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

Independent Auditor’s Reports and Financial Statements

December 31, 2015 and 2014

BKD LLP
CPAs & Advisors

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
December 31, 2015 and 2014

Contents

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units and the aggregate remaining fiduciary fund information of Bexar County Hospital District d/b/a University Health System (the System), collectively a component unit of Bexar County, Texas, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of University Health System Pension Plan (the Pension Plan), a fiduciary fund of the System. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pension Plan, is based solely on the report of other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Pension Plan were not audited in accordance with *Government Auditing Standards.*

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

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

Opinions

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units and the aggregate remaining fiduciary fund information of the System as of December 31, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2015, the System changed its method of accounting for its defined benefit pension plan as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. Our opinions are not modified with respect to this matter.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2016, on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
May 24, 2016

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Management's Discussion and Analysis
Years Ended December 31, 2015 and 2014
(In Thousands)

Introduction

This management's discussion and analysis of the financial performance of Bexar County Hospital District d/b/a University Health System (the System) provides an overview of the System's financial activities for the years ended December 31, 2015 and 2014. It should be read in conjunction with the financial statements of the System.

As discussed in *Note 1*, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, during the year ended December 31, 2015. As part of the implementation of GASB Statement No. 68, management determined it was not practical to restate 2014 and prior years. Therefore, as a result of implementing GASB Statement Nos. 68 and 71, a liability associated with the unfunded status of the defined benefit pension plan was recorded along with related deferred outflows of resources, as detailed in *Note 1*, were recorded and the 2015 beginning net position was restated.

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

2015 Highlights

A host of significant accomplishments in 2015 are already directly and positively impacting the patients served and positioning the System to effectively meet the challenges and opportunities related to health care reform and the Texas Transformation and Quality Improvement Program 1115 Waiver (the Waiver). Highlights of key initiatives and their outcomes relative to Triple-Aim *Plus* include:

Quality, Safety and Outcomes

- Ranked by U.S. News & World Report as the #1 best hospital in the San Antonio metro area, the sixth best hospital in Texas, and among the top 50 nationally in nephrology.
- Nurse Magnet re-designation achieved, the first in south Texas, the first and only in San Antonio.
- Successful triennial reaccreditation of the System by the Joint Commission.
- Recertification by the Joint Commission of the System's Palliative Medicine program, which now includes services to neonatal and pediatric patients.

- Received recognition from *Hospitals & Health Networks* as a “Most Wired” institution in its annual survey - an industry-standard benchmark for measuring meaningful use adoption of health care information technology.

The Patient Experience

- The System received the National Research Corporation *Path to Excellence Most Improved Award* (300+ bed category). The award is based on how patients scored their experience at the System on the overall “Rate the Hospital” question.
- The System introduced a new highly interactive new hire onboarding/orientation program to more consistently and effectively educate, engage and empower new staff members on the System’s mission and their roles and responsibilities to deliver a positive brand experience to all internal and external customers.
- As communication and compassion related to pain, is a key driver of HCAHPS scores, the System engaged physicians to establish a Physician Pain Committee. The team meets monthly to develop and execute action plans.

Efficiencies

- The System met 100% of DSRIP milestones under the Waiver.
- Integrated lean management continues to be expanded through training initiatives to all levels of staff.
- The System developed and implemented service line daily benchmark reports for activity and labor productivity.

Access to Care

- Improved access to post-acute care with the acquisition of three licensed skilled nursing facilities through the Minimum Payment Amount (MPA) Program to improve quality of care for patients
- Expanded access for same day/urgent pediatric services through Pediatric Urgent Care at Robert B. Green
- Improved ambulatory pediatric primary care and specialty access under Network Access Improvement Program.
- Expanded telemedicine services with focus on endocrinology and retinal eye imaging at three large primary care clinics

Financial Highlights

- During 2015, Fitch Ratings affirmed their previous rating of AAA with a stable outlook.
- Standard and Poor’s performed an operational assessment and did not change their previous rating of AA+.
- The System’s net position decreased by $37.9 million or 4.0% in 2015 and increased $10.4 million or 1.1% in 2014. The decrease in net position in 2015 is primarily due to the impact of adopting GASB Statement No. 68 whereby the unfunded status of the defined benefit pension plan was recorded along with related deferred outflows of resources, as detailed in *Note 1*, and the 2015 beginning net position was restated.
- During 2015, the System’s total operating revenue increased by $115.1 million or 18.4%, while total operating expenses increased by $91.0 million or 10.0%. During 2014, the System’s total operating revenue increased by $60.5 million or 10.7%, while total operating expenses increased by $123.9 million or 15.9%.
- The System invested $25.8 million in capital assets in 2015 and $156.8 million in 2014, as part of the ongoing Capital Improvement Plan.

Financial Analysis of the System

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

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

TABLE 1
Condensed Balance Sheets

	2015	2014	2013
Assets			
Current and other assets	$ 1,068,586	$ 874,811	$ 1,002,932
Capital assets, net	1,199,106	1,239,534	1,153,389
Total assets	2,267,692	2,114,345	2,156,321
Deferred Outflows of Resources - Pensions	23,149	-	-
Total assets and deferred outflows of resources	$ 2,290,841	$ 2,114,345	$ 2,156,321
Liabilities			
Long-term debt	$ 711,941	$ 707,379	$ 720,329
Net pension liability	118,348	-	-
Other liabilities	187,799	140,479	200,990
Total liabilities	1,018,088	847,858	921,319
Deferred Inflows of Resources - Property Taxes	365,798	321,626	300,491
Net Position			
Net investment in capital assets	499,684	523,861	447,158
Restricted - expendable	28,775	24,271	19,953
Unrestricted	378,496	396,729	467,400
Total net position	906,955	944,861	934,511
Total liabilities, deferred inflows of resources and net position	$ 2,290,841	$ 2,114,345	$ 2,156,321

As seen in Table 1, net position decreased by $37.9 million to $907.0 million in 2015, down from $944.9 million in 2014. The decrease in net position results primarily from the recognition of the net pension liability with the adoption of GASB 68, offset in part by growth in patient services and improved payer mix as well as an increase in total revenue from supplemental Medicaid funding programs and increased property tax revenue. Net position increased by $10.4 million to $944.9 million in 2014, up from $934.5 million in 2013.

Summary of Revenue, Expenses and Changes in Net Position

The following table presents a summary of the System's historical revenues and expenses for each of the fiscal years ended December 31, 2015, 2014 and 2013:

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

	2015	2014	2013
Operating Revenues			
Net patient service revenue	$ 693,220	$ 572,645	$ 514,618
Other revenue	46,902	52,333	49,869
Total operating revenues	740,122	624,978	564,487
Operating Expenses			
Salaries and employee benefits	460,754	423,145	385,987
Purchased services, supplies and other	454,803	409,020	349,791
Depreciation	80,818	73,259	45,733
Total operating expenses	996,375	905,424	781,511
Operating Loss	(256,253)	(280,446)	(217,024)
Nonoperating Revenues, Net	311,656	290,796	292,217
Increase in Net Position	$ 55,403	$ 10,350	$ 75,193

Sources of Revenue

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

TABLE 3
Sources of Gross Revenue by Percentage

	2015	2014	2013
Operating Revenues			
Net patient service revenue	65.9%	62.5%	60.1%
Other revenue	4.5%	5.7%	5.8%
Total operating revenues	70.4%	68.2%	65.9%
Nonoperating Revenues (Expenses)			
Investment return	0.1%	0.2%	0.0%
Interest expense	-3.6%	-3.2%	-1.2%
Gain on sale of equity investment	0.8%	0.0%	0.0%
Property tax revenue, net	30.9%	33.2%	33.7%
Proceeds from tobacco settlement	0.6%	0.7%	0.6%
Build America Bond interest subsidy	0.8%	0.9%	1.0%
Total nonoperating revenues	29.6%	31.8%	34.1%
Total revenue	100%	100%	100%

Operating Revenue

During 2015, the System derived approximately 70.4% of its total revenue from operating revenue, compared to 68.2% in 2014 and 65.9% in 2013. Operating revenue increased as a percentage of total revenue due to an increase in net patient service revenue.

