined benefit pension plan. The OPEB Trust is used to account for assets held in trust related to the postretirement benefit program for employees of the System. The financial statements of the Plan and the OPEB Trust are prepared using the accrual basis of accounting.

Employer contributions to the Plan and the OPEB Trust are recognized when due. Benefits are recognized when due and payable in accordance with the terms of the Plan and OPEB Trust.

Use of Estimates

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

Cash and Cash Equivalents

The System considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2014 and 2013, cash and cash equivalents include demand deposits and money market mutual funds. All demand deposits are collateralized with securities held in safekeeping at the Federal Reserve Bank in the name of the System. The System does not consider highly liquid investments that are designated as to use as cash equivalents.

Patient Accounts Receivable

The System reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The System provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies Inventory

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. The investments in equity investee are reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

State statutes and the Board of Managers authorize the System to invest in a limited number of instruments, as further described in *Note 3*.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the System:

Land improvements	5 – 15 years
Buildings and leasehold improvements	10 – 30 years
Equipment	5 – 15 years

The System capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of any tax exempt borrowings. Total interest capitalized and incurred was:

	2014	2013
Interest capitalized	$ 9,010	$ 29,347
Interest charged to expense	29,427	10,602
Total interest incurred	$ 38,437	$ 39,949

Compensated Absences

The System's employees earn paid time off (PTO) at varying rates depending on years of service. Employees may accumulate PTO up to a specified maximum. Employees are paid for accumulated PTO upon voluntary termination, including retirement, as employees who retire from the System may convert accumulated PTO to termination payments at a rate of 50% of their accumulated PTO balances. The estimated amount of PTO payable as termination payments is reported as a current liability in both 2014 and 2013.

Deferred Outflows/Inflows of Resources

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

Net Position

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

Risk Management

The System is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice, employee health and workers' compensation claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The System is self-insured for a portion of its exposure to risk of loss from medical malpractice, employee health and workers' compensation claims. Annual estimated provisions are accrued for the self-insured portion of these risks and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Net Patient Service Revenue

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

Charity Care

The System provides charity care to residents of Bexar County who qualify on a financial basis for the Care*Link* Program and to all others who qualify based on the System's charity care policy. The System does not pursue collection of amounts in excess of the established guidelines for those patients who meet the charity criteria. Such excess is considered charity care and is not reported as revenue.

The System's Care*Link* Program is used to discount gross charges for medical services received in the System's facilities. Under this program, residents of Bexar County have an established maximum family liability rather than a discount of total gross charges. Key factors in establishing a family's maximum liability levels are: number of dependents, income and the relationship of these factors to the current Poverty Index. The System does not pursue collection of amounts in excess of the maximum family liability. Such excess amounts are considered charity care and are not reported as revenue.

Arrangements are made with residents of Bexar County to pay their reduced medical costs in installments. Any amounts designated as not being due prior to December 31 of the subsequent year are classified as long-term patient receivables and are presented net of applicable allowances.

Non-Care*Link* patients meeting the financial and medical indigency criteria established in the charity policy receive a discount from gross charges for emergency and catastrophic medical services received in the System's facilities. Charges for financial indigency are discounted based on family income compared to the Poverty Index. Charges for medical indigency are discounted when charges exceed a certain income and asset level.

The System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. The charges forgone, based on established rates, were approximately $654,558,000 and $543,668,000 for the years ended December 31, 2014 and 2013, respectively. The costs of charity care provided under the System's charity care policy were approximately $204,120,000 and $169,543,000 for 2014 and 2013, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross charity care charges.

Premium Revenue

CFHP has agreements with plan sponsors to arrange health service benefits for subscribing participants. Under these agreements, CFHP receives monthly premium payments based on the number of each plan sponsor's participants. In addition, CFHP receives supplementary delivery payments under the Medicaid program.

Medical Claims Expense

CFHP arranges for the provision of comprehensive health care services to its members principally through its contractual relationships with physician groups, ancillary providers, and hospitals, including the System. Physicians, ancillary providers, and hospitals are paid a contracted fee for service or a capitation rate, and CFHP is responsible for any related payments to those providers.

The cost of health care services provided is accrued in the period it is rendered to the enrolled members, based in part on estimates for hospital and physician services rendered to enrolled members during the period that have not yet been reported.

Reserves for Incurred But Not Reported Medical Claims

CFHP's management estimates and provides reserves for incurred but not reported physician and hospital services rendered to enrolled members during the period. These reserves represent management's best estimate of the ultimate net cost of all reported and unreported claims incurred during the reporting period. The estimate is based on actuarial projections of the historical development of claims incurred but not reported and case-basis estimates of claims reported prior to the end of the reporting period.

The estimate of the unpaid claims liability is based on the best data available to management; however, the estimates are subject to a significant degree of inherent variability. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

Although management believes the estimate of the unpaid liability is reasonable, it is possible that actual incurred claims expense will not conform to the assumptions inherent in the determination of the liability; accordingly, the ultimate settlement of the claims may vary significantly from the estimate included in the accompanying financial statements.

