

Bexar County Hospital District
d/b/a University Health
A Component Unit of Bexar County, Texas
Independent Auditor's Report and Financial Statements
December 31, 2020 and 2019

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Independent Auditor's Report

Board of Managers
Bexar County Hospital District
d/b/a University Health
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 (University Health), collectively a component unit of Bexar County, Texas, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise University Health'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 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, 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 University Health, as of December 31, 2020 and 2019, 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.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise University Health'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 25, 2021

**Bexar County Hospital District
d/b/a University Health
A Component Unit of Bexar County, Texas
Management's Discussion and Analysis
Years Ended December 31, 2020 and 2019
(In Thousands)**

Introduction

This management's discussion and analysis of the financial performance of Bexar County Hospital District d/b/a University Health (University Health) provides an overview of University Health's financial activities for the years ended December 31, 2020 and 2019. It should be read in conjunction with the financial statements of University Health.

University Health 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 University Health executes its strategy to serve the community. University Health 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.

2020 Highlights

A host of significant accomplishments in 2020, despite the challenges of the COVID-19 pandemic, are a testament to University Health's team commitment to delivering high quality, compassionate care. Highlights of key initiatives and their outcomes relative to Triple-Aim *Plus* include:

Quality, Safety and Outcomes

- University Health is the first and only health system in San Antonio and South Texas to be designated for a third time as Magnet by the American Nurses Credentialing Center (ANCC). It is now among an elite group of healthcare institutions that have earned this designation for more than 10 consecutive years. There are currently 554 Magnet institutions worldwide and 51 in Texas. Magnet is referred to as the "gold standard" in measuring the quality of care that healthcare consumers can expect to receive. The ANCC created the Magnet Recognition Program in 1983 to distinguish the top nursing institutions from their peers. According to studies conducted by the Journal of Nursing Administration, Magnet hospitals achieve better outcomes and rank significantly higher in organizational support, workload and satisfaction among nursing staff than non-Magnet hospitals. University Hospital was the first in San Antonio to earn Magnet status in 2010.
- The University Health Stroke Center received re-certification from the Joint Commission for the maximum two years. University Health continues to be the only Joint-Commission accredited comprehensive stroke center in South Texas.

- University Health earned the American Heart Association and American Stroke Association's Get With The Guidelines – Stroke Gold Plus with Honor Roll Elite Achievement Award for 2020. The award recognizes University Health's success in meeting a series of quality measures related to the care of patient suffering stroke, as well as community education and screening programs for 24 consecutive months. The goal of the program is to encourage more hospitals to provide the most up-to-date evidence-based treatment guidelines to improve care and outcomes. University Health continues to be the only Joint Commission Accredited Comprehensive Stroke Program in South Texas.
- University Health received the American College of Cardiology's NCDR Chest Pain – MI Registry Platinum Performance Achievement Award for 2020. University Health is one of only 140 hospitals nationwide to receive the honor. The award recognizes the team's commitment and success in implementing a higher standard of care for heart attack patients and signifies that they have reached an aggressive goal of treating these patients to standard levels of care as outlined by the American College of Cardiology/American Heart Association clinical guidelines and recommendations.
- University Health is once again among the College of Healthcare Information Management Executives' (CHIME's) "Most Wired" hospitals. CHIME's Most Wired list acknowledges healthcare organizations that have adopted and deployed IT to improve patient safety and health outcomes. Hospitals included in the Most Wired program are certified as Levels 1-10, with Levels 9 and 10 designating the health IT leaders that have displayed the highest and most innovative uses of technology at their respective organizations. University Health was recognized in the 2020 list as achieving Level 9 status. There are just 71 hospitals/health systems in the nation who have earned this designation. University Health is the only one in San Antonio and one of just four Level 9 health systems in Texas.
- University Health was ranked 16th in the world in the Association for Talent Development's annual BEST Awards program. University Health was recognized for efforts aimed at helping staff members grow their careers within the organization. They highlighted how our talent development team partners with local colleges, universities and nonprofits to leverage resources. They also noted several successful internal programs including English as a second language courses, mobile learning, curated learning pathways, leadership academies, scholarship opportunities and tuition reimbursement.
- The Bexar County Hospital District Police Department once again earned accreditation from the Texas Police Chiefs Association (TPCA) Best Practices Program. The Law Enforcement Recognition Program is a voluntary process where police agencies in Texas prove their compliance with 168 Texas Law Enforcement Best Practices.
- The Clinical Sciences Institute of Optum confirmed University Health's continued participation as a Center of Excellence for pediatric and adult cancer programs. Optum evaluates cancer programs through the U.S. and only those programs that have met strict criteria are included in its Cancer Centers of Excellence Network.
- Optum renewed University Health's transplant services Center of Excellence (COE) designations for 2020. These renewed COE designations include Adult Liver, Adult Kidney, Adult Lung, and Pediatric Kidney

- University Health's Transplant Center was featured by UNOS, the United Network for Organ Sharing, as one of the nation's most active living donor liver transplant programs. University Health's Transplant Center saw more than a six-fold annual increase in living donor liver transplants between 2017 and 2019. Thirty-eight living donor liver transplants were performed at University Hospital in 2019, making our program the second largest in the county.
- University Health's Transplant Center has exceeded national averages for lung transplant patient outcomes in 2020. These exceptional outcomes are a testament to our evidence-based practices, advanced technologies and patient safety initiatives. This is the second consecutive reporting period showing 100% positive outcomes for University Health transplant patients.
- The FDA granted approval for a process developed at University Health to sterilize and reuse N95 masks during the COVID-19 pandemic. The process uses hydrogen peroxide gas to sterilize the masks so they can be reprocessed twice and worn up to three times. Tests conducted by the Southwest Research Institute concluded that the sterilized masks block infectious particles as effectively as unused masks, and the process does not affect fit.
- The American Society of Health-System Pharmacists re-certified the accreditation of all University Health Pharmacy Residency Programs including Critical Care, Emergency Medicine, Ambulatory Medicine, Infectious Disease, Transplant Medicine and the Post-graduate Year One Program. All of the residency programs received the maximum accreditation of eight years. Additionally, the University Health Pharmacy received the maximum six-year accreditation from the Accreditation Council for Pharmacy Education.
- University Health's Extracorporeal Membrane Oxygenation (ECMO) program received the Gold Level Extracorporeal Life Support Organization (ELSO) Award for Excellence in Life Support. The ELSO award recognizes programs worldwide that distinguish themselves by having processes, procedures and systems in place that promote excellence and exceptional care.
- University Health was recognized by the Infectious Disease Society of America (IDSA) as having one of the best Antimicrobial Stewardship Programs in the county. Recognized organizations must demonstrate their practices align with evidence-based national guidelines.
- All University Health dialysis locations once again earned 5-star recognition from the Centers for Medicare and Medicaid. The Dialysis Facility Compare Star Program is a rating system that assigns 1 to 5 stars to dialysis facilities by comparing the health of the patients in their clinics to the patients in other dialysis facilities across the country.
- Blue Cross Blue Shield of Texas extended Blue Distinction + designation for University Health's Maternity Program. This awards program recognizes health care organizations across the country for providing quality care, treatment expertise, better patient outcomes as well as demonstrating more affordable care. Distinction + is the highest designation.
- The National Committee for Quality Assurance awarded University Health's NurseLink program with NCQA Health Information Line certification for another two years. This certification verifies that the health information provided through our NurseLink team is high quality and follows best practice standards.

The Patient Experience

- Patient experience survey responses in 2020 were routinely above national averages. University Health ended 2020 with 82.1% of our hospital patients saying they “would definitely recommend” University Hospital to friends and family (77th percentile nationally).
- University Health continues to perform well in consumer preference surveys conducted by third party research groups. In 2020, University Health continued to improve unaided brand awareness among potential patients, as well as its overall brand image and preference indicators. University Health ended the year as the “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.
- University Health’s Robert B. Green Patient and Family Advisory Council received the 2020 Institute for Patient and Family Centered Care (IPFCC) Partnership Award. This award recognizes innovative partnerships among patients, families and health care professionals. University Health’s nomination, *Nosotros: Extended Compassion in Hard Times*, highlights the efforts of this team to provide healthy food to patients and families suffering financial hardship during this unprecedented time.
- University Health’s SaludArte Healing Arts Program was recognized by the National Organization for Arts in Health (NOAH) through its annual Hamilton International Arts in Health Award. The program was honored for the hands-on weaving demonstrations that continued safely at University Hospital despite the pandemic. This project, with artist Doerte Weber, provided respite and inspiration for both patients and staff. The beautiful textile works created during these demonstrations are now framed and hanging in the hospital for all to enjoy.

Efficiencies

- University Health continued to manage 1115 Waiver anchor activity and communications for the Regional Healthcare Partnership 6 (RHP6) on behalf of Health and Human Services Commission in 2020 working with regional providers to foster successful submission of DSRIP milestones from 2019. Regional participating providers successfully submitted 99% of their milestones due in 2020 with 11 milestones being carried over to the next reporting cycle in Spring, 2021.
- Despite the many challenges in 2020, University Health succeeded in achieving one of the three carry-forward DSRIP milestones from 2019. University Health was also able to either meet or carry-forward all 2020 DSRIP milestones. Any remaining carry-forward milestones will be reportable in 2021.
- University Health developed new efficiencies in communicating with the surrounding provider community during 2020 through the implementation of the Epic electronic medical record, specifically through the bi-directional, web-based referral tool of Epic Link. University Health was able to bring live by the end of the year 132 active provider organizations of which 61% were post-acute providers (skilled nursing facilities, home health agencies) or suppliers of infusion and durable medical equipment products for discharged patients. The majority of the balance of these providers are community private practices. The number of participating providers is anticipated to grow in 2021.

Access to Care

- University Health opened the Advanced Diagnostic Center in December 2020. This one-of-a-kind center provides comprehensive diagnostic and minimally invasive treatments for patients with heart, lung, brain and gastric conditions.
- The Valve and Structural Heart Disease team at University Hospital was the first in San Antonio to perform a new type of the minimally invasive heart transcatheter aortic valve replacement, or TAVR, procedure. The transcaval TAVR, performed at University Hospital on December 3 expands access of TAVR for patients who would not traditionally be candidates for the procedure.
- The Texas Department of State Health Services redesignated University Hospital as a Level IV (Advanced Neonatal Intensive Care Unit) Neonatal Facility in Perinatal Care Region-P. This is the highest-level designation, signifying that our NICU provides the most advanced care, following evidence-based protocols and policies.
- University Health's Ryan White Grant administration team was recognized by the Texas Department of State Health Service (TDSHS) for its success in improving care and coordination for patients receiving services through this program. The team received two TDSHS Quality Assurance Recognition Awards for 2020: #1 Top Performer in the state for Medical Case Management and #3 Top Performer in the state for Outpatient Ambulatory Health Services. These awards based on access, outcomes, client experience and success in eliminating disparities are through the Texas Ryan White Part B & State Services Program.
- University Health achieved Gold Level recognition from the Mayor's Fitness Council Fit City Healthy Workplace initiative. This achievement is the direct result of our Employee Health Department's efforts to develop programs to support staff members in losing weight and improving their fitness levels and overall health.
- The San Antonio Business Group on Health has awarded University Health a Gold award for its work to give employees opportunities to be active, eat better and stay connected. University Health is among 67 area employers to receive any level of recognition in this program for 2020.
- University Health was recognized by the Texas Hospital Association as the recipient of its 2020 Community Service Award for an innovative interactive health exhibit created in partnership with the Witte Museum.
- University Health received an \$850,000 grant from the Health Resource Service Administration (HRSA) to strengthen efforts to fight HIV in Bexar County and the surrounding area. Bexar County is one of the 34 counties identified in the Ending the HIV Epidemic plan.
- University Health is one of three hospitals in the nation to receive the American Hospital Association's 2020 Circle of Life Award for palliative care. The award honors healthcare organizations for their efforts to improve and expand end-of-life care for adult and pediatric patients, and inspire other hospitals to follow their lead.