Table 4 presents the relative percentages of gross charges billed for patient services by payer for the fiscal years ended December 31, 2015, 2014 and 2013:

TABLE 4
Payer Mix by Percentage

	Year Ended December 31,		
	2015	2014	2013
Medicare	24%	22%	22%
Medicaid	23	23	21
Self-pay	26	31	37
Commercial insurance	26	23	19
Other	1	1	1
Total	100%	100%	100%

Nonoperating Revenue

During 2015, the System derived 30.9% of its total revenue from ad valorem taxes (property taxes), compared to 33.2% in 2014 and 33.7% in 2013. The Bexar County Commissioners Court is authorized to levy taxes on property within Bexar County to provide for the maintenance and operations of the System's facilities and for debt service on approved debt issuances.

For the years ended December 31, 2015, 2014 and 2013, investment return comprised 0.1% and 0.2% and 0.0%, respectively, of total revenue and was made up of interest income, net realized gains/losses and net unrealized market gains/losses.

For the years ended December 31, 2015, 2014 and 2013, tobacco revenue comprised 0.6%, 0.7% and 0.6%, respectively, of total revenue and represented the System's allocation of earnings on the state's permanent trust funds from a settlement with tobacco companies in 1998.

For the years ended December 31, 2015, 2014 and 2013, the Build America Bonds (BABs) interest subsidy comprised 0.8%, 0.9% and 1.0%, respectively, of total revenue and was made up of the $8.3 million in funds paid by the U.S. Treasury to subsidize interest costs on the BABs bond issuances. During 2015, the BABs subsidy was reduced by 6.8% as part of the federal sequestration spending reductions. During 2014 and 2013, the BABs subsidy was reduced by 8.7%.

Operating and Financial Performance

Overall activity of the System, as measured by patient discharges adjusted for outpatient activity, increased 8.2% to 49,151 in 2015 from 45,392 in 2014. The increase in 2015 was due to increased capacity from the opening of the new Sky Tower. The Sky Tower is a one million square foot patient tower that opened on April 14, 2014. Significant growth occurred in the cardiology, trauma and gastroenterology service lines.

In 2015, net patient service revenue increased by $120.6 million to $693.2 million or 21.1% related to initiatives to improve charge capture, increases in patient volumes related to increased capacity from the opening of the new Sky Tower, continuing improvements to the mix of insured patients and higher reimbursement from Texas Medicaid supplemental funding programs.

In 2015, other operating revenue decreased by $5.4 million to $46.9 million or 10.4%. Overall, total operating revenue of $740.1 million increased $115.1 million or 18.4% in 2015 compared to the total of $625.0 million in 2014 that increased by $60.5 million or 10.7%. The increase in 2015 is attributable to the increase in net patient service revenue discussed above. The increase in operating revenue for 2014 is attributable to initiatives to improve charge capture, continuing improvements to the mix of insured patients and higher reimbursement from Texas Medicaid supplemental funding programs and implementation of projects under the Waiver.

Employee compensation increased by $37.6 million or 8.9% in 2015 and $37.2 million or 9.6% in 2014. The increases are attributed to increased staffing, related to the opening of the Sky Tower, the addition of pediatric services, increased activity in the hospital and clinic expansion initiatives.

Purchased services, supplies and other expenses had an overall increase of $45.8 million or 11.2% in 2015 and an overall increase of $59.2 million or 16.9% in 2014. Significant variances are as follows:

- Purchased services increased by $42.0 million or 28.1% in 2015. The increases are attributed to implementation of the skilled nursing facility MPA program, maintenance costs for equipment in the Sky Tower, the expansion of SNF coverage for non-acute patients, the addition of pediatric services, and increased activity in the hospital and clinic expansion initiatives.
- Supplies increased by $6.4 million or 4.4% in 2015 and increased $21.6 million or 17.5% in 2014. The increase in both years was primarily related to increases in patient volumes related to moving into the Sky Tower, increases in operating rooms with more complex cases and higher pharmaceutical costs.

Depreciation expense increased by $7.6 million or 10.3% in 2015 and $27.5 million or 60.2% in 2014. These increases were primarily due to bringing into operations completed projects attributed to the CIP projects in 2015 and 2014.

Overall, total operating expenses increased by $91.0 million to $996.4 million or 10.0% in 2015 and by $123.9 million to $905.4 million or 15.9% in 2014.

Overall, nonoperating revenues (expenses) of $311.7 million increased by $20.9 million or 7.2% from 2014. Nonoperating revenues (expenses) consists of property tax revenue, investment income, proceeds from the tobacco settlement (the settlement of litigation between the State Attorney General and various tobacco companies), BAB subsidy payments, interest expense on bonds and the gain on sale of equity investment.

In 2015, property taxes were levied to support maintenance and operations (M&O) and debt service (DS). Overall property taxes increased by $21.2 million to $325.1 million compared to the 2014 taxes of $303.9 million. Of the $325.1 million, $277.5 million was to support maintenance and operations. The remaining $47.6 million in property tax revenue is a debt service property tax to fund the payment of principal and interest (debt service) on the Certificates of Obligation issued in 2008, 2009, 2010 and 2015.

Capital Assets and Long-term Debt

During fiscal years 2015 and 2014, the System invested $25.8 million and $156.8 million, respectively, in a broad range of capital assets. Table 5 presents an analysis of capital asset balances between 2015, 2014 and 2013:

TABLE 5
Capital Assets

	2015	2014	2013
Land and land improvements	$ 19,449	$ 19,296	$ 19,117
Building and improvements	1,298,416	1,277,982	568,409
Equipment	381,301	374,462	270,532
Construction in progress	17,237	18,864	675,708
	1,716,403	1,690,604	1,533,766
Less accumulated depreciation	517,297	451,070	380,377
Capital assets, net of accumulated depreciation	$ 1,199,106	$ 1,239,534	$ 1,153,389

Construction in progress (CIP) decreased by $1.6 million in 2015. Other capital assets increased $27.4 million. These projects were primarily related to additional renovation and equipment improvements for the continuing expansion of pediatric services in affiliation with the University of Texas Health Science Center San Antonio's pediatric teaching program.

CIP decreased by $656.8 million in 2014 due to the opening of the Sky Tower, where new operating rooms, emergency department and patient floors were placed in service on April 14, 2014. Other capital assets increased $156.8 million from the transfer of CIP and from management's ongoing focus on replacing and upgrading existing equipment and facilities.

The combination tax and revenue Certificates of Obligation, Series 2015 (the 2015 Certificates) were issued in 2015. The System issued no new debt in 2014. Long-term debt transactions in 2015 and 2014 are discussed more fully in *Note 8*.

Economic Factors and Key Challenges

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

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

- The Waiver is effective from December 12, 2011 to September 30, 2016. On May 2, 2016, the Texas Health and Human Services Commission (HHSC) announced CMS has agreed to extend the Waiver through December 2017 at current funding levels. During the extension period, HHSC and CMS will continue negotiating a longer term extension.
- Growing activity and improving operating efficiencies
- Achieving the metrics for the 1115 Waiver projects
- Implementing new State funding programs (NAIP, QIPP, etc.)
- Continue executing the Pediatric Transition Plan including a new Pediatric emergency room
- Mitigating the impact of changes to state and federal funding sources

Strategic Plans to Meet These Challenges

- Continuing to maximize the Lean Management System (LMS) aimed at:
  - Incorporating lean continuous process improvement principles and techniques into daily management processes to deliver value to our patients with minimum wasted time, supplies and effort
  - Facilitating rapid improvements
  - Executing across all operational and support departments as well as across hospital and ambulatory services
  - Assuring a mechanism is in place to develop, sustain and improve processes over time
- Development and construction of the new East Side Clinic and a replacement facility in the Medical Center for dialysis and clinic services.
- Continued construction activities on the main campus to accommodate our growing pediatric service line.
- Implementing strategic tactics to fulfill projected activity by:
  - Focusing on key service lines
    - Trauma
    - Transplant
    - Cardiovascular
    - Neurosciences
    - Pediatrics / Children’s Health
    - Women’s Health Services including perinatal and neonatal care
    - Oncology
  - Enhancing marketing, outreach and referral development
  - Executing planned clinical integration and physician alignment initiatives with key service line physicians
- Leveraging current technology, data and tools
- Enhancing human capital through recognition programs and continuous learning
- Produce positive financial results in order to prefund our annual capital budget (currently routine capital expenditures are funded in the year the capital is expended).