Tobacco Settlement Revenue

Tobacco settlement revenue is the result of a settlement between various counties and hospital districts in Texas and the tobacco industry for tobacco-related health care costs. The System received approximately $5,982,000 and $5,200,000 in revenue from this settlement for the years ended December 31, 2014 and 2013, respectively. This revenue is recognized as nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position.

Property Taxes

The System received approximately 32% in 2014 and 33% in 2013 of its financial support from property taxes. These funds were used as follows:

	2014	2013
Percentage used to support operations	86.4%	85.7%
Percentage used for debt service on bonds	13.6%	14.3%
Total	100.0%	100.0%

Property taxes are levied by the System on October 1 of each year based on the preceding January 1 assessed property values. To secure payment, an enforceable lien attaches to the property on January 1, when the value is assessed. Property taxes become due and payable when levied on October 1. This is the date on which an enforceable legal claim arises and the District records a receivable for the property tax assessment, less an allowance for uncollectible taxes. Property taxes are considered delinquent after January 31 of the following year. The System recorded an allowance for uncollectible property taxes of approximately $13,832,000 and $12,882,000 at December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, respectively, the System had recorded approximately $321,626,000 and $300,491,000 of property taxes levied for services to be provided in 2015 and 2014, respectively. These amounts are reported as a deferred inflow of resources in the accompanying balance sheets and will be recognized as revenue in the period for which they were levied.

The System’s property tax rate was $0.238601 and $0.234937 per $100 valuation for 2014 and 2013, respectively, for the maintenance and operation fund. The System’s property tax rate was $0.037634 and $0.039635 per $100 valuation for 2014 and 2013, respectively, for the interest and sinking fund.

Build America Bond Interest Subsidy

The System issued taxable Build America Bonds (BABs) in August 2010 and August 2009. Under the BABs program, the U.S. Treasury pays 35% of the interest as a subsidy to the issuer. The System records the interest subsidy received or receivable from the U.S. Treasury as nonoperating revenue when the System has met all of the eligibility criteria to receive the subsidy. The System recorded approximately $8,256,000 and $8,294,000 of nonoperating revenue in 2014 and 2013, respectively, for the BABs interest subsidy. During 2014 and 2013, the BABs subsidy was reduced by 8.7% as part of the federal sequestration spending reductions.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to three years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The System recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The System recognized revenue of approximately $365,000 and $1,593,000 under these programs in 2014 and 2013, respectively. The revenue earned from these programs is included as a component of other operating revenue in the accompanying statements of revenue, expenses and changes in net position.

Income Taxes

As an essential government function of the County, the System is generally exempt from federal and state income taxes under Section 115 of the IRC and a similar provision of state law. CMA, CFHP and the Foundation carry exemptions from income taxes under IRC Section 501 sections. The System, CMA, CFHP and the Foundation are subject to federal income tax on any unrelated business taxable income.

CFHP is a not-for-profit corporation exempt from federal income taxes under IRC Sections 115 and 501(c) (4). From its inception in 1994 until 2001 CFHP filed Form 990 Return for Organization Exempt from Income Tax with the Internal Revenue Service (IRS). At the completion of the 2001 audit, CFHP reviewed IRS Revenue Procedure 95-48 and interpreted that it was exempt from the annual filing requirements as an affiliate of a governmental entity, and therefore filed a final Form 990 for the year ended December 31, 2001.

In 2011, CFHP received notice from the IRS that its tax-exempt status had been automatically revoked, effective May 15, 2010, for failure to file Form 990 for the three years ending on December 31, 2009.

CFHP believed the revocation to be an error, and in September of 2012, reapplied for exempt status, citing Revenue Procedure 95-48 as the reason for non-filing of returns. On May 16, 2014, the IRS reinstated CFHP's tax exempt status retroactive to the date of revocation, May 15, 2010. On April 6, 2015, the IRS approved the Company's application for exemption from filing Form 990.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

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

- ***Medicare.*** Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient nonacute services and defined medical education costs are paid based on a cost reimbursement methodology. The System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare fiscal intermediary. The System's Medicare cost reports have been audited by the Medicare administrative contractor through December 31, 2009.

- ***Medicaid.*** Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment system. Inpatient reimbursement is inclusive of an add-on for trauma care that is based on the Medicaid Standard Dollar Amount. Outpatient and physician services are reimbursed under a mixture of fee schedules and cost reimbursement. The System is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicaid administrative contractor. The System's Medicaid cost reports have been audited by the Medicaid administrative contractor through December 31, 2009.

Approximately 65% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for both of the years ended December 31, 2014 and 2013. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Supplemental Medicaid Funding Revenue

Net patient service revenue included in the statement of revenues, expenses and changes in net position includes revenue received from the Medicaid Disproportionate Share Program (DSH). To fund DSH, the state of Texas levies an assessment against certain hospitals and hospital systems. The funds collected via this assessment are pooled by the state in order to receive federal matching funds. The state then allocates the federal monies received to hospitals and hospital systems that serve a large disproportionate volume of Medicaid and uninsured patients, the purpose being to increase access to health care for Texas' indigent patients. The amounts the System may expect to receive from this program in future years could be impacted by the Medicaid section 1115(a) demonstration program discussed below. The System recognized DSH revenue of approximately $30,301,000 and $34,702,000 for the years ended December 31, 2014 and 2013, respectively.

