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

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017

BKD
CPAs & Advisors

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
December 31, 2018 and 2017

Contents

BKD
CPAs & Advisors

14241 Dallas Parkway, Suite 1100 | Dallas, TX 75254-2961
972.702.8262 | Fax 972.702.0673 | bkd.com

Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities, the discretely presented component unit and the fiduciary activities 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 years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the 2017 financial statements of the University Health System Pension Plan (Pension Plan), a pension trust fund of the System included in its fiduciary activities which represent 89 percent of total assets, 89 percent of fiduciary net position and 91 percent of additions for 2017 of the fiduciary activities. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion on the 2017 aggregate remaining fiduciary fund information, insofar as it relates to the amounts included for the Pension Plan, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit and the fiduciary activities of the System as of December 31, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2018, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension information and other postretirement benefits information, as 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 and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The report of management responsibility as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Dallas, Texas
May 21, 2019

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, 2018 and 2017
(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, 2018 and 2017. 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.

2018 Highlights

A host of significant accomplishments in 2018 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

- The System is ranked among the top 50 hospitals in the nation for urology care by U.S. News & World Report, and is designated as high-performing in the care of kidney and lung disease. Since 2001, U.S. News has consistently ranked University Hospital among the best hospitals in Texas and the San Antonio region.
- Successful unannounced survey by The Joint Commission (TJC) to maintain accreditation through TJC and the Centers for Medicare and Medicaid. This comprehensive review of policies and practice provides assurance the organization provides high quality, safe and effective care in accordance with best practices and policies.
- Re-verified by the American College of Surgeons as a Level I adult trauma center and Level I pediatric trauma center. University Hospital serves the 22-county trauma region of South Texas as the only pediatric trauma and burn center, and one of two Level I adult trauma centers, thanks to a partnership with Brooke Army Medical Center.
- Designation as a Level IV neonatal intensive care unit by the Texas Department of State Health Services. Level IV signifies the highest level of care available for premature and very sick babies.

- One of the first hospitals in Texas to be surveyed by the American College of Obstetrics and Gynecologists under Texas' new level of care designations for maternal care. Official designation as a Level IV maternal fetal medicine service by the Texas Department of State Health Services is expected in 2019. Level IV signifies the highest level of care for high-risk deliveries and pre-natal management.
- One of 95 U.S. hospitals to receive the American College of Cardiology's NCDR ACTION Registry Silver Performance Achievement Award for 2018. The award recognizes success in implementing a higher standard of care for heart attack patients.
- Certified by the American Heart Association/American Stroke Association for the Get With The Guidelines-Stroke Gold Plus and Target: Stroke Elite Plus Award.
- Recognized by the American Heart Association as a 2017 Mission: Lifeline STEMI Receiving Center — Silver Achievement Award hospital.
- Received full Chest Pain Accreditation, certified by The American College of Cardiology as a Chest Pain with Percutaneous Coronary Intervention Center.
- Received recognition from Hospitals & Health Networks as a "Most Wired" institution in its annual survey - an industry-standard benchmark for measuring meaningful use adoption of health care information technology.
- The American Association of Critical-Care Nurses conferred a GOLD-level Beacon Award for Excellence on the 12th floor Medical-Surgical Unit at University Hospital and a SILVER-level award for the 5th floor Medical Intensive Care Unit. The Beacon Award for Excellence is a significant milestone on the path to exceptional patient care and healthy work environments.
- University Health System's "Improving Pediatric Asthma through Community Paramedicine" program to reduce the need for children with asthma to be transported to an ER received a 2018 Gage Award from America's Essential Hospitals.
- The Texas Committee for Employer Support of the Guard and Reserve, an office of the Department of Defense, selected University Health System's Southwest Clinic for the prestigious Pro Patria Award in the Public Employer category. This award is the highest honor the committee bestows in recognition of an employer's support of their employees who also serve in the National Guard and Reservists.
- Community First Health Plans earned rare NCQA Distinction status as one of the few nonprofit health plans to be awarded Health Plan Accreditation for Medicaid HMO and Commercial HMO/POS lines of business. CFHP also received Distinction Status in Long-Term Services and Support.

<u>The Patient Experience</u>

- There is a direct link between the level of an employee's engagement and his/her performance. This is especially critical in a high-stakes healthcare organization. In response to staff surveys the Health System continued to enhance internal communications in 2018, including sustained quarterly Town Hall meetings, weekly InfoHuddles and a new weekly Clinical Connections newsletter for providers that from the chief medical officer. Additional resources were deployed to provide management coaching as well as regular leadership rounding on hospital units and ambulatory clinics to improve communication and accountability and identify opportunities for improvements in real-time. The annual employee engagement survey resulted in the largest-ever response rate (79.15) and year-over-year score improvements. Patient experience survey responses are also above national averages. The Health System ended 2018 with 82.8% of our hospital patients saying they "would definitely recommend" University Hospital to friends and family (78^{th} percentile nationally).
- In a related consideration to patient experience, the health system is performing well in consumer preference surveys conducted by third party research groups. In 2018, the System improved unaided brand awareness among potential patients, as well as its overall brand image and

preference indicators. The System ended the year as the second "Most preferred hospital for all health needs" in the highly regarded NRC Market Insights Consumer Study, and had the highest "Best image/reputation" score in the market.

Efficiencies

- The System either met or was able to carry-forward all DSRIP milestones due in 2018 under the Waiver. Some carry-forward results were able to be reported as successful in the following reporting period.
- Integrated lean management continues to be expanded through training initiatives to all levels of staff and incorporated in weekly rounding discussions in operational and financial departments.
- The System developed and implemented service line daily benchmark reports for activity and labor productivity.

Access to Care

- Moving forward with implementing design for a new Women's and Children's Tower at University Hospital along with a new heart, vascular and advanced endoscopy center based on approval received previously from Board of Managers and Bexar County Commissioner Court.
- Celebrated the 20th anniversary of Care*Link*, a financial assistance program for qualified Bexar County residents.
- The Level I trauma center at University Hospital activated its mass casualty protocol and cared for nine of the patients who were injured in the Sutherland Springs church shooting in November 2017. The team received significant national and international recognition throughout 2018 for its skilled and compassionate handling of this tragedy.

Financial Highlights

- In 2018, the System adopted Governmental Accounting Standards Board (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Adoption of GASB No. 75 resulted in a restatement of beginning net position at January 1, 2018 of $13.7 million. Prior year financial statements have not been restated for the adoption of GASB No. 75.
- The System's net position increased by $94.6 million or 8.5% in 2018 and increased by $54.4 million or 5.1% in 2017. The increase in net position in both years is primarily due to increases in operating revenue and property tax revenue as discussed below.
- During 2018, the System's total operating revenue increased by $138.6 million or 10.3%, while total operating expenses increased by $136.8 million or 8.1%. During 2017, the System's total operating revenue increased by $110.7 million or 8.9%, while total operating expenses increased by $182.3 million or 12.1%.
- The System invested $52.8 million in capital assets in 2018 and $52.7 million in 2017, 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.

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

TABLE 1
Condensed Balance Sheets

	2018	2017	2016
Assets			
Current and other assets	$ 1,867,949	$ 1,446,127	$ 1,330,439
Capital assets, net	1,140,849	1,169,022	1,199,289
Total assets	3,008,798	2,615,149	2,529,728
Deferred Outflows of Resources	71,169	75,423	52,367
Total assets and deferred outflows of resources	$ 3,079,967	$ 2,690,572	$ 2,582,095
Liabilities			
Long-term debt	$ 939,281	$ 670,082	$ 703,770
Net pension liability	128,144	166,683	139,998
Net other postemployment benefits liability	25,409	-	-
Other liabilities	303,215	303,311	274,431
Total liabilities	1,396,049	1,140,076	1,118,199
Deferred Inflows of Resources	483,483	430,984	398,797
Net Position			
Net investment in capital assets	504,947	507,471	502,112
Restricted - expendable	38,244	40,037	22,295
Unrestricted	657,244	572,004	540,692
Total net position	1,200,435	1,119,512	1,065,099
Total liabilities, deferred inflows of resources and net position	$ 3,079,967	$ 2,690,572	$ 2,582,095

As seen in Table 1, net position increased by $80.9 million in 2018, which is inclusive of the adjustment to January 1, 2018 net position due to the adoption of GASB No. 75 as discussed above. The increase in net position results primarily from an increase in patient service revenue attributable to growth in inpatient and outpatient services for adults and pediatrics. Additionally, growth in Community First Health Plans, Inc. (CFHP) covered members and service lines contributed to an increase in premium revenue. Property tax revenue, which is reflected as a component of nonoperating revenues, also increased significantly from prior year and is attributable to higher property values in Bexar County as well as taxes on new property values. Net position increased by $54.4 million to $1.12 billion in 2017, up from $1.07 billion in 2016.

Summary of Revenues, Expenses and Changes in Net Position

The following table presents a summary of the System's historical revenues and expenses for each of the years ended December 31, 2018, 2017 and 2016:

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

	2018	2017	2016
Operating Revenues			
Net patient service revenue	$ 880,387	$ 769,459	$ 754,014
Premium revenue	517,460	496,472	391,048
Other revenue	88,165	81,498	91,691
Total operating revenues	1,486,012	1,347,429	1,236,753
Operating Expenses			
Salaries and employee benefits	590,788	564,395	526,309
Medical claims expense	474,658	450,462	336,398
Purchased services, supplies and other	675,378	587,409	560,630
Depreciation	80,791	82,526	79,119
Total operating expenses	1,821,615	1,684,792	1,502,456
Operating Loss	(335,603)	(337,363)	(265,703)
Nonoperating Revenues, Net	430,230	391,776	347,461
Increase in Net Position	$ 94,627	$ 54,413	$ 81,758

Sources of Revenues

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

TABLE 3
Sources of Gross Revenue by Percentage

	2018	2017	2016
Operating Revenues			
Net patient service revenue	45.9%	44.3%	48.3%
Premium revenue	27.0%	28.5%	24.4%
Other revenue	4.6%	4.7%	5.7%
Total operating revenues	77.5%	77.5%	78.4%
Nonoperating Revenues (Expenses)			
Investment return	1.0%	0.5%	0.2%
Interest expense	-1.5%	-1.9%	-2.2%
Debt issuance costs	-0.1%	0.0%	-0.1%
Property tax revenue, net	22.3%	23.0%	22.9%
Proceeds from tobacco settlement	0.4%	0.4%	0.3%
Build America Bond interest subsidy	0.4%	0.5%	0.5%
Total nonoperating revenues, net	22.5%	22.5%	21.6%
Total revenues	100%	100%	100%

Payer Mix

Table 4 presents the relative percentages of gross charges billed for patient services by payer for the years ended December 31, 2018, 2017 and 2016:

TABLE 4
Payer Mix by Percentage

	Year Ended December 31,		
	2018	2017	2016
Medicare	25%	25%	25%
Medicaid	24	24	24
Self-pay	24	25	24
Commercial insurance and other	26	25	26
Other	1	1	1
Total	100%	100%	100%

Nonoperating Revenues

During 2018, the System derived 22.3% of its total revenues from ad valorem taxes (property taxes), compared to 23.0% in 2017 and 22.9% in 2016. 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, 2018, 2017 and 2016, investment return comprised 1.0%, 0.5% and 0.2%, 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, 2018, 2017 and 2016, tobacco revenue comprised 0.4%, 0.4% and 0.3%, respectively, of total revenues 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, 2018, 2017 and 2016, the Build America Bonds (BABs) interest subsidy comprised 0.4%, 0.5% and 0.5%, respectively, of total revenues and was made up of funds paid by the U.S. Treasury to subsidize interest costs on the BABs bond issuances.