Contacting the System’s Financial Manager

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

University Hospital
4502 Medical Drive
San Antonio, TX 78229

University Health System
www.UniversityHealthSystem.com

University Hospital

University Health Center – Downtown

University Center for Community Health / Texas Diabetes Institute

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

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

University Health System Business Center

MAGNET RECOGNITION
AMERICAN NURSES CREDENTIALING CENTER

THE JOINT COMMISSION NATIONAL QUALITY APPROVAL

Report of Management Responsibility

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

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

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

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

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

University Health System

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

Reed Hurley
Executive Vice President /
Chief Financial Officer

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Balance Sheets
December 31, 2015 and 2014
(In Thousands)

	2015					2014				
		Component Units					Component Units			
Assets and Deferred Outflows of Resources	System	CFHP	Foundation	Eliminations	Total	System	CFHP	Foundation	Eliminations	Total
Current Assets										
Cash and cash equivalents	$ 253,965	$ 32,336	$ 6,121	$ -	$ 292,422	$ 195,480	$ 31,453	$ 5,167	$ -	$ 232,100
Short-term investments	54,029	44,716	-	-	98,745	-	4,055	-	-	4,055
Patient accounts receivable, net	81,602	-	-	-	81,602	77,147	-	-	-	77,147
Property taxes receivable, net	185,324	-	-	-	185,324	160,407	-	-	-	160,407
Estimated amounts due from third-party payers	97,929	-	-	-	97,929	91,130	-	-	-	91,130
Prepaid expenses and other current assets	41,284	8,827	706	(609)	50,208	40,351	5,637	986	(1,265)	45,709
Total current assets	714,133	85,879	6,827	(609)	806,230	564,515	41,145	6,153	(1,265)	610,548
Noncurrent Cash and Investments										
Noncurrent investments	-	32,588	-	-	32,588	-	64,293	-	-	64,293
Internally designated for capital acquisitions improvements	79,579	-	-	-	79,579	86,891	-	-	-	86,891
Internally designated for contingencies	202,078	-	-	-	202,078	178,451	-	-	-	178,451
Held by trustee for professional self-insurance	5,025	-	-	-	5,025	4,957	-	-	-	4,957
Held by trustee for capital acquisition and debt service	47,164	-	-	-	47,164	24,272	-	-	-	24,272
Total noncurrent cash and investments	333,846	32,588	-	-	366,434	294,571	64,293	-	-	358,864
Capital Assets, Net	1,199,106	1,150	-	-	1,200,256	1,239,534	1,380	-	-	1,240,914
Other Assets										
Long-term patient accounts receivable, net	13,040	-	-	-	13,040	9,664	-	-	-	9,664
Other	7,567	80	100	-	7,747	6,061	80	350	-	6,491
Total assets	2,267,692	119,697	6,927	(609)	2,393,707	2,114,345	106,898	6,503	(1,265)	2,226,481
Deferred Outflows of Resources - Pensions	23,149	-	-	-	23,149	-	-	-	-	-
Total assets and deferred outflows of resources	$ 2,290,841	$ 119,697	$ 6,927	$ (609)	$ 2,416,856	$ 2,114,345	$ 106,898	$ 6,503	$ (1,265)	$ 2,226,481

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Balance Sheets (Continued)
December 31, 2015 and 2014
(In Thousands)

Liabilities, Deferred Inflows of Resources and Net Position	2015 System	2015 Component Units CFHP	2015 Component Units Foundation	2015 Eliminations	2015 Total	2014 System	2014 Component Units CFHP	2014 Component Units Foundation	2014 Eliminations	2014 Total
Current Liabilities										
Current maturities of long-term debt	$ 23,590	$ -	$ -	$ -	$ 23,590	$ 13,560	$ -	$ -	$ -	$ 13,560
Accounts payable and accrued expenses	155,965	19,626	67	(609)	175,049	112,672	19,181	106	(1,265)	130,694
Medical claims payable	-	23,685	-	-	23,685	-	26,927	-	-	26,927
Estimated amounts due to third-party payers	28,826	-	-	-	28,826	25,712	-	-	-	25,712
Total current liabilities	208,381	43,311	67	(609)	251,150	151,944	46,108	106	(1,265)	196,893
Estimated Self-insurance Costs	3,008	-	-	-	3,008	2,095	-	-	-	2,095
Net Pension Liability	118,348	-	-	-	118,348	-	-	-	-	-
Long-term Debt	688,351	-	-	-	688,351	693,819	-	-	-	693,819
Total liabilities	1,018,088	43,311	67	(609)	1,060,857	847,858	46,108	106	(1,265)	892,807
Deferred Inflows of Resources - Property Taxes	365,798	-	-	-	365,798	321,626	-	-	-	321,626
Net Position										
Net investment in capital assets	499,684	1,150	-	-	500,834	523,861	1,380	-	-	525,241
Restricted - expendable	28,775	2,012	4,889	-	35,676	24,271	2,100	4,619	-	30,990
Restricted - non-expendable	-	-	297	-	297	-	-	294	-	294
Unrestricted	378,496	73,224	1,674	-	453,394	396,729	57,310	1,484	-	455,523
Total net position	906,955	76,386	6,860	-	990,201	944,861	60,790	6,397	-	1,012,048
Total liabilities, deferred inflows of resources and net position	$ 2,290,841	$ 119,697	$ 6,927	$ (609)	$ 2,416,856	$ 2,114,345	$ 106,898	$ 6,503	$ (1,265)	$ 2,226,481

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2015 and 2014
(In Thousands)