On December 12, 2011, Texas received approval from CMS for the Texas Health Care Transformation and Quality Improvement Program (the Waiver) that allowed the state to expand Medicaid managed care while preserving hospital funding, provides incentive payments for health care improvements and directs more funding to hospitals that serve large numbers of uninsured patients. The Waiver became effective on October 1, 2011 and will extend through September 30, 2016. The Waiver established two pools, an Uncompensated Care Pool (UC Pool) to offset the cost of uncompensated care and a *Delivery System Reform Initiative Payment Pool* (DSRIP) as incentive payments for developing programs and strategies supporting hospitals' efforts to improve access to health care; improve quality and outcomes of care, improve efficiencies of care provided; and to improve the patient experience by managing the health of patients and families served. DSRIP payments will be made for system improvements identified in Regional Healthcare Partnerships (RHP) delivery system reform and improvement plans (RHP Plan) led by public hospitals such as the System or governmental entities that will provide the state share of waiver pool funds. The System serves as the anchor facility for the 20 county RHP 6.

The revenue from the two funding pools is recognized as earned throughout the related demonstration year. During 2014, the System recognized approximately $77,089,000 and $45,977,000 from the UC Pool and DSRIP Pool, respectively. During 2013, the System recognized approximately $75,044,000 and $42,435,000 from the UC Pool and DSRIP Pool, respectively. The System recorded a receivable of approximately $90,789,000 and $79,302,000 for these programs as of December 31, 2014 and 2013, respectively, which is included in estimated amounts due from third-party payers.

The System realized a savings in medical service costs of $92,200,000 and $78,804,000 in 2014 and 2013, respectively. The System incurred increased costs to supplement the state's funding for the affiliated providers in the amounts of $65,488,000 and $56,506,000 in 2014 and 2013, respectively. The supplement to the state's funding is recorded in medical services expense in the statements of revenues, expenses and changes in net position.

The funding the System has received is subject to audit and is not representative of funding to be received in future years. The programs described above are subject to review and scrutiny by both the Texas Legislature and CMS and the programs could be modified or terminated based on new legislation or regulation in future periods.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The System's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance or other qualified investments. At December 31, 2014 and 2013, the System's deposits were either insured or collateralized in accordance with state law.

Investments

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

At December 31, 2014 and 2013, the System had the following investments and maturities:

	December 31, 2014				
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 26,203	$ 4,050	$ 22,153	$ -	$ -
U.S. agencies obligations	192,901	53,273	139,628	-	-
TexPool	1	1	-	-	-
Municipal bonds	2,622	2,622	-	-	-
Money market mutual funds	260,709	260,709	-	-	-
	$ 482,436	$ 320,655	$ 161,781	$ -	$ -

	December 31, 2013				
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 14,080	$ 1,513	$ 12,567	$ -	$ -
U.S. agencies obligations	332,348	133,565	198,783	-	-
TexPool	29,086	29,086	-	-	-
Municipal bonds	2,706	-	2,706	-	-
Money market mutual funds	222,348	222,348	-	-	-
	$ 600,568	$ 386,512	$ 214,056	$ -	$ -

At December 31, 2014 and 2013, CFHP had the following investments and maturities:

	December 31, 2014				
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 6,156	$ 6,156	$ -	$ -	$ -
U.S. agencies obligations	52,162	-	52,162	-	-
Money market mutual funds	31,443	31,443	-	-	-
	$ 89,761	$ 37,599	$ 52,162	$ -	$ -

	December 31, 2013				
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 2,151	$ -	$ 2,151	$ -	$ -
U.S. agencies obligations	23,943	-	23,943	-	-
Money market mutual funds	47,789	47,789	-	-	-
	$ 73,883	$ 47,789	$ 26,094	$ -	$ -

- **Interest Rate Risk –** As a means of limiting its exposure to fair value losses arising from rising interest rates, the System's investment policy requires that total investments have a weighted-average maturity of five years or less. The longer the maturity of a fixed-rate obligation, the greater the impact a change in interest rates will have on its fair value. As interest rates increase, the fair value of the obligations decrease. Likewise, when interest rates decrease, the fair value of the obligations increase. The money market mutual funds are presented as an investment with a maturity of less than one-year because they are redeemable in full immediately. The System's investment policy limits the maturity periods of its investments by type to a maximum of 10 years.

- **Credit Risk** – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The System and CFHP each have formal investment policies adopted by the Board of Managers and Board of Directors, respectively, that limit investments in securities based on an NRSRO credit rating. The System's investments are also subject to the Public Funds Investment Act (the Act), at Government Code Chapter 2256, and CFHP's investments are also subject to regulations enumerated in Title 28, Chapter 11 of the Texas Administrative Code (TAC) and Chapter 20A of the Texas Insurance Code (TIC).

