



**Continuing Disclosure**

**Quarterly Financial Report**

**Six Months Ended June 30, 2019**

**(Unaudited)**

## TEXAS HEALTH RESOURCES

SYSTEM REVENUE BONDS						
Series	Taxable or Tax-Exempt	Issuer	Bond Type	Final Maturity	Principal Amount	Interest Rate
2017A	Tax-Exempt	TCCEFFC <sup>1</sup>	VRDB <sup>2</sup>	11/15/2051	\$ 66,735,000	Variable
2017B	Tax-Exempt	TCCEFFC <sup>1</sup>	VRDB <sup>2</sup>	11/15/2051	\$ 66,735,000	Variable
2016A	Tax-Exempt	TCCEFFC <sup>1</sup>	Term	2/15/2047	\$ 631,105,000	Multiple Fixed Rate
2015	Taxable	THR	Term	11/15/2055	\$ 300,000,000	4.330%
2015A	Tax-Exempt	TCCEFFC <sup>1</sup>	Term	11/15/2052	\$ 40,000,000	4.250%
2015A	Tax-Exempt	TCCEFFC <sup>1</sup>	Term	11/15/2052	\$ 20,000,000	5.000%
2012A	Taxable	TCCEFFC <sup>1</sup>	Term	11/15/2047	\$ 100,000,000	4.366%
2012B	Tax-Exempt	TCCEFFC <sup>1</sup>	VRDB <sup>2</sup>	11/15/2047	\$ 50,000,000	Variable
2010	Tax-Exempt	TCCEFFC <sup>1</sup>	Term	11/15/2040	\$ 157,550,000	5.000%
2008A	Tax-Exempt	TCCEFFC <sup>1</sup>	VRDB <sup>2</sup>	11/15/2033	\$ 55,110,000	Variable
2008B	Tax-Exempt	TCCEFFC <sup>1</sup>	VRDB <sup>2</sup>	11/15/2033	\$ 42,635,000	Variable
2008C	Tax-Exempt	TCCEFFC <sup>1</sup>	VRDB <sup>2</sup>	11/15/2033	\$ 51,435,000	Variable

SYSTEM BANK LOANS					
Taxable or Tax-Exempt	Bank	Bond Type	Final Maturity	Principal Amount	Interest Rate
Tax-Exempt	UMB <sup>3</sup>	Variable	9/1/2035	\$ 66,475,000	Variable
Tax-Exempt	Northern <sup>4</sup>	Variable	12/1/2033	\$ 67,500,000	Variable

<sup>1</sup> Tarrant County Cultural Education Facilities Finance Corporation

<sup>2</sup> Variable Rate Demand Bond

<sup>3</sup> Kansas City Financial Corporation, an affiliate of UMB Bank, N.A.

<sup>4</sup> The Northern Trust Company

**TEXAS HEALTH RESOURCES  
SYSTEM REVENUE BONDS**

## **WARNING**

This document is marked with a dated date and speaks only as of that dated date. Readers are cautioned not to assume that any information has been updated beyond the dated date except as to any portion of the document that expressly states that it constitutes an update concerning specific recent events occurring after the dated date of the document. Any information contained in the portion of the document indicated to concern recent events speaks only as of its date. Texas Health Resources (THR) expressly disclaims any duty to provide an update of any information contained in this document. The information contained in this document may include "forward looking statements" by using forward-looking words such as "may," "will," "should," "expects," "believes," "anticipates," "estimates," or others. You are cautioned that forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include general economic and business conditions, receipt of funding grants, and various other factors which are beyond our control. Because we cannot predict all factors that may affect future decisions, actions, events, or financial circumstances, what actually happens may be different from what THR includes in forward-looking statements.

THR is obligated to provide certain updated financial information and operating data quarterly as specified in the Master Indenture. This document is designed to fulfill that obligation. It does not represent a complete set of financial statements as stipulated by U.S. generally accepted accounting principles.