Operating and Financial Performance

Overall activity of the System, as measured by patient discharges adjusted for outpatient activity, increased 5.2% to 62,084 in 2018 from 59,007 in 2017. In 2018, net patient service revenue increased by $110.9 million to $880.4 million or 14.4% due primarily to increased volume. Patient discharges adjusted for outpatient activity, increased 7.5% to 59,007 in 2017 from 54,907 in 2016. In 2017, net patient service revenue increased by $15.4 million to $769.5 million or 2.0% due primarily to increased volume.

In 2018, premium revenue increased by $21.0 million to $517.5 million or 4.2%. This increase is attributable to growth in membership. Member months increased from 1,798,500 in 2017 to 1,871,589 in 2018, an increase of 4.1%.

In 2018, other operating revenue increased by $6.7 million to $88.2 million or 8.2%, primarily as a result of increased grant revenue related to the Ryan White program.

Overall, total operating revenue of $1.5 billion increased $138.6 million or 10.3% in 2018 compared to the total of $1.3 billion in 2017 that increased by $110.7 million or 8.9% over 2016. The increase in both years is attributable to the increase in net patient service revenue and premium revenue discussed above.

Employee compensation increased by $26.4 million or 4.7% in 2018 and $38.1 million or 7.2% in 2017. The increases are attributed to increased staffing due to increased activity in the hospital and clinic expansion initiatives.

Medical claims expense increased by $24.2 million or 5.49% in 2018 and $114.1 million or 33.9% in 2017. Increases in both years are attributable to increases in membership.

Purchased services, supplies and other expenses had an overall increase of $88.0 million or 15.0% in 2018 and an overall increase of $26.8 million or 4.8% in 2017. Of this amount, purchased services increased by $14.7 million or 6.5% in 2018 and supplies increased by $29.5 million or 13.3%. The increases are attributed to maintenance costs for equipment and increased activity in the hospital and clinic expansion initiatives.

Depreciation expense decreased by $1.7 million or 2.1% in 2018 and increased by $3.4 million or 4.3% in 2017. The 2017 increase in depreciation expense is a result the System bringing completed projects into operations throughout 2016 and 2017.

Overall, total operating expenses increased by $136.8 million to $1.8 billion or 8.1% in 2018 and by $182.3 million to $1.7 billion or 12.1% in 2017.

Overall, nonoperating revenues (expenses) of $430.2 million increased by $38.5 million or 9.8% from 2017. 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, interest expense on bonds and debt issuance costs.

In 2018, property taxes were levied to support maintenance and operations and debt service. Overall property taxes increased by $26.9 million to $426.5 million compared to the 2017 taxes of $399.7 million. Of the $426.5 million, $365.5 million was to support maintenance and operations. The remaining $61.0 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, 2010, 2015 and 2018 and the Limited Tax Refunding Bonds, Series 2016.

Capital Assets and Long-term Debt

During 2018 and 2017, the System invested $52.8 million and $52.7 million, respectively, in a broad range of capital assets. Table 5 presents an analysis of capital asset balances between 2018, 2017 and 2016:

TABLE 5
Capital Assets

	2018	2017	2016
Land and land improvements	$ 20,926	$ 20,906	$ 20,864
Building and improvements	1,378,283	1,368,375	1,337,686
Equipment	468,354	451,613	413,108
Construction in progress	25,052	5,983	29,610
	1,892,615	1,846,877	1,801,268
Less accumulated depreciation	751,766	677,855	601,979
Capital assets, net	$ 1,140,849	$ 1,169,022	$ 1,199,289

Construction in progress (CIP) increased by $19.1 million in 2018 due to information system investment and facility expansion. Other capital assets increased $26.7 million related to ongoing capital requirements such as clinical equipment and facility expansion.

CIP decreased by $23.6 million in 2017. Other capital assets increased $69.2 million related to ongoing capital requirements such as clinical equipment and information system and facility expansion.

In 2018, the System issued $283,565 in tax revenue Certificates of Obligation to fund new construction projects and facility improvements, primarily a women's and children's tower at the main hospital campus, as well as a heart and vascular institute and advanced endoscopy services facility. Long-term debt transactions in 2018 and 2017 are discussed more fully in *Note 8*. As discussed in *Note 8*, the System issued $204,065 in limited tax refunding bonds subsequent to year-end.

Economic Factors and Key Challenges

The System continues to serve as the anchor facility under the Waiver for RHP 6 which is comprised of 20 counties. A RHP plan was developed to describe and address health care needs throughout the RHP region and to develop a regional health care strategy 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 RHP plan continues to be implemented and monitored to document improved access to care 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:

- The Waiver was originally effective from December 12, 2011 to September 30, 2016 and was then extended for one year. On December 31, 2017, HHSC received an approved renewal from CMS for the period of January 1, 2018 through September 30, 2022. Among other changes, the approved plan limits UC Pool funding to the cost of providing charity care and requires a phase out of the DSRIP program after the fourth year of the renewal period (September 30, 2021).
- Growing activity and improving operating efficiencies
- Achieving the metrics for the 1115 Waiver projects
- Continue executing the Pediatric Transition Plan Mitigating the impact of changes to state and federal funding sources
- Determining the impact of changes to the Affordable Care Act

- Mitigating the impact of proposed legislation to limit property tax growth

Strategic Plans to Meet These Challenges

- Continuing to maximize 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
  - Facilitating rapid improvements
  - Executing across all operational and support departments as well as across hospital and ambulatory services
  - Assuring a mechanism is in place to develop, sustain and improve processes over time
- Design and develop plan to convert existing electronic medical record (EMR) to the fully integrated Epic platform
- Development of a solution for System dialysis and clinic services.
- Continued construction activities on the main campus to accommodate our growing pediatric service line.
- Implementing strategic tactics to fulfill projected activity by:
  - Focusing on key service lines
    - Trauma
    - Transplant
    - Cardiovascular
    - Neurosciences
    - Pediatrics/Children's Health
    - Women's Health Services including perinatal and neonatal care
    - Oncology
  - Enhancing marketing, outreach and referral development
  - Executing planned clinical integration and physician alignment initiatives with key service line physicians
  - Planning, design and construction of a new Women's and Children's Tower with a completion date in 2022
- Leveraging current technology, data and tools
- Enhancing human capital through recognition programs and continuous learning

Produce positive financial results in order to prefund our annual capital budget (currently routine capital expenditures are funded in the year the capital is expended).

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 Health System

4502 Medical Drive
San Antonio, TX 78229

Report of Management Responsibility

The management of University Health System (the Health 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 and required supplementary information 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 Health 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 Health 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, 2018 and 2017
(In Thousands)

	2018			2017		
		Component Unit			Component Unit	
Assets and Deferred Outflows of Resources	System	Foundation	Total	System	Foundation	Total
Current Assets						
Cash and cash equivalents	$ 134,751	$ 1,340	$ 136,091	$ 86,513	$ 4,909	$ 91,422
Short-term investments	329,109	6,914	336,023	365,119	2,524	367,643
Patient accounts receivable, net	127,922	-	127,922	122,843	-	122,843
Property taxes receivable, net	246,097	-	246,097	215,777	-	215,777
Estimated amounts due from third-party payers	88,911	-	88,911	76,047	-	76,047
Prepaid expenses and other current assets	102,862	511	103,373	83,236	387	83,623
Total current assets	1,029,652	8,765	1,038,417	949,535	7,820	957,355
Noncurrent Cash and Investments						
Noncurrent investments	16,238	-	16,238	45,280	-	45,280
Internally designated for capital acquisitions and improvements	201,072	-	201,072	147,905	-	147,905
Internally designated for contingencies	270,705	-	270,705	255,216	-	255,216
Held by trustee for professional self-insurance	5,179	-	5,179	5,103	-	5,103
Held by trustee for capital acquisition and debt service	334,572	-	334,572	32,726	-	32,726
Total noncurrent cash and investments	827,766	-	827,766	486,230	-	486,230
Capital Assets, Net	1,140,849	-	1,140,849	1,169,022	-	1,169,022
Other Assets						
Long-term patient accounts receivable, net	4,883	-	4,883	4,929	-	4,929
Other	5,648	78	5,726	5,433	65	5,498
Total assets	3,008,798	8,843	3,017,641	2,615,149	7,885	2,623,034
Deferred Outflows of Resources						
Loss on bond refunding	13,604	-	13,604	14,374	-	14,374
Other postemployment benefits	14,401	-	14,401	-	-	-
Pensions	43,164	-	43,164	61,049	-	61,049
Total deferred outflows of resources	71,169	-	71,169	75,423	-	75,423
Total assets and deferred outflows of resources	$ 3,079,967	$ 8,843	$ 3,088,810	$ 2,690,572	$ 7,885	$ 2,698,457

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Balance Sheets (Continued)
December 31, 2018 and 2017
(In Thousands)