  Investments authorized by the Act and the System's investment policy are limited to: obligations of the United States government or its agencies; repurchase agreements collateralized by obligations of the United States government or its agencies; investment pools with at least an AA-m or better rating by one nationally recognized rating service; commercial paper with a stated maturity of 270 days or less, and a credit rating of A-1 or P-1 or its equivalent by at least two nationally recognized credit rating agencies; certificates of deposit issued by a state bank, national bank, or a savings and loan association domiciled in Texas, with FDIC insurance and collateralized by obligations of the U.S. government or its agencies, with market value of 102% of the insured principal amount; bankers' acceptances of a bank organized and existing under the laws of the United States, whose short-term obligations are rated not less than A-1 or P-1 or its equivalent by at least one nationally recognized rating agency, and with a stated maturity of 270 days or less; and no-load money market mutual funds registered by the Securities and Exchange Commission with a dollar-weighted-average stated maturity of 90 days or less, and an investment objective of a stable net asset value of one dollar.

Investments authorized by the TAC, TIC and CFHP's investment policy are limited to obligations of the United States government or its agencies; certificates of deposit with a credit rating of Moody's A2 or Standard & Poor's (S&P) A; corporate obligations with a credit rating of Moody's A1 or S&P A+; municipal notes and bonds with a credit rating of Moody's Aaa or S&P's AAA; auction-rate securities with a credit rating of Moody's A2 or S&P's A; and asset-backed securities with a credit rating of Moody's Aaa or S&P's AAA.

The System's investments in U.S. Treasury obligations carry the explicit guarantee of the U.S. government. The debt securities of the U.S. agencies are rated A1+ or AA+ by S&P's or Aaa by Moody's. The System's investments in municipal bonds were rated AAA by S&P's. The System also invests in State Investment Pools (the Pools), which are considered investments for financial reporting. The System has an undivided beneficial interest in the pool of assets held by the Pools. Authorized investments include obligations of the United States of its agencies, direct obligations of the state of Texas or its agencies, certificates of deposit and repurchase agreements.

The fair value of the position in these pools is the same as the value of the shares in each pool. The Pools, as well as the money market mutual funds invested in by the System, are rated as AAAm by S&P's.

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

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

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

	2014	2013
Federal National Mortgage Association	7%	22%
Federal Home Loan Mortgage Corporation	17%	19%
Federal Home Loan Bank	14%	7%

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the System's balance sheets as follows:

	2014	2013
Carrying value		
Deposits	$ 7,615	$ 15,730
Investments	482,436	600,568
	$ 490,051	$ 616,298
Included in the following balance sheet captions		
Cash and cash equivalents	$ 195,480	$ 155,301
Short-term investments	-	39,974
Noncurrent cash and investments	294,571	421,023
	$ 490,051	$ 616,298

The carrying values of deposits and investments shown above are included in CFHP's balance sheets as follows:

	2014	2013
Carrying value		
Deposits	$ 5,985	$ 59
Investments	89,761	73,883
	$ 95,746	$ 73,942
Included in the following balance sheet captions		
Cash and cash equivalents	$ 31,453	$ 47,819
Noncurrent cash and investments	64,293	26,123
	$ 95,746	$ 73,942

Investment Income

The System's investment income for the years ended December 31 consisted of:

	2014	2013
Interest income	$ 1,682	$ 2,369
Net increase (decrease) in fair value of investments	352	(1,781)
	$ 2,034	$ 588

CFHP's investment income for the years ended December 31 consisted of:

	2014	2013
Interest income	$ 400	$ 190
Net decrease in fair value of investments	(135)	(114)
	$ 265	$ 76

Note 4: Patient Accounts Receivable

The System grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	2014	2013
Medicare	$ 30,649	$ 23,593
Medicaid	30,328	23,346
Other third-party payers	44,912	34,572
Patients	388,820	299,302
	494,709	380,813
Less allowance for uncollectible accounts	407,898	295,249
	$ 86,811	$ 85,564

Note 5: Capital Assets

The System's capital assets activity for the years ended December 31 was:

	2014			
	Beginning Balance	Additions/ Transfers	Disposals/ Other	Ending Balance
Land and land improvements	$ 19,117	$ 179	$ -	$ 19,296
Buildings and improvements	568,409	709,573	-	1,277,982
Equipment	270,532	107,058	(3,128)	374,462
Construction in progress	675,708	(656,844)	-	18,864
	1,533,766	159,966	(3,128)	1,690,604
Less accumulated depreciation	380,377	73,259	(2,566)	451,070
Capital assets, net	$ 1,153,389	$ 86,707	$ (562)	$ 1,239,534

	2013			
	Beginning Balance	Additions/ Transfers	Disposals/ Other	Ending Balance
Land and land improvements	$ 18,199	$ 918	$ -	$ 19,117
Buildings and improvements	377,862	190,547	-	568,409
Equipment	230,898	43,533	(3,899)	270,532
Construction in progress	596,428	79,280	-	675,708
	1,223,387	314,278	(3,899)	1,533,766
Less accumulated depreciation	338,140	45,733	(3,496)	380,377
Capital assets, net	$ 885,247	$ 268,545	$ (403)	$ 1,153,389

At December 31, 2014, construction in progress represents cost incurred in connection with expansion and renovation of facilities and related equipment. The completion of these projects will occur throughout 2015 and 2016. The System is funding the remaining cost of these projects from internally designated investments.