## **CONTACT PERSON**

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**TEXAS HEALTH RESOURCES**  
**QUARTERLY CONSOLIDATED CONDENSED FINANCIAL INFORMATION**  
(Dollars in Thousands)

	<b>Mar 31</b>	<b>Jun 30</b>	<b>Sep 30</b>	<b>Dec 31</b>	<b>Total Year</b>
<b>Fiscal Year 2019</b>					
(Unaudited)					
Net patient service revenue	\$ 1,104,089	\$ 1,126,241	\$ —	\$ —	\$ 2,230,330
Other operating revenue	44,687	58,043	—	—	102,730
Total operating revenue	1,148,776	1,184,284	—	—	2,333,060
Operating expenses	1,106,278	1,117,831	—	—	2,224,109
Operating income	42,498	66,453	—	—	108,951
Nonoperating gains, net	440,478	196,180	—	—	636,658
Revenue and gains in excess of expenses and losses before income taxes	482,976	262,633	—	—	745,609
Less: Income tax expense	1,376	1,540	—	—	2,916
Revenue and gains in excess of expenses and losses	481,600	261,093	—	—	742,693
Less: Revenue and gains in excess of expenses and losses attributable to non-controlling interest	18,297	21,045	—	—	39,342
Revenue and gains in excess of expenses and losses from continuing operations attributable to Texas Health Resources	<u>\$ 463,303</u>	<u>\$ 240,048</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 703,351</u>
<b>Fiscal Year 2018</b>					
(Unaudited)					
Net patient service revenue	\$ 1,077,513	\$ 1,127,193	\$ 1,134,504	\$ 1,212,529	\$ 4,551,739
Other operating revenue	48,987	51,279	66,074	82,798	249,138
Total operating revenue	1,126,500	1,178,472	1,200,578	1,295,327	4,800,877
Operating expenses	1,083,991	1,106,866	1,146,039	1,152,041	4,488,937
Operating income	42,509	71,606	54,539	143,286	311,940
Nonoperating (losses) gains, net	(4,546)	88,412	143,472	(452,347)	(225,009)
Revenue and gains in excess of expenses and losses before income taxes	37,963	160,018	198,011	(309,061)	86,931
Less: Income tax expense	1,156	1,182	1,543	1,242	5,123
Revenue and gains in excess of expenses and losses	36,807	158,836	196,468	(310,303)	81,808
Less: Revenue and gains in excess of expenses and losses attributable to non-controlling interest	17,246	22,132	19,305	27,350	86,033
Revenue and gains in excess of expenses and losses from continuing operations attributable to Texas Health Resources	<u>\$ 19,561</u>	<u>\$ 136,704</u>	<u>\$ 177,163</u>	<u>\$ (337,653)</u>	<u>\$ (4,225)</u>

**TEXAS HEALTH RESOURCES**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in Thousands)

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
	(Unaudited)	(Audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 502,600	\$ 442,765
Short-term investments	8,299	7,275
Patient accounts receivable	537,424	559,813
Other receivables, net	131,596	123,616
Assets limited as to use	422,186	471,438
Other current assets	144,320	143,597
Total current assets	<u>1,746,425</u>	<u>1,748,504</u>
Assets limited as to use	5,034,256	4,377,750
Property and equipment, net	2,155,968	2,108,400
Investments in unconsolidated affiliates	456,381	425,271
Operating lease assets <sup>1</sup>	165,218	—
Goodwill and intangible assets, net	140,349	142,836
Other assets, net	<u>119,872</u>	<u>96,733</u>
Total assets	<u><u>\$ 9,818,469</u></u>	<u><u>\$ 8,899,494</u></u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 348,082	\$ 350,104
Accounts payable	188,892	233,169
Estimated third-party payor settlements	21,160	24,381
Accrued salaries, wages, and employee benefits	237,929	219,557
Other accrued liabilities	293,137	302,694
Total current liabilities	<u>1,089,200</u>	<u>1,129,905</u>
Long-term debt, net of current portion	1,585,709	1,585,890
Operating lease liabilities <sup>1</sup>	129,027	—
Other noncurrent liabilities	<u>62,816</u>	<u>48,341</u>
Total liabilities	<u>2,866,752</u>	<u>2,764,136</u>
Net assets:		
Net assets of Texas Health Resources:		
Without donor restrictions	6,553,748	5,848,915
With donor restrictions	182,808	166,509
Total net assets of Texas Health Resources	<u>6,736,556</u>	<u>6,015,424</u>
Noncontrolling ownership interest in equity of consolidated affiliates	<u>215,161</u>	<u>119,934</u>
Total net assets	<u>6,951,717</u>	<u>6,135,358</u>
Total liabilities and net assets	<u><u>\$ 9,818,469</u></u>	<u><u>\$ 8,899,494</u></u>

