

**University Health System OPEB Plan
(A Component Unit of Bexar County Hospital District
d/b/a University Health System)**

Independent Auditor's Reports and Financial Statements

December 31, 2019 and 2018

University Health System OPEB Plan

December 31, 2019 and 2018

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Independent Auditor's Report

Board of Trustees
University Health System OPEB Plan
San Antonio, Texas

We have audited the accompanying financial statements of the University Health System OPEB Plan (the Plan), a fiduciary fund of the Bexar County Hospital District d/b/a University Health System, which comprise the statements of fiduciary net position as of December 31, 2019 and 2018, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 2019 and 2018, and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

BKD, LLP

Dallas, Texas
May 14, 2020

University Health System OPEB Plan
(A Component Unit of Bexar County Hospital District
d/b/a University Health System)
Management's Discussion and Analysis
Years Ended December 31, 2019 and 2018

This discussion and analysis of the University Health System OPEB Plan (the Plan) is for the years ended December 31, 2019 and 2018. This analysis provides a summary of the financial position of the Plan, including highlights and comparisons. For more detailed information regarding the Plan's financial activities, the reader should also review the actual financial statements, including notes and supplementary schedules.

Financial Statements

The financial statements of the Plan include statements of fiduciary net position and statements of changes in fiduciary net position. The purpose of these statements is to present information about the Plan's present and future ability to pay benefits as they become due. These statements are presented using an economic resource measurement focus and the accrual basis of accounting. The financial statements also include notes that explain the history and purpose of the Plan, significant accounting policies, investment details, and other required information regarding the financial position of the Plan.

Summarized Financial Information

The following table displays the total assets, liabilities and net position of the Plan:

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>Changes 2019-2018</u>	<u>Changes 2018-2017</u>
Assets	\$ 53,463,545	\$ 43,644,713	\$ 45,294,071	22.50%	-3.64%
Liabilities	37,529	17,329	-	116.57%	-100.00%
Net position	<u>\$ 53,426,016</u>	<u>\$ 43,627,384</u>	<u>\$ 45,294,071</u>	<u>22.46%</u>	<u>-3.68%</u>

The Plan's assets are comprised of investments. The increase in net position is primarily a result of the fair value of investments increasing due to a positive performance in the markets in 2019 as compared to 2018. Net position held in trust by the Plan totaled \$53,426,016 and \$43,627,384 at December 31, 2019 and 2018, respectively. The Plan's net position increased by \$9,798,632 in 2019 compared to a decrease of \$1,666,687 in 2018. The net position of the Plan is held exclusively for the benefit of the Plan participants and reasonable administrative expenses for administering the Plan.

The following table displays the changes in plan net position:

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>Changes 2019-2018</u>	<u>Changes 2018-2017</u>
Contributions	\$ 4,181,710	\$ 3,541,334	\$ 2,437,076	18.08%	45.31%
Net investment income (loss)	9,862,763	(1,593,142)	6,735,044	719.08%	-123.65%
Total additions	<u>14,044,473</u>	<u>1,948,192</u>	<u>9,172,120</u>	<u>620.90%</u>	<u>-78.76%</u>
Benefits paid	4,181,710	3,541,334	2,437,076	18.08%	45.31%
Administrative expenses	64,131	73,545	44,496	-12.80%	65.28%
Total deductions	<u>4,245,841</u>	<u>3,614,879</u>	<u>2,481,572</u>	<u>17.45%</u>	<u>45.67%</u>
Change in net position	<u>\$ 9,798,632</u>	<u>\$ (1,666,687)</u>	<u>\$ 6,690,548</u>	<u>687.91%</u>	<u>-124.91%</u>

The additions to the plan are comprised of contributions and investment returns, and the primary deductions from the Plan are for benefits paid to the Plan's participants. Contributions made in 2019 totaled \$4,181,710, which was an increase of \$640,376 from the contributions made in 2018. Contributions made in 2018 totaled \$3,541,334, which was an increase of \$1,104,258 from the contributions made in 2017. Benefits payments made in 2019 totaled \$4,181,710, which was an increase of \$640,376 from the benefits payments made in 2018. Benefits payments made in 2018 totaled \$3,541,334, which was an increase of \$1,104,258 from the benefits payments made in 2017. Total investment income was \$9,862,763 in 2019, compared to a total investment loss of \$1,593,142 in 2018, which represented an increase in investment income of \$11,455,905 in 2019.

Contact Information

This financial report is designed to provide a general overview of the Plan's finances and to demonstrate the Plan's accountability and for the contributions it receives. If you have any questions about this report or need additional financial information, contact the Plan's Financial Offices at 4502 Medical Drive, San Antonio, Texas 78229.