Financial Highlights

- University Health's net position increased by \$249.2 million or 18.5% in 2020 and increased by \$149.7 million or 12.5% in 2019. The increase in net position in both years is primarily due to increases in operating revenue and property tax revenue as discussed below.

- During 2020, University Health’s total operating revenue increased by \$172.8 million or 10.7%, while total operating expenses increased by \$108.5 million or 5.6%. During 2019, University Health’s total operating revenue increased by \$122.1 million or 8.2%, while total operating expenses increased by \$102.0 million or 5.6%.
- University Health invested \$221.8 million in capital assets in 2020 and \$102.0 million in 2019, as part of the ongoing Capital Improvement Plan.

Financial Analysis of University Health

The balance sheets and the statements of revenue, expenses, and changes in net position report information about University Health’s financial activities. These two statements report the net position of University Health and changes in the net position. Increases or decreases in University Health’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 University Health’s balance sheets is presented in Table 1 as follows:

TABLE 1
Condensed Balance Sheets

	2020	2019	2018
Assets			
Current and other assets	\$ 2,305,641	\$ 2,022,694	\$ 1,867,949
Capital assets, net	<u>1,306,709</u>	<u>1,164,943</u>	<u>1,140,849</u>
Total assets	3,612,350	3,187,637	3,008,798
Deferred Outflows of Resources	<u>109,617</u>	<u>85,494</u>	<u>71,169</u>
Total assets and deferred outflows of resources	<u><u>\$ 3,721,967</u></u>	<u><u>\$ 3,273,131</u></u>	<u><u>\$ 3,079,967</u></u>
Liabilities			
Long-term debt	\$ 1,038,498	\$ 909,578	\$ 939,281
Net pension liability	147,006	166,730	128,144
Net other postemployment benefits liability	59,195	32,033	25,409
Other liabilities	<u>337,724</u>	<u>321,308</u>	<u>303,215</u>
Total liabilities	<u>1,582,423</u>	<u>1,429,649</u>	<u>1,396,049</u>
Deferred Inflows of Resources	<u>540,234</u>	<u>493,365</u>	<u>483,483</u>
Net Position			
Net investment in capital assets	629,973	550,715	504,947
Restricted - expendable	42,268	41,010	38,244
Unrestricted	<u>927,069</u>	<u>758,392</u>	<u>657,244</u>
Total net position	<u>1,599,310</u>	<u>1,350,117</u>	<u>1,200,435</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 3,721,967</u></u>	<u><u>\$ 3,273,131</u></u>	<u><u>\$ 3,079,967</u></u>

As seen in Table 1, net position increased by \$249.2 million in 2020 to \$1.60 billion. The increase in net position results primarily from an increase in patient service revenue attributable to increases in funding from the supplemental Medicaid funding programs discussed in *Note 2* and the enhanced Federal Medical Assistance Percentage (eFMAP) from the CARES Act due to the COVID-19 pandemic. Additionally, growth in Community First Health Plans, Inc. (CFHP) membership and rates 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. During 2020, University Health received \$19,759 of distributions from the CARES Act Provider Relief Fund (PRF) as discussed in *Note 14*. Net position increased by \$149.7 million in 2019 to \$1.35 billion.

Summary of Revenues, Expenses and Changes in Net Position

The following table presents a summary of University Health's historical revenues and expenses for each of the years ended December 31, 2020, 2019 and 2018:

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

	2020	2019	2018
Operating Revenues			
Net patient service revenue	\$ 1,085,957	\$ 964,529	\$ 880,387
Premium revenue	599,969	553,402	517,460
Other revenue	94,981	90,203	88,165
Total operating revenues	<u>1,780,907</u>	<u>1,608,134</u>	<u>1,486,012</u>
Operating Expenses			
Salaries and employee benefits	686,086	633,901	590,788
Medical claims expense	471,028	496,662	474,658
Purchased services, supplies and other	795,446	715,505	675,378
Depreciation	79,477	77,505	80,791
Total operating expenses	<u>2,032,037</u>	<u>1,923,573</u>	<u>1,821,615</u>
Operating Loss	(251,130)	(315,439)	(335,603)
Nonoperating Revenues, Net	<u>500,323</u>	<u>465,121</u>	<u>430,230</u>
Increase in Net Position	<u>\$ 249,193</u>	<u>\$ 149,682</u>	<u>\$ 94,627</u>

Sources of Revenues

Table 3 presents a summary of University Health's historical sources of gross revenues:

TABLE 3
Sources of Gross Revenue by Percentage

	2020	2019	2018
Operating Revenues			
Net patient service revenue	47.6%	46.5%	45.9%
Premium revenue	26.3%	26.7%	27.0%
Other revenue	4.2%	4.4%	4.6%
Total operating revenues	78.1%	77.6%	77.5%
Nonoperating Revenues (Expenses)			
Investment return	0.9%	1.6%	1.0%
Interest expense	-1.3%	-1.6%	-1.5%
Debt issuance costs	-0.1%	-0.1%	-0.1%
Property tax revenue, net	21.2%	21.9%	22.3%
Proceeds from tobacco settlement	0.4%	0.4%	0.4%
Provider Relief Fund revenue	0.9%	0.0%	0.0%
Build America Bond interest subsidy	0.0%	0.2%	0.4%
Total nonoperating revenues, net	21.9%	22.4%	22.5%
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, 2020, 2019 and 2018:

TABLE 4
Payer Mix by Percentage

	Year Ended December 31,		
	2020	2019	2018
Medicare	26%	27%	25%
Medicaid	23	22	24
Self-pay	25	25	24
Commercial insurance and other	25	25	26
Other	1	1	1
Total	100%	100%	100%

Nonoperating Revenues

During 2020, University Health derived 21.2% of its total revenues from ad valorem taxes (property taxes), compared to 21.9% in 2019 and 22.3% in 2018. The Bexar County Commissioners Court is authorized to levy taxes on property within Bexar County to provide for the maintenance and operations of University Health's facilities and for debt service on approved debt issuances.

For the years ended December 31, 2020, 2019 and 2018, investment return comprised 0.9%, 1.6% and 1.0%, respectively, of total revenue and was made up of interest income, net realized gains/losses and net unrealized market gains/losses.

For each of the years ended December 31, 2020, 2019 and 2018, tobacco revenue comprised 0.4% of total revenues and represented University Health's allocation of earnings on the state's permanent trust funds from a settlement with tobacco companies in 1998.

During 2020, University Health derived 0.9% of its total revenues from PRF revenue in response to the COVID-19 pandemic. PRF funding was not received in 2019 or 2018.

Operating and Financial Performance

Overall activity of University Health, as measured by patient discharges adjusted for outpatient activity, decreased 16.8% to 55,091 in 2020 from 66,208 in 2019. This decrease resulted from the COVID-19 pandemic. In 2020, net patient service revenue increased by \$121.4 million to \$1.09 billion or 12.6% due primarily to increased funding from the supplemental Medicaid funding programs. Patient discharges adjusted for outpatient activity, increased 6.6% to 66,208 in 2019 from 62,084 in 2018. In 2019, net patient service revenue increased by \$84.1 million to \$964.5 million or 9.6% due primarily to increased volume.

In 2020, premium revenue increased by \$46.6 million to \$600.0 million or 8.4%. This increase is attributable to increases in rates and membership. Member months increased from 1,848,841 in 2019 to 1,935,492 in 2020, an increase of 4.7%. In 2019, premium revenue increased by \$35.9 million to \$553.4 million or 6.9%. This increase is attributable to an increase in rates, offset by a reduction in membership. Member months decreased from 1,871,589 in 2018 to 1,848,841 in 2019, a decrease of 1.2%.

Overall, total operating revenue of \$1.8 billion increased \$172.8 million or 10.7% in 2020 compared to the total of \$1.6 billion in 2019 that increased by \$122.1 million or 8.2% over 2018. The increase in both years is attributable to the increase in net patient service revenue and premium revenue discussed above.

Employee compensation increased by \$52.2 million or 8.2% in 2020 and \$43.1 million or 7.3% in 2019. The increases are attributed to increased staffing due to increased activity in the hospital and clinic expansion initiatives as well as additional employed personnel due to the COVID-19 pandemic.

Medical claims expense decreased by \$25.6 million or 5.2% in 2020 and increased by \$22.0 million or 4.6% in 2019. The decrease in 2020 is due to declines in utilization and the increase in 2019 is attributable to an increase in membership.

Purchased services, supplies and other expenses had an overall increase of \$79.9 million or 11.2% in 2020 and an overall increase of \$40.1 million or 5.9% in 2019. Of this amount, purchased services increased by \$31.7 million or 12.0% in 2020 and supplies increased by \$32.3 million or 11.9%. The increases are attributed to the COVID-19 pandemic and increased patient acuity.

Depreciation expense increased by \$2.0 million or 2.5% in 2020 and decreased by \$3.3 million or 4.1% in 2019. The increase in 2020 is a result of placing more capital assets into service. The decreases in 2019 is attributable to assets reaching the end of their useful lives and becoming fully depreciated.

Overall, total operating expenses increased by \$108.5 million to \$2.0 billion or 5.6% in 2020 and by \$102.0 million to \$1.9 billion or 5.6% in 2019.

Overall, nonoperating revenues (expenses) of \$500.3 million increased by \$35.2 million or 7.6% from 2019. 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), PRF revenue, BAB subsidy payments, interest expense on bonds and debt issuance costs.

In 2020, property taxes were levied to support maintenance and operations and debt service. Overall property taxes increased by \$29.0 million to \$483.4 million compared to the 2019 taxes of \$454.4 million. Of the \$483.4 million, \$414.3 million was to support maintenance and operations. The remaining \$69.1 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 2009, 2010, 2018 and 2020 and the Limited Tax Refunding Bonds issued in 2016, 2019 and 2020.

Capital Assets and Long-term Debt

During 2020 and 2019, University Health invested \$221.8 million and \$102.0 million, respectively, in a broad range of capital assets. Table 5 presents an analysis of capital asset balances between 2020, 2019 and 2018:

TABLE 5
Capital Assets

	2020	2019	2018
Land and land improvements	\$ 34,218	\$ 20,926	\$ 20,926
Building and improvements	1,404,730	1,383,095	1,378,283
Equipment	594,464	482,726	468,354
Construction in progress	153,095	93,038	25,052
	<u>2,186,507</u>	<u>1,979,785</u>	<u>1,892,615</u>
Less accumulated depreciation	<u>879,798</u>	<u>814,842</u>	<u>751,766</u>
Capital assets, net	<u>\$ 1,306,709</u>	<u>\$ 1,164,943</u>	<u>\$ 1,140,849</u>

Construction in progress (CIP) increased by \$60.1 million and \$68.0 million in 2020 and 2019, respectively, due to facility expansion. Other capital assets increased \$146.7 million and \$19.2 million in 2020 and 2019, respectively, related to information system investment and facility expansion.

In 2020, University Health issued \$140,680 in Limited Tax Refunding Bonds to refund \$162,310 of Series 2010B Bonds and also issued \$144,685 of Series 2020 Bonds. In 2019, University Health issued \$204,065 in Limited Tax Refunding Bonds to refund \$232,140 of Series 2009B Bonds. Long-term debt transactions in 2020 and 2019 are discussed more fully in *Note 8*.

Economic Factors and Key Challenges

University Health continues to serve as the anchor facility under the Waiver for Regional Healthcare Partnership 6 (RHP 6) which is comprised of 20 counties. RHP anchor work has continued over the last year to assist participating providers in the region to successfully navigate reporting on DSRIP measure progress. These DSRIP measures as well as other initiatives for University Health and for participating providers in the region are designed to address health care needs throughout the RHP region.

University Health continues to adapt operations in responding to the COVID-19 pandemic. As vaccines were approved and became available University Health established vaccination clinics with the ability to vaccinate as many as 5,000 does per day. The Board of Managers, management and staff will continue to monitor community needs related to the pandemic and provide appropriate services to address the needs.