Liabilities, Deferred Inflows of Resources and Net Position	2018 System	2018 Component Unit Foundation	2018 Total	2017 System	2017 Component Unit Foundation	2017 Total
Current Liabilities						
Current maturities of long-term debt	$ 23,190	$ -	$ 23,190	$ 17,975	$ -	$ 17,975
Accounts payable and accrued expenses	221,942	47	221,989	217,233	84	217,317
Medical claims payable	57,747	-	57,747	52,069	-	52,069
Revenue received in advance	4,314	-	4,314	6,027	-	6,027
Estimated amounts due to third-party payers	13,728	-	13,728	22,813	-	22,813
Total current liabilities	320,921	47	320,968	316,117	84	316,201
Estimated Self-insurance Costs	5,484	-	5,484	5,169	-	5,169
Net Pension Liability	128,144	-	128,144	166,683	-	166,683
Net Other Postemployment Benefits Liability	25,409	-	25,409	-	-	-
Long-term Debt	916,091	-	916,091	652,107	-	652,107
Total liabilities	1,396,049	47	1,396,096	1,140,076	84	1,140,160
Deferred Inflows of Resources						
Property taxes	454,871	-	454,871	427,393	-	427,393
Other postemployment benefits	3,873	-	3,873	-	-	-
Pensions	24,739	-	24,739	3,591	-	3,591
Total deferred inflows of resources	483,483	-	483,483	430,984	-	430,984
Net Position						
Net investment in capital assets	504,947	-	504,947	507,471	-	507,471
Restricted - expendable	38,244	6,243	44,487	40,037	5,640	45,677
Restricted - non-expendable	-	250	250	-	330	330
Unrestricted	657,244	2,303	659,547	572,004	1,831	573,835
Total net position	1,200,435	8,796	1,209,231	1,119,512	7,801	1,127,313
Total liabilities, deferred inflows of resources and net position	$ 3,079,967	$ 8,843	$ 3,088,810	$ 2,690,572	$ 7,885	$ 2,698,457

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, 2018 and 2017
(In Thousands)

	2018			2017		
	System	Component Unit Foundation	Total	System	Component Unit Foundation	Total
Operating Revenues						
Net patient service revenue	$ 880,387	$ -	$ 880,387	$ 769,459	$ -	$ 769,459
Premium revenue	517,460	-	517,460	496,472	-	496,472
Other revenue	88,165	2,288	90,453	81,498	1,735	83,233
Total operating revenues	1,486,012	2,288	1,488,300	1,347,429	1,735	1,349,164
Operating Expenses						
Salaries and employee benefits	590,788	-	590,788	564,395	-	564,395
Medical claims expense	474,658	-	474,658	450,462	-	450,462
Purchased services	241,170	-	241,170	226,426	-	226,426
Medical services	182,080	-	182,080	138,390	-	138,390
Supplies and other	252,128	1,409	253,537	222,593	1,227	223,820
Depreciation	80,791	-	80,791	82,526	-	82,526
Total operating expenses	1,821,615	1,409	1,823,024	1,684,792	1,227	1,686,019
Operating Income (Loss)	(335,603)	879	(334,724)	(337,363)	508	(336,855)
Nonoperating Revenues (Expenses)						
Investment return	19,077	116	19,193	8,472	57	8,529
Interest expense	(29,166)	-	(29,166)	(32,347)	-	(32,347)
Debt issuance costs	(2,282)	-	(2,282)	-	-	-
Property tax revenue, net	426,516	-	426,516	399,652	-	399,652
Proceeds from tobacco settlement	7,980	-	7,980	7,773	-	7,773
Build America Bond interest subsidy	8,105	-	8,105	8,226	-	8,226
Total nonoperating revenues, net	430,230	116	430,346	391,776	57	391,833
Changes in Net Position	94,627	995	95,622	54,413	565	54,978
Net Position, Beginning of Year, as previously reported	1,119,512	7,801	1,127,313	1,065,099	7,236	1,072,335
Cumulative Effect of Applying GASB 75	(13,704)	-	(13,704)	-	-	-
Net Position, Beginning of Year, as restated	1,105,808	7,801	1,113,609	1,065,099	7,236	1,072,335
Net Position, End of Year	$ 1,200,435	$ 8,796	$ 1,209,231	$ 1,119,512	$ 7,801	$

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, 2018 and 2017
(In Thousands)

	2018	2017
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	$ 827,959	$ 743,850
Premiums collected, net of reinsurance	515,396	493,842
Payments to suppliers and contractors	(668,082)	(603,818)
Benefit and loss payments	(472,505)	(439,289)
Payments to or on behalf of employees	(586,425)	(553,289)
Other receipts, net	88,409	79,938
Net cash used in operating activities	(295,248)	(278,766)
Cash Flows From Noncapital Financing Activities		
Receipt of property taxes supporting operations	363,089	412,367
Proceeds received from tobacco settlement	7,980	7,773
Net cash provided by noncapital financing activities	371,069	420,140
Cash Flows From Capital and Related Financing Activities		
Receipt of property taxes for debt service	60,585	69,934
Proceeds from issuance of long-term debt	308,000	-
Principal paid on long-term debt	(35,960)	(30,265)
Interest paid on long-term debt	(34,086)	(34,800)
Receipt of Build America Bond interest subsidy	8,162	8,234
Purchase of capital assets	(49,048)	(55,834)
Proceeds from sale of capital assets	-	100
Net cash provided by (used in) capital and related financing activities	257,653	(42,631)
Cash Flows From Investing Activities		
Interest on investments	20,290	8,136
Purchase of investments	(1,719,235)	(801,273)
Proceeds from disposition of investments	1,413,709	580,360
Net cash used in investing activities	(285,236)	(212,777)
Increase (Decrease) in Cash and Cash Equivalents	48,238	(114,034)
Cash and Cash Equivalents, Beginning of Year	86,513	200,547
Cash and Cash Equivalents, End of Year	$ 134,751	$ 86,513

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, 2018 and 2017
(In Thousands)

	2018	2017
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (335,603)	$ (337,363)
Depreciation	80,791	82,526
Provision for uncollectible accounts	63,995	151,458
Changes in operating assets and liabilities		
Patient accounts receivable, net	(71,092)	(175,961)
Estimated third-party payer settlements	(21,948)	(16,900)
Accounts payable and accrued expenses	2,511	40,341
Net pension liability	(38,539)	26,685
Deferred outflows of resources - pensions	17,886	(23,826)
Deferred inflows of resources - pensions	21,149	3,591
Net OPEB liability	11,705	-
Deferred outflows of resources - OPEB	(14,401)	-
Deferred inflows of resources - OPEB	3,873	-
Other assets, deferred outflows of resources, liabilities and deferred inflows of resources	(15,575)	(29,317)
Net cash used in operating activities	$ (295,248)	$ (278,766)
Noncash Investing, Capital and Financing Activities		
Capital asset acquisitions included in accounts payable and accrued expenses	$ 3,958	$ 5,843

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Fiduciary Activities – Statements of Fiduciary Net Position
December 31, 2018 and 2017
(In Thousands)

	2018			2017		
Assets	**Pension**	**OPEB**	**Total**	**Pension**	**OPEB**	**Total**
Cash and Cash Equivalents	$ 3,105	$ -	$ 3,105	$ 2,370	$ -	$ 2,370
Receivables						
Accrued interest	16	-	16	20	-	20
Employer contributions	397	-	397	365	-	365
Total receivables	413	-	413	385	-	385
Investments						
Marketable securities						
Wells Fargo Treasury Money Market	-	865	865	-	917	917
Common stocks - mid capitalization	38,214	-	38,214	41,773	-	41,773
Mutual funds - common stocks - large capitalization	71,389	38,256	109,645	77,345	39,830	117,175
Mutual funds - fixed income securities	77,994	4,523	82,517	71,719	4,547	76,266
Mutual funds - international equity	42,007	-	42,007	48,825	-	48,825
Total marketable securities	229,604	43,644	273,248	239,662	45,294	284,956
Alternative investments						
Investment in Arrowstreet Capital, Ltd.	45,032	-	45,032	52,240	-	52,240
Investment in Portfolio Advisors Private Equity Fund VI, VII,	23,970	-	23,970	20,680	-	20,680
Investment in Crestline Offshore Fund, Ltd.	37	-	37	229	-	229
Investment in Private Advisors Stable Value ERISA Fund, LTD	-	-	-	1,604	-	1,604
Investment in Heitman Real Estate Trust	39,322	-	39,322	35,235	-	35,235
Investment in Standard Life Investments	18,498	-	18,498	15,326	-	15,326
Investment in Newton Investment Management	19,862	-	19,862	15,217	-	15,217
			-			-
Total alternative investments	146,721	-	146,721	140,531	-	140,531
			-			-
Total investments at fair value	376,325	43,644	419,969	380,193	45,294	425,487
Total assets	379,843	43,644	423,487	382,948	45,294	428,242
Liabilities						
Accrued expenses	368	17	385	248	-	248
Total Net Position Restricted for Benefits	$ 379,475	$ 43,627	$ 423,102	$ 382,700	$ 45,294	$ 427,994

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Fiduciary Activities – Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2018 and 2017
(In Thousands)

	2018			2017		
	Pension	OPEB	Total	Pension	OPEB	Total
Additions						
Contributions						
Plan member	$ 8,045	$ -	$ 8,045	$ 7,325	$ -	$ 7,325
Employer	25,787	3,541	29,328	25,804	2,437	28,241
Total contributions	33,832	3,541	37,373	33,129	2,437	35,566
Investment Income						
Interest income	146	13	159	79	4	83
Dividend income	5,935	982	6,917	5,309	893	6,202
Net appreciation (depreciation) in fair value of investments	(20,317)	(2,578)	(22,895)	50,475	5,837	56,312
Investment expenses	(1,058)	(10)	(1,068)	(866)	-	(866)
Net investment income (loss)	(15,294)	(1,593)	(16,887)	54,997	6,734	61,731
Total additions	18,538	1,948	20,486	88,126	9,171	97,297
Deductions						
Benefits paid to plan members	21,538	3,541	25,079	17,799	2,437	20,236
Administrative expenses	225	74	299	238	44	282
Total deductions	21,763	3,615	25,378	18,037	2,481	20,518
Net Increase (Decrease) in Net Position	(3,225)	(1,667)	(4,892)	70,089	6,690	76,779
Net Position Restricted for Benefits, Beginning of Year	382,700	45,294	427,994	312,611	38,604	351,215
Net Position Restricted for Benefits, End of Year	$ 379,475	$ 43,627	$ 423,102	$ 382,700	$ 45,294	$ 427,994

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 one of the largest public health system in the state of Texas, with more than 7,000 employees and more than 800 physicians and resident physicians. It includes University Hospital, which operates an adult level 1 trauma center, the only level 1 pediatric trauma center in south Texas, the only Joint Commission-certified comprehensive stroke center in south Texas and the only level 4 comprehensive epilepsy center in south Texas. The System includes more than two dozen outpatient primary, specialty and preventive care centers, including the Robert B. Green Campus downtown; the Texas Diabetes Institute, dedicated to the prevention and treatment of diabetes; four family health centers; several neighborhood clinics, four dialysis centers; two outpatient surgery centers, two urgent care centers; two school-based health centers; and a healthcare program at Bexar County's correctional facilities. The System is the primary teaching partner of UT Health Science Center San Antonio d/b/a UT Health San Antonio (UT Health).