University Health System OPEB Plan
(A Component Unit of University Health System)
Statements of Fiduciary Net Position
December 31, 2019 and 2018

	2019	2018
Assets		
Investments		
Wells Fargo Treasury Money Market	\$ 321,061	\$ 864,821
Vanguard Institutional Index Fund	17,962,195	33,678,682
Harding Loevner International Equity Fund	15,157,171	-
Aristotle Small Cap Equity Fund	4,721,945	-
Dodge & Cox Income Fund	7,705,145	4,577,941
Natixis Loomis Sayles Core Plus Bond	7,596,028	4,523,269
Total assets	53,463,545	43,644,713
Liabilities		
Accounts payable and accrued expenses	37,529	17,329
Net Position Restricted for Other Postemployment Benefits	\$ 53,426,016	\$ 43,627,384

University Health System OPEB Plan
(A Component Unit of University Health System)
Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
Additions		
Employer contributions		
Benefits paid by System not reimbursed to the System using OPEB plan assets	\$ 4,181,710	\$ 3,541,334
Net investment income		
Interest income	20,572	13,488
Dividend income	1,018,489	981,172
Net appreciation (depreciation) in fair value of investments	8,844,102	(2,577,802)
Investment expenses	(20,400)	(10,000)
Total additions	14,044,473	1,948,192
Deductions		
Benefit payments	4,181,710	3,541,334
Administrative expenses	64,131	73,545
Total deductions	4,245,841	3,614,879
Net Increase (Decrease) in Net Position	9,798,632	(1,666,687)
Net Position Restricted for Other Postemployment Benefits, Beginning of Year	43,627,384	45,294,071
Net Position Restricted for Other Postemployment Benefits, End of Year	\$ 53,426,016	\$ 43,627,384

University Health System OPEB Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

Note 1: Summary of Significant Accounting Policies

Reporting Entity and Basis of Presentation

The University Health System Retiree Health Trust (the OPEB Plan) is a single-employer defined benefit other post employment benefit plan established and administered by Bexar County Hospital District d/b/a University Health System (the System). The OPEB Trust is fiscally dependent on the System and is reported as a fiduciary fund in the System's financial statements. The Plan covers substantially all employees of the System and provides postretirement health care benefits to eligible retirees and their dependents.

The OPEB Plan accounts for and reports its activities by applying the Standards of Governmental Accounting and Financial Reporting, as promulgated by the Governmental Accounting Standards Board (GASB).

The OPEB Plan financial statements have been prepared using the accrual basis of accounting in accordance with GASB Statement No. 74, *Financial Reporting for postemployment Benefit Plans Other Than Pension Plans*. This statement establishes financial reporting standards for state and local governmental OPEB plans, defined benefit OPEB plans and defined contribution OPEB plans that are administered through trusts or equivalent arrangements meeting the criteria of paragraph 3 of GASB 74.

The OPEB trust meets the criteria of paragraph 3 of GASB 74 as a trust administering a defined benefit OPEB plan.

Investments

Investments are carried at fair value. Fair value is determined using quoted market prices.

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. At December 31, 2019 and 2018, all of the Plan's investments are classified as Level 1 since they have quoted prices in active markets for identical investments.

Benefit Payments

Benefit payments are recorded when the OPEB benefits come due.

University Health System OPEB Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Note 2: Description of Plan

Plan Description and Contributions

The OPEB Plan is administered by the System. Benefit provisions and contribution requirements of plan members and the System are established and may be amended by the System’s Board of Managers (Board). The Board has the authority to establish and amend the contribution requirements of the System and active employees. The required contribution is based on projected pay-as-you-go financing requirements.

Benefits Provided

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

The employees covered by the OPEB Plan at December 31, 2019 and 2018, are:

	<u>2019</u>	<u>2018</u>
Inactive plan members or beneficiaries currently receiving payments	955	860
Active plan members	<u>2,862</u>	<u>3,093</u>
Total inactive participants	<u><u>3,817</u></u>	<u><u>3,953</u></u>

University Health System OPEB Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

Net OPEB Liability

The System's net OPEB Plan liability of \$58,228,005 and \$31,033,139 was measured as of December 31, 2019 and 2018, respectively, for the years ended December 31, 2019 and 2018, respectively. 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, respectively, and rolled forward to the measurement dates. The total OPEB liability in the actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Health care cost trend rates	5.0%
Investment rate of return	7.0%
Retirees' share of benefit-related costs	70.0%

For 2019, 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 2018, mortality rates for both active and retired lives were based on the RP-2000 Combined Healthy, with no collar adjustment; projected with generational mortality (Scale AA).

The actuarial value of plan assets is based on market-related value of plan assets, with five-year smoothing of expected returns. The market-related value is equal to the value of the fair value of assets held in trust for OPEB Plan benefits as of the valuation date.