Note 6: Accounts Payable and Accrued Expenses

The System's accounts payable and accrued expenses included in current liabilities at December 31 consisted of:

	2014	2013
Payable to suppliers and contractors	$ 59,941	$ 116,914
Payable to employees (including payroll taxes and benefits)	31,624	29,336
Accrued interest	14,889	15,023
Estimated self-insurance costs - current	5,975	4,990
Other accrued liabilities	243	1,357
	$ 112,672	$ 167,620

CFHP's accounts payable and accrued expenses included in current liabilities at December 31 consisted of:

	2014	2013
Payable to suppliers and contractors	$ 1,651	$ 1,308
Performance-based at risk capitation/Pay-for-quality	10,912	5,853
Payable to System	1,265	1,172
Other	5,353	2,119
	$ 19,181	$ 10,452

Note 7: Risk Management

Employee Health Claims

The System is self-insured for employee health insurance costs. The self-insured plan is administered by CFHP, which determines the cost of claims paid to community health care providers and estimates a reserve for medical claims incurred but not yet reported. The System also recognizes the incremental cost of services provided by the System to plan participants. The System maintains a stop-loss insurance contract to cover 90% of certain medical costs in excess of $175,000 per claim, up to a maximum of $2,000,000 per contract year and $5,000,000 per member lifetime maximum.

Workers' Compensation Claims

The System participates in a self-insurance program that provides for the payment of workers' compensation claims. The funding for this program is based on third-party recommendations for settlement in accordance with Texas workers' compensation laws. The System has purchased reinsurance for individual claims exceeding $600,000 up to a maximum limit of $1,000,000 for any one accident or occurrence.

Professional Liability Claims

The System funds a revocable self-insurance trust to provide for the payment of medical malpractice and general liabilities. The funding is based on management's recommendations for settlement of claims to limits of $100,000 per claim and $300,000 per occurrence, in accordance with the limited liability provisions of the Texas Tort Claims Act. During 2003, the System began self-insuring "tail coverage" for certain employed physicians. This coverage has a limited time exposure and also is subject to claims limits. Amounts are provided for funding, and estimated liabilities for incurred but not yet reported claims are based on management estimates.

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

Changes in and the balances of the System's aggregate claims liability in fiscal years 2014 and 2013 are as follows:

	Beginning of Fiscal Year Liability	Current-Year Expenses	Claim Payments	Balance at Fiscal Year-End
Employee health claims				
2014	$ 2,890	$ 16,436	$ (17,551)	$ 1,775
2013	1,331	18,910	(17,351)	2,890
Workers' compensation claims				
2014	$ 5,994	$ 2,367	$ (3,321)	$ 5,040
2013	6,881	3,091	(3,978)	5,994
Professional liability				
2014	$ 1,255	$ -	$ -	$ 1,255
2013	1,255	-	-	1,255

Medical Claims Payable

CFHP's medical claims payable represents the estimate of the ultimate net cost of all reported and unreported medical claims incurred but not paid through the end of the year. This estimate is based on claims reported, actuarial estimates and trends in the health care costs. Subsequent actual claims experience and related settlement costs may differ from the estimated liability due to variances in estimated and actual subscriber utilization of medical services, the amount of charges and other factors. This estimate is subject to a significant degree of inherent variability. The estimates are continually reviewed and any necessary adjustments are included in current operations.

Changes in and the balances of CFHP's aggregate medical claims liability in fiscal years 2014 and 2013 are as follows:

	2014	2013
Medical claims payable, beginning of year	$ 22,112	$ 24,995
Incurred related to		
Current year	271,754	236,482
Prior years	(4,998)	(3,478)
Total incurred losses and claims payable	266,756	233,004
Paid related to		
Current year	244,897	214,415
Prior years	17,044	21,472
Total paid losses and claims payable	261,941	235,887
Medical claims payable, end of year	$ 26,927	$ 22,112

Patient service revenue and medical claims expense for CFHP members amounting to $15,596,000 and $11,575,000 in 2014 and 2013, respectively, are not eliminated in the basic financial statements.

Note 8: Long-term Debt

A summary of long-term debt is as follows:

	2014	2013
Certificates of obligation, Series 2008	$ 257,040	$ 261,255
Certificates of obligation, Series 2009A	19,330	24,105
Certificates of obligation, Series 2009B	246,395	246,395
Certificates of obligation, Series 20010B	186,355	189,860
	709,120	721,615
Bond premium (discount), net	(1,741)	(1,286)
	$ 707,379	$ 720,329

Certificates of Obligation – Series 2008

The combination tax and revenue Certificates of obligation, series 2008 (the 2008 Certificates) were issued in 2008, and mature in various amounts annually on February 15, from 2009 through 2038. These have stated coupon rates ranging from 3.25% to 5.00%, and are collateralized by a levy of ad valorem tax revenue and lien on and pledge of surplus revenues. All of the 2008 Certificates still outstanding may be redeemed at the System's option on or after February 15, 2018 at a price of par plus accrued interest at the date of redemption.