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. The System's discretely presented component unit is reported in a separate column in the financial statements to emphasize that it is legally separate from the government.

Blended component units. Community First Health Plans (CFHP), a not-for-profit corporation, 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. Because the System is the sole corporate member of CFHP, CFHP is reported as a blended component unit of the System. 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.

University Medicine Associates (UMA) 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. UMA provides primary care physician services at the System's University Family Health Centers. Because the System is the sole corporate member of UMA, UMA is presented as a blended component unit of the System. UMA does not issue separate financial statements.

University Health System Services of Texas, Inc. (formerly known as Laundry Services of Texas, Inc.) (UHSST) was formed to establish membership in Central Texas Laundry Linen, LLC (CTL). The System's governing board is responsible for all financial decisions related to UHSST, there exists a financial benefit or burden relationship between the System and UHSST and the System's management has operational responsibility for UHSST. As such, the financial statements of UHSST are presented as a blended component unit of the System. UHSST does not issue separate financial statements. Owned by three regional health care organizations, CTL was formed to provide linen services to businesses and institutions in the region. UHSST holds a 24% interest in CTL, which is recorded using the equity method of accounting.

Beginning in 2018, UHSST holds a 14% interest in Academic Innovators Alliance, LLC (AIA), which is accounted for using the equity method of accounting. AIA was formed to operate, in collaboration with other members, a forward-looking, technology-enabled innovation and performance improvement platform that combines group purchasing services, data analytics, knowledge sharing, collaboration, innovation center, member support services, and advocacy focused on the unique needs of academic health systems, such as the System.

Discretely presented component unit. University Health System 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 Internal Revenue Code (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 (once recommended by the Foundation's Board of Directors) and the System can impose its will on the Foundation. The Foundation has no corporate member. 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 pension 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. For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Separate financial statements of the Plan are available at www.universityhealthsystem.com.

The University Health System Retiree Health Trust (the OPEB Trust) is a single-employer defined benefit OPEB 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. For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Trust and additions to/deductions from the OPEB's fiduciary net position have been determined on the same basis as they are reported by the OPEB. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Separate financial statements of the OPEB Trust are available at www.universityhealthsystem.com.

Other significant relationships. In 1994, UT Health established 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. This corporation 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 services to improve the lives of people with mental health disorders, substance use challenges and intellectual and developmental disabilities (IDD) 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 IDD services, which it did by transferring its responsibility for IDD 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 IDD 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 the Foundation, the 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 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. 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 Governmental Accounting Standards Board Statement (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.

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

Cash and Cash Equivalents

The System considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash and cash equivalents include demand deposits and money market mutual funds. 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

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 non-negotiable certificates of deposit are carried at amortized cost. Investments in external investment pools qualifying for amortized cost under GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, are carried at amortized cost per share. All other investments are carried at fair value as 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*.

(In Thousands)

Capital Assets

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

	2018	2017
Total interest expense incurred on borrowings for project	$ 8,928	$ -
Interest income from investment of proceeds of borrowings for project	(3,277)	-
Net interest cost capitalized	$ 5,651	$ -
Interest capitalized	$ 8,928	$ -
Interest charged to expense	29,166	32,347
Total interest incurred	$ 38,094	$ 32,347

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 2018 and 2017.

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 or deferred inflows of resources in a separate section of its balance sheets.

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 enabling legislation, 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 $797,754 and $568,930 for the years ended December 31, 2018 and 2017, respectively. The costs of charity care provided under the System's charity care policy were approximately $231,497 and $174,078 for 2018 and 2017, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross charity care charges.

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.

Premium Deficiency Reserve

Premium deficiency losses are recognized when it is probable that expected claims expense will exceed future premiums on existing insurance contracts. CFHP does not include investment income in the premium deficiency reserve calculation. At December 31, 2018 and 2017, CFHP had recorded a premium deficiency reserve of $1,765 and $6,051, respectively, which is included in accounts payable and accrued expenses in the accompanying financial statements.

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 and 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.

(In Thousands)

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 $7,980 and $7,773 in revenue from this settlement for the years ended December 31, 2018 and 2017, 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 22% and 23% of its financial support from property taxes in 2018 and 2017, respectively. These funds were used as follows:

	2018	2017
Percentage used to support operations	85.7%	85.5%
Percentage used for debt service on bonds	14.3%	14.5%
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 System 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 $14,850 and $16,314 at December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, respectively, the System had recorded approximately $454,871 and $427,393 of property taxes levied for services to be provided in 2019 and 2018, 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 $0.236800 and $0.236069 per $100 valuation for 2018 and 2017, respectively, for the maintenance and operation fund. The System's property tax rate was $0.039435 and $0.040166 per $100 valuation for 2018 and 2017, 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 $8,105 and $8,226 of nonoperating revenue in 2018 and 2017, respectively, for the BABs interest subsidy. During 2018 and 2017, the BABs subsidy was reduced by 6.6% and 6.9%, respectively as a result of the federal budget sequestration.

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. In 2018, the System obtained an exemption from income taxes under IRC Section 501(c)(3). UMA, CFHP and the Foundation carry exemptions from income taxes under IRC Section 501 sections. The System, UMA, CFHP and the Foundation are subject to federal income tax on any unrelated business taxable income.

Change in Accounting Principle

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented during 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized. Restatement of the 2017 financial statements is not practical because prior year information calculated under the provisions of GASB 75 is not available. Accordingly, the System has reported the cumulative effect of applying GASB 75 as a restatement of beginning net position at January 1, 2018. This restatement decreased previously reported net position by $13,704.

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, 2014.

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, 2013.

Approximately 65% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for each of the years ended December 31, 2018 and 2017. 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

In response to the growing number of uninsured patients and the rising cost of health care, the Texas Legislature established a Texas Medicaid Disproportionate Share Program (DSH Program) that was designed to assist those facilities serving the majority of the indigent patients by providing funds supporting increased access to health care within the community. This program allows the Texas Department of Human Services to levy assessments from certain hospitals, use the assessed funds to obtain federal matching funds, and then redistribute the total funds to those facilities serving a disproportionate share of indigent patients in the state of Texas. At December 31, 2018 and 2017, respectively, the System had recorded approximately $4,351 and $6,027 of DSH revenue for services to be provided in 2019 and 2018, respectively. These amounts are reported as revenue received in advance in the accompanying balance sheets and are recognized as revenue during the period in which services are provided.

On December 12, 2011, the United States Department of Health and Human Services (HHSC) approved a Medicaid section 1115(a) demonstration entitled “Texas Health Transformation and Quality Improvement Program” (the Waiver) that allowed the state to expand Medicaid managed care while preserving hospital funding, provide incentive payments for health care improvements and direct more funding to hospitals that serve large numbers of uninsured patients. 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 are 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. Funding from the UC Pool is limited to actual uncompensated care costs, as defined by the Waiver.

The Waiver was originally effective from December 12, 2011 to September 30, 2016 and extended through December 2017 as HHSC and the Centers for Medicare and Medicaid Services (CMS) negotiated a longer term extension. On December 21, 2017, HHSC received an approved extension from CMS for the period of January 1, 2018 through September 30, 2022. Among other changes, the approved plan limits UC Pool funding to the cost of providing charity care and requires a phase out of DSRIP over the five year period. The full impact of these changes has not yet been determined, but could have an adverse impact on the System’s operating results.

The System participates in the Network Access Improvement Program (NAIP). The NAIP aims to increase the availability and effectiveness of primary care for Medicaid beneficiaries by providing incentive payments to participating Health Related Institutions (HRIs). Participation is voluntary and requires HRIs to create a proposal in partnership with a managed care organization (MCO). When the proposal is approved by the Health and Human Services Commission, the costs associated with the incentive payments are added to the monthly capitation rates paid to the MCO and the MCOs are responsible for making payments to the HRIs, such as the System.

The System also participates in the Uniform Hospital Rate Increase Program (UHRIP). Under UHRIP, HHSC may direct managed care organizations in a service delivery area to provide a uniform percentage rate increase to all hospitals within a particular class of hospitals. The program increases revenue from services provided to the Medicaid managed care beneficiaries. The state’s share of UHRIP funding is funded through intergovernmental transfers from certain hospitals, including the System. Revenue from the UHRIP program is recognized as a component of net patient service revenue in the statements of changes in revenues, expenses and changes in net position.

(In Thousands)

The System also participates in the Quality Improvement Payment Program (QIPP). The program is designed to assist nursing facilities serving indigent patients by providing funding to support increased access to health care into the community. It is also designed to allow participating providers to receive additional reimbursement if they either reach a national benchmark level or they make quarterly improvements in up to four predetermined quality measures.

Effective October 1, 2018, the System began to participate in a Medicaid Graduate Medical Education (GME) supplemental payment program. The program increase reimbursement to eligible teaching hospitals in an effort to create greater financial stability for residency programs.

Revenue recognized from all programs is included as a component of net patient service revenue in the statements of revenues, expenses and changes in net position as follows:

	2018	2017
DSH Program	$ 27,052	$ 32,104
UC Pool	36,428	46,633
DSRIP	84,820	55,270
NAIP	31,432	30,716
GME	1,937	-
QIPP	1,817	486
	$ 183,487	$ 165,209

At December 31, 2017, the System estimated that approximately $17,171 was payable under these programs based on tentative audit results from a prior year. Final audit results were determined in 2018 and the final payable was approximately $1,010, resulting in current year net revenue of approximately $16,161 for the year ending December 31, 2018.