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
Equity	70%	4.6%
Fixed income	30%	0.8%
Total	100%	

University Health System OPEB Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2019 and 2018

The components of the net OPEB Plan liability of the System at December 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Total OPEB liability	\$ 111,654,021	\$ 74,660,523
Less: plan fiduciary net position	<u>53,426,016</u>	<u>43,627,384</u>
Net OPEB liability	<u>\$ 58,228,005</u>	<u>\$ 31,033,139</u>
Plan fiduciary net position as a % of total OPEB liability	48%	58%

Discount Rate

The discount rate used to measure the total OPEB Plan liability was 7.0%, for both years ended December 31, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected OPEB Plan payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB Plan liability.

The liability at December 31, 2019 and 2018 was determined using the entry age normal cost method.

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
System's net OPEB liability - 2019	<u>\$ 72,308,165</u>	<u>\$ 58,228,005</u>	<u>\$ 46,506,968</u>
System's net OPEB liability - 2018	<u>\$ 39,764,279</u>	<u>\$ 31,033,139</u>	<u>\$ 23,661,588</u>

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

University Health System OPEB Plan
(A Component Unit of University Health System)
Notes to Financial Statements
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	1% Decrease	Current Health Care Cost Trend Rates	1% Increase
System's net OPEB liability - 2019	<u>\$ 43,948,860</u>	<u>\$ 58,228,005</u>	<u>\$ 75,743,509</u>
System's net OPEB liability - 2018	<u>\$ 22,154,492</u>	<u>\$ 31,033,139</u>	<u>\$ 41,843,091</u>

Note 3: Subsequent Events

There has been significant volatility in the investment markets both nationally and globally since December 31, 2019, resulting in an overall market decline which has resulted in a substantial decline in the value of the Plan's investment portfolio subsequent to year end.

Required Supplementary Information

University Health System OPEB Plan
(A Component Unit of University Health System)
Schedule of Changes in the Plan's Net OPEB Liability and Related Ratios

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total Pension Liability			
Service cost	\$ 3,909,522	\$ 3,100,947	\$ 3,191,072
Interest	5,331,323	4,975,439	3,942,281
Plan amendments	(5,659,145)	-	-
Demographic (gains)/losses	25,596,228	424,473	11,204,080
Assumption changes	12,715,016	-	-
Expected benefit payments	<u>(4,899,446)</u>	<u>(3,573,746)</u>	<u>(3,404,922)</u>
Net Change in Total OPEB Liability	36,993,498	4,927,113	14,932,511
Total OPEB Liability - Beginning	<u>74,660,522</u>	<u>69,733,409</u>	<u>54,800,898</u>
Total OPEB Liability - Ending (a)	<u>\$ 111,654,020</u>	<u>\$ 74,660,522</u>	<u>\$ 69,733,409</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 4,181,710	\$ 3,541,334	\$ 2,437,076
Benefit payments	(4,181,710)	(3,541,334)	(2,437,076)
Net investment income	<u>9,798,632</u>	<u>(1,664,844)</u>	<u>6,685,604</u>
Net Change in Plan Fiduciary Net Position	9,798,632	(1,664,844)	6,685,604
Plan Fiduciary Net Position - Beginning	<u>43,627,383</u>	<u>45,292,227</u>	<u>38,606,623</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 53,426,015</u>	<u>\$ 43,627,383</u>	<u>\$ 45,292,227</u>
Net OPEB Liability - Ending (a) - (b)	<u>\$ 58,228,005</u>	<u>\$ 31,033,139</u>	<u>\$ 24,441,182</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.8%	58.4%	65.0%
Covered Employee Payroll	\$ 171,472,185	\$ 180,712,047	\$ 189,368,419
System's Net OPEB Liability as a Percentage of Covered Employee Payroll	34%	17%	13%

University Health System OPEB Plan
(A Component Unit of University Health System)
Schedule of OPEB Contributions

Actuarial Valuation Date	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution excess (deficiency)	Covered Employee Payroll	Contributions as a percentage of covered payroll
2019	\$ 4,452,000	\$ 3,909,522	\$ (542,478)	\$ 171,472,185	2.3%
2018	\$ 4,585,000	\$ 3,100,947	\$ (1,484,053)	\$ 180,712,047	1.7%
2017	\$ 2,996,000	\$ 2,437,082	\$ (558,918)	\$ 189,368,419	1.3%

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:	Level percentage open
Remaining amortization period:	30
Asset valuation method:	5-year smoothed market
Inflation:	N/A
Salary increases:	3.5%
Investment rate of return:	7.0%, net of OPEB plan investment expense, including inflation
Retirement age:	Annual rates based on age and age at satisfaction of rule
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)
Mortality - Contingent Survivor Lives:	PubG-2010 Sex Distinct Healthy Retiree Headcount weighted; projected with Generational Mortality (Scale MP-2018)

University Health System OPEB Plan
(A Component Unit of University Health System)
Schedule of OPEB Investment Return

	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	12%	-12%	10%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10-year trend is compiled, years for which the information is available will be presented.