	2015					2014				
		Component Units					Component Units			
	System	CFHP	Foundation	Eliminations	Total	System	CFHP	Foundation	Eliminations	Total
Operating Revenues										
Net patient service revenue	$ 693,220	$ -	$ -	$ -	$ 693,220	$ 572,645	$ -	$ -	$ -	$ 572,645
Premium revenue	-	328,389	-	-	328,389	-	310,530	-	-	310,530
Other revenue	46,902	31,193	1,594	(3,885)	75,804	52,333	2,291	1,992	(4,130)	52,486
Total operating revenues	740,122	359,582	1,594	(3,885)	1,097,413	624,978	312,821	1,992	(4,130)	935,661
Operating Expenses										
Salaries and employee benefits	460,754	15,511	-	(1,597)	474,668	423,145	16,105	-	(1,542)	437,708
Medical claims expense	-	282,252	-	-	282,252	-	266,756	-	-	266,756
Purchased services	191,289	3,171	-	(2,288)	192,172	149,280	2,910	-	(2,588)	149,602
Medical services	113,912	-	-	-	113,912	114,371	-	-	-	114,371
Supplies and other	151,735	42,957	1,131	-	195,823	145,369	14,629	1,304	-	161,302
Depreciation	80,818	600	-	-	81,418	73,259	604	-	-	73,863
Gain on sale of capital assets	(2,133)	-	-	-	(2,133)	-	-	-	-	-
Total operating expenses	996,375	344,491	1,131	(3,885)	1,338,112	905,424	301,004	1,304	(4,130)	1,203,602
Operating Income (Loss)	(256,253)	15,091	463	-	(240,699)	(280,446)	11,817	688	-	(267,941)
Nonoperating Revenues (Expenses)										
Investment return	1,394	505	-	-	1,899	2,034	265	(6)	-	2,293
Interest expense	(37,694)	-	-	-	(37,694)	(29,427)	-	-	-	(29,427)
Gain on sale of equity investment	8,514	-	-	-	8,514	-	-	-	-	-
Property tax revenue, net	325,145	-	-	-	325,145	303,951	-	-	-	303,951
Proceeds from tobacco settlement	6,048	-	-	-	6,048	5,982	-	-	-	5,982
Build America Bond interest subsidy	8,249	-	-	-	8,249	8,256	-	-	-	8,256
Total nonoperating revenues, net	311,656	505	-	-	312,161	290,796	265	(6)	-	291,055
Changes in Net Position	55,403	15,596	463	-	71,462	10,350	12,082	682	-	23,114
Net Position, Beginning of Year, as Previously Reported	944,861	60,790	6,397	-	1,012,048	934,511	48,708	5,715	-	988,934
Adjustment for accounting change *(Note 1)*	(93,309)	-	-	-	(93,309)	-	-	-	-	-
Net Position, Beginning of Year, as Restated	851,552	60,790	6,397	-	918,739	934,511	48,708	5,715	-	988,934
Net Position, End of Year	$ 906,955	$ 76,386	$ 6,860	$ -	$ 990,201	$ 944,861	$ 60,790	$ 6,397	$ -	$ 1,012,048

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Statements of Cash Flows
Years Ended December 31, 2015 and 2014
(In Thousands)

	2015	2014
Operating Activities		
Receipts from and on behalf of patients	$ 711,727	$ 548,594
Payments to suppliers and contractors	(443,675)	(439,972)
Payments to or on behalf of employees	(456,482)	(422,926)
Other receipts, net	46,902	52,260
Net cash used in operating activities	(141,528)	(262,044)
Noncapital Financing Activities		
Receipt of property taxes supporting operations	293,963	297,328
Proceeds received from tobacco settlement	6,048	5,982
Net cash provided by noncapital financing activities	300,011	303,310
Capital and Related Financing Activities		
Receipt of property taxes for debt service	50,438	46,897
Payment of debt issuance costs	(100)	-
Proceeds from issuance of long-term debt	18,500	-
Principal paid on long-term debt	(13,560)	(12,495)
Interest paid on long-term debt	(38,133)	(30,016)
Receipt of Build America Bond interest subsidy	8,245	8,271
Purchase of capital assets	(44,638)	(182,203)
Proceeds from sale of capital assets	2,320	-
Net cash used in capital and related financing activities	(16,928)	(169,546)
Investing Activities		
Interest on investments	1,394	2,034
Purchase of investments	(376,242)	(156,902)
Proceeds from disposition of investments	282,939	323,327
Proceeds from sale of equity investment	8,839	-
Net cash provided by (used in) investing activities	(83,070)	168,459
Increase in Cash and Cash Equivalents	58,485	40,179
Cash and Cash Equivalents, Beginning of Year	195,480	155,301
Cash and Cash Equivalents, End of Year	$ 253,965	$ 195,480

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Statements of Cash Flows (Continued)
Years Ended December 31, 2015 and 2014
(In Thousands)

		2015		2014
Reconciliation of Operating Loss to Net Cash Used in Operating Activities				
Operating loss	$	(256,253)	$	(280,446)
Depreciation		80,818		73,259
Provision for uncollectible accounts		119,390		103,718
Gain on sale of capital assets		(2,133)		-
Changes in operating assets and liabilities				
Patient accounts receivable, net		(127,222)		(104,965)
Estimated third-party payer settlements		(3,684)		(12,573)
Accounts payable and accrued expenses		46,602		(35,630)
Other assets, deferred outflows of resources, liabilities and deferred inflows of resources		954		(5,407)
Net cash used in operating activities	$	(141,528)	$	(262,044)
Supplemental Cash Flows Information				
Capital asset acquisitions included in accounts payable and accrued expenses	$	5,699	$	7,934

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Pension Plan – Statements of Fiduciary Net Position
December 31, 2015 and 2014
(In Thousands)

	2015	2014
Assets		
Cash equivalents	$ 1,354	$ 2,215
Receivables:		
Accrued income	7	13
Accrued employer contributions	359	328
Total receivables	366	341
Investments:		
Marketable securities:		
Mutual funds - common stocks	53,196	54,750
Common stocks	29,587	31,996
Mutual funds - fixed income securities	58,739	49,685
Pooled international equity fund	63,276	62,577
Total marketable securities	204,798	199,008
Alternative investments:		
Investment in Portfolio Advisors Private Equity Fund VI, VII and VIII L.P.	20,343	19,184
Investment in Crestline Offshore Fund, Ltd.	13,990	13,115
Investment in Private Advisors Stable Value ERISA Fund, LTD	13,447	12,812
Investment in Heitman Real Estate Trust	28,403	24,465
Total alternative investments	76,183	69,576
Total investments	280,981	268,584
Total assets	282,701	271,140
Liabilities		
Accounts payable and accrued expenses	220	279
Net position restricted for pension benefits	$ 282,481	$ 270,861

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Pension Plan – Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2015 and 2014
(In Thousands)

	2015	2014
Additions:		
Contributions:		
Plan member	$ 6,724	$ 5,212
Employer	18,233	18,070
	24,957	23,282
Net investment income:		
Interest income	111	12
Dividend income	4,269	3,311
Net appreciation (depreciation) in fair value of investments	(2,075)	11,039
Investment expenses	(642)	(749)
	1,663	13,613
Total additions	26,620	36,895
Deductions:		
Benefit payments	14,782	14,440
Administrative expenses	218	179
Total deductions	15,000	14,619
Change in net position restricted for pension benefits	11,620	22,276
Net position - beginning of year	270,861	248,585
Net position - end of year	$ 282,481	$ 270,861

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Retiree Health Trust – Statements of Plan Net Position
December 31, 2015 and 2014
(In Thousands)

	2015	2014
Assets		
Current assets		
Money market mutual funds	$ 97	$ 1,220
Noncurrent assets		
Mutual funds - equities	25,846	24,366
Mutual funds - fixed income	8,179	7,403
Total assets	34,122	32,989
Liabilities		
Accounts payable and accrued expenses	5	5
Net position restricted for other postemployment benefits	$ 34,117	$ 32,984

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Retiree Health Trust – Statements of Changes in Plan Net Position
Years Ended December 31, 2015 and 2014
(In Thousands)

	2015	2014
Additions:		
Contributions	$ 982	$ 1,194
Net investment income:		
Interest and dividend income	862	637
Net realized gains and appreciaiton in fair value of investments	(705)	2,547
Total additions	1,139	4,378
Deductions:		
Administrative expenses	6	6
Change in net position restricted for other postemployment benefits	1,133	4,372
Net position - beginning of year	32,984	28,612
Net position - end of year	$ 34,117	$ 32,984

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Notes to Financial Statements
December 31, 2015 and 2014
(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 System (the System) is a hospital district established under Article IX, Section 4 of the Texas Constitution and Chapter 281 of the Texas Health and Safety Code. It is a political subdivision of the state of Texas, created to provide medical and hospital care to the needy and indigent of Bexar County, and is a discrete component unit of Bexar County (legally separate from Bexar County, Texas). Its Board of Managers (the Board) is composed of seven members appointed by the Commissioners Court of Bexar County for staggered terms of two years (or until a successor is appointed and qualified). Board members are "public officers" under the Texas Constitution who, as a body, exercise sovereign functions of government largely independent of the control of others, and serve without pay.