Accounts receivable under these programs were $88,911 and $76,047 at December 31, 2018 and 2017, respectively, and are included in estimated amounts due from third-party payers. At December 31, 2018 and 2017, the System recorded approximately $39,797 and $24,177, respectively, of prepaid intergovernmental transfers, which the System is required to contribute as the state share of UHRIP funding, which is included as prepaid expenses in the accompanying financial statements.

The System realized a savings in medical service costs of $79,617 and $96,221 in 2018 and 2017, respectively. The System incurred increased costs to supplement the state's funding for the affiliated providers by approximately $93,553 and $74,971 in 2018 and 2017, 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.

(In Thousands)

The programs described above are subject to review and scrutiny by both the Texas Legislature and the CMS and the programs could be modified or terminated based on new legislation or regulation in future periods.

Note 3: Deposits and Investments

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, 2018, the System's bank deposits were fully insured or collateralized. At December 31, 2017, the System had $732 of cash that was uninsured and uncollateralized.

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, 2018 and 2017, the System had the following investments and maturities:

	December 31, 2018				
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 130,294	$ 92,373	$ 37,921	$ -	$ -
U.S. agencies obligations	436,045	251,919	184,126	-	-
Municipal bonds	11,272	3,990	7,282	-	-
Commercial paper	240,505	240,505	-	-	-
Money market mutual funds	218,388	218,388	-	-	-
Investment pool	261,099	261,099	-	-	-
	$ 1,297,603	$ 1,068,274	$ 229,329	$ -	$ -

(In Thousands)

	December 31, 2017				
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 42,461	$ 34,373	$ 8,088	$ -	$ -
U.S. agencies obligations	276,846	152,245	124,532	69	-
Municipal bonds	4,270	4,270	-	-	-
Commercial paper	217,594	217,594	-	-	-
Money market mutual funds	156,433	156,433	-	-	-
Investment pool	250,714	250,714	-	-	-
	$ 948,318	$ 815,629	$ 132,620	$ 69	$ -

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 AAA; auction-rate securities with a credit rating of Moody's A2 or S&P A; and asset-backed securities with a credit rating of Moody's Aaa or S&P AAA.

The System's investments in U.S. Treasury obligations carry the explicit guarantee of the U.S. government. At December 31, 2018, the debt securities of the U.S. agencies are rated AA+ by S&P or Aaa by Moody's. The System's investments in municipal bonds were rated AAA by S&P or Aaa by Moody's at December 31, 2018. The System's investments in commercial paper was rated A-1+ or A-1 by S&P at December 31, 2018.

The System also invests in TexPool, a state investment pool, which is considered an investment for financial reporting. The Texas State Comptroller of Public Accounts (Comptroller) oversees TexPool. Federated Investors provides asset management and participant services for TexPool's operations under a contract with the Comptroller. The Comptroller has established an advisory board comprised of participants and others who do not have a business relationship with TexPool. The advisory board reviews the investment policy and management fee structure. TexPool is not registered with the Securities and Exchange Commission as an investment company. The District has an undivided beneficial interest in the pool of assets held by TexPool. Investments must be in compliance with the *Texas Public Fund Investment Act* and include obligations of the United States or its agencies, direct obligation of the state of Texas or its agencies, certificates of deposit and repurchase agreements. The fair value of the position in these pools is the same as the value of the shares in each pool. TexPool is rated AAA by Standard & Poor'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.

(In Thousands)

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

	2018	2017
Federal National Mortgage Association	7%	4%
Federal Home Loan Mortgage Corporation	8%	10%
Federal Home Loan Bank	14%	11%
Federal Farm Credit Bank	6%	4%

Summary of Carrying Values

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

	2018	2017
Carrying value		
Deposits	$ (5,977)	$ (10,456)
Investments	1,297,603	948,318
	$ 1,291,626	$ 937,862
Included in the following balance sheet captions		
Cash and cash equivalents	$ 134,751	$ 86,513
Short-term investments	329,109	365,119
Noncurrent cash and investments	827,766	486,230
	$ 1,291,626	$ 937,862

The System's outstanding checks in excess of deposit balances are covered by money market mutual funds held with the right of offset at the same financial institution.

(In Thousands)

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:

	2018	2017
Medicare	$ 29,215	$ 36,164
Medicaid	28,909	35,785
Other third-party payers	42,810	52,992
Patients	370,627	458,778
	471,562	583,719
Less allowance for uncollectible accounts	338,757	455,947
	$ 132,805	$ 127,772

Note 5: Capital Assets

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

	2018			
	Beginning Balance	Additions/ Transfers	Disposals/ Other	Ending Balance
Land and land improvements	$ 20,906	$ 20	$ -	$ 20,926
Buildings and improvements	1,368,375	9,908	-	1,378,283
Equipment	451,613	23,818	(7,077)	468,354
Construction in progress	5,983	19,069	-	25,052
	1,846,877	52,815	(7,077)	1,892,615
Less accumulated depreciation	677,855	80,791	(6,880)	751,766
Capital assets, net	$ 1,169,022	$ (27,976)	$ (197)	$ 1,140,849

(In Thousands)

	2017			
	Beginning Balance	Additions/ Transfers	Disposals/ Other	Ending Balance
Land and land improvements	$ 20,864	$ 42	$ -	$ 20,906
Buildings and improvements	1,337,686	30,689	-	1,368,375
Equipment	413,108	45,555	(7,050)	451,613
Construction in progress	29,610	(23,627)	-	5,983
	1,801,268	52,659	(7,050)	1,846,877
Less accumulated depreciation	601,979	82,526	(6,650)	677,855
Capital assets, net	$ 1,199,289	$ (29,867)	$ (400)	$ 1,169,022

At December 31, 2018, construction in progress includes costs incurred in connection with expansion and renovation of facilities and related equipment, including a women's and children's tower at the main campus. The $452,000 project, which also includes a new heart and vascular-advanced endoscopy center to be built in the hospital's Sky Tower, will be completed in at least three phases and is aimed at minimizing disruption to operations and parking. The new women's and children's tower is expected to open in late 2022 and is being funded from debt proceeds that was issued in 2018 (*Note 8*) as well as existing cash and investments. Construction in progress also includes costs incurred in connection with a new electronic health record and patient accounting system. The total estimated cost of this project is $171,000 and is being funded with existing cash and 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:

	2018	2017
Payable to suppliers and contractors	$ 128,911	$ 143,657
Payable to employees (including payroll taxes and benefits)	45,473	42,048
Accrued interest	21,949	13,587
Premium deficiency reserve	1,765	6,051
Estimated self-insurance costs - current	3,595	3,982
Other accrued liabilities	20,249	7,908
	$ 221,942	$ 217,233

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 per claim, up to a maximum of $2,000 per contract year and $5,000 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 up to a maximum limit of $1,000 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 liabilities. The funding is based on management's recommendations for settlement of claims to limits of $100 per claim and $300 per occurrence, in accordance with the limited liability provisions of the Texas Tort Claims Act. The System is also self-insured for "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.

(In Thousands)

Changes in and the balances of the System's aggregate claims liability in fiscal years 2018 and 2017 are as follows:

	Beginning of Fiscal Year Liability	Current-Year Expenses	Claim Payments	Balance at Fiscal Year-End
Employee health claims				
2018	$ 2,082	$ 26,204	$ (26,040)	$ 2,246
2017	2,100	22,021	(22,039)	2,082
Workers' compensation claims				
2018	$ 5,869	$ 459	$ (1,358)	$ 4,970
2017	5,002	$ 2,586	(1,719)	5,869
Professional liability				
2018	$ 1,200	$ 834	$ (171)	$ 1,863
2017	1,200	44	(44)	1,200

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.

(In Thousands)

Changes in and the balances of CFHP's aggregate medical claims liability in 2018 and 2017 are as follows:

	2018	2017
Medical claims payable, beginning of year	$ 52,069	$ 46,757
Incurred related to		
Current year	484,287	452,923
Prior years	(5,343)	(8,511)
Total incurred losses and claims payable	478,944	444,412
Paid related to		
Current year	420,841	400,857
Prior years	52,425	38,243
Total paid losses and claims payable	473,266	439,100
Medical claims payable, end of year	$ 57,747	$ 52,069

Patient service revenue and medical claims expense for CFHP members amounting to $28,320 and $22,218 in 2018 and 2017, respectively, are not eliminated in the basic financial statements.

Note 8: Long-term Debt

A summary of long-term debt is as follows:

	2018	2017
Certificates of Obligation, Series 2008	$ -	$ 24,705
Certificates of Obligation, Series 2009B	239,390	246,395
Certificates of Obligation, Series 2010B	173,350	177,600
Limited Tax Refunding Bonds, Series 2016	195,260	195,260
Certificates of Obligation, Series 2018	283,565	-
	891,565	643,960
Bond premium (discount), net	47,716	26,122
	$ 939,281	$ 670,082

Certificates of Obligation – Series 2008

The combination tax and revenue Certificates of Obligation, Series 2008 (the 2008 Certificates) were issued in 2008. In February 2018, the System elected to exercise the option to redeem all of the 2008 Certificates still outstanding at a price of par plus accrued interest at the date of redemption. Prior to being paid in full, the 2008 Certificates matured in various amounts annually on February 15, from 2009 through 2038 and had stated coupon rates ranging from 3.25% to 5.00%. The 2008 Certificates were collateralized by a levy of ad valorem tax revenue and lien on and pledge of surplus revenues.

In August 2016, the System advance refunded $215,485 of the Series 2008 Certificates with the issuance of the Limited Tax Refunding Bonds (the 2016 Bonds). As a result of the refunding, the System decreased its total debt service requirements by $69,350 and incurred an accounting loss of approximately $15,155. The accounting loss on the refunding is being amortized into interest expense using a straight-line method over the term of the 2016 Bonds, which mature in 2037. The balance of the deferred loss on the refunding is $13,604 and $14,374 at December 31, 2018 and 2017, respectively, and is included as a deferred outflow of resources in the accompanying balance sheets.

Certificates of Obligation – Series 2009A and 2009B

The tax Certificates of Obligation, Series 2009A (the 2009A Certificates) were issued in 2009, and matured in various amounts annually on February 15, from 2010 through 2017, with stated coupon rates ranging from 1.00% to 5.00%. The Series 2009A Certificates were paid in full during 2017. 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 2009B Certificates are collateralized by a levy of ad valorem tax revenue. All of the 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.