Certificates of Obligation – Series 2009A and 2009B

The tax Certificates of obligation, Series 2009A (the 2009A Certificates) were issued in 2009, and mature in various amounts annually on February 15, from 2010 through 2017, with stated coupon rates ranging from 1.00% to 5.00%. The tax Certificates of obligation, Series 2009B (the 2009B Certificates) were issued in 2009, and mature in various amounts annually on February 15, from 2018 through 2039, with stated coupon rates ranging from 5.269% to 6.904%. The 2009A and 2009B Certificates are collateralized by a levy of ad valorem tax revenue. All of the 2009A and 2009B Certificates with stated maturities on or after February 15, 2020 may be redeemed at the System's option on or after February 15, 2019 at a price of par plus accrued interest at the date of redemption.

Certificates of Obligation – Series 20010B

The tax Certificates of obligations, Series 2010B (the 2010B Certificates) were issued in 2010, and mature in various amounts annually on February 15, from 2011 through 2040, with stated coupon rates ranging from 0.300% to 5.413% and are collateralized by a levy of ad valorem tax revenue.

The 2009B Certificates and 2010B Certificates are designated under the American Recovery and Reinvestment Act of 2009 as "Qualified Build America Bonds" debt.

The following is a summary of long-term debt transactions for the System for the years ended December 31:

	2014				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Certificates of obligation, Series 2008	$ 261,255	$ -	$ (4,215)	$ 257,040	$ 5,080
Certificates of obligation, Series 2009A	24,105	-	(4,775)	19,330	6,135
Certificates of obligation, Series 2009B	246,395	-	-	246,395	-
Certificates of obligation, Series 20010B	189,860	-	(3,505)	186,355	2,345
Total long-term debt	$ 721,615	$ -	$ (12,495)	$ 709,120	$ 13,560

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Certificates of obligation, Series 2008	$ 264,070	$ -	$ (2,815)	$ 261,255	$ 4,215
Certificates of obligation, Series 2009A	28,460	-	(4,355)	24,105	4,775
Certificates of obligation, Series 2009B	246,395	-	-	246,395	-
Certificates of obligation, Series 20010B	194,425	-	(4,565)	189,860	3,505
Total long-term debt	$ 733,350	$ -	$ (11,735)	$ 721,615	$ 12,495

The debt service requirements as of December 31, 2014, are as follows:

Year Ending December 31,	Principal	Interest	Interest Credit (BABs)	Total
2015	$ 13,560	$ 38,600	$ (8,120)	$ 44,040
2016	14,940	38,064	(8,102)	44,902
2017	16,435	37,425	(8,075)	45,785
2018	17,975	36,679	(7,979)	46,675
2019	19,550	35,833	(7,809)	47,574
2020 – 2024	111,760	163,608	(35,875)	239,493
2025 – 2029	137,385	130,204	(28,775)	238,814
2030 – 2034	171,300	85,976	(19,361)	237,915
2035 – 2039	195,165	30,854	(7,657)	218,362
2040	11,050	299	(96)	11,253
	$ 709,120	$ 597,542	$ (131,849)	$ 1,174,813

Note 9: Pension Plan

Plan Description and Funding Policy

The System sponsors a single-employer defined benefit pension plan which covers substantially all of the System's employees who work at least 20 hours per week or at least 1,000 hours annually and were hired before July 1, 2012. Employees are eligible for participation in the plan after attaining the age of 21 and completing one year of service. All employees with hire dates through June 30, 2012 must participate in the plan as a condition of employment.

Plan participants have a 100% vested right in the accrued benefits derived from their accumulated contributions. With regard to participants' accrued benefits derived from employer contributions, the participants become fully vested at the completion of five years of vesting service.

Participants are eligible for normal retirement benefits after attaining age 65 and completing five years of vesting service; or, after age 55 and the number of years of service needed to equal 85 (Rule of 85). Annual normal retirement benefits (accrued benefits) are equal to 1.5% of the participant's average 5 highest years' pay in the last 10 years, times the number of years of credited service.

An early retirement provision is available to participants who attain age 55 and five years vested service, but do not satisfy the Rule of 85. The early retirement benefit equals the normal retirement benefit at actual retirement reduced at the rate of 1/15th for each of the first five years before age 65 and 1/30th for each of the next five years before age 65 and the participants actual retirement age.

Pre-retirement death benefits before vesting or attainment of age 55 are equal to the amount of the participant's contributions plus 4½% interest per annum and may be distributed in a lump sum or in installments up to 60 months. Pre-retirement death benefits on or after eligibility for normal retirement are a monthly benefit payable to named beneficiary equal to 50% of the present actuarial value of the participant's accrued benefit otherwise payable on the participant's date of death.