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

- The original 1115 waiver was effective from December 12, 2011 to September 30, 2016. CMS extended the waiver and then renewed it 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 tenth year of the program. On January 15, 2021, CMS approved an extension of the Waiver for an additional 10-year period through September 30, 2030. This extension ended the DSRIP pool effective September 30, 2021, made changes to other funding programs and created new funding programs to reflect CMS policy changes. On April 16, 2021, CMS rescinded the extension approval citing an improper exemption from the public notice and comment process originally granted. As of May 25, 2021, the Waiver is set to expire on September 30, 2022 and future funding from the Waiver programs described herein is uncertain.
- Construction of a Women's and Children's Hospital, support space and additional parking.
- Growing activity and improving operating efficiencies.
- Achieving the metrics for the 1115 Waiver DSRIP measures.
- Navigating changes to reimbursement models including the Affordable Care Act and others.
- Managing operations through the COVID-19 pandemic and its impacts to activity.

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 in key areas
 - 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
- Optimizing the Epic electronic medical record system
- Refined access to ambulatory clinics, telemedicine, and dialysis
- Implementing and adapting strategic tactics (generally and in light of the pandemic) to fulfill projected activity by:
 - Focusing on key service lines
 - Trauma
 - Transplant
 - Women’s health services including perinatal and neonatal care
 - Cardiovascular
 - Neurosciences
 - GI and advanced endoscopy
 - Children’s health
 - Oncology
 - Enhancing marketing, outreach and referral development efforts locally and regionally
 - Executing planned clinical integration and physician alignment initiatives with key service line physicians and selected community physicians
 - Executing construction of a new Women’s and Children’s Hospital Tower (with phased completion dates in 2022 and 2023) and associated growth tactics to expand services in those areas before and after the opening of the new hospital
- 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 University Health’s Financial Manager

This financial report is designed to provide our citizens, customers, bond holders, and creditors with a general overview of University Health’s finances and to demonstrate University Health’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 University Health’s Financial Offices at 4502 Medical Drive, San Antonio, Texas 78229.

Report of Management Responsibility

The management of University Health 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.

University Health 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.

University Health'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



Reed Hurley
Executive Vice President
/Chief Financial Officer



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

Bexar County Hospital District
d/b/a University Health
A Component Unit of Bexar County, Texas
Balance Sheets
December 31, 2020 and 2019
(In Thousands)

	2020			2019		
	University	Component Unit	Total	University	Component Unit	Total
	Health	Foundation		Health	Foundation	
Assets and Deferred Outflows of Resources						
Current Assets						
Cash and cash equivalents	\$	\$	\$	\$	\$	\$
Restricted cash equivalents - Local Provider Participation Fund	319,931	2,912	322,843	306,323	1,998	308,321
Short-term investments	6,398	-	6,398	-	-	-
Patient accounts receivable, net	164,570	7,285	171,855	173,764	7,159	180,923
Property taxes receivable, net	248,805	-	248,805	134,774	-	134,774
Estimated amounts due from third-party payers	13,077	-	13,077	242,075	-	242,075
Prepaid expenses and other current assets	95,070	-	95,070	111,617	-	111,617
	339	-	339	476	-	476
Total current assets	1,102,607	10,536	1,113,143	1,081,215	9,633	1,090,848
Noncurrent Cash and Investments						
Noncurrent investments	53,725	-	53,725	19,957	-	19,957
Internally designated for capital acquisitions and improvements	408,347	-	408,347	-	-	-
Internally designated for contingencies	313,978	-	313,978	277,002	-	277,002
Internally designated for professional self-insurance	5,459	-	5,459	302,672	-	302,672
Externally restricted for capital acquisition and debt service	409,444	-	409,444	5,347	-	5,347
Total noncurrent cash and investments	1,190,953	-	1,190,953	929,939	-	929,939
Capital Assets, Net	1,306,709	-	1,306,709	1,164,943	-	1,164,943
Other Assets						
Long-term patient accounts receivable, net	4,901	-	4,901	4,730	-	4,730
Other	7,180	8	7,188	6,810	78	6,888
Total assets	3,612,350	10,544	3,622,894	3,187,637	9,711	3,197,348
Deferred Outflows of Resources						
Loss on bond refunding	13,864	-	13,864	14,018	-	14,018
Other postemployment benefits	46,482	-	46,482	14,187	-	14,187
Pensions	49,271	-	49,271	57,289	-	57,289
Total deferred outflows of resources	109,617	-	109,617	85,494	-	85,494
Total assets and deferred outflows of resources	\$ 3,721,967	\$ 10,544	\$ 3,732,511	\$ 3,273,131	\$ 9,711	\$ 3,282,842

See Notes to Financial Statements

Bexar County Hospital District
d/b/a University Health
A Component Unit of Bexar County, Texas
Balance Sheets (Continued)
December 31, 2020 and 2019
(In Thousands)

Liabilities, Deferred Inflows of Resources and Net Position	2020			2019		
	University	Component Unit	Total	University	Component Unit	Total
	Health	Foundation		Health	Foundation	
Current Liabilities						
Current maturities of long-term debt	\$ 29,900	\$ -	\$ 29,900	\$ 31,325	\$ -	\$ 31,325
Accounts payable and accrued expenses	260,797	30	260,827	245,241	170	245,411
Medical claims payable	58,845	-	58,845	61,848	-	61,848
Revenue received in advance	2,205	-	2,205	2,097	-	2,097
Estimated amounts due to third-party payers	5,795	-	5,795	6,949	-	6,949
Total current liabilities	357,542	30	357,572	347,460	170	347,630
Estimated Self-insurance Costs	5,264	-	5,264	5,173	-	5,173
Net Pension Liability	147,006	-	147,006	166,730	-	166,730
Net Other Postemployment Benefits Liability	59,195	-	59,195	32,033	-	32,033
Other Long-term Liabilities	4,818	-	4,818	-	-	-
Long-term Debt	1,008,598	-	1,008,598	878,253	-	878,253
Total liabilities	1,582,423	30	1,582,453	1,429,649	170	1,429,819
Deferred Inflows of Resources						
Property taxes	510,201	-	510,201	485,799	-	485,799
Other postemployment benefits	4,317	-	4,317	-	-	-
Pensions	25,716	-	25,716	7,566	-	7,566
Total deferred inflows of resources	540,234	-	540,234	493,365	-	493,365
Net Position						
Net investment in capital assets	629,973	-	629,973	550,715	-	550,715
Restricted - expendable	42,268	7,369	49,637	41,010	6,731	47,741
Restricted - non-expendable	-	250	250	-	250	250
Unrestricted	927,069	2,895	929,964	758,392	2,560	760,952
Total net position	1,599,310	10,514	1,609,824	1,350,117	9,541	1,359,658
Total liabilities, deferred inflows of resources and net position	\$ 3,721,967	\$ 10,544	\$ 3,732,511	\$ 3,273,131	\$ 9,711	\$ 3,282,842

See Notes to Financial Statements

Bexar County Hospital District
d/b/a University Health
A Component Unit of Bexar County, Texas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2020 and 2019
(In Thousands)

	2020			2019		
	University	Component Unit	Total	University	Component Unit	Total
	Health	Foundation		Health	Foundation	
Operating Revenues						
Net patient service revenue	\$ 1,085,957	\$ -	\$ 1,085,957	\$ 964,529	\$ -	\$ 964,529
Premium revenue	599,969	-	599,969	553,402	-	553,402
Other revenue	94,981	3,192	98,173	90,203	2,660	92,863
Total operating revenues	<u>1,780,907</u>	<u>3,192</u>	<u>1,784,099</u>	<u>1,608,134</u>	<u>2,660</u>	<u>1,610,794</u>
Operating Expenses						
Salaries and employee benefits	686,086	-	686,086	633,901	-	633,901
Medical claims expense	471,028	-	471,028	496,662	-	496,662
Purchased services	296,159	-	296,159	264,456	-	264,456
Medical services	195,029	-	195,029	179,074	-	179,074
Supplies and other	304,258	2,352	306,610	271,975	2,196	274,171
Depreciation	79,477	-	79,477	77,505	-	77,505
Total operating expenses	<u>2,032,037</u>	<u>2,352</u>	<u>2,034,389</u>	<u>1,923,573</u>	<u>2,196</u>	<u>1,925,769</u>
Operating Income (Loss)	<u>(251,130)</u>	<u>840</u>	<u>(250,290)</u>	<u>(315,439)</u>	<u>464</u>	<u>(314,975)</u>
Nonoperating Revenues (Expenses)						
Investment return	20,426	133	20,559	33,341	281	33,622
Interest expense	(30,237)	-	(30,237)	(32,836)	-	(32,836)
Debt issuance costs	(2,505)	-	(2,505)	(1,890)	-	(1,890)
Property tax revenue, net	483,377	-	483,377	454,415	-	454,415
Proceeds from tobacco settlement	9,037	-	9,037	8,404	-	8,404
Provider Relief Fund revenue	19,759	-	19,759	-	-	-
Build America Bond interest subsidy	466	-	466	3,687	-	3,687
Total nonoperating revenues, net	<u>500,323</u>	<u>133</u>	<u>500,456</u>	<u>465,121</u>	<u>281</u>	<u>465,402</u>
Changes in Net Position	<u>249,193</u>	<u>973</u>	<u>250,166</u>	<u>149,682</u>	<u>745</u>	<u>150,427</u>
Net Position, Beginning of Year	<u>1,350,117</u>	<u>9,541</u>	<u>1,359,658</u>	<u>1,200,435</u>	<u>8,796</u>	<u>1,209,231</u>
Net Position, End of Year	<u>\$ 1,599,310</u>	<u>\$ 10,514</u>	<u>\$ 1,609,824</u>	<u>\$ 1,350,117</u>	<u>\$ 9,541</u>	<u>\$ 1,359,658</u>

Bexar County Hospital District
d/b/a University Health
A Component Unit of Bexar County, Texas
Statements of Cash Flows
Years Ended December 31, 2020 and 2019
(In Thousands)

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	\$ 1,055,819	\$ 896,288
Premiums collected, net of reinsurance	598,116	553,943
Payments to suppliers and contractors	(780,030)	(675,264)
Benefit and loss payments	(473,080)	(493,399)
Payments to or on behalf of employees	(673,072)	(617,651)
Other receipts, net	<u>91,694</u>	<u>90,203</u>
Net cash used in operating activities	<u>(180,553)</u>	<u>(245,880)</u>
Cash Flows From Noncapital Financing Activities		
Receipt of property taxes supporting operations	429,399	418,897
Proceeds received from Provider Relief Fund	19,759	-
Proceeds received from tobacco settlement	<u>9,037</u>	<u>8,404</u>
Net cash provided by noncapital financing activities	<u>458,195</u>	<u>427,301</u>
Cash Flows From Capital and Related Financing Activities		
Receipt of property taxes for debt service	71,650	70,469
Proceeds from issuance of long-term debt	170,000	-
Principal paid on long-term debt	(31,325)	(23,190)
Interest paid on long-term debt	(41,019)	(48,505)
Receipt of Build America Bond interest subsidy	1,669	5,465
Purchase of capital assets	(205,276)	(100,227)
Proceeds from sale of capital assets	<u>71</u>	<u>100</u>
Net cash used in capital and related financing activities	<u>(34,230)</u>	<u>(95,888)</u>
Cash Flows From Investing Activities		
Interest on investments	20,215	32,868
Purchase of investments	(1,853,709)	(2,479,296)
Proceeds from disposition of investments	<u>1,603,690</u>	<u>2,532,467</u>
Net cash provided by (used in) investing activities	<u>(229,804)</u>	<u>86,039</u>
Increase in Cash and Cash Equivalents	13,608	171,572
Cash and Cash Equivalents, Beginning of Year	<u>306,323</u>	<u>134,751</u>
Cash and Cash Equivalents, End of Year	<u>\$ 319,931</u>	<u>\$ 306,323</u>

Bexar County Hospital District
d/b/a University Health
A Component Unit of Bexar County, Texas
Statements of Cash Flows (Continued)
December 31, 2020 and 2019
(In Thousands)

	2020	2019
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (251,130)	\$ (315,439)
Depreciation	79,477	77,505
Provision for uncollectible accounts	119,607	135,850
Changes in operating assets and liabilities		
Patient accounts receivable, net	(123,609)	(142,548)
Estimated third-party payer settlements	(20,614)	(29,486)
Accounts payable and accrued expenses	(6,820)	29,956
Net pension liability	(19,724)	38,585
Deferred outflows of resources - pensions	8,018	(14,125)
Deferred inflows of resources - pensions	18,150	(17,173)
Net OPEB liability	27,161	6,624
Deferred outflows of resources - OPEB	(32,296)	214
Deferred inflows of resources - OPEB	4,317	(3,873)
Other assets, deferred outflows of resources, liabilities and deferred inflows of resources	16,910	(11,970)
Net cash used in operating activities	\$ (180,553)	\$ (245,880)
Noncash Investing, Capital and Financing Activities		
Capital asset acquisitions included in accounts payable, accrued expenses and other long-term liabilities	\$ 22,289	\$ 5,729

In February 2020, University Health advance refunded \$162,310 of the Series 2010B Bonds with the issuance of the Limited Tax Refunding, Series 2020 Bonds. Proceeds of \$164,289 were deposited immediately for the defeasance of the outstanding bond principal and payment of the related issuance costs.