Subsequent to year-end, the System issued the Limited Tax Refunding Bonds, Series 2019 (2019 Bonds) in the amount of $204,065, dated February 1, 2019. The 2019 Bonds were used to refund $232,140 of Series 2009B Bonds, resulting in a net present value savings of $26,010. The 2019 Bonds mature in various amounts annually starting February 15, 2020 through February 15, 2039, with stated coupon rates ranging from 2.5% to 5.0%. The 2019 Bonds are collateralized by a levy of ad valorem tax revenue. As a result of the refunding, the System decreased its total debt service requirements by $42,081 and incurred an accounting loss of approximately $1.2. The accounting loss on the refunding will be amortized into interest expense using a straight-line method over the term of the 2019 Bonds, which mature in 2039.

Certificates of Obligation – Series 2010B

The tax Certificates of Obligation, 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 2010B Certificates are subject to redemption prior to the stated maturity date, at the option of the System, through February 14, 2020 at the make whole redemption price. The 2010B Certificates having stated maturities on and after February 15, 2021 are subject to redemption prior to the stated maturity at the option of the System, on February 15, 2020 (or any date thereafter) at the redemption price of par plus accrued interest to the date of redemption.

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

Certificates of Obligation – Series 2015

The combination tax and revenue Certificates of Obligation, Series 2015 (the 2015 Certificates) were issued in 2015. Prior to being paid in full in 2017, the 2015 Certificates matured in various amounts annually through February 15, 2017, with a stated coupon rate of 0.750%. The 2015 Certificates were collateralized by a levy of ad valorem tax revenue and lien on and pledge of surplus revenues.

Limited Tax Refunding Bonds – Series 2016

The 2016 Bonds were issued in 2016, and mature in various amounts annually on February 15, from 2017 through 2037, with stated coupon rates ranging from 1.5% to 5.0% and are collateralized by a levy of ad valorem tax revenue and lien on and pledge of surplus revenues. All of the 2016 Bonds still outstanding may be redeemed at the System's option on or after February 15, 2026 at a price of par plus accrued interest at the date of redemption. The 2016 Bonds were issued at a premium and the outstanding balance of the premium is $22,677 and $26,122 at December 31, 2018 and 2017 respectively.

Certificates of Obligation – Series 2018

The tax Certificates of Obligation, Series 2018 (the 2018 Certificates) were issued in 2018, and mature in various amounts annually on February 15, from 2019 through 2048, with stated coupon rates ranging from 2.50% to 5.00% and are collateralized by a levy of ad valorem tax revenue. The proceeds from the issuance are being used primarily to fund the construction and equipping of a women's and children's tower at the main hospital campus as well as a heart and vascular institute and advanced endoscopy services facility, among other facilities. All of the 2018 Bonds still outstanding may be redeemed at the System's option on or after February 15, 2029 at a price of par plus accrued interest at the date of redemption. The 2018 Bonds were issued at a premium and the outstanding balance of the premium is $25,038 at December 31, 2018.

(In Thousands)

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

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Certificates of Obligation, Series 2008	$ 24,705	$ -	$ (24,705)	$ -	$ -
Certificates of Obligation, Series 2009B	246,395	-	(7,005)	239,390	7,250
Certificates of Obligation, Series 2010B	177,600	-	(4,250)	173,350	5,265
Limited Tax Refunding Bonds, Series 2016	195,260	-	-	195,260	6,485
Certificates of Obligation, Series 2018	-	283,565	-	283,565	4,190
Total long-term debt	$ 643,960	$ 283,565	$ (35,960)	$ 891,565	$ 23,190

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Certificates of Obligation, Series 2008	$ 30,720	$ -	$ (6,015)	$ 24,705	$ 6,720
Certificates of Obligation, Series 2009A	6,745	-	(6,745)	-	-
Certificates of Obligation, Series 2009B	246,395	-	-	246,395	7,005
Certificates of Obligation, Series 2010B	181,275	-	(3,675)	177,600	4,250
Certificates of Obligation, Series 2015	9,850	-	(9,850)	-	-
Limited Tax Refunding Bonds, Series 2016	199,240	-	(3,980)	195,260	-
Total long-term debt	$ 674,225	$ -	$ (30,265)	$ 643,960	$ 17,975

The debt service requirements as of December 31, 2018, are as follows:

Year Ending December 31,	Principal	Interest	Interest Credit (BABs)	Total
2019	$ 23,190	$ 49,835	$ (7,988)	$ 65,037
2020	30,730	44,700	(7,795)	67,635
2021	31,500	43,308	(7,585)	67,223
2022	26,690	41,854	(7,358)	61,186
2023	27,815	40,470	(7,115)	61,170
2024 - 2028	153,450	178,062	(31,099)	300,413
2029 - 2033	188,895	131,680	(21,908)	298,667
2034 - 2038	229,335	73,930	(10,432)	292,833
2039 - 2043	101,475	27,860	(581)	128,754
2044 - 2048	78,485	10,636	-	89,121
	$ 891,565	$ 642,335	$ (101,861)	$ 1,432,039

Note 9: Pension Plan

Plan Description and Benefits Provided

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 under a traditional final average pay formula based on years of service and average earnings at termination. 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. Employees hired after June 30, 2012 must participate in the Cash Balance Plan and are eligible for participation in the plan after attaining the age of 21 and completing one year of service.

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. The System makes contributions which are actuarially determined to pay the plan's total cost less the projected employee contributions.

Final Average Pay Formula

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 for the sum of the participant's age and years of service to equal 85 years (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 of vesting 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 4.5% 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.

Match Savings Formula

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 4% of compensation. Benefits will be distributed upon retirement or separation from service after satisfying the vesting requirements.

Cash Balance Formula

On June 11, 2012, the plan was amended to stipulate 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 and the Cash Balance Plan. Other employees rehired after June 30, 2012, shall be treated as subject to this amendment unless they were vested in their accrued benefits prior to the date of being rehired.

Under the terms of the Cash Balance Plan, eligible employees are required to contribute 3% of eligible compensation and the System also contributes 3% of each participating employee's eligible compensation. 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. Employee and System contributions made on the employees behalf are credited to a hypothetical cash balance account maintained in the Plan's recordkeeping system. As contributions are credited to the employee's account, interest credits are also made to the account, based on the balance of the account on the first day of each Plan quarter. Interest is measured by the actual rate of return of the entire Pension Trust. Upon the employee's retirement or termination of employment, their cash balance account will be credited with at least the total of all of the contributions that have been credited to their account.

(In Thousands)

The employees covered by the Plan at January 1 are:

	2018	2017
Inactive participants:		
Retirees and beneficiaries currently receiving benefits	1,117	1,031
Terminated employees with deferred benefits	1,614	1,523
Total inactive participants	2,731	2,554
Active participants:		
Fully vested	3,427	3,330
Nonvested	2,784	2,534
Total active participants	6,211	5,864
Total participants	8,942	8,418

Contributions

The Board has the authority to establish and amend the contribution requirements of the System and active employees. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Board has agreed to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the years ended December 31, 2018 and 2017, employees contributed $7,325 and $6,589 (or 2.2% and 2.1% of covered payroll), and the System contributed $24,296 and $17,891 (or 7.3% and 5.8% of covered payroll), respectively, to the Plan.

Net Pension Liability

The System's net pension liability was measured as of December 31, 2017 and 2016 for the years ended December 31, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of January 1, 2017 and 2016, respectively. Update procedures were used to roll forward the total pension liability to the respective measurement dates.

(In Thousands)

The total pension liability in the 2017 and 2016 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2017	2016
Wage inflation	3.5%	3.5%
Salary increases	5.4%	4.9%
Ad hoc cost of living adjustments	N/A	N/A
Investment rate of return	7.0%	7.0%

The salary increases and investment rate of return assumptions are inclusive of inflation. The investment rate of return is net of administrative expenses.

Mortality rates were based on the RP-2000 Mortality Table, projected generationally using scale AA.

The System generally performs an experience study every three to five years. The assumptions used to generate the numbers in these statements were based on an experience study performed in 2016.

The long-term expected rate of return on pension plan investments was based primarily on a reasonable projection of what assets can be expected to earn given existing capital market conditions, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information. The target allocation and best estimates of geometric rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	29%	4.6%
International equity	24%	4.5%
Fixed income	20%	0.8%
Real estate	10%	3.5%
Private equity	7%	5.1%
Absolute return/Hedge fund	10%	2.8%
Total	100%	

(In Thousands)

Discount Rate

The discount rate used to measure the total pension liability was 7.0% for both the years ended December 31, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that System contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the total pension liability, plan fiduciary net position and the net pension liability for the years ended December 31, 2018 and 2017 are:

	2018		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	$ 461,734	$ 295,051	$ 166,683
Service cost	19,603	-	19,603
Interest on total pension liability	33,128	-	33,128
Effect of economic/demographic gains or losses	(6,090)	-	(6,090)
Employer contributions	-	24,296	(24,296)
Member contributions	-	7,325	(7,325)
Benefit payments	(16,451)	(16,451)	-
Net investment income	-	53,559	(53,559)
Net changes	30,190	68,729	(38,539)
Balance, end of year	$ 491,924	$ 363,780	$ 128,144

(In Thousands)

	2017		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	$ 407,490	$ 267,492	$ 139,998
Service cost	19,175	-	19,175
Interest on total pension liability	29,286	-	29,286
Effect of economic/demographic gains or losses	(4,243)	-	(4,243)
Assumption changes	26,891	-	26,891
Employer contributions	-	17,891	(17,891)
Member contributions	-	6,589	(6,589)
Benefit payments	(16,865)	(16,865)	-
Net investment income	-	19,944	(19,944)
Net changes	54,244	27,559	26,685
Balance, end of year	$ 461,734	$ 295,051	$ 166,683

All amounts shown in the above tables are exclusive of the value of the participant Match-Savings accounts and UMA accounts.

The net pension liability of the System has been calculated using a discount rate of 7.0%. The following presents the net pension liability using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease 6.0%	Current Discount Rate 7.0%	1% Increase 8.0%
System's net pension liability	$ 186,401	$ 128,144	$ 73,105

(In Thousands)

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the years ended December 31, 2018 and 2017, the System recognized pension expense of $24,606 and $30,746, respectively. At December 31, 2018 and 2017, the System reported deferred inflows and outflows of resources related to pensions from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 437	$ 8,075
Net difference between projected and actual earnings on pension plan investments	-	16,664
Changes in assumptions	18,617	
Contributions subsequent to the measurement date	24,110	-
	$ 43,164	$ 24,739

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 541	$ 3,591
Net difference between projected and actual earnings on pension plan investments	13,459	-
Changes in assumptions	22,753	-
Contributions subsequent to the measurement date	24,296	-
	$ 61,049	$ 3,591

At December 31, 2017 and 2016, the System reported $24,110 and $24,296, respectively, as deferred outflows of resources related to pensions resulting from System contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability at December 31, 2019 and 2018, respectively.