The System has agreed (but does not guarantee) to voluntarily contribute such amounts as are necessary to maintain the plan on a sound actuarial basis. The System has the right to discontinue such contributions and terminate the plan at any time. However, under no conditions may the System withdraw its contributions, or use them for any purpose other than the exclusive benefit of the plan participants and their beneficiaries; and, to pay for administrative expenses. Participants in the plan contribute 2% of gross pay upon achievement of eligibility and thereafter until the time of retirement or separation from employment with the System. The System makes contributions which are actuarially determined to pay the plan's total cost (determined as a level percentage of total participant compensation) less the projected employee contributions.

The System also deposits amounts to the plan to fund a Match Savings Plan to encourage eligible employees to participate in a 457 Deferred Compensation Retirement Savings Plan (457 Plan). Under the Match Savings Plan, the System will match 25% of an employee's contribution to the 457 Plan, up to the lower of 4% of compensation or $12,000. Benefits will be distributed upon retirement or separation from service after satisfying the vesting requirements.

On June 11, 2012, the plan was amended to indicate that employees hired by the System after June 30, 2012, shall not be eligible to participate in the plan, except for the Match Savings Plan. Other employees rehired after June 30, 2012, shall be treated as subject to this amendment unless they were vested in their accrual benefits prior to the date of being rehired.

At January 1, 2014, the date of the most recent actuarial valuation, plan membership consisted of:

Inactive participants:	
Retirees and beneficiaries currently receiving benefits	788
Terminated employees with deferred benefits	1,222
Total inactive participants	2,010
Active participants:	
Fully vested	3,238
Nonvested	1,519
Total active participants	4,757
Total participants	6,767

Annual Pension Cost

For the fiscal years ending December 31, 2014 and 2013, the System's annual pension cost (APC) was $16,297,000 and $15,251,000, respectively, which is equal to the System's annual contributions.

The required contributions for 2014 was determined based on the results of actuarial valuations as of January 1, 2014, using the projected unit credit cost method. The actuarial assumptions included: (a) a 7.50% investment rate of return and (b) projected salary increases of 5.0% per year, inclusive of a wage inflation rate of 4.0%. The actuarial valuation of plan assets was determined using a five-year smoothed market value method. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis over a 30 year period.

The required contributions for 2013 was determined based on the results of actuarial valuations as of January 1, 2013, using the projected unit credit method. The actuarial assumptions included: (a) a 7.50% investment rate of return and (b) projected salary increases of 5.1% per year, inclusive of a wage inflation rate of 4.0%. The actuarial valuation of plan assets was determined using a five-year smoothed market value method. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis over a 30 year period.

Three-Year Trend Information

Fiscal Year-End	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2014	$ 16,297	100%	$ -
12/31/2013	$ 15,251	100%	$ -
12/31/2012	$ 15,420	100%	$ -

Funding Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was 75.6% funded. The actuarial accrued liability for benefits was $306,413,000 and the actuarial value of assets was $231,787,000, resulting in an unfunded actuarial accrued liability (UAAL) of $74,626,000. The covered payroll (annual payroll of active employees covered by the plan) was $254,100,000 and the ratio of the UAAL to the covered payroll was 29.4%.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Deferred Compensation Plan

The Match Savings Plan covers substantially all employees meeting age and service requirements. Employee contributions to the plan are discretionary. The System's contributions were approximately $2,394,000 and $1,929,000 for the years ended December 31, 2014 and 2013, respectively.

Note 10: Postemployment Health Care Plan

Plan Description and Funding Policy

The System contributes to the University Health System Other Post-Employment Benefits Plan (OPEB), a single-employer defined benefit postretirement health care plan administered by the System.

The contribution requirements of plan members and the System are established and may be amended by the governing body of the OPEB Trust Investment Committee. The required contribution is based on projected pay-as-you-go financing requirements.

In 2014, the System contributed approximately $1,194,000 to the plan, which is inclusive of plan member contributions. Plan members receiving benefits contributed approximately $923,000 through their required contribution of $114.09 per month for retiree-only coverage, $216.77 for retiree and spouse coverage, $213.34 for retiree and children coverage, and $400.45 for retiree and family coverage.

In 2013, the System contributed approximately $1,400,000 to the plan, which is inclusive of plan member contributions. Plan members receiving benefits contributed approximately $742,000 through their required contribution of $102.89 per month for retiree-only coverage, $195.50 for retiree and spouse coverage, $192.41 for retiree and children coverage, and $361.16 for retiree and family coverage.

Annual OPEB Cost and Net OPEB Obligation

The System's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The adjustment to the ARC shown in the following table is for the portion of the benefits paid to beneficiaries by the System and is recorded in employee compensation expense on a pay-as-you-go basis.