<sup>1</sup> See *Strategic Plans and Recent Developments* for discussion regarding adoption of ASU 2016-02 Leases.

**TEXAS HEALTH RESOURCES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**  
(Dollars in Thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
	(Unaudited)	(Unaudited)
Operating revenue:		
Net patient service revenue	\$ 2,230,330	\$ 2,204,706
Equity in earnings of unconsolidated affiliates	23,043	21,540
Other operating revenue	79,687	78,726
	<hr/>	<hr/>
Total operating revenue	2,333,060	2,304,972
	<hr/>	<hr/>
Operating expenses:		
Salaries, wages, and employee benefits	1,246,936	1,223,337
Supplies	380,356	380,791
Depreciation and amortization	118,680	118,388
Interest expense	45,808	43,893
Other operating expenses	432,329	424,448
	<hr/>	<hr/>
Total operating expenses	2,224,109	2,190,857
	<hr/>	<hr/>
Operating income	108,951	114,115
	<hr/>	<hr/>
Nonoperating gains (losses), net:		
Net realized investment income and gains	180,574	213,095
Net unrealized gains (losses) on investments	455,626	(130,019)
Equity in earnings of unconsolidated affiliates, nonoperating	2,429	(304)
Other, net	(1,971)	1,094
	<hr/>	<hr/>
Total nonoperating gains (losses), net	636,658	83,866
	<hr/>	<hr/>
Revenue and gains in excess of expenses and losses before income taxes	745,609	197,981
Less: Income tax expense	2,916	2,338
	<hr/>	<hr/>
Revenue and gains in excess of expenses and losses	742,693	195,643
Less: Revenue and gains in excess of expenses and losses attributable to non-controlling interest	39,342	39,378
	<hr/>	<hr/>
Revenue and gains in excess of expenses and losses from continuing operations attributable to Texas Health Resources	703,351	156,265

(Continued)

**TEXAS HEALTH RESOURCES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS, Continued**  
(Dollars in Thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
	(Unaudited)	(Unaudited)
Other changes in net assets without donor restrictions:		
Net unrealized gains (losses) on investments, other than trading securities	\$ 3,772	\$ (5,532)
Net assets released from restrictions used for purchase of property and equipment	111	2,569
Change in fair value of interest rate swap agreements	(111)	2
Other changes, net	(2,290)	(606)
	<u>704,833</u>	<u>152,698</u>
Increase in net assets without donor restrictions		
Changes in net assets with donor restrictions:		
Contributions received for purchase of property and equipment	3,120	10,155
Contributions received for operations	3,672	4,152
Net realized investment income and gains	3,083	3,856
Net unrealized gains (losses) on investments	9,369	(2,590)
Change in value of split-interest agreements	328	(141)
Net assets released from restrictions	(3,273)	(7,157)
	<u>16,299</u>	<u>8,275</u>
Increase in net assets with donor restrictions		
Increase in net assets of Texas Health Resources	721,132	160,973
Net assets of Texas Health Resources, beginning of period	6,015,424	6,024,664
Net assets of Texas Health Resources, end of period	<u>\$ 6,736,556</u>	<u>\$ 6,185,637</u>