Other amounts reported as deferred outflows of resources at December 31, 2018, related to pensions will be recognized in pension expense as follows:

(In Thousands)

Year ending December 31:		
2019	$	1,239
2020		37
2021		(3,733)
2022		(3,669)
2023		810
Thereafter		(369)
	$	(5,685)

Deferred Compensation Plan

The Match Savings Plan is a 457 deferred compensation plan that covers substantially all employees meeting age and service requirements. Employee contributions to the plan are discretionary. The System's contributions were approximately $1,689 and $1,497 for the years ended December 31, 2018 and 2017, respectively.

Defined Contribution Plan

UMA has a defined contribution plan covering substantially all UMA employees. Participation in the plan is a condition of employment. Employees are fully vested after five years. Annually, UMA makes a contribution equal to 6.75% of the participant's compensation. Pension expense was approximately $1,347 and $1,297 for 2018 and 2017, respectively.

Note 10: Other Postemployment Benefits (Under GASB Statement No. 75)

Plan Description

The System contributes to the University Health System Other Post-Employment Benefits Plan (OPEB Plan), a single-employer defined benefit OPEB plan covering substantially all employees. The OPEB Plan is administered by the System. Benefit provisions and contribution requirements of plan members and the System are established and may be amended by the Board.

Benefits Provided

The OPEB Plan provides postretirement health care and vision benefits to eligible retirees and their dependents. Benefits are provided through the System's self-insured employee health plan. The cost of the benefits is covered by contributions from the System and OPEB Plan members.

(In Thousands)

The employees covered by the OPEB Plan at December 31, 2018, are:

Inactive plan members or beneficiaries currently receiving payments	860
Active plan members	3,093
	3,953

Contributions

The Board has the authority to establish and amend the contribution requirements of the System and active employees. The required contribution is based on projected pay-as-you-go financing requirements. OPEB Plan members receiving benefits contributed approximately $1,839 in 2018, through their required monthly contributions as shown in the table below:

Retiree-only coverage	$	178.08
Retiree and spouse coverage		338.35
Retiree and children coverage		333.01
Retiree and family coverage		625.06

The cost of benefits not covered by OPEB Plan member contributions are covered by the System. For the year ended December 31, 2018, the System contributed $3,541 to the OPEB Plan.

Net OPEB Liability

The System's net OPEB liability of $25,409 was measured as of December 31, 2017 for the year ended December 31, 2018, and the total OPEB Plan liability used to calculate the net OPEB Plan liability was determined by actuarial valuations as of January 1, 2017, and rolled forward to the measurement date.

(In Thousands)

The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement period, unless otherwise specified:

Health care cost trend rates	5.0%
Investment rate of return	7.0%
Retirees' share of benefit-related costs	70.0%
Payroll growth rate (compounded annually)	3.5%
Health care inflation - medical/prescription drug expenses	5.0%
Health care inflation - administrative expenses	4.0%

Mortality rates for both active and retired lives were based on the RP-2000 Combined Healthy, with no collar adjustment; projected with generational mortality (Scale AA).

The long-term expected rate of return on the OPEB Plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information. The target allocation and best estimates of rates of return presented as geometric means for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	75%	4.6%
Fixed income	25%	0.8%
Total	100%	

(In Thousands)

Discount Rate

The discount rate used to measure the total OPEB Plan liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected OPEB Plan payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB Plan liability.

Changes in the Net OPEB Liability

Changes in the total OPEB liability, OPEB Plan fiduciary net position and the net OPEB liability are:

	2018		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance, beginning of year	$ 54,801	$ 38,606	$ 16,195
Service cost	3,191	-	3,191
Interest on total OPEB liability	3,942	-	3,942
Effect of economic/demographic gains or losses	11,204	-	11,204
Employer contributions	-	2,437	(2,437)
Benefit payments	(2,437)	(2,437)	-
Net investment income	-	6,686	(6,686)
Net changes	15,900	6,686	9,214
Balance, end of year	$ 70,701	$ 45,292	$ 25,409

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rates

The net OPEB liability of the System has been calculated using a discount rate of 7.0%. The following presents the net OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate.

(In Thousands)

	1% Decrease	Current Discount Rate	1% Increase
System's net OPEB liability	$ 32,487	$ 25,409	$ 17,642

The net OPEB liability of the System has been calculated using health care cost trend rates of 5.0%. The following presents the net OPEB liability using health care cost trend rates 1% higher and 1% lower than the current health care cost trend rates.

	1% Decrease	Current Health Care Cost Trend Rates	1% Increase
System's net OPEB liability	$ 15,086	$ 25,409	$ 35,941

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the System recognized OPEB expense of $4,718. At December 31, 2018, the System reported deferred outflows or resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 10,860	$ -
Net difference between projected and actual earnings on OPEB plan investments	-	3,873
Contributions subsequent to the measurement date	3,541	-
	$ 14,401	$ 3,873

At December 31, 2018, the System reported $3,541 as deferred outflows of resources related to OPEB resulting from System contributions subsequent to the measurement date and prior to year end that will be recognized as a reduction of the net OPEB liability at December 31, 2019.

(In Thousands)

Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2018, related to OPEB will be recognized in OPEB expense as follows:

Year ending December 31:		
2019	$	416
2020		416
2021		416
2022		644
2023		1,441
Thereafter		3,652
	$	6,987

OPEB – GASB No. 45

Prior to adopting GASB No. 75 in 2018, the System's annual OPEB Plan cost was 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.

As of January 1, 2016, the most recent actuarial valuation date as of December 31, 2017, the plan was 69.0% funded. The actuarial accrued liability for benefits was approximately $48,675, and the actuarial value of assets was approximately $33,596, resulting in an unfunded actuarial accrued liability of $15,079.

Note 11: Affiliation Agreement

The System has entered into a long-standing affiliation agreement with UT Health. Under the agreement, the System's facilities serve as the major teaching facilities for many of UT Health's health care programs, including the graduate medical education program. The System incurred expenses of approximately $13,958 and $13,769 in 2018 and 2017, respectively, under the terms of the agreement.

Note 12: Disclosures About Fair Value of Investments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

(In Thousands)

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018 and 2017:

		Fair Value Measurements Using		
Type	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 2018				
Investments by fair value level				
U.S. Treasury obligations	$ 130,294	$ -	$ 130,294	$ -
U.S. agencies obligations	436,045	-	436,045	-
Municipal bonds	11,272	-	11,272	-
Commercial paper	240,505	-	240,505	-
Money market mutual funds	218,388	218,388	-	-
Total investments by fair value level	1,036,504	$ 218,388	$ 818,116	$ -
Investment pool carried at amortized cost	261,099			
Total investments	$ 1,297,603			

(In Thousands)

Type	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Investments by fair value level				
U.S. Treasury obligations	$ 42,461	$ -	$ 42,461	$ -
U.S. agencies obligations	276,846	-	276,846	-
Municipal bonds	4,270	-	4,270	-
Commercial paper	217,594	-	217,594	-
Money market mutual funds	156,433	156,433	-	-
Total investments by fair value level	$ 697,604	$ 156,433	$ 541,171	$ -
Investment pool carried at amortized cost	250,714			
Total investments	$ 948,318			

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The System held no Level 3 investments at December 31, 2018 or 2017.

(In Thousands)

Note 13: Condensed Combining Information

The following tables include condensed combining balance sheet information for the System and its blended component unit as of December 31, 2018 and 2017:

	December 31, 2018			
	System	CFHP	Eliminations	Total
Assets				
Current assets	$ 904,319	$ 127,690	$ (2,357)	$ 1,029,652
Capital assets, net	1,136,617	4,232	-	1,140,849
Other assets	821,979	16,318	-	838,297
Total assets	2,862,915	148,240	(2,357)	3,008,798
Deferred Outflows of Resources	71,169	-	-	71,169
Total assets and deferred outflows of resources	$ 2,934,084	$ 148,240	$ (2,357)	$ 3,079,967
Liabilities				
Current liabilities	$ 252,284	$ 70,994	$ (2,357)	$ 320,921
Noncurrent liabilities	1,075,128	-	-	1,075,128
Total liabilities	1,327,412	70,994	(2,357)	1,396,049
Deferred Inflows of Resources	483,483	-	-	483,483
Net Position				
Net investments in capital assets	500,715	4,232	-	504,947
Restricted expendable	31,912	6,332	-	38,244
Unrestricted	590,562	66,682	-	657,244
Total net position	1,123,189	77,246	-	1,200,435
Total liabilities, deferred inflows of resources and net position	$ 2,934,084	$ 148,240	$ (2,357)	$ 3,079,967

(In Thousands)

	December 31, 2017			
	System	**CFHP**	**Eliminations**	**Total**
Assets				
Current assets	$ 840,653	$ 110,982	$ (2,100)	$ 949,535
Capital assets, net	1,164,437	4,585	-	1,169,022
Other assets	451,231	45,361	-	496,592
Total assets	2,456,321	160,928	(2,100)	2,615,149
Deferred Outflows of Resources	75,423	-	-	75,423
Total assets and deferred outflows of resources	$ 2,531,744	$ 160,928	$ (2,100)	$ 2,690,572
Liabilities				
Current liabilities	$ 248,734	$ 69,483	$ (2,100)	$ 316,117
Noncurrent liabilities	823,959	-	-	823,959
Total liabilities	1,072,693	69,483	(2,100)	1,140,076
Deferred Inflows of Resources	430,984	-	-	430,984
Net Position				
Net investments in capital assets	502,886	4,585	-	507,471
Restricted expendable	32,714	7,323	-	40,037
Unrestricted	492,467	79,537	-	572,004
Total net position	1,028,067	91,445	-	1,119,512
Total liabilities, deferred inflows of resources and net position	$ 2,531,744	$ 160,928	$ (2,100)	$ 2,690,572

(In Thousands)