In February 2020, the University Health issued the Certificates of Obligation, Series 2020. Proceeds of \$1,269 were deposited immediately for the payment of the related issuance costs.

In February 2019, the University Health advance refunded \$232,140 of the Series 2009B Bonds with the issuance of the Limited Tax Refunding, Series 2019 Bonds. Proceeds of \$233,534 were deposited immediately for the defeasance of the outstanding bond principal and payment of the related issuance costs.

Bexar County Hospital District
d/b/a University Health
A Component Unit of Bexar County, Texas
Fiduciary Activities – Statements of Fiduciary Net Position
December 31, 2020 and 2019
(In Thousands)

	2020	2019
Assets		
Cash and Cash Equivalents	\$ 12,246	\$ 2,183
Employer Contributions Receivable	482	444
Investments		
Marketable securities		
Common stocks - mid capitalization	64,438	50,429
Mutual funds - common stocks - large capitalization	128,728	107,252
Mutual funds - common stocks - small capitalization	5,162	4,722
Mutual funds - fixed income securities	105,998	101,667
Mutual funds - international equity	87,059	72,353
Total marketable securities	391,385	336,423
Alternative investments		
Investment in Arrowstreet Capital, Ltd.	73,421	56,745
Investment in Portfolio Advisors Private Equity Fund VI, VII, VIII, and IX, L.P.	27,032	26,642
Investment in Heitman Real Estate Trust	43,994	44,472
Investment in Standard Life Investments	25,446	21,677
Investment in Newton Investment Management	25,716	23,025
Investment in Pantheon Access Luxembourg	1,867	810
Total alternative investments	197,476	173,371
Total investments at fair value	588,861	509,794
Total assets	601,589	512,421
Liabilities		
Accrued expenses	297	330
Total Net Position Restricted for Benefits	\$ 601,292	\$ 512,091

Bexar County Hospital District
d/b/a University Health
A Component Unit of Bexar County, Texas
Fiduciary Activities – Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2020 and 2019
(In Thousands)

	<u>2020</u>	<u>2019</u>
Additions		
Contributions		
Plan member	\$ 9,751	\$ 8,796
Employer	28,192	29,460
	<u>37,943</u>	<u>38,256</u>
Investment Income		
Interest income	45	136
Dividend income	6,836	8,027
Net appreciation in fair value of investments	76,425	72,099
Investment expenses	(1,235)	(1,119)
	<u>82,071</u>	<u>79,143</u>
Net investment income	<u>82,071</u>	<u>79,143</u>
Total additions	<u>120,014</u>	<u>117,399</u>
Deductions		
Benefits paid to plan members	30,425	28,061
Administrative expenses	388	349
	<u>30,813</u>	<u>28,410</u>
Total deductions	<u>30,813</u>	<u>28,410</u>
Net Increase in Net Position	89,201	88,989
Net Position Restricted for Benefits, Beginning of Year	<u>512,091</u>	<u>423,102</u>
Net Position Restricted for Benefits, End of Year	<u>\$ 601,292</u>	<u>\$ 512,091</u>

Bexar County Hospital District
d/b/a University Health
A Component Unit of Bexar County, Texas
Notes to Financial Statements
December 31, 2020 and 2019
(In Thousands)

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 (University Health) 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.

University Health is one of the largest public health systems in the state of Texas, with nearly 9,000 employees, and more than 800 attending and resident physicians. It includes University Hospital, South Texas’ only: Level I trauma center for both adults and children, Joint Commission accredited Comprehensive Stroke Center, and Level IV Epilepsy Center. It is also the only hospital in the region to be designated at Level IV, the highest level, for both its Maternity Center and Neonatal Intensive Care Unit. University Health 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, three dialysis centers; two outpatient surgery centers, two adult urgent care centers; one pediatric urgent care center, three school-based health centers; and a healthcare program at Bexar County’s correctional facilities. University Health is the primary teaching partner of UT Health Science Center San Antonio d/b/a UT Health San Antonio (UT Health).

University Health 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 University Health and its component units, entities for which University Health 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. University Health’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.

Bexar County Hospital District
d/b/a University Health
A Component Unit of Bexar County, Texas
Notes to Financial Statements
December 31, 2020 and 2019
(In Thousands)

Blended component units. Community First Health Plans (CFHP), a not-for-profit corporation, was established in 1994 to assist University Health 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 University Health. Because University Health is the sole corporate member of CFHP, CFHP is reported as a blended component unit of University Health. 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 University Health's Family Health Centers. Because University Health is the sole corporate member of UMA, UMA is presented as a blended component unit of University Health. UMA does not issue separate financial statements.

University Health System Services of Texas, Inc. (UHSST) was formed to establish membership in Central Texas Laundry Linen, LLC (CTL). University Health's governing board is responsible for all financial decisions related to UHSST, there exists a financial benefit or burden relationship between University Health and UHSST and University Health's management has operational responsibility for UHSST. As such, the financial statements of UHSST are presented as a blended component unit of University Health. 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.

UHSST holds an interest in Academic Innovators Alliance, LLC (AIA), which is accounted for using the equity method of accounting. UHSST's ownership interest in AIA was 16% at December 31, 2020 and 2019. 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 University Health.

Bexar County Hospital District
d/b/a University Health
A Component Unit of Bexar County, Texas
Notes to Financial Statements
December 31, 2020 and 2019
(In Thousands)

Discretely presented component unit. University Health System Foundation (the Foundation) was created in 1984 to raise funds for University Health. 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 University Health. The Foundation is reported as a discretely presented component unit of University Health since the Foundation's Board of Directors is appointed by University Health's Board (once recommended by the Foundation's Board of Directors) and University Health 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 University Health'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 University Health and is fiscally dependent on University Health. 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 University Health and is fiscally dependent on University Health. 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 University Health and other payers, including managed care organizations.

Bexar County Hospital District
d/b/a University Health
A Component Unit of Bexar County, Texas
Notes to Financial Statements
December 31, 2020 and 2019
(In Thousands)

Effective June 6, 2000, University Health 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. University Health 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 University Health'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 University Health 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. University Health 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 University Health. The Plan is used to account for assets held in trust for the benefit of the employees of University Health 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 University Health. The financial statements of the Plan and the OPEB Trust are prepared using the accrual basis of accounting.

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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

University Health considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2020 and 2019, cash and cash equivalents include demand deposits and money market mutual funds. University Health does not consider highly liquid investments that are designated as to use as cash equivalents.

Patient Accounts Receivable

University Health reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. University Health 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 University Health to invest in a limited number of instruments, as further described in *Note 3*.

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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 University Health:

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

Capital Asset Impairment

University Health evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, either accumulated depreciation is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2020 and 2019.

Compensated Absences

University Health’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 University Health 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 2020 and 2019.

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 University Health 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

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by enabling legislation, creditors, grantors or donors external to University Health, 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 University Health, 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

University Health 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.

University Health 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

University Health has agreements with third-party payers that provide for payments to University Health 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

University Health provides charity care to residents of Bexar County who qualify on a financial basis for the CareLink Program and to all others who qualify based on University Health's charity care policy. University Health 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.

University Health's CareLink Program is used to discount gross charges for medical services received in University Health'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

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relationship of these factors to the current Poverty Index. University Health 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-CareLink 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 University Health'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.

University Health 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 \$755,955 and \$848,917 for the years ended December 31, 2020 and 2019, respectively. The costs of charity care provided under University Health's charity care policy were approximately \$198,975 and \$231,239 for 2020 and 2019, 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 University Health. 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.

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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, 2020 and 2019, CFHP had recorded a premium deficiency reserve of \$3,100 and \$1,555, 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.

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. University Health received \$9,037 and \$8,404 in revenue from this settlement for the years ended December 31, 2020 and 2019, respectively. This revenue is recognized as nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position.

Property Taxes

University Health received approximately 22% of its financial support from property taxes in both 2020 and 2019. These funds were used as follows:

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	2020	2019
Percentage used to support operations	85.7%	85.6%
Percentage used for debt service on bonds	14.3%	14.4%
Total	100.0%	100.0%

Property taxes are levied by University Health 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 University Health 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. University Health recorded an allowance for uncollectible property taxes of approximately \$18,184 and \$15,128 at December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, respectively, University Health had recorded approximately \$510,201 and \$485,799 of property taxes levied for services to be provided in 2021 and 2020, 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.

University Health's property tax rate was \$0.236753 and \$0.236569 per \$100 valuation for 2020 and 2019, respectively, for the maintenance and operation fund. University Health's property tax rate was \$0.039482 and \$0.039666 per \$100 valuation for 2020 and 2019, respectively, for the interest and sinking fund.

Build America Bond Interest Subsidy

University Health 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. University Health records the interest subsidy received or receivable from the U.S. Treasury as nonoperating revenue when University Health has met all of the eligibility criteria to receive the subsidy. University Health recorded \$466 and \$3,687 of nonoperating revenue in 2020 and 2019, respectively, for the BABs interest subsidy.

As discussed further in *Note 8*, in 2019 University Health refunded the Series 2009B Certificates of Obligation which were designated as "Qualified Build America Bonds" which lead to a decline of the BABs subsidy in 2019. Additionally, in 2020, University Health refunded the Series 2010B Certificates of Obligation, the remaining Qualified Build America Bonds, resulting in the decline of the BABs subsidy in 2020.

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Income Taxes

As an essential government function of the County, University Health is generally exempt from federal and state income taxes under Section 115 of the IRC and a similar provision of state law. In 2018, University Health 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. University Health, UMA, CFHP and the Foundation are subject to federal income tax on any unrelated business taxable income.

Revision

The 2019 statement of cash flows has been revised for an immaterial error correction to reduce the proceeds from the issuance of long-term debt and principal paid on long-term debt. In 2019, University Health issued the Limited Tax Refunding Bonds, Series 2019, to refund \$232,140 of Series 2009B Bonds. During the refunding process, University Health did not take possession of cash to pay off the Series 2009B Bonds, rather, the proceeds of \$233,534 were deposited immediately for the defeasance of the outstanding bond principal and payment of the related issuance costs. This revision had no impact on the net cash used in capital and related financing activities, the increase in cash and cash equivalents or cash and cash equivalents at the beginning or end of the year.

Note 2: Net Patient Service Revenue

University Health has agreements with third-party payers that provide for payments to University Health 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.

University Health is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by University Health and audits thereof by the Medicare fiscal intermediary. University Health's Medicare cost reports have been audited by the Medicare administrative contractor through December 31, 2015.

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. University

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Health is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by University Health and audits thereof by the Medicaid administrative contractor. University Health's Medicaid cost reports have been audited by the Medicaid administrative contractor through December 31, 2015.

Approximately 69% and 67% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2020 and 2019, respectively. 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.