The System is the third-largest public health system in the state of Texas and employs approximately 6,900 employees who operate San Antonio's only civilian level 1 trauma center; the University Center for Community Health, devoted to the prevention and treatment of diabetes; the University Health Center – Downtown; four University Family Health Centers; four University Dialysis Centers – Southeast; South; Northwest and West; five preventive health clinics; two Urgent care centers; and a health care program at Bexar County's correctional facilities. Its network of community outpatient and inpatient facilities provides primary care, preventive care and specialty outpatient care throughout Bexar County. Additionally, the System has had a long-standing affiliation with the University of Texas Health Science Center at San Antonio (UTHSCSA). The System's facilities serves as the major teaching facilities for many of UTHSCSA's health care programs, including the graduate medical education (GME) program. The System is exempt from federal income tax under Section 115(a) of the Internal Revenue Code (IRC).

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

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

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

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

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

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

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

Other significant relationships. Prior to December 31, 2015, the System and Vanguard Health System (VHS) mutually controlled Texas AirLife, Inc. d/b/a San Antonio AirLife, Inc. (AirLife), a Texas nonprofit corporation, which provides air ambulance services to Bexar County and South Texas. The System owned a 50% interest in AirLife and the System and VHS retained control over AirLife through the retention of specific reserve powers, including the appointment of AirLife board members. In 2015, the System sold their 50% interest in AirLife along with certain property and equipment for $12,550. The System's ownership in AirLife was recorded using the equity method of accounting.

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

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

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

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

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

Basis of Accounting and Presentation

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

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

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

Use of Estimates

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

Cash and Cash Equivalents

The System considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015 and 2014, cash and cash equivalents include demand deposits and money market mutual funds. All demand deposits are collateralized with securities held in safekeeping at the Federal Reserve Bank in the name of the System. The System does not consider highly liquid investments that are designated as to use as cash equivalents.

Patient Accounts Receivable

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

Supplies

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. The investments in equity investee are reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices.

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

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

(In Thousands)

Capital Assets

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

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

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

	2015	2014
Interest capitalized	$ 621	$ 9,010
Interest charged to expense	37,694	29,427
Total interest incurred	$ 38,315	$ 38,437

Compensated Absences

The System's employees earn paid time off (PTO) at varying rates depending on years of service. Employees may accumulate PTO up to a specified maximum. Employees are paid for accumulated PTO upon voluntary termination, including retirement, as employees who retire from the System may convert accumulated PTO to termination payments at a rate of 50% of their accumulated PTO balances. The estimated amount of PTO payable as termination payments is reported as a current liability in both 2015 and 2014.

Deferred Outflows/Inflows of Resources

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

Net Position

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

Risk Management

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

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

Net Patient Service Revenue

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

Charity Care

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

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

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

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

The System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. The charges forgone, based on established rates, were approximately $401,438 and $654,558 for the years ended December 31, 2015 and 2014, respectively. The costs of charity care provided under the System's charity care policy were approximately $133,744 and $218,074 for 2015 and 2014, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross charity care charges. The System's charity care costs declined in 2015 as, as compared to 2014, as a result of more patients obtaining insurance coverage through the federal insurance exchange.

Premium Revenue

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

Medical Claims Expense

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

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

Reserves for Incurred But Not Reported Medical Claims

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

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

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

Tobacco Settlement Revenue

Tobacco settlement revenue is the result of a settlement between various counties and hospital districts in Texas and the tobacco industry for tobacco-related health care costs. The System received approximately $6,048 and $5,982 in revenue from this settlement for the years ended December 31, 2015 and 2014, respectively. This revenue is recognized as nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position.

(In Thousands)

Property Taxes

The System received approximately 30% in 2015 and 32% in 2014 of its financial support from property taxes. These funds were used as follows:

	2015	2014
Percentage used to support operations	85.4%	86.4%
Percentage used for debt service on bonds	14.6%	13.6%
Total	100.0%	100.0%

Property taxes are levied by the System on October 1 of each year based on the preceding January 1 assessed property values. To secure payment, an enforceable lien attaches to the property on January 1, when the value is assessed. Property taxes become due and payable when levied on October 1. This is the date on which an enforceable legal claim arises and the System records a receivable for the property tax assessment, less an allowance for uncollectible taxes. Property taxes are considered delinquent after January 31 of the following year. The System recorded an allowance for uncollectible property taxes of approximately $14,642 and $13,832 at December 31, 2015 and 2014, respectively.

At December 31, 2015 and 2014, respectively, the System had recorded approximately $365,798 and $321,626 of property taxes levied for services to be provided in 2016 and 2015, respectively. These amounts are reported as a deferred inflow of resources in the accompanying balance sheets and will be recognized as revenue in the period for which they were levied.

The System's property tax rate was $0.235780 and $0.238601 per $100 valuation for 2015 and 2014, respectively, for the maintenance and operation fund. The System's property tax rate was $0.040455 and $0.037634 per $100 valuation for 2015 and 2014, respectively, for the interest and sinking fund.

Build America Bond Interest Subsidy

The System issued taxable Build America Bonds (BABs) in August 2010 and August 2009. Under the BABs program, the U.S. Treasury pays 35% of the interest as a subsidy to the issuer. The System records the interest subsidy received or receivable from the U.S. Treasury as nonoperating revenue when the System has met all of the eligibility criteria to receive the subsidy. The System recorded approximately $8,249 and $8,256 of nonoperating revenue in 2015 and 2014, respectively, for the BABs interest subsidy. During 2015 and 2014, the BABs subsidy was reduced by 6.8% and 8.7%, respectively, as part of the federal sequestration spending reductions.

Income Taxes

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

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

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

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

Change in Accounting Principle

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. In addition to making changes to how annual pension expense is to be calculated for defined benefit pension plans, the standard also requires that governmental entities record an asset or liability in their financial statements that is equal to the net pension asset or liability. Historically, governmental entities have only been required to record a liability, if any, for the difference between annual pension cost (APC) and the amount of APC contributed to the plan. Restatement of the 2014 financial statements is not practical because prior year information calculated under the provisions of GASB 68 is not available, accordingly, the System has reported the cumulative effect of applying GASB 68 as a restatement of net position as of January 1, 2015. This restatement decreased previously reported net position by $93,309.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

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

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient nonacute services and defined medical education costs are paid based on a cost reimbursement methodology. The System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare fiscal intermediary. The System's Medicare cost reports have been audited by the Medicare administrative contractor through December 31, 2012.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment system. Inpatient reimbursement is inclusive of an add-on for trauma care that is based on the Medicaid Standard Dollar Amount. Outpatient and physician services are reimbursed under a mixture of fee schedules and cost reimbursement. The System is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicaid administrative contractor. The System's Medicaid cost reports have been audited by the Medicaid administrative contractor through December 31, 2010.

Approximately 63% and 65% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2015 and 2014, 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.

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

Supplemental Medicaid Funding Revenue

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 in the state 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.

On December 12, 2011, the United States Department of Health and Human Services 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, provides incentive payments for health care improvements and directs 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 will be made for system improvements identified in Regional Healthcare Partnerships (RHP) delivery system reform and improvement plans (RHP Plan) led by public hospitals such as the System or governmental entities that will provide the state share of waiver pool funds. The System serves as the anchor facility for the 20 county RHP 6. The revenue from the two funding pools is recognized as earned throughout the related demonstration year.

The Waiver is effective from December 12, 2011 to September 30, 2016. On May 2, 2016, the Texas Health and Human Services Commission (HHSC) announced CMS has agreed to extend the Waiver through December 2017 at current funding levels. During the extension period, HHSC and CMS will continue negotiating a longer term extension.