The following table shows the components of the System's annual OPEB cost, the amount actually contributed to the plan and changes in the System's net OPEB obligation to the plan:

	2014	2013
Annual required contribution	$ 2,594	$ 2,381
Adjustment to annual required contribution	(1,400)	(981)
Annual OPEB cost	1,194	1,400
Contributions made	1,194	1,400
Change in net OPEB obligation	-	-
Net OPEB obligation - beginning of year	-	-
Net OPEB obligation - end of year	$ -	$ -

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014 and the two preceding years were as follows:

Fiscal Year-End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	$ 2,594	100%	$ -
12/31/2013	$ 2,381	100%	$ -
12/31/2012	$ 3,763	100%	$ -

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was 74.9% funded. The actuarial accrued liability for benefits was approximately $34,324,000, and the actuarial value of assets was approximately $25,706,000, resulting in a UAAL of $8,618,000.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2014, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 7.5% investment rate of return (net of administrative expenses), and an annual health care cost trend rate of 5.0%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis over a 30 year period.

Note 11: Affiliation Agreement

The System has entered into a long-standing affiliation agreement with UTHSCSA. Under the agreement, the System’s facilities serve as the major teaching facilities for many of UTHSCSA’s health care programs, including the graduate medical education program. The System recorded expenses of approximately $12,787,000 and $13,043,000 in 2014 and 2013, respectively, under the terms of the agreement.

Note 12: Future Change in Accounting Principle

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions*. In addition to making changes to how annual pension expense is to be calculated for defined benefit pension plans, GASB 68 also requires that governmental entities record a liability in their financial statements that is equal to the unfunded pension obligation. Historically, governmental entities have only been required to record a liability for the difference between APC and the amount of APC contributed to the plan. GASB 68 is effective for the System's fiscal year ending December 31, 2015. The impact of applying the Statement is expected to result in the recognition of a net pension liability of approximately $117 million.

Note 13: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) is substantially reforming the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation established health insurance exchanges, which provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Texas has indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the System's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible it will have a negative impact on the System's net patient service revenue. In addition, it is possible the System will experience payment delays and other operational challenges during PPACA's implementation.

Note 14: Contingencies

Litigation

In the normal course of business, the System is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the System's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The System evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Required Supplementary Information

Bexar County Hospital District
d/b/a University Health System
Schedule of Funding Progress – Retiree Health Trust
December 31, 2014
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Plan Assets Less than AAL	Funded Ratio
January 1, 2014	$ 25,706	$ 34,324	$ (8,618)	74.9%
January 1, 2013	$ 21,835	$ 32,769	$ (10,934)	66.6%
January 1, 2012	$ 17,927	$ 28,074	$ (10,147)	63.9%

Bexar County Hospital District
d/b/a University Health System
Schedule of Funding Progress – Pension Plan
December 31, 2014
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Plan Assets Less than AAL	Funded Ratio	Covered Payroll	Plan Assets Less Than AAL as a Percent of Covered Payroll
January 1, 2014	$ 231,787	$ 306,413	$ (74,626)	75.6%	$ 254,100	(29.4%)
January 1, 2013	$ 205,905	$ 281,434	$ (75,529)	73.2%	$ 239,317	(31.6%)
January 1, 2012	$ 183,350	$ 258,253	$ (74,903)	71.0%	$ 218,571	(34.3%)

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Managers
Bexar County Hospital District
d/b/a University Health System
San Antonio, Texas

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 basic financial statements of the business-type activities, the aggregate discretely presented component units and the aggregate remaining fiduciary fund information of Bexar County Hospital District d/b/a University Health System (the System), collectively a component unit of Bexar County, Texas, as of and for the year December 31, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated June 5, 2015, which contained a reference to the report of other auditors. The financial statements of the University Health System Pension Plan, included in the System's financial statements as a fiduciary fund, was not audited in accordance with *Government Auditing Standards*. Other auditors audited the financial statements of the University Health System Pension Plan, as described in our report on the System's financial statements. This report does not include the results of the other auditor's 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

Management of the System is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the System's internal control to determine the 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 the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 the System'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 efficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control described in the accompanying schedule of findings and responses as item 2014-001 that we consider to be a significant deficiency in internal control.

Compliance and Other Matters

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

Management's Response to Finding

The System's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain matters that we reported to the System's management in a separate letter dated June 5, 2015.

Purpose of This Report

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 the entity's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Dallas, Texas
June 5, 2015

Bexar County Hospital District
d/b/a University Health System
Schedule of Findings and Responses
Year Ended December 31, 2014

Reference Number	Finding
2014-001	Criteria or specific requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – Trade liabilities were recorded for obligations that were already paid resulting in an overstatement in accounts payable. Context and Effect – The System's financial statements required adjustments due to liabilities recorded that were not supportable. Cause – Certain liabilities recorded when a good was received prior to the receipt of an invoice were not adjusted when the invoice was subsequently received and paid. Recommendation – Management should review the process by which these liabilities are recorded and relieved and implement a process by which the individual liabilities are reviewed for accuracy on a monthly basis. Views of responsible officials and planned corrective actions – Management concurs with the finding and recommendation and will be implementing procedures to ensure liabilities associated with goods received but not invoiced are reviewed and appropriately adjusted on a monthly basis.