University Health has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to University Health 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, 2020 and 2019, respectively, University Health had recorded approximately \$2,235 and \$2,097 of DSH revenue for services to be provided in 2021 and 2020, 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 University Health or governmental entities that will provide the state share of Waiver pool funds. University

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Health 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 required a change in the methodology used to allocate UC funds and a phase out of the DSRIP program over the five-year period. On January 15, 2021, CMS approved an extension of the Waiver for an additional 10-year period through September 30, 2030. This extension ended the DSRIP pool effective September 30, 2021, made changes to other funding programs and created new funding programs to reflect CMS policy changes. On April 16, 2021, CMS rescinded the extension approval citing an improper exemption from the public notice and comment process originally granted. As of May 25, 2021, the Waiver is set to expire on September 30, 2022 and future funding from the Waiver programs described herein is uncertain.

University Health 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 University Health.

University Health 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 University Health. 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.

University Health 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.

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University Health also participates in a Medicaid Graduate Medical Education (GME) supplemental payment program. The GME program provides reimbursement to support teaching hospitals that operate approved medical residency training programs in recognition of the higher costs incurred by teaching hospitals.

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:

	<u>2020</u>	<u>2019</u>
DSH Program	\$ 45,766	\$ 28,815
UC Pool	108,096	43,844
DSRIP	98,153	79,912
NAIP	43,853	30,096
GME	9,152	8,052
QIPP	2,105	1,839
	<u>\$ 307,125</u>	<u>\$ 192,558</u>

Accounts receivable under these programs were \$131,077 and \$111,617 at December 31, 2020 and 2019, respectively, and are included in estimated amounts due from third-party payers. At December 31, 2020 and 2019, University Health recorded approximately \$8,481 and \$41,339, respectively, of prepaid intergovernmental transfers, which University Health is required to contribute as the state share of UHRIP funding, which is included as prepaid expenses in the accompanying financial statements.

During 2019, University Health realized a savings in medical service costs of \$88,795 and incurred increased costs to supplement the state's funding for the affiliated providers by approximately \$87,934. The supplement to the state's funding is recorded in medical services expense in the statements of revenues, expenses and changes in net position. This program was terminated at the end of 2019.

During 2020, University Health began participating in a Local Provider Participant Fund (LPPF) in Bexar County. University Health acts as the administrator of the LPPF by assessment and collection of mandatory payments from hospitals in Bexar County. These payments are to be used to fund intergovernmental transfers representing the state's share of supplemental Medicaid funding program. As University Health acts a conduit for these funds, the receipts and intergovernmental transfers are not recognized as revenues and expenses in the statements of revenues, expenses and changes in net position. At December 31, 2020, University Health held \$6,398 in mandatory payments that will be transferred in 2021.

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

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. University Health'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, 2020, University Health had \$17,843 of bank deposits that were uninsured and uncollateralized and the remaining amount of University Health's bank deposits were fully insured or collateralized. University Health's bank deposits were fully insured or collateralized subsequent to December 31, 2020 and as of May 25, 2021. At December 31, 2019, CFHP had \$3,469 of bank deposits that were uninsured and uncollateralized and the remaining amount of University Health's bank deposits were fully insured or collateralized.

Investments

University Health 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, 2020 and 2019, University Health had the following investments and maturities:

Type	December 31, 2020				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 130,392	\$ 127,171	\$ 3,221	\$ -	\$ -
U.S. agencies obligations	537,300	182,128	355,172	-	-
Municipal bonds	162,675	84,215	78,460	-	-
Commercial paper	255,987	255,987	-	-	-
Money market mutual funds	417,818	417,818	-	-	-
Investment pool	143,808	143,808	-	-	-
	<u>\$ 1,647,980</u>	<u>\$ 1,211,127</u>	<u>\$ 436,853</u>	<u>\$ -</u>	<u>\$ -</u>

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Type	December 31, 2019				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 226,860	\$ 157,208	\$ 69,652	\$ -	\$ -
U.S. agencies obligations	243,869	159,214	84,655	-	-
Municipal bonds	55,606	7,418	48,188	-	-
Commercial paper	304,085	304,085	-	-	-
Money market mutual funds	436,043	436,043	-	-	-
Investment pool	162,953	162,953	-	-	-
	<u>\$ 1,429,416</u>	<u>\$ 1,226,921</u>	<u>\$ 202,495</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, University Health’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. University Health’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). University Health 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. University Health’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 University Health’s investment policy are limited to: obligations of the United States government or its agencies; municipal obligations, 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

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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.

University Health's investments in U.S. Treasury obligations carry the explicit guarantee of the U.S. government. At December 31, 2020, the debt securities of the U.S. agencies are rated AA+ by S&P or Aaa by Moody's. University Health's investments in municipal bonds were rated AAA, AA or AA- by S&P or Aa3, Aaa or Aa by Moody's at December 31, 2020. University Health's investments in commercial paper was rated A-1+ or A-1 by S&P at December 31, 2020.

University Health 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. University Health 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, University Health 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 University Health's investments are held in safekeeping or trust accounts.

Concentration of Credit Risk – University Health 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.

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

	<u>2020</u>	<u>2019</u>
Federal Home Loan Mortgage Corporation	10%	4%
Federal Home Loan Bank	9%	5%
Federal Farm Credit Bank	13%	5%

Summary of Carrying Values

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

	<u>2020</u>	<u>2019</u>
Carrying value		
Deposits	\$ 32,072	\$ (19,390)
Investments	<u>1,647,980</u>	<u>1,429,416</u>
	<u>\$ 1,680,052</u>	<u>\$ 1,410,026</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 319,931	\$ 306,323
Restricted cash equivalents - Local Provider Participation Fund	6,398	-
Short-term investments	162,770	173,764
Noncurrent cash and investments	<u>1,190,953</u>	<u>929,939</u>
	<u>\$ 1,680,052</u>	<u>\$ 1,410,026</u>

University Health'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.

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Note 4: Patient Accounts Receivable

University Health 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:

	<u>2020</u>	<u>2019</u>
Medicare	\$ 37,334	\$ 26,752
Medicaid	23,317	26,471
Other third-party payers	57,659	39,200
Patients	<u>350,367</u>	<u>339,378</u>
	468,677	431,801
Less allowance for uncollectible accounts	<u>325,170</u>	<u>292,297</u>
	<u>\$ 143,507</u>	<u>\$ 139,504</u>

Note 5: Capital Assets

University Health's capital assets activity for the years ended December 31 was:

	<u>2020</u>			
	<u>Beginning Balance</u>	<u>Additions/ Transfers</u>	<u>Disposals/ Other</u>	<u>Ending Balance</u>
Land and land improvements	\$ 20,926	\$ 13,292	\$ -	\$ 34,218
Buildings and improvements	1,383,095	21,635	-	1,404,730
Equipment	482,726	126,852	(15,114)	594,464
Construction in progress	93,038	60,057	-	153,095
	<u>1,979,785</u>	<u>221,836</u>	<u>(15,114)</u>	<u>2,186,507</u>
Less accumulated depreciation	<u>814,842</u>	<u>79,477</u>	<u>(14,521)</u>	<u>879,798</u>
Capital assets, net	<u>\$ 1,164,943</u>	<u>\$ 142,359</u>	<u>\$ (593)</u>	<u>\$ 1,306,709</u>

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	2019			Ending Balance
	Beginning Balance	Additions/ Transfers	Disposals/ Other	
Land and land improvements	\$ 20,926	\$ -	\$ -	\$ 20,926
Buildings and improvements	1,378,283	4,812	-	1,383,095
Equipment	468,354	29,200	(14,828)	482,726
Construction in progress	25,052	67,986	-	93,038
	<u>1,892,615</u>	<u>101,998</u>	<u>(14,828)</u>	<u>1,979,785</u>
Less accumulated depreciation	751,766	77,505	(14,429)	814,842
Capital assets, net	<u>\$ 1,140,849</u>	<u>\$ 24,493</u>	<u>\$ (399)</u>	<u>\$ 1,164,943</u>

At December 31, 2020, construction in progress includes costs incurred in connection with the expansion and renovation of facilities and related equipment, including a women’s and children’s hospital at the main campus. The \$778,000 project will be completed in at least three phases and is aimed at minimizing disruption to operations and parking. Phase I was comprised of a new heart, vascular, and endoscopy center known as the Advanced Diagnostic Center, which was built in the hospital’s Sky Tower and placed in service in 2020. Phase II and III includes the patient tower, a parking structure and expanded podium to accommodate support services. The new women’s and children’s hospital and parking structure is expected to open in early 2023 and the podium will be shell space and is expected to be built out as needed after 2023. The project is being funded from debt proceeds that were issued in 2018 and 2020 (*Note 8*) as well as existing cash and investments.

Note 6: Accounts Payable and Accrued Expenses

University Health’s accounts payable and accrued expenses included in current liabilities at December 31 consisted of:

	2020	2019
Payable to suppliers and contractors	\$ 145,626	\$ 148,194
Payable to employees (including payroll taxes and benefits)	56,260	49,633
Accrued interest	16,419	15,095
Premium deficiency reserve	3,100	1,555
Estimated self-insurance costs - current	6,048	5,548
Other accrued liabilities	<u>33,343</u>	<u>25,216</u>
	<u>\$ 260,797</u>	<u>\$ 245,241</u>

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Note 7: Risk Management

Employee Health Claims

University Health 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. University Health also recognizes the incremental cost of services provided by University Health to plan participants. University Health 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

University Health 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. University Health has purchased reinsurance for individual claims exceeding \$850 up to a maximum limit of \$1,000 for any one accident or occurrence.

Professional Liability Claims

University Health 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. University Health 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 University Health's incident reporting system are accrued based on estimates that incorporate University Health'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 University Health's estimate of losses will change by a material amount in the near term.

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Changes in and the balances of University Health’s aggregate claims liability in fiscal years 2020 and 2019 are as follows:

	Beginning of Fiscal Year Liability	Current- Year Expenses	Claim Payments	Balance at Fiscal Year-End
Employee health claims				
2020	\$ 3,900	\$ 32,804	\$ (32,148)	\$ 4,556
2019	2,246	27,815	(26,161)	3,900
Workers’ compensation claims				
2020	\$ 5,154	\$ 1,298	\$ (1,194)	\$ 5,258
2019	4,970	1,683	(1,499)	5,154
Professional liability				
2020	\$ 1,667	\$ (169)	\$ -	\$ 1,498
2019	1,863	(99)	(97)	1,667

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.

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Changes in and the balances of CFHP's aggregate medical claims liability in 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Medical claims payable, beginning of year	\$ 61,848	\$ 57,747
Incurred related to		
Current year	461,620	498,505
Prior years	<u>7,863</u>	<u>(1,633)</u>
Total incurred losses and claims payable	<u>469,483</u>	<u>496,872</u>
Paid related to		
Current year	404,980	436,690
Prior years	<u>67,506</u>	<u>56,081</u>
Total paid losses and claims payable	<u>472,486</u>	<u>492,771</u>
Medical claims payable, end of year	<u>\$ 58,845</u>	<u>\$ 61,848</u>

Patient service revenue and medical claims expense for CFHP members amounting to \$28,078 and \$32,216 in 2020 and 2019, respectively, are not eliminated in the basic financial statements.

Note 8: Long-term Debt

A summary of long-term debt is as follows:

	<u>2020</u>	<u>2019</u>
Certificates of Obligation, Series 2010B	\$ -	\$ 168,085
Limited Tax Refunding Bonds, Series 2016	181,990	188,775
Certificates of Obligation, Series 2018	268,720	279,375
Limited Tax Refunding Bonds, Series 2019	195,955	204,065
Limited Tax Refunding Bonds, Series 2020	140,680	-
Certificates of Obligation, Series 2020	<u>144,685</u>	<u>-</u>
	932,030	840,300
Bond premium	<u>106,468</u>	<u>69,278</u>
	<u>\$ 1,038,498</u>	<u>\$ 909,578</u>

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Certificates of Obligation – Series 2009B

The tax Certificates of Obligation, Series 2009B (the 2009B Certificates) were issued in 2009, and matured in various amounts annually on February 15, from 2018 through 2039, with stated coupon rates ranging from 5.269% to 6.904% and were collateralized by a levy of ad valorem tax revenue. In 2019, University Health issued the Limited Tax Refunding Bonds, Series 2019 (2019 Bonds) to refund \$232,140 of the 2009B Bonds. The remaining balance of the 2009B Certificates was paid in full in 2019.