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the System and its blended component unit for the years ended December 31, 2018 and 2017:

	Year Ended December 31, 2018			
	System	CFHP	Eliminations	Total
Operating Revenues				
Net patient service revenue	$ 880,387	$ -	$ -	$ 880,387
Premium revenue	-	517,460	-	517,460
Other	71,082	22,718	(5,635)	88,165
Total operating revenues	951,469	540,178	(5,635)	1,486,012
Operating Expenses				
Salaries and employee benefits	566,378	27,310	(2,900)	590,788
Purchased services, supplies and other	624,196	53,917	(2,735)	675,378
Medical claims expense	-	474,658	-	474,658
Depreciation	79,786	1,005	-	80,791
Total operating expenses	1,270,360	556,890	(5,635)	1,821,615
Operating Loss	(318,891)	(16,712)	-	(335,603)
Nonoperating Revenues				
Property tax revenue, net	426,516	-	-	426,516
Interest expense	(29,166)	-	-	(29,166)
Other, net	30,367	2,513	-	32,880
Total nonoperating revenues, net	427,717	2,513	-	430,230
Increase (Decrease) in Net Position	108,826	(14,199)	-	94,627
Net Position, Beginning of Year, as previously reported	1,028,067	91,445	-	1,119,512
Cumulative Effect of Applying GASB 75	(13,704)	-	-	(13,704)
Net Position, Beginning of Year, as restated	1,014,363	91,445	-	1,105,808
Net Position, End of Year	$ 1,123,189	$ 77,246	$ -	$ 1,200,435

(In Thousands)

	Year Ended December 31, 2017			
	System	CFHP	Eliminations	Total
Operating Revenues				
Net patient service revenue	$ 769,459	$ -	$ -	$ 769,459
Premium revenue	-	496,472	-	496,472
Other	65,178	22,130	(5,810)	81,498
Total operating revenues	834,637	518,602	(5,810)	1,347,429
Operating Expenses				
Salaries and employee benefits	541,550	26,045	(3,200)	564,395
Purchased services, supplies and other	543,646	46,373	(2,610)	587,409
Medical claims expense	-	450,462	-	450,462
Depreciation	81,681	845	-	82,526
Total operating expenses	1,166,877	523,725	(5,810)	1,684,792
Operating Loss	(332,240)	(5,123)	-	(337,363)
Nonoperating Revenues				
Property tax revenue, net	399,652	-	-	399,652
Interest expense	(32,347)	-	-	(32,347)
Other, net	23,226	1,245	-	24,471
Total nonoperating revenues, net	390,531	1,245	-	391,776
Increase (Decrease) in Net Position	58,291	(3,878)	-	54,413
Net Position, Beginning of Year	969,776	95,323	-	1,065,099
Net Position, End of Year	$ 1,028,067	$ 91,445	$ -	$ 1,119,512

(In Thousands)

The following tables include condensed combining statements of cash flows information for the System and its blended component unit for the years ended December 31, 2018 and 2017:

	Year Ended December 31, 2018		
	System	CFHP	Total
Net cash provided by (used in)			
Operating activities	$ (279,566)	$ (15,682)	$ (295,248)
Noncapital financing activities	371,069	-	371,069
Capital and related financing activities	258,304	(651)	257,653
Investing activities	(296,476)	11,240	(285,236)
Increase (decrease) in cash and cash equivalents	53,331	(5,093)	48,238
Cash and cash equivalents, beginning of year	43,101	43,412	86,513
Cash and cash equivalents, end of year	$ 96,432	$ 38,319	$ 134,751

	Year Ended December 31, 2017		
	System	CFHP	Total
Net cash provided by (used in)			
Operating activities	$ (277,569)	$ (1,197)	$ (278,766)
Noncapital financing activities	420,140	-	420,140
Capital and related financing activities	(40,175)	(2,456)	(42,631)
Investing activities	(182,196)	(30,581)	(212,777)
Decrease in cash and cash equivalents	(79,800)	(34,234)	(114,034)
Cash and cash equivalents, beginning of year	122,901	77,646	200,547
Cash and cash equivalents, end of year	$ 43,101	$ 43,412	$ 86,513

Note 14: Future Change in Accounting Principles

GASB Statement No. 84, Fiduciary Activities

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84), which establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of GASB 84 are applicable for the System for the year ending December 31, 2019.

GASB Statement No. 87, Leases

GASB Statement No. 87, *Leases* (GASB 87), provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

GASB 87 is effective for financial statements for the System's fiscal year ending December 31, 2020. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The impact of adopting GASB 87 on the System's financial statements is not currently determinable.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* (GASB 89), removes the concept of capitalized interest from all types of governmental entities. GASB 89 is effective for the System's fiscal year ending December 31, 2020 and will be adopted prospectively. Earlier application is encouraged.

Note 15: Contingencies

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
A Component Unit of Bexar County, Texas
Changes in the System's Net Pension Liability and Related Ratios
(In Thousands)

	2018	2017	2016	2015
Total Pension Liability				
Service cost	$ 19,603	$ 19,175	$ 17,036	$ 16,627
Interest	33,128	29,286	28,862	26,615
Effect of economic/demographic gains or losses	(6,090)	(4,243)	749	-
Changes of assumptions	-	26,891	-	-
Benefit payments, including refunds of employee contributions	(16,451)	(16,865)	(13,639)	(13,749)
Net Change in Total Pension Liability	30,190	54,244	33,008	29,493
Total Pension Liability - Beginning	461,734	407,490	374,482	344,989
Total Pension Liability - Ending (a)	$ 491,924	$ 461,734	$ 407,490	$ 374,482
Plan Fiduciary Net Position				
Contributions - employer	$ 24,296	$ 17,891	$ 16,903	$ 16,297
Contributions - employee	7,325	6,589	6,724	5,742
Net investment income	53,559	19,944	1,370	12,564
Benefit payments, including refunds of employee contributions	(16,451)	(16,865)	(13,639)	(13,749)
Net Change in Plan Fiduciary Net Position	68,729	27,559	11,358	20,854
Plan Fiduciary Net Position - Beginning	295,051	267,492	256,134	235,280
Plan Fiduciary Net Position - Ending (b)	$ 363,780	$ 295,051	$ 267,492	$ 256,134
System's Net Pension Liability - Ending (a) - (b)	$ 128,144	$ 166,683	$ 139,998	$ 118,348
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.95%	63.90%	65.64%	68.40%
Covered Payroll	$ 331,014	$ 307,617	$ 280,165	$ 254,100
System's Net Pension Liability as a Percentage of Covered Payroll	38.71%	54.19%	49.97%	46.58%

Notes to Schedule:
Changes of assumptions:
1. Rate of salary increase changed from 4.9% (2017) to 5.4% (2018)

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Schedule of System Pension Contributions
(In Thousands)

Year Ending December 31,	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2018	$ 21,110	$ 24,110	$ (3,000)	$ 354,487	6.8%
2017	21,296	24,296	(3,000)	331,014	7.3%
2016	17,891	17,891	-	307,617	5.8%
2015	17,697	17,697	-	280,165	6.3%

Notes to Schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry age normal cost
Amortization method:	Closed
Remaining amortization period:	27
Asset valuation method:	5-year smoothed market
Inflation:	3.5%
Salary increases:	3.92% - 6.25%, based on age and years of service, including inflation
Investment rate of return:	7.0%, net of pension plan investment expense, including inflation
Retirement age:	Annual rates based on age and age at satisfaction of rule of 85 for participants that meet the rule of 85 prior to age 65.
Mortality - Active Lives:	RP-2000 Combined Healthy; with no collar adjustment; projected with Generational Mortality (Scale AA)
Mortality - Retired Lives:	RP-2000 Combined Healthy; with no collar adjustment; projected with Generational Mortality (Scale AA)
Other information:	Plan is frozen to new participants effective June 30, 2012

Bexar County Hospital District
d/b/a University Health System
Schedule of Funding Progress – Retiree Health Plan
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Plan Assets Less than AAL	Funded Ratio
January 1, 2016	$ 33,596	$ 48,675	$ (15,079)	69.0%
January 1, 2015	$ 29,732	$ 39,287	$ (9,555)	75.7%
January 1, 2014	$ 25,706	$ 34,324	$ (8,618)	74.9%

Bexar County Hospital District
d/b/a University Health System
Schedule of Changes in Net OPEB Liability and Related Ratios
December 31
(In Thousands)

		2017
Total OPEB Liability		
Service cost	$	3,191
Interest		3,942
Demographic losses		11,204
Benefit payments		(2,437)
Net Change in Total OPEB Liability		15,900
Total OPEB Liability - Beginning		54,801
Total OPEB Liability - Ending (a)	$	70,701
Plan Fiduciary Net Position		
Contributions - employer	$	2,437
Benefit payments		(2,437)
Net investment income		6,686
Net Change in Plan Fiduciary Net Position		6,686
Plan Fiduciary Net Position - Beginning		38,606
Plan Fiduciary Net Position - Ending (b)	$	45,292
System's Net OPEB Liability - Ending (a) - (b)	$	25,409
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability		64.06%
Covered Employee Payroll	$	189,368
System's Net OPEB Liability as a Percentage of Covered Employee Payroll		13.42%

Note: The measurement date for GASB 75 is one year prior to the current fiscal year end of the System.

Bexar County Hospital District
d/b/a University Health System
Schedule of Investment Return – Retiree Health Trust

Year Ending December 31,	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution excess (deficiency)	Covered Employee Payroll	Contributions as a percentage of covered payroll
2018	$ 4,585	$ 3,541	$ (1,044)	$ 180,712	2.0%
2017	2,996	2,437	(559)	189,368	1.3%
2016	2,292	4,094	1,802	200,995	2.0%

Notes to Schedule:

Valuation date:
Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry age normal cost
Amortization method:	Level percentage open
Remaining amortization period:	30
Asset valuation method:	5-year smoothed market
Inflation:	N/A
Salary increases:	3.5%
Investment rate of return:	7.0%, net of OPEB plan investment expense, including inflation
Retirement age:	Annual rates based on age and age at satisfaction of rule of 85 for participants that meet the rule of 85 prior to age 65.
Mortality - Active Lives:	RP-2000 Combined Healthy; with no collar adjustment; projected with Generational Mortality (Scale AA)
Mortality - Retired Lives:	RP-2000 Combined Healthy; with no collar adjustment; projected with Generational Mortality (Scale AA)