**TEXAS HEALTH RESOURCES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in Thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Increase in net assets of Texas Health Resources	\$ 721,132	\$ 160,973
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net unrealized (gains) losses on investments	(468,767)	138,141
Net realized gains on investments	(134,638)	(175,576)
Change in value of split-interest agreements	(328)	141
Provision for bad debts	254	1,482
Restricted contributions received for purchase of property and equipment	(3,120)	(10,155)
Depreciation and amortization	118,680	118,388
Amortization of bond premiums/discounts and debt issuance costs	(1,330)	(1,297)
Net loss (gain) on impairment and disposal of property and equipment	1,089	(368)
Equity in earnings of unconsolidated affiliates	(23,043)	(21,540)
Distributions from unconsolidated affiliates	39,857	23,219
Equity in earnings of unconsolidated affiliates, nonoperating	(2,429)	304
Change in fair value of interest rate swap agreements	111	(2)
Revenue and gains in excess of expenses and losses attributable to non-controlling interest	39,342	39,378
Change in operating assets and liabilities:		
Patient accounts receivable	22,389	7,648
Other receivables, net	(8,234)	10,994
Other assets, net	(26,882)	(5,558)
Accounts payable	(44,277)	(31,692)
Estimated third-party payor settlements	(3,221)	3,233
Accrued salaries, wages, and employee benefits	18,372	(13,038)
Other accrued liabilities	(49,528)	(17,351)
Operating lease assets and liabilities, net	(194)	—
Other noncurrent liabilities	21,611	(874)
Net cash provided by operating activities	<u>216,846</u>	<u>226,450</u>
Cash flows from investing activities:		
Purchases of property and equipment, net	(163,238)	(144,123)
Proceeds from disposal of property and equipment	2,098	1,510
Cash used to acquire physician practices and other consolidated affiliates	(858)	(1,197)
Investments in unconsolidated affiliates, net	(45,495)	(53,340)
(Purchases) sales of short-term investments and assets limited as to use, net	(4,545)	10,813
Net cash used in investing activities	<u>(212,038)</u>	<u>(186,337)</u>

(Continued)

**TEXAS HEALTH RESOURCES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued**  
(Dollars in Thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
	(Unaudited)	(Unaudited)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	\$ 5,930	\$ 341
Principal payments on finance lease obligations	(458)	(223)
Principal payments on long-term debt	(9,450)	(10,719)
Contributions from non-controlling interest holders	104,510	1,857
Distributions to non-controlling interest holders	(48,625)	(48,166)
Proceeds from restricted contributions received for purchase of property and equipment	3,120	10,155
	<u>55,027</u>	<u>(46,755)</u>
Net cash used in financing activities	55,027	(46,755)
Net increase (decrease) in cash and cash equivalents	59,835	(6,642)
Cash and cash equivalents, beginning of period	442,765	435,168
Cash and cash equivalents, end of period	<u>\$ 502,600</u>	<u>\$ 428,526</u>
Supplemental information:		
Cash paid for interest	\$ 51,128	\$ 40,561
Cash paid for income taxes	\$ 4,795	\$ 3,997
Leased assets acquired through finance lease obligations	\$ 3,105	\$ 268
Leased assets acquired through operating lease obligations	\$ 7,170	\$ —

**TEXAS HEALTH RESOURCES  
OPERATING AND FINANCIAL DATA**

**UTILIZATION OF SYSTEM FACILITIES**

<b>Statistic</b>	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
Licensed Beds (at month-end)	4,054	4,056
Operated Beds in Service (at month-end)	3,434	3,394
Patient Days (inpatient)	358,447	382,542
Discharges (inpatient)	78,867	82,213
Average Length of Stay (days)	4.5	4.7
Average Daily Census <sup>1</sup>	1,980	2,113
Percent Occupancy	57.7%	62.3%
Outpatient Visits <sup>2</sup>	812,737	789,255
Total Surgeries	49,830	50,535
Emergency Room Visits	355,492	362,144
Outpatient Gross Patient Service Revenue to Total Gross Patient Service Revenue <sup>3</sup>	46.4%	44.4%

<sup>1</sup> Average Daily Census is calculated using 181 days for the six months ended June 30, 2019 and 2018.

<sup>2</sup> Includes hospital based outpatient clinic visits and other outpatient facilities' visits. Excludes physician office visits.