Certificates of Obligation – Series 2010B

The tax Certificates of Obligation, Series 2010B (the 2010B Certificates) were issued in 2010, and matured in various amounts annually on February 15, from 2011 through 2040, with stated coupon rates ranging from 0.300% to 5.413% and were collateralized by a levy of ad valorem tax revenue. In 2020, University Health issued the Limited Tax Refunding Bonds, Series 2020 (2020 Bonds) to refund \$162,310 of the 2010B Certificates. The remaining balance of the 2010B Certificates were paid in full in 2020.

Limited Tax Refunding Bonds – Series 2016

University Health issued the Limited Tax Refunding Bonds, Series 2016 (the 2016 Bonds) in the amount of \$215,485, dated September 8, 2016. The 2016 Bonds were used to refund \$215,485 of Series 2008 Certificates. The 2016 Bonds 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 and maturing on or after February 15, 2027 may be redeemed at University Health's option on or after February 15, 2026 at a price of par plus accrued interest to the date of redemption. The 2016 Bonds were issued at a premium and the outstanding balance of the premium is \$16,580 and \$19,713 at December 31, 2020 and 2019, respectively.

As a result of the refunding, University Health 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. The balance of the deferred loss on the refunding is \$12,064 and \$12,834 at December 31, 2020 and 2019, respectively, and is included as a deferred outflow of resources in the accompanying balance sheets.

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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 through February 15, 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. The 2018 Certificates maturing on February 15, 2029 and 2030 are subject to redemption prior to the stated maturity date on or after February 15, 2023. The 2018 Certificates maturing on February 15, 2031 and 2032 are subject to redemption prior to the stated maturity date on or after February 15, 2025. The 2018 Certificates maturing on February 15, 2028 and 2033, and in each of the years thereafter, are subject to redemption prior to the stated maturity date on or after February 15, 2027. These optional redemptions are at the option of University Health and are at a redemption price of par plus accrued interest to the date of redemption. The 2018 Bonds were issued at a premium and the outstanding balance of the premium is \$20,681 and \$22,953 at December 31, 2020 and 2019, respectively.

Limited Tax Refunding Bonds – Series 2019

University Health 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 on February 15 through 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. All of the 2019 Bonds still outstanding and maturing on or after February 15, 2029 may be redeemed at University Health's option on or after February 15, 2028 at a par plus accrued interest to the date of redemption.

As a result of the refunding, University Health 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. The balance of the deferred loss on the refunding is \$1.1 and \$1.2 at December 31, 2020 and 2019, respectively, and is included as a deferred outflow of resources in the accompanying balance sheets. The 2019 Bonds were issued at a premium and the outstanding balance of the premium is \$23,210 and \$26,612 at December 31, 2020 and 2019, respectively.

Limited Tax Refunding Bonds – Series 2020

During 2020, University Health issued the 2020 Bonds in the amount of \$140,680, dated January 14, 2020. The 2020 Bonds were used to refund \$162,310 of Series 2010B Certificates, resulting in a net present value savings of \$14,750. The 2020 Bonds mature in various amounts annually starting February 15, 2021 through 2040, with stated coupon rates ranging from 3.0% to 5.0%. The

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2020 Bonds are collateralized by a levy of ad valorem tax revenue. As a result of the refunding, University Health decreased its total debt service requirements by \$18,884 and incurred an accounting loss of approximately \$701. The accounting loss on the refunding is being amortized into interest expense using a straight-line method over the term of the 2020 Bonds, which mature in 2040. The balance of the deferred loss on the refunding is \$701 at December 31, 2020 and is included as a deferred outflow of resources in the accompanying balance sheets. The 2020 Bonds were issued at a premium and the outstanding balance of the premium is \$21,176 at December 31, 2020.

All of the 2020 Bonds maturing on or after February 15, 2030 still outstanding may be redeemed at University Health's option on or after February 15, 2029 at a price of par plus accrued interest at the date of redemption.

Certificates of Obligation – Series 2020

During 2020, University Health also issued the Certificates of Obligation, Series 2020 (the 2020 Certificates) in the amount of \$144,685. The proceeds from the issuance are being used 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. The 2020 Certificates mature in various amounts annually on February 15, from 2021 through 2050, with stated coupon rates ranging from 2.00% to 5.00% and are collateralized by a levy of ad valorem tax revenue and lien on and pledge of surplus revenues. All of the 2020 Certificates maturing on or after February 15, 2030 still outstanding may be redeemed at University Health's option on or after February 15, 2029 at a price of par plus accrued interest at the date of redemption. The 2020 Certificates were issued at a premium and the outstanding balance of the premium is \$24,821 at December 31, 2020.

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

	2020				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Certificates of Obligation, Series 2010B	\$ 168,085	\$ -	\$ (168,085)	\$ -	\$ -
Limited Tax Refunding Bonds, Series 2016	188,775	-	(6,785)	181,990	7,135
Certificates of Obligation, Series 2018	279,375	-	(10,655)	268,720	10,665
Limited Tax Refunding Bonds, Series 2019	204,065	-	(8,110)	195,955	3,840
Limited Tax Refunding Bonds, Series 2020	-	140,680	-	140,680	4,310
Certificates of Obligation, Series 2020	-	144,685	-	144,685	3,950
Total long-term debt	<u>\$ 840,300</u>	<u>\$ 285,365</u>	<u>\$ (193,635)</u>	<u>\$ 932,030</u>	<u>\$ 29,900</u>
	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Certificates of Obligation, Series 2009B	\$ 239,390	\$ -	\$ (239,390)	\$ -	\$ -
Certificates of Obligation, Series 2010B	173,350	-	(5,265)	168,085	5,775
Limited Tax Refunding Bonds, Series 2016	195,260	-	(6,485)	188,775	6,785
Certificates of Obligation, Series 2018	283,565	-	(4,190)	279,375	10,655
Limited Tax Refunding Bonds, Series 2019	-	204,065	-	204,065	8,110
Total long-term debt	<u>\$ 891,565</u>	<u>\$ 204,065</u>	<u>\$ (255,330)</u>	<u>\$ 840,300</u>	<u>\$ 31,325</u>

The debt service requirements as of December 31, 2020, are as follows:

Year Ending December 31,	Principal	Interest	Total
2021	\$ 29,900	\$ 42,105	\$ 72,005
2022	27,640	40,741	68,381
2023	29,115	39,356	68,471
2024	30,300	37,871	68,171
2025	31,700	36,321	68,021
2026 - 2030	172,515	156,643	329,158
2031 - 2035	213,755	111,179	324,934
2036 - 2040	208,680	63,074	271,754
2041 - 2045	99,605	32,544	132,149
2046 - 2050	88,820	8,288	97,108
	<u>\$ 932,030</u>	<u>\$ 568,122</u>	<u>\$ 1,500,152</u>

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Note 9: Pension Plan

Plan Description and Benefits Provided

University Health sponsors a single-employer defined benefit pension plan which covers substantially all of University Health'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. University Health 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.

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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.

University Health has agreed (but does not guarantee) to voluntarily contribute such amounts as are necessary to maintain the plan on a sound actuarial basis. University Health has the right to discontinue such contributions and terminate the plan at any time. However, under no conditions may University Health 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 University Health.

Match Savings Formula

University Health 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, University Health 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 University Health 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.

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Under the terms of the Cash Balance Plan, eligible employees are required to contribute 3% of eligible compensation and University Health 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 University Health 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.

The employees covered by the Plan at January 1 are:

	<u>2020</u>	<u>2019</u>
Inactive participants:		
Retirees and beneficiaries currently receiving benefits	1,262	1,193
Terminated employees with deferred benefits	1,765	1,692
	<u>3,027</u>	<u>2,885</u>
Total inactive participants		
Active participants:		
Fully vested	3,822	3,683
Nonvested	2,950	2,759
	<u>6,772</u>	<u>6,442</u>
Total active participants		
Total participants	<u>9,799</u>	<u>9,327</u>

Contributions

The Board has the authority to establish and amend the contribution requirements of University Health 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, 2020 and 2019, employees contributed \$8,796 and \$8,045 (or 2.3% of covered payroll), and University Health contributed \$23,431 and \$24,110 (or 6.2% and 6.8% of covered payroll), respectively, to the Plan.

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Net Pension Liability

University Health’s net pension liability was measured as of December 31, 2019 and 2018 for the years ended December 31, 2020 and 2019, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of January 1, 2019 and 2018, respectively. Update procedures were used to roll forward the total pension liability to the respective measurement dates.

The total pension liability in the 2019 and 2018 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2019</u>	<u>2018</u>
Wage inflation	3.25%	3.50%
Salary increases	4.30%	5.50%
Ad hoc cost of living adjustments	N/A	N/A
Investment rate of return	7.00%	7.00%

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 PubG-2010 Sex Distinct Employee and Sex Distinct Healthy Retiree, projected with generational mortality (Scale MP-2018) in the 2019 actuarial valuation.

Mortality rates were based on the RP-2000 Mortality Table, projected generationally using scale AA in the 2018 actuarial valuation.

University Health 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 August 2019.

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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%	7.0%
International equity	24%	7.3%
Fixed income	20%	2.8%
Real estate	10%	6.3%
Private equity	7%	8.5%
Absolute return/Hedge fund	10%	5.0%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.0% for both the years ended December 31, 2020 and 2019. 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 University Health 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.

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Changes in the total pension liability, plan fiduciary net position and the net pension liability for the years ended December 31, 2020 and 2019 are:

	2020		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 526,504	\$ 359,774	\$ 166,730
Service cost	21,645	-	21,645
Interest on total pension liability	37,600	-	37,600
Effect of economic/demographic gains or losses	(659)	-	(659)
Assumption changes	20,879	-	20,879
Employer contributions	-	23,431	(23,431)
Member contributions	-	8,796	(8,796)
Benefit payments	(22,399)	(22,399)	-
Net investment income	-	66,962	(66,962)
Net changes	57,066	76,790	(19,724)
Balance, end of year	\$ 583,570	\$ 436,564	\$ 147,006

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	Total Pension Liability (a)	2019 Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 491,924	\$ 363,780	\$ 128,144
Service cost	20,698	-	20,698
Interest on total pension liability	35,195	-	35,195
Effect of economic/demographic gains or losses	(1,304)	-	(1,304)
Employer contributions	-	24,110	(24,110)
Member contributions	-	8,045	(8,045)
Benefit payments	(20,009)	(20,009)	-
Net investment loss	-	(16,152)	16,152
Net changes	34,580	(4,006)	38,586
Balance, end of year	\$ 526,504	\$ 359,774	\$ 166,730

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 University Health 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%
University Health's net pension liability	\$ 225,220	\$ 147,006	\$ 81,876

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Pension Expense and Deferred Outflows of Resources Related to Pensions

For the years ended December 31, 2020 and 2019, University Health recognized pension expense of \$27,947 and \$30,718, respectively. At December 31, 2020 and 2019, University Health reported deferred inflows and outflows of resources related to pensions from the following sources:

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 230	\$ 6,296
Net difference between projected and actual earnings on pension plan investments	-	19,420
Changes in assumptions	27,539	-
Contributions subsequent to the measurement date	21,502	-
	<u>\$ 49,271</u>	<u>\$ 25,716</u>

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 333	\$ 7,566
Net difference between projected and actual earnings on pension plan investments	19,045	-
Changes in assumptions	14,480	-
Contributions subsequent to the measurement date	23,431	-
	<u>\$ 57,289</u>	<u>\$ 7,566</u>

At December 31, 2020 and 2019, University Health reported \$21,502 and \$23,431, respectively, as deferred outflows of resources related to pensions resulting from University Health contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability during December 31, 2021 and 2020, respectively.