Beginning in 2015, the System began to participate in the Network Access Improvement Program (NAIP). The NAIP aims to increase the availability and effectiveness of primary care for Medicaid beneficiaries by providing incentive payments to participating Health Related Institutions (HRIs). Participation is voluntary and requires HRIs to create a proposal in partnership with a managed care organization (MCO). When the proposal is approved by the Health and Human Services Commission, the costs associated with the incentive payments are added to the monthly capitation rates paid to the MCO and the MCOs are responsible for making payments to the HRIs, such as the System.

During 2015, the System acquired the operations of three freestanding nursing homes located in the System’s service area and began participating in the Nursing Facility Upper Payment Limit (NFUPL) program. This program was designed to assist nursing facilities serving the majority of the indigent patients by providing funding to support increased access to health care within the community. HHSC has expanded state Medicaid managed care programs for long-term care beneficiaries, and is converting a number of beneficiaries previously covered under traditional Medicaid arrangements into these managed care plans. The System generally expects payments under the managed care plans to be equivalent to payments under the traditional plan. However, this outcome is contingent on the System continuing to be able to negotiate appropriate rates with these managed care plan carriers.

(In Thousands)

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:

	2015	2014
DSH Program	$ 30,919	$ 30,301
UC Pool	83,535	77,089
DSRIP	55,596	45,977
NAIP	27,998	-
NFUPL	1,592	-
	$ 199,640	$ 153,367

Accounts receivable under these programs were $97,929 and $91,130 at December 31, 2015 and 2014, respectively, and are included in estimated amounts due from third-party payers.

The System realized a savings in medical service costs of $102,000 and $92,200 in 2015 and 2014, respectively. The System incurred increased costs to supplement the state's funding for the affiliated providers in the amounts of $73,510 and $65,488 in 2015 and 2014, respectively. The supplement to the state's funding is recorded in medical services expense in the statements of revenues, expenses and changes in net position.

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

Note 3: Deposits, Investments and Investment Income

Deposits

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

(In Thousands)

State law requires collateralization of all deposits with federal depository insurance or other qualified investments. At December 31, 2015 and 2014, the System's deposits were either insured or collateralized in accordance with state law.

Investments

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

At December 31, 2015 and 2014, the System had the following investments and maturities:

	December 31, 2015				
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 54,659	$ 43,865	$ 10,794	$ -	$ -
U.S. agencies obligations	231,475	92,473	139,002	-	-
Municipal bonds	6,877	2,448	4,429	-	-
Commercial paper	23,905	23,905	-	-	-
Money market mutual funds	273,622	273,622	-	-	-
	$ 590,538	$ 436,313	$ 154,225	$ -	$ -

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

(In Thousands)

At December 31, 2015 and 2014, CFHP had the following investments and maturities:

	December 31, 2015				
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 5,743	$ 4,597	$ 1,146	$ -	$ -
U.S. agencies obligations	41,547	21,071	20,476	-	-
Commercial paper	9,962	9,962	-	-	-
Money market mutual funds	41,023	41,023	-	-	-
	$ 98,275	$ 76,653	$ 21,622	$ -	$ -

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

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

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

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

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

The System's investments in U.S. Treasury obligations carry the explicit guarantee of the U.S. government. The debt securities of the U.S. agencies are rated A1+ or AA+ by S&P or Aaa by Moody's. The System's investments in municipal bonds were rated AA to AAA by S&P. The System's investments in commercial paper was rated A- to AA- by S&P.

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

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

(In Thousands)

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

	2015	2014
Federal National Mortgage Association	5%	7%
Federal Home Loan Mortgage Corporation	3%	17%
Federal Home Loan Bank	14%	14%
Federal Farm Credit Bank	15%	4%

Summary of Carrying Values

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

	2015	2014
Carrying value		
Deposits	$ 51,302	$ 7,615
Investments	590,538	482,436
	$ 641,840	$ 490,051
Included in the following balance sheet captions		
Cash and cash equivalents	$ 253,965	$ 195,480
Short-term investments	54,029	-
Noncurrent cash and investments	333,846	294,571
	$ 641,840	$ 490,051

(In Thousands)

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

	2015	2014
Carrying value		
Deposits	$ 11,365	$ 10,040
Investments	98,275	89,761
	$ 109,640	$ 99,801
Included in the following balance sheet captions		
Cash and cash equivalents	$ 32,336	$ 31,453
Short-term investments	44,716	4,055
Noncurrent cash and investments	32,588	64,293
	$ 109,640	$ 99,801

Investment Income

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

	2015	2014
Interest income	$ 2,081	$ 1,682
Net increase (decrease) in fair value of investments	(687)	352
	$ 1,394	$ 2,034

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

	2015	2014
Interest income	$ 400	$ 400
Net increase (decrease) in fair value of investments	105	(135)
	$ 505	$ 265

(In Thousands)

Note 4: Patient Accounts Receivable

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

	2015	2014
Medicare	$ 30,506	$ 30,649
Medicaid	30,187	30,328
Other third-party payers	44,702	44,912
Patients	387,009	388,820
	492,404	494,709
Less allowance for uncollectible accounts	397,762	407,898
	$ 94,642	$ 86,811

Note 5: Capital Assets

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

	2015			
	Beginning Balance	Additions/ Transfers	Disposals/ Other	Ending Balance
Land and land improvements	$ 19,296	$ 153	$ -	$ 19,449
Buildings and improvements	1,277,982	20,434	-	1,298,416
Equipment	374,462	23,443	(16,604)	381,301
Construction in progress	18,864	(1,627)	-	17,237
	1,690,604	42,403	(16,604)	1,716,403
Less accumulated depreciation	451,070	80,818	(14,591)	517,297
Capital assets, net	$ 1,239,534	$ (38,415)	$ (2,013)	$ 1,199,106

(In Thousands)

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

At December 31, 2015, construction in progress represents cost incurred in connection with expansion and renovation of facilities and related equipment. The completion of these projects will occur throughout 2016 and 2017. The System is funding the remaining cost of these projects from internally designated investments and proceeds from the Series 2015 bonds (*Note 8*).

Note 6: Accounts Payable and Accrued Expenses

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

	2015	2014
Payable to suppliers and contractors	$ 101,761	$ 59,941
Payable to employees (including payroll taxes and benefits)	34,438	31,687
Accrued interest	14,728	14,889
Estimated self-insurance costs - current	4,486	5,975
Other accrued liabilities	552	180
	$ 155,965	$ 112,672

(In Thousands)

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

	2015	2014
Payable to suppliers and contractors	$ 2,467	$ 1,651
Performance-based at risk capitation/Pay-for-quality	12,500	10,912
Payable to System	-	1,265
Other	4,659	5,353
	$ 19,626	$ 19,181

Note 7: Risk Management

Employee Health Claims

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

Workers' Compensation Claims

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

Professional Liability Claims

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

(In Thousands)

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

Changes in and the balances of the System's aggregate claims liability in fiscal years 2015 and 2014 are as follows:

	Beginning of Fiscal Year Liability	Current-Year Expenses	Claim Payments	Balance at Fiscal Year-End
Employee health claims				
2015	$ 1,775	$ 18,916	$ (19,105)	$ 1,586
2014	2,890	16,436	(17,551)	1,775
Workers' compensation claims				
2015	$ 5,040	$ 3,178	$ (3,358)	$ 4,860
2014	5,994	2,367	(3,321)	5,040
Professional liability				
2015	$ 1,255	$ (116)	$ (91)	$ 1,048
2014	1,255	-	-	1,255

Medical Claims Payable

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

(In Thousands)

Changes in and the balances of CFHP's aggregate medical claims liability in 2015 and 2014 are as follows:

	2015	2014
Medical claims payable, beginning of year	$ 26,927	$ 22,112
Incurred related to		
Current year	288,606	271,754
Prior years	(6,354)	(4,998)
Total incurred losses and claims payable	282,252	266,756
Paid related to		
Current year	261,831	244,897
Prior years	23,663	17,044
Total paid losses and claims payable	285,494	261,941
Medical claims payable, end of year	$ 23,685	$ 26,927

Patient service revenue and medical claims expense for CFHP members amounting to $19,119 and $15,596 in 2015 and 2014, respectively, are not eliminated in the basic financial statements.