<sup>3</sup> Excludes physician activities, which represent 9.7% and 9.8% of THR's consolidated net patient service revenue for the six months ended June 30, 2019 and 2018, respectively.

**SOURCES OF COMBINED GROSS PATIENT SERVICE REVENUES  
(excludes physician activities)**

<b>Payor Type</b>	<b>Six Months Ended June 30, 2019</b>	<b>Fiscal Years Ended December 31,</b>	
		<b>2018</b>	<b>2017</b>
Managed care and other commercial	36.2%	37.6%	38.7%
Medicare	26.4%	26.2%	27.0%
Medicare managed	20.7%	19.6%	17.9%
Medicaid	1.6%	1.9%	1.9%
Medicaid managed	6.2%	6.4%	6.5%
Uninsured	8.9%	8.3%	8.0%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

**TEXAS HEALTH RESOURCES  
OPERATING AND FINANCIAL DATA**

**HISTORICAL LIQUIDITY – DAYS CASH ON HAND**

	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>2017</b>
	(Dollars in Thousands)		
Cash and cash equivalents	\$ 502,600	\$ 442,765	\$ 435,168
Short-term investments	8,299	7,275	8,275
Assets limited as to use - internally designated	5,143,166	4,508,169	4,680,424
<b>Total Available Cash<sup>1</sup></b>	<b>\$ 5,654,065</b>	<b>\$ 4,958,209</b>	<b>\$ 5,123,867</b>
Total operating expenses	\$ 2,224,109	\$ 4,488,937	\$ 4,369,081
Plus - Income tax expense	2,916	5,123	4,880
Less - Depreciation and amortization	(118,680)	(238,575)	(232,797)
<b>Adjusted Total Operating Expenses</b>	<b>\$ 2,108,345</b>	<b>\$ 4,255,485</b>	<b>\$ 4,141,164</b>
<b>Average Daily Operating Expense<sup>2</sup></b>	<b>\$ 11,648</b>	<b>\$ 11,659</b>	<b>\$ 11,346</b>
<b>Days Cash Ratio (days)<sup>3</sup></b>	<b>485.4</b>	<b>425.3</b>	<b>451.6</b>

<sup>1</sup> THR maintains a combination of unrestricted cash, cash equivalents, and high grade fixed income securities that may be sold for same day settlement in an amount (value at market) sufficient to purchase the entire principal amount of the Series 2017 A&B Bonds, Series 2012B Bonds, and Series 2008A, B & C Bonds, if all tendered for purchase and not remarketed.

<sup>2</sup> Average Daily Operating Expense is calculated using 181 days for the six months ended June 30, 2019, and 365 days for the fiscal years ended December 31, 2018 and 2017.

<sup>3</sup> Total Available Cash divided by Average Daily Operating Expense.

**TEXAS HEALTH RESOURCES  
OPERATING AND FINANCIAL DATA**

**HISTORICAL CAPITALIZATION – DEBT TO CAPITALIZATION RATIO**

	Fixed or Variable	June 30, 2019	December 31, 2018	December 31, 2017
(Dollars in Thousands)				
Debt:				
Series 2017A & B Bonds <sup>1</sup>	Variable	\$ 133,470	\$ 133,470	\$ 133,470
Series 2016A Bonds <sup>2</sup>	Fixed	695,830	697,319	700,225
Series 2015 Taxable Bonds <sup>2</sup>	Fixed	296,876	296,857	296,821
Series 2015A Bonds <sup>2</sup>	Fixed	59,983	59,983	59,983
Series 2012A (Taxable) Bonds <sup>2</sup>	Fixed	98,926	98,914	98,892
Series 2012B Bonds <sup>1</sup>	Variable	50,000	50,000	50,000
Series 2010 Bonds <sup>2</sup>	Fixed	151,556	151,469	151,304
Bank Loans <sup>2,3</sup>	Variable	133,578	133,563	133,838
Series 2008A, B & C Bonds <sup>1</sup>	Variable	149,180	149,180	149,180
FMHP Term and Revolving Loans <sup>2,4</sup>	Combination	68,561	71,638	77,792
RRH Term and Revolving Loans <sup>2,5</sup>	Combination	28,417	29,624	32,729
HIP Term and Revolving Loans <sup>2,6</sup>	Combination	1,558	3,665	7,820
ACL Term and Revolving Loans <sup>2,7</sup>	Combination	15,571	16,460	17,308
Other Non-Obligated Group Debt <sup>8</sup>	Combination	50,285	43,852	42,844
Total Debt		<u>\$ 1,933,791</u>	<u>\$ 1,935,994</u>	<u>\$ 1,952,206</u>
Net assets of THR without donor restrictions		<u>\$ 6,553,748</u>	<u>\$ 5,848,915</u>	<u>\$ 5,853,468</u>
Debt to Capitalization Ratio <sup>9</sup>		<u>22.8%</u>	<u>24.9%</u>	<u>25.0%</u>