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Other amounts reported as deferred outflows of resources at December 31, 2020, related to pensions will be recognized in pension expense as follows:

Year ending December 31:		
2021	\$	84
2022		148
2023		4,627
2024		(5,134)
2025		2,328
	<u>\$</u>	<u>2,053</u>

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. University Health’s contributions were approximately \$1,919 and \$1,842 for the years ended December 31, 2020 and 2019, 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 \$1,219 and \$1,314 for 2020 and 2019, respectively.

Note 10: Other Postemployment Benefits

Plan Description

University Health 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 University Health. Benefit provisions and contribution requirements of plan members and University Health 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 University Health’s self-insured employee health plan.

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The cost of the benefits is covered by contributions from University Health and OPEB Plan members.

The employees covered by the OPEB Plan at December 31, 2020 and 2019, are:

	<u>2020</u>	<u>2019</u>
Inactive plan members or beneficiaries currently receiving payments	995	955
Active plan members	<u>2,643</u>	<u>2,862</u>
	<u>3,638</u>	<u>3,817</u>

Contributions

The Board has the authority to establish and amend the contribution requirements of University Health and active employees. The required contribution is based on projected pay-as-you-go financing requirements. OPEB Plan members receiving benefits contributed approximately \$2,430 and \$2,123 in 2020 and 2019, respectively, through their required monthly contributions as shown in the table below:

	<u>2020</u>	<u>2019</u>
Retiree-only coverage	\$ 201.38	\$ 182.00
Retiree and spouse coverage	382.61	346.50
Retiree and children coverage	411.72	390.00
Retiree and family coverage	753.95	731.00

The cost of benefits not covered by OPEB Plan member contributions are covered by University Health. For the years ended December 31, 2020 and 2019, University Health contributed \$4,720 and \$4,182, respectively, to the OPEB Plan.

Net OPEB Liability

University Health's net OPEB liability at December 31, 2020 and 2019 was \$59,195 and \$32,033, respectively, and was measured as of December 31, 2019 and 2018. The total OPEB Plan liability used to calculate the net OPEB Plan liability was determined by actuarial valuations as of January 1, 2019 and 2018, and rolled forward to the measurement dates.

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The total OPEB liability in the January 1, 2019 and 2018 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement period, unless otherwise specified:

	2019	2018
Health care cost trend rates - initial	7.0%	5.0%
Health care cost trend rates - ultimate	5.0%	5.0%
Investment rate of return	7.0%	7.0%
Retirees' share of benefit-related costs	75.0%	70.0%
Payroll growth rate (compounded annually)	3.3%	3.5%
Health care inflation - medical/prescription drug expenses	5.0 - 7.0%	5.0%

Mortality rates for both active and retired lives were based on the PubG-2010 Sex Distinct Employee Headcount weighted; projected with Generational Mortality (Scale MP-2018) for active lives and PubG-2010 Sex Distinct Healthy Retiree Headcount weighted; projected with generational mortality (Scale MP-2018) for retired lives in the 2019 actuarial valuation.

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) in the 2018 actuarial valuation.

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	43%	7.0%
International equity	30%	7.3%
Fixed income	27%	2.8%
Total	<u>100%</u>	

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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 University Health 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:

	Total OPEB Liability (a)	2020 Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance, beginning of year	\$ 75,661	\$ 43,628	\$ 32,033
Service cost	3,910	-	3,910
Interest on total OPEB liability	5,331	-	5,331
Effect of economic/demographic gains or losses	24,846	-	24,846
Effects of assumption changes	12,715	-	12,715
Effects of plan amendments	(5,659)	-	(5,659)
Employer contributions	-	4,182	(4,182)
Benefit payments	(4,182)	(4,182)	-
Net investment income	-	9,799	(9,799)
Net changes	36,961	9,799	27,162
Balance, end of year	\$ 112,622	\$ 53,427	\$ 59,195

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	Total OPEB Liability (a)	2019 Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance, beginning of year	\$ 70,701	\$ 45,292	\$ 25,409
Service cost	3,101	-	3,101
Interest on total OPEB liability	4,975	-	4,975
Effect of economic/demographic gains or losses	425	-	425
Employer contributions	-	3,541	(3,541)
Benefit payments	(3,541)	(3,541)	-
Net investment loss	-	(1,664)	1,664
Net changes	4,960	(1,664)	6,624
Balance, end of year	<u>\$ 75,661</u>	<u>\$ 43,628</u>	<u>\$ 32,033</u>

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

The net OPEB liability of University Health 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.

	1% Decrease	Current Discount Rate	1% Increase
University Health's net OPEB liability	<u>\$ 72,308</u>	<u>\$ 59,195</u>	<u>\$ 46,507</u>

The net OPEB liability of University Health has been calculated using the initial health care cost trend rate of 7.0%, decreasing to an ultimate rate 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.

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	1% Decrease	Current Health Care Cost Trend Rates	1% Increase
University Health's net OPEB liability	\$ 43,949	\$ 59,195	\$ 75,744

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

For the years ended December 31, 2020 and 2019, University Health recognized OPEB expense of \$5,587 and \$6,212, respectively. At December 31, 2020 and 2019, University Health reported deferred outflows or resources and deferred inflows of resources related to OPEB from the following sources:

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 30,493	\$ -
Changes of assumptions	11,269	-
Net difference between projected and actual earnings on OPEB plan investments	-	4,317
Contributions subsequent to the measurement date	4,720	-
	\$ 46,482	\$ 4,317

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,984	\$ -
Net difference between projected and actual earnings on OPEB plan investments	1,021	-
Contributions subsequent to the measurement date	4,182	-
	\$ 14,187	\$ -

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At December 31, 2020 and 2019, University Health reported \$4,720 and \$4,182, respectively, as deferred outflows of resources related to OPEB resulting from University Health contributions subsequent to the measurement date and prior to year-end that will be recognized as a reduction of the net OPEB liability during December 31, 2021 and 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2020, related to OPEB will be recognized in OPEB expense as follows:

Year ending December 31:		
2021	\$	5,060
2022		5,288
2023		6,085
2024		5,117
2025		6,466
Thereafter		9,429
	<u>\$</u>	<u>37,445</u>

Note 11: Affiliation Agreement

University Health has entered into a long-standing affiliation agreement with UT Health. Under the agreement, University Health’s facilities serve as the major teaching facilities for many of UT Health’s health care programs, including the graduate medical education program. University Health incurred expenses of approximately \$15,938 and \$15,519 in 2020 and 2019, respectively, under the terms of the agreement. Under a separate master health care services agreement entered into in September 2019, University Health also incurred expenses of approximately \$142,539 and \$46,092 during 2020 and 2019, respectively, related to qualified health care professional services.

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:

- 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

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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, 2020 and 2019:

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, 2020				
Investments by fair value level				
U.S. Treasury obligations	\$ 130,392	\$ -	\$ 130,392	\$ -
U.S. agencies obligations	537,300	-	537,300	-
Municipal bonds	162,675	-	162,675	-
Commercial paper	255,987	-	255,987	-
Money market mutual funds	417,818	417,818	-	-
	<u>1,504,172</u>	<u>\$ 417,818</u>	<u>\$ 1,086,354</u>	<u>\$ -</u>
Total investments by fair value level	1,504,172	\$ 417,818	\$ 1,086,354	\$ -
Investment pool carried at amortized cost	<u>143,808</u>			
Total investments	<u>\$ 1,647,980</u>			

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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, 2019				
Investments by fair value level				
U.S. Treasury obligations	\$ 226,860	\$ -	\$ 226,860	\$ -
U.S. agencies obligations	243,869	-	243,869	-
Municipal bonds	55,606	-	55,606	-
Commercial paper	304,085	-	304,085	-
Money market mutual funds	436,043	436,043	-	-
	<u>1,266,463</u>	<u>436,043</u>	<u>830,420</u>	<u>-</u>
Total investments by fair value level	\$ 1,266,463	\$ 436,043	\$ 830,420	\$ -
Investment pool carried at amortized cost	<u>162,953</u>			
Total investments	<u>\$ 1,429,416</u>			

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. University Health held no Level 3 investments at December 31, 2020 or 2019.

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Note 13: Condensed Combining Information

The following tables include condensed combining balance sheet information for University Health and its blended component unit as of December 31, 2020 and 2019:

	December 31, 2020			
	University Health	CFHP	Eliminations	Total
Assets				
Current assets	\$ 936,774	\$ 168,518	\$ (2,685)	\$ 1,102,607
Capital assets, net	1,304,436	2,273	-	1,306,709
Other assets	1,149,228	53,806	-	1,203,034
Total assets	<u>3,390,438</u>	<u>224,597</u>	<u>(2,685)</u>	<u>3,612,350</u>
Deferred Outflows of Resources	<u>109,617</u>	<u>-</u>	<u>-</u>	<u>109,617</u>
Total assets and deferred outflows of resources	<u>\$ 3,500,055</u>	<u>\$ 224,597</u>	<u>\$ (2,685)</u>	<u>\$ 3,721,967</u>
Liabilities				
Current liabilities	\$ 268,497	\$ 91,730	\$ (2,685)	\$ 357,542
Noncurrent liabilities	1,224,881	-	-	1,224,881
Total liabilities	<u>1,493,378</u>	<u>91,730</u>	<u>(2,685)</u>	<u>1,582,423</u>
Deferred Inflows of Resources	<u>540,234</u>	<u>-</u>	<u>-</u>	<u>540,234</u>
Net Position				
Net investments in capital assets	627,700	2,273	-	629,973
Restricted expendable	39,099	3,169	-	42,268
Unrestricted	799,644	127,425	-	927,069
Total net position	<u>1,466,443</u>	<u>132,867</u>	<u>-</u>	<u>1,599,310</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 3,500,055</u>	<u>\$ 224,597</u>	<u>\$ (2,685)</u>	<u>\$ 3,721,967</u>

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	December 31, 2019			Total
	University Health	CFHP	Eliminations	
Assets				
Current assets	\$ 949,995	\$ 133,837	\$ (2,617)	\$ 1,081,215
Capital assets, net	1,161,522	3,421	-	1,164,943
Other assets	921,421	20,058	-	941,479
Total assets	<u>3,032,938</u>	<u>157,316</u>	<u>(2,617)</u>	<u>3,187,637</u>
Deferred Outflows of Resources	85,494	-	-	85,494
Total assets and deferred outflows of resources	<u>\$ 3,118,432</u>	<u>\$ 157,316</u>	<u>\$ (2,617)</u>	<u>\$ 3,273,131</u>
Liabilities				
Current liabilities	\$ 269,715	\$ 80,362	\$ (2,617)	\$ 347,460
Noncurrent liabilities	1,082,189	-	-	1,082,189
Total liabilities	<u>1,351,904</u>	<u>80,362</u>	<u>(2,617)</u>	<u>1,429,649</u>
Deferred Inflows of Resources	493,365	-	-	493,365
Net Position				
Net investments in capital assets	547,294	3,421	-	550,715
Restricted expendable	37,900	3,110	-	41,010
Unrestricted	687,969	70,423	-	758,392
Total net position	<u>1,273,163</u>	<u>76,954</u>	<u>-</u>	<u>1,350,117</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 3,118,432</u>	<u>\$ 157,316</u>	<u>\$ (2,617)</u>	<u>\$ 3,273,131</u>

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The following tables include condensed combining statements of revenues, expenses and changes in net position information for University Health and its blended component unit for the years ended December 31, 2020 and 2019:

	Year Ended December 31, 2020			
	University Health	CFHP	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 1,085,957	\$ -	\$ -	\$ 1,085,957
Premium revenue	-	599,969	-	599,969
Other	76,827	24,927	(6,773)	94,981
Total operating revenues	<u>1,162,784</u>	<u>624,896</u>	<u>(6,773)</u>	<u>1,780,907</u>
Operating Expenses				
Salaries and employee benefits	659,789	30,097	(3,800)	686,086
Purchased services, supplies and other	731,009	67,410	(2,973)	795,446
Medical claims expense	-	471,028	-	471,028
Depreciation	77,818	1,659	-	79,477
Total operating expenses	<u>1,468,616</u>	<u>570,194</u>	<u>(6,773)</u>	<u>2,032,037</u>
Operating Income (Loss)	<u>(305,832)</u>	<u>54,702</u>	<u>-</u>	<u>(251,130)</u>
Nonoperating Revenues				
Property tax revenue, net	483,377	-	-	483,377
Interest expense	(30,237)	-	-	(30,237)
Other, net	45,972	1,211	-	47,183
Total nonoperating revenues, net	<u>499,112</u>	<u>1,211</u>	<u>-</u>	<u>500,323</u>
Increase in Net Position	<u>193,280</u>	<u>55,913</u>	<u>-</u>	<u>249,193</u>
Net Position, Beginning of Year	<u>1,273,163</u>	<u>76,954</u>	<u>-</u>	<u>1,350,117</u>
Net Position, End of Year	<u>\$ 1,466,443</u>	<u>\$ 132,867</u>	<u>\$ -</u>	<u>\$ 1,599,310</u>