Note 8: Long-term Debt

A summary of long-term debt is as follows:

	2015	2014
Certificates of Obligation, Series 2008	$ 251,960	$ 257,040
Certificates of Obligation, Series 2009A	13,195	19,330
Certificates of Obligation, Series 2009B	246,395	246,395
Certificates of Obligation, Series 2010B	184,010	186,355
Certificates of Obligation, Series 2015	18,500	-
	714,060	709,120
Bond premium (discount), net	(2,119)	(1,741)
	$ 711,941	$ 707,379

Certificates of Obligation – Series 2008

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

Certificates of Obligation – Series 2009A and 2009B

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

Certificates of Obligation – Series 2010B

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

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

Certificates of Obligation – Series 2015

The combination tax and revenue Certificates of Obligation, Series 2015 (the 2015 Certificates) were issued in 2015, and mature in various amounts annually on February 15, from 2016 through 2017, with a stated coupon rate of 0.750% and are collateralized by a levy of ad valorem tax revenue and lien on and pledge of surplus revenues.

(In Thousands)

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

	2015				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Certificates of Obligation, Series 2008	$ 257,040	$ -	$ (5,080)	$ 251,960	$ 5,755
Certificates of Obligation, Series 2009A	19,330	-	(6,135)	13,195	6,450
Certificates of Obligation, Series 2009B	246,395	-	-	246,395	-
Certificates of Obligation, Series 2010B	186,355	-	(2,345)	184,010	2,735
Certificates of Obligation, Series 2015	-	18,500	-	18,500	8,650
Total long-term debt	$ 709,120	$ 18,500	$ (13,560)	$ 714,060	$ 23,590

	2014				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Certificates of Obligation, Series 2008	$ 261,255	$ -	$ (4,215)	$ 257,040	$ 5,080
Certificates of Obligation, Series 2009A	24,105	-	(4,775)	19,330	6,135
Certificates of Obligation, Series 2009B	246,395	-	-	246,395	-
Certificates of Obligation, Series 2010B	189,860	-	(3,505)	186,355	2,345
Total long-term debt	$ 721,615	$ -	$ (12,495)	$ 709,120	$ 13,560

The debt service requirements as of December 31, 2015, are as follows:

Year Ending December 31,	Principal	Interest	Interest Credit (BABs)	Total
2016	$ 23,590	$ 38,151	$ (8,271)	$ 53,470
2017	26,285	37,462	(8,243)	55,504
2018	17,975	36,679	(8,145)	46,509
2019	19,550	35,833	(7,971)	47,412
2020	20,675	34,894	(7,779)	47,790
2021 – 2025	116,225	157,811	(35,384)	238,652
2026 – 2030	143,535	122,172	(27,623)	238,084
2031 – 2035	179,085	75,836	(17,573)	237,348
2036 – 2040	167,140	20,227	(5,314)	182,053
	$ 714,060	$ 559,065	$ (126,303)	$ 1,146,822

Note 9: Pension Plan

Plan Description and Benefits Provided

The System sponsors a single-employer defined benefit pension plan which covers substantially all of the System's employees who work at least 20 hours per week or at least 1,000 hours annually and were hired before July 1, 2012. 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.

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

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

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

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

(In Thousands)

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

On June 11, 2012, the plan was amended to indicate that employees hired by the System after June 30, 2012, shall not be eligible to participate in the plan, except for the Match Savings Plan 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 accrual benefits prior to the date of being rehired.

Under the terms of the Cash Balance Plan, eligible employees are required to contribute 3% of eligible compensation and the System also contributes 3% of each participating employee's eligible compensation. Plan participants have a 100% vested right in the accrued benefits derived from their accumulated contributions. With regard to participants' accrued benefits derived from employer contributions, the participants become fully vested at the completion of five years of vesting service. Employee and System contributions made on the employees behalf are credited to a hypothetical cash balance account maintained in the Plan's recordkeeping system. As contributions are credited to the employee's account, interest credits are also made to the account, based on the balance of the account on the first day of each Plan quarter. Interest is measured by the actual rate of return of the entire Pension Trust. Upon the employee's retirement or termination of employments, their cash balance account will be credited with at least the total of all of the contributions that have been credited to the account. The System's pension expense for the cash balance plan was approximately $716 for 2015.

The employees covered by the Plan at December 31, 2015 are:

Inactive participants:	
Retirees and beneficiaries currently receiving benefits	867
Terminated employees with deferred benefits	1,346
Total inactive participants	2,213
Active participants:	
Fully vested	3,206
Nonvested	771
Total active participants	3,977
Total participants	6,190

(In Thousands)

Contributions

The Board has the authority to establish and amend the contribution requirements of the System and active employees. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Board has agreed to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended December 31, 2015, employees contributed $5,742 (or 2.3% of covered payroll), and the System contributed $17,697 (or 6.7% of covered payroll) to the Plan.

Net Pension Liability

The System's net pension liability was measured as of January 1, 2015 for the year ended December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. Updated procedures were used to roll forward the total pension liability to the measurement date.

The total pension liability in the 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.0%
Salary increases	5.1% average, including inflation
Ad hoc cost of living adjustments	N/A
Investment rate of return	7.5%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Mortality Table, projected to 2015 using scale AA.

The System has not performed a recent experience study. Due to the frozen nature of the Plan, the benefits of an experience study are estimated by the actuary to be minimal.

(In Thousands)

The long-term expected rate of return on pension 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 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%	7.4%
International equity	24%	7.6%
Fixed income	20%	3.5%
Alternative investments	27%	7.1%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.5% for the year ended December 31, 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that System contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(In Thousands)

Changes in the total pension liability, plan fiduciary net position and the net pension liability for the year ended December 31, 2015 are:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	$ 344,989	$ 235,280	$ 109,709
Service cost	16,627	-	16,627
Interest on total pension liability	26,615	-	26,615
Employer contributions	-	16,297	(16,297)
Member contributions	-	5,742	(5,742)
Benefit payments	(13,749)	(13,749)	-
Net investment income	-	12,564	(12,564)
Net changes	29,493	20,854	8,639
Balance, end of year	$ 374,482	$ 256,134	$ 118,348

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

The net pension liability of the System has been calculated using a discount rate of 7.5%. The following presents the net pension liability using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
System's net pension liability	$ 171,997	$ 118,348	$ 73,623

(In Thousands)

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended December 31, 2015, the System recognized pension expense of $20,129. At December 31, 2015, the System reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between expected and actual experience	$ 645
Net difference between projected and actual earnings on plan investments	4,807
Contributions subsequent to the measurement date	17,697
	$ 23,149

At December 31, 2015, the System reported $17,697 as deferred outflows of resources related to pensions resulting from System contributions subsequent to the measurement date and prior to year end that will be recognized as a reduction of the net pension liability in 2016.

Other amounts reported as deferred outflows of resources at December 31, 2015, related to pensions will be recognized in pension expense as follows:

2016	$ 1,306
2017	1,306
2018	1,306
2019	1,306
2020	104
Thereafter	124
	$ 5,452

Deferred Compensation Plan

The Match Savings Plan is a 457 deferred compensation plan that covers substantially all employees meeting age and service requirements. Employee contributions to the plan are discretionary. The System's contributions were approximately $3,228 and $1,865 for the years ended December 31, 2015 and 2014, respectively.

(In Thousands)

Defined Contribution Plan

CMA has a defined contribution plan covering substantially all CMA employees. Participation in the plan is a condition of employment. Employees are fully vested after five years. Annually, CMA makes a contribution equal to 6.75% of the participant's compensation. Pension expense was approximately $790 and $762 for 2015 and 2014, respectively.