<sup>1</sup> Series 2017A & B, Series 2012B Bonds and Series 2008A, B & C Bonds are demand securities supported by self-liquidity provisions.

<sup>2</sup> Net of premium/discounts and (or) cost of issuance.

<sup>3</sup> The Bank Loans have either a mandatory or optional tender exercisable by the respective banks that may trigger the unpaid principal balance of the Bank Loans due at the end of each respective ten and fifteen-year term. The Bank Loans bear interest at variable rates calculated as a percentage of LIBOR plus a spread.

<sup>4</sup> FMHP is Flower Mound Hospital Partners, LLC (d/b/a Texas Health Presbyterian Hospital Flower Mound).

<sup>5</sup> RRH is Rockwall Regional Hospital, LLC (d/b/a Texas Health Presbyterian Hospital Rockwall).

<sup>6</sup> HIP is Health Imaging Partners, LLC.

<sup>7</sup> ACL is AMH Cath Labs, LLC (d/b/a Texas Health Heart & Vascular Hospital Arlington).

<sup>8</sup> Represents loans, notes payable, and capitalized leases of other consolidated joint ventures.

<sup>9</sup> Total Debt divided by Total Debt plus Net assets of THR without donor restrictions..

THR entered into credit agreements for general corporate purposes in December 2012, with Wells Fargo Bank N.A. and U.S. Bank N.A. for lines of credit of \$75,000,000 each (the "Credit Agreements"). Under the Credit Agreements, outstanding balances under the lines of credit generally bear interest at variable rates calculated as a percentage of LIBOR plus a spread. At June 30, 2019, there were no outstanding balances under these Credit Agreements. The Wells Fargo and U.S. Bank Credit Agreements will expire on December 31, 2019 and December 31, 2020, respectively. THR intends to maintain its level of commitment for these lines of credit.

**TEXAS HEALTH RESOURCES  
OPERATING AND FINANCIAL DATA**

**COMPOSITION OF INVESTMENTS AND ASSETS LIMITED AS TO USE**

	June 30, 2019	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 115,589	\$ 143,383	\$ 240,972
Restricted cash - government supplemental program funds	82,467	104,903	64,468
Domestic equity securities	2,428,870	2,023,815	2,246,324
International equity securities	842,215	730,067	867,090
Fixed income securities:			
U.S. Government, including agency mortgage-backed securities	1,525,061	1,439,783	1,274,298
Corporate bonds and other	406,430	365,199	347,686
Mutual funds (blended securities)	5,942	5,494	6,053
Hedge fund	—	—	152
Texas Methodist Foundation	1,224	1,216	1,200
Real estate	890	894	894
Mineral interests	2,953	2,972	3,545
Contributions receivable from split-interest agreements	1,599	1,403	1,656
Other alternative investments	32,900	21,600	15,047
	<u>          </u>	<u>          </u>	<u>          </u>
Total investments and assets limited as to use	<u>\$ 5,446,140</u>	<u>\$ 4,840,729</u>	<u>\$ 5,069,385</u>

*Note: Included in assets limited as to use in the accompanying consolidated balance sheets is approximately \$18,601,000, \$15,734,000, and \$8,226,000 of unconditional promises to give from donors at June 30, 2019, December 31, 2018, and December 31, 2017, respectively.*