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	Year Ended December 31, 2019			
	University Health	CFHP	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 964,529	\$ -	\$ -	\$ 964,529
Premium revenue	-	553,402	-	553,402
Other	73,135	22,849	(5,781)	90,203
Total operating revenues	<u>1,037,664</u>	<u>576,251</u>	<u>(5,781)</u>	<u>1,608,134</u>
Operating Expenses				
Salaries and employee benefits	608,210	28,591	(2,900)	633,901
Purchased services, supplies and other	665,416	52,970	(2,881)	715,505
Medical claims expense	-	496,662	-	496,662
Depreciation	76,061	1,444	-	77,505
Total operating expenses	<u>1,349,687</u>	<u>579,667</u>	<u>(5,781)</u>	<u>1,923,573</u>
Operating Loss	<u>(312,023)</u>	<u>(3,416)</u>	<u>-</u>	<u>(315,439)</u>
Nonoperating Revenues				
Property tax revenue, net	454,415	-	-	454,415
Interest expense	(32,836)	-	-	(32,836)
Other, net	40,418	3,124	-	43,542
Total nonoperating revenues, net	<u>461,997</u>	<u>3,124</u>	<u>-</u>	<u>465,121</u>
Increase (Decrease) in Net Position	149,974	(292)	-	149,682
Net Position, Beginning of Year	<u>1,123,189</u>	<u>77,246</u>	<u>-</u>	<u>1,200,435</u>
Net Position, End of Year	<u>\$ 1,273,163</u>	<u>\$ 76,954</u>	<u>\$ -</u>	<u>\$ 1,350,117</u>

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The following tables include condensed combining statements of cash flows information for University Health and its blended component unit for the years ended December 31, 2020 and 2019:

	Year Ended December 31, 2020		
	University Health	CFHP	Total
Net cash provided by (used in)			
Operating activities	\$ (246,809)	\$ 66,256	\$ (180,553)
Noncapital financing activities	458,195	-	458,195
Capital and related financing activities	(33,660)	(570)	(34,230)
Investing activities	<u>(189,363)</u>	<u>(40,441)</u>	<u>(229,804)</u>
Increase (decrease) in cash and cash equivalents	(11,637)	25,245	13,608
Cash and cash equivalents, beginning of year	<u>220,593</u>	<u>85,730</u>	<u>306,323</u>
Cash and cash equivalents, end of year	<u><u>\$ 208,956</u></u>	<u><u>\$ 110,975</u></u>	<u><u>\$ 319,931</u></u>

	Year Ended December 31, 2019		
	University Health	CFHP	Total
Net cash provided by (used in)			
Operating activities	\$ (252,108)	\$ 6,228	\$ (245,880)
Noncapital financing activities	427,301	-	427,301
Capital and related financing activities	(95,301)	(587)	(95,888)
Investing activities	<u>44,269</u>	<u>41,770</u>	<u>86,039</u>
Increase in cash and cash equivalents	124,161	47,411	171,572
Cash and cash equivalents, beginning of year	<u>96,432</u>	<u>38,319</u>	<u>134,751</u>
Cash and cash equivalents, end of year	<u><u>\$ 220,593</u></u>	<u><u>\$ 85,730</u></u>	<u><u>\$ 306,323</u></u>

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Note 14: COVID-19 Pandemic & CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incident of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

Beginning in mid-March 2020, University Health deferred all nonessential medical and surgical procedures and suspended elective procedures, which resumed prior to December 31, 2020.

In addition, University Health received approximately \$19,759 in general and targeted Provider Relief Fund distributions provided for under the *Coronavirus Aid, Relief, and Economic Security (CARES) Act* as discussed below.

The extent of the COVID-19 pandemic's adverse effect on University Health's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond University Health's control and ability to forecast. Because of these and other uncertainties, University Health cannot estimate the length or severity of the effect of the pandemic.

Provider Relief Fund

During the year ended December 31, 2020, University Health received \$19,759 of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided University Health is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

Subsequent to year-end, University Health received an additional \$25,192 in Provider Relief Fund distributions.

University Health is accounting for such payments as conditional contributions. Payments are recognized as non-operating revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on University Health's operating revenues and expenses through December 31, 2020, University Health recognized \$19,759, related to the Provider Relief Fund, and these payments are recorded as nonoperating revenue in the statements of revenues, expenses and changes in net position.

University Health will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on University Health's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If University Health is unable to attest to or comply with current or future terms and conditions University Health's ability to retain some or all of the distributions

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received may be affected. Additionally, the amounts recorded in the financial statements compared to University Health's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

Note 15: Future Change in Accounting Principle

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 University Health's fiscal year ending December 31, 2022. 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 University Health's financial statements is not currently determinable.

Note 16: Contingencies

Litigation

In the normal course of business, University Health 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 University Health's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. University Health 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.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1 and 7*.

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Pension and Other Postretirement Benefit Obligations

University Health has a defined benefit pension and postretirement health care plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the entry age normal cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Investments

University Health invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying balance sheets.

Required Supplementary Information

Bexar County Hospital District
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Schedule of Changes in University Health's Net Pension Liability and Related
Ratios December 31
(In Thousands)

	2020	2019	2018	2017	2016	2015
Total Pension Liability						
Service cost	\$ 21,645	\$ 20,698	\$ 19,603	\$ 19,175	\$ 17,036	\$ 16,627
Interest	37,600	35,195	33,128	29,286	28,862	26,615
Effect of economic/demographic gains or losses	(659)	(1,304)	(6,090)	(4,243)	749	-
Changes of assumptions	20,879	-	-	26,891	-	-
Benefit payments, including refunds of employee contributions	(22,399)	(20,009)	(16,451)	(16,865)	(13,639)	(13,749)
Net Change in Total Pension Liability	57,066	34,580	30,190	54,244	33,008	29,493
Total Pension Liability - Beginning	526,504	491,924	461,734	407,490	374,482	344,989
Total Pension Liability - Ending (a)	<u>\$ 583,570</u>	<u>\$ 526,504</u>	<u>\$ 491,924</u>	<u>\$ 461,734</u>	<u>\$ 407,490</u>	<u>\$ 374,482</u>
Plan Fiduciary Net Position						
Contributions - employer	\$ 23,431	\$ 24,110	\$ 24,296	\$ 17,891	\$ 16,903	\$ 16,297
Contributions - employee	8,796	8,045	7,325	6,589	6,724	5,742
Net investment income	66,962	(16,152)	53,559	19,944	1,370	12,564
Benefit payments, including refunds of employee contributions	(22,399)	(20,009)	(16,451)	(16,865)	(13,639)	(13,749)
Net Change in Plan Fiduciary Net Position	76,790	(4,006)	68,729	27,559	11,358	20,854
Plan Fiduciary Net Position - Beginning	359,774	363,780	295,051	267,492	256,134	235,280
Plan Fiduciary Net Position - Ending (b)	<u>\$ 436,564</u>	<u>\$ 359,774</u>	<u>\$ 363,780</u>	<u>\$ 295,051</u>	<u>\$ 267,492</u>	<u>\$ 256,134</u>
University Health's Net Pension Liability - Ending (a) - (b)	<u>\$ 147,006</u>	<u>\$ 166,730</u>	<u>\$ 128,144</u>	<u>\$ 166,683</u>	<u>\$ 139,998</u>	<u>\$ 118,348</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.81%	68.33%	73.95%	63.90%	65.64%	68.40%
Covered Payroll	\$ 380,745	\$ 354,487	\$ 331,014	\$ 307,617	\$ 280,165	\$ 254,100
University Health's Net Pension Liability as a Percentage of Covered Payroll	38.61%	47.03%	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)
2. In 2020, salary increase, mortality, termination retirement and optional form assumptions were changed based on a recent experience study.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, University Health will present information for those years for which information is available. Information presented in this schedule has been determined as of University Health's fiscal year end (December 31) in accordance with GASB 68.

Bexar County Hospital District
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Schedule of University Health 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
2020	\$ 21,502	\$ 21,502	-	\$ 410,769	5.2%
2019	20,431	23,431	(3,000)	380,745	6.2%
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:	25
Asset valuation method:	5-year smoothed market
Inflation:	3.25%
Salary increases:	3.50% - 6.75%, 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:	PubG-2010 Sex Distinct Employee; projected with Generational Mortality (Scale MP-2018)
Mortality - Retired Lives:	PubG-2010 Sex Distinct Healthy Retiree; projected with Generational Mortality (Scale MP-2018)
Other information:	Plan is frozen to new participants effective June 30, 2012

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, University Health will present information for those years for which information is available. Information presented in this schedule has been determined as of University Health's fiscal year end (December 31) in accordance with GASB 68.

**Bexar County Hospital District
d/b/a University Health**

**Schedule of Changes in University Health's Net OPEB Liability and Related Ratios
December 31
(In Thousands)**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability			
Service cost	\$ 3,910	\$ 3,101	\$ 3,191
Interest	5,331	4,975	3,942
Effect of economic/demographic gains or losses	24,846	425	11,204
Effect of assumption changes	12,715	-	-
Plan amendments	(5,659)	-	-
Benefit payments	<u>(4,182)</u>	<u>(3,541)</u>	<u>(2,437)</u>
Net Change in Total OPEB Liability	36,961	4,960	15,900
Total OPEB Liability - Beginning	<u>75,661</u>	<u>70,701</u>	<u>54,801</u>
Total OPEB Liability - Ending (a)	<u>\$ 112,622</u>	<u>\$ 75,661</u>	<u>\$ 70,701</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 4,182	\$ 3,541	\$ 2,437
Benefit payments	(4,182)	(3,541)	(2,437)
Net investment income (loss)	<u>9,799</u>	<u>(1,664)</u>	<u>6,686</u>
Net Change in Plan Fiduciary Net Position	9,799	(1,664)	6,686
Plan Fiduciary Net Position - Beginning	<u>43,628</u>	<u>45,292</u>	<u>38,606</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 53,427</u>	<u>\$ 43,628</u>	<u>\$ 45,292</u>
University Health's Net OPEB Liability - Ending (a) - (b)	<u>\$ 59,195</u>	<u>\$ 32,033</u>	<u>\$ 25,409</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.44%	57.66%	64.06%
Covered Employee Payroll	\$ 171,472	\$ 180,712	\$ 189,368
University Health's Net OPEB Liability as a Percentage of Covered Employee Payroll	34.52%	17.73%	13.42%

Note: The measurement date for GASB 75 is one year prior to the current fiscal year end of University Health. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, University Health will present information for those years for which information is available. Information presented in this schedule has been determined as of University Health's fiscal year end (December 31) in accordance with GASB 75.

**Bexar County Hospital District
d/b/a University Health
Schedule of University Health OPEB Contributions**

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
2020	\$ 7,313	\$ 4,720	\$ (2,593)	\$ 161,127	2.9%
2019	4,452	4,182	(270)	171,472	2.4%
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:	3.25%
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:	PubG-2010 Sex Distinct Employee Headcount weighted; projected with Generational Mortality (Scale MP-2018)
Mortality - Retired Lives:	PubG-2010 Sex Distinct Healthy Retiree Headcount weighted; projected with Generational Mortality (Scale MP-2018)

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, University Health will present information for those years for which information is available. Information presented in this schedule has been determined as of University Health's fiscal year end (December 31) in accordance with GASB 75.