Note 10: Postemployment Health Care Plan

Plan Description and Funding Policy

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

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

The System contributed approximately $982 and $1,194 to the plan in 2015 and 2014, respectively, which is exclusive of plan member contributions. Plan members receiving benefits contributed approximately $1,308 and $923 in 2015 and 2014, respectively, through their required monthly contributions as shown in the below table:

	2015	2014
Retiree-only coverage	$ 142.78	$ 114.09
Retiree and spouse coverage	271.27	216.77
Retiree and children coverage	266.99	213.34
Retiree and family coverage	501.14	400.45

Annual OPEB Cost and Net OPEB Obligation

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

(In Thousands)

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

	2015	2014
Annual required contribution	$ 2,382	$ 2,594
Adjustment to annual required contribution	(1,400)	(1,400)
Annual OPEB cost	982	1,194
Contributions made	982	1,194
Change in net OPEB obligation	-	-
Net OPEB obligation - beginning of year	-	-
Net OPEB obligation - end of year	$ -	$ -

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2015 and the two preceding years were as follows:

Fiscal Year-End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	$ 2,382	100%	$ -
12/31/2014	$ 2,594	100%	$ -
12/31/2013	$ 2,381	100%	$ -

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the plan was 75.7% funded. The actuarial accrued liability for benefits was approximately $39,287, and the actuarial value of assets was approximately $29,732, resulting in a UAAL of $9,555.

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

Actuarial Methods and Assumptions

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

In the January 1, 2015, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 7.5% investment rate of return (net of administrative expenses), and an annual health care cost trend rate of 5.0%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis over a 30 year period.

Note 11: Affiliation Agreement

The System has entered into a long-standing affiliation agreement with UTHSCSA. Under the agreement, the System's facilities serve as the major teaching facilities for many of UTHSCSA's health care programs, including the graduate medical education program. The System incurred expenses of approximately $13,036 and $12,787 in 2015 and 2014, respectively, under the terms of the agreement.

Note 12: Future Change in Accounting Principles

In June 2015, the Governmental Accounting Standards Board issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). Principal objectives of GASB 75 are to improve accounting and financial reporting by state and local governments for OPEB and to improve information provided by state and local employers about financial support for OPEB that is provided by other entities. OPEB includes, among other things, postemployment healthcare benefits (medical, dental, vision, hearing and other health-related benefits), death benefits, life insurance, disability and long-term care. GASB 75 supersedes GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and is applicable to employers providing defined benefit OPEB to their employees through OPEB plans that are administered through trusts that meet certain specified criteria, to employers providing defined contribution OPEB to their employees, and to employers providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria of GASB 75. It also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. GASB 75 requires employers providing defined benefit OPEB to their employees to recognize a net OPEB liability, or its proportionate share of such liability for cost-sharing multiple-employer plans, for the portion of the actuarial present value of projected benefit payments to be provided to current active and inactive employees that is attributed to past periods of employee service, less any OPEB plan fiduciary net position. It also provides guidance on determining OPEB expense, deferred outflows and inflows of resources, note disclosures and required supplementary information. The requirements of GASB 75 are applicable for fiscal years beginning after June 15, 2017, thus, it will be applicable to the System for the year ending December 31, 2018. The impact of adopting GASB 75 on the System's financial statements is not currently determinable.

GASB Statement No. 80, *Blending Requirements for Certain Component Units,* (GASB 80) adds a new criterion for presenting a component unit as blended in a government's financial statements. If the government is the sole corporate member of a not-for-profit corporation component unit, then the component unit should be blended. GASB 80 does not change the criteria for an entity being a component unit or the presentation of a blended component unit. The Statement is the result of practice issues raised, particularly in the health care industry, after implementation of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. The requirements of GASB 80 are applicable for the System's fiscal year ending December 31, 2017, unless early adopted.

Note 13: Contingencies

Litigation

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

Required Supplementary Information

Bexar County Hospital District
d/b/a University Health System
A Component Unit of Bexar County, Texas
Changes in the System's Net Pension Liability and Related Ratios
(In Thousands)

		2015
Total Pension Liability		
Service cost	$	16,627
Interest		26,615
Benefit payments, including refunds of employee contributions		(13,749)
Net Change in Total Pension Liability		29,493
Total Pension Liability - Beginning		344,989
Total Pension Liability - Ending (a)	$	374,482
Plan Fiduciary Net Position		
Contributions - employer	$	16,297
Contributions - employee		5,742
Net investment income		12,564
Benefit payments, including refunds of employee contributions		(13,749)
Net Change in Plan Fiduciary Net Position		20,854
Plan Fiduciary Net Position - Beginning		235,280
Plan Fiduciary Net Position - Ending (b)	$	256,134
Net Pension Liability - Ending (a) - (b)	$	118,348
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		68.40%
Covered-Employee Payroll	$	254,100
Net Pension Liability as a Percentage of Covered-Employee Payroll		46.58%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the System will present information for those years for which information is available. All amounts are in thousands, unless otherwise indicated. This information is presented as of the measurement date.

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

Year Ending December 31,	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered-employee payroll
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:	30 years
Asset valuation method:	5-year smoothed market
Inflation:	4%
Salary increases:	3.75% - 6.75%, based on age and years of service, including inflation
Investment rate of return:	7.5%, net of pension plan investment expense, including inflation
Retirement age:	Annual rates based on age and age at satisfaction of rule of 85 for participants that meet the rule of 85 prior to age 65.
Mortality - Active Lives:	RP-2000 Combined Healthy; with no collar adjustment; projected with Generational Mortality (Scale AA)
Mortality - Retired Lives:	RP-2000 Combined Healthy; with no collar adjustment; projected with Generational Mortality (Scale AA)
Other information:	Plan is frozen to new participants effective June 30, 2012

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the System will present information for those years for which information is available. All amounts are in thousands unless otherwise indicated. This information is presented for the System's fiscal year.

Bexar County Hospital District
d/b/a University Health System
Schedule of Funding Progress – Retiree Health Trust
December 31, 2015
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Plan Assets Less than AAL	Funded Ratio
January 1, 2015	$ 29,732	$ 39,287	$ (9,555)	75.7%
January 1, 2014	$ 25,706	$ 34,324	$ (8,618)	74.9%
January 1, 2013	$ 21,835	$ 32,769	$ (10,934)	66.6%

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities, the aggregate discretely presented component units and the aggregate remaining fiduciary fund information of Bexar County Hospital District d/b/a University Health System (the System), collectively a component unit of Bexar County, Texas, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated May 24, 2016 which contained an "Emphasis of Matter" paragraph regarding a change in accounting principles. Our report also includes a reference to other auditors who audited the financial statements of the University Health System Pension Plan (Pension Plan), as described in our report on the System's financial statements. The financial statements of the Pension Plan, which is included in the System's financial statements, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the System is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the System's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2015-001 that we consider to be a significant deficiency in internal control.

Compliance and Other Matters

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

We also noted certain matters that we reported to the System's management in a separate letter dated May 24, 2016.

The System's Response to Finding

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Dallas, Texas
May 24, 2016

Bexar County Hospital District
d/b/a University Health System
Schedule of Findings and Responses
Year Ended December 31, 2015

Reference Number	Finding
2015-001	Criteria or specific requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – An adjustment was recorded to increase the net realizable value of patient accounts receivable for the System. This adjustment was based on an assessment of subsequent collections. Context and Effect – The System's financial statements required adjustments to decrease the allowance for uncollectible accounts at December 31, 2015. Cause – Management did not fully consider the payer mix, account aging and current payment rates in the estimation process. Recommendation – Management should refine the valuation estimation process to consider all factors including the payer and aging mix of accounts receivable and current and historical collection trends. Views of responsible officials and planned corrective actions – Management concurs with the finding and recommendation and will be implementing procedures to ensure patient accounts receivable is accurately valued on a monthly basis.