## **TEXAS HEALTH RESOURCES SUPPLEMENTAL INFORMATION**

### **STRATEGIC PLANS AND RECENT DEVELOPMENTS**

Effective January 1, 2019, THR adopted Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), as amended, using the restrospective method as of the period adoption. The ASU aligns many of the principles of the lessor model with the new revenue recognition standard and requires lessees to recognize a lease liability and right-of-use asset for most leases. THR elected certain practical expedients, including the package of practical expedients permitted under the transition guidance, which allows an entity to carry forward historical lease classifications, not reassess prior conclusions related to initial direct costs, and not reassess whether any expired or existing contracts are or contain leases. As a result of adoption, THR recorded operating lease assets and liabilities of \$174.7 million and \$177.6 million, respectively, on the consolidated balance sheet as of January 1, 2019.

### **LITIGATION AND REGULATORY MATTERS**

In March 2015, the System made a disclosure to the Office of Inspector General (OIG) regarding Texas Health Physician Group (THPG) billing of certain Positron Emission Tomography (PET) scan tests and nuclear stress tests that did not meet Medicare medical necessity requirements. Management believes it is too early to predict with certainty the outcome of this matter; however, management does not anticipate a material financial impact.

In late 2011, the Texas Health and Human Services Commission (HHSC) implemented a five-year demonstration program, the Texas Healthcare Transformation and Quality Improvement Program: Section 1115 Waiver Program (Waiver Program), which was approved by the Centers for Medicare & Medicaid Services (CMS). The uncompensated care (UC) pool under the Section 1115 Waiver Program helps eligible hospitals and certain other providers offset a portion of their unreimbursed costs for services already provided to Medicaid patients and uninsured persons, and has been extended through September 30, 2022. In a letter to HHSC dated September 1, 2016, CMS announced that for the quarter ended December 31, 2015, it is disallowing certain federal matching funds, totaling \$26,845,000, of which \$7,306,000 is THR's portion, based on the projected value of purported impermissible in-kind donations to the Dallas County Hospital District and the Tarrant County Hospital District by the Dallas County Indigent Care Corporation and the Tarrant County Indigent Care Corporation. Both corporations are funded by certain local private hospitals, including THR hospitals. CMS alleges that the participating private hospitals failed to comply with the federal provider-related donation requirements. In September 2017, the participating private hospitals terminated the services arrangement challenged by CMS in the disallowance as non-compliant with federal law. HHSC sought reconsideration by CMS of the disallowance, which CMS denied. HHSC subsequently appealed to the Department of Health and Human Services' Departmental Appeals Board (DAB). The private hospitals, including THR, participated as intervenors in the DAB administrative proceeding. On August 7, 2018, the DAB ruled in favor of CMS. THR and the other participating health systems thereafter repaid the disallowed funds on September 14, 2018. On October 5, 2018, HHSC and the participating private hospitals, including THR, filed a Joint Motion for Reconsideration and Reversal. This motion remains pending before the DAB. Should the DAB deny the motion, HHSC is expected to appeal that ruling to federal district court. In that proceeding, the private hospitals, including THR, would seek permission to participate as intervenors. It is too early to predict the ultimate outcome of the currently pending motion, any litigation that might follow a decision on that motion, or its possible financial impact. If the federal government were to ultimately prevail in the litigation, other Medicaid supplemental payments to THR under the services arrangement at issue in the disallowance could be at risk. In addition, a 2017 *qui tam* suit filed in the United States District Court for the Southern District of Texas was recently unsealed. This lawsuit alleges that a care funding arrangement in Harris County, Texas with some characteristics similar to the terminated services arrangement in Dallas and Tarrant Counties at issue in the disallowance violates the federal False Claims Act and the Texas Medicaid Fraud Prevention Act. The federal government and the State of Texas have both declined to intervene in this action. Management believes THR is adequately reserved and does not anticipate a material financial impact.

On July 13, 2018, the OIG notified THR and initiated a Hospital Medicare Compliance Review at Texas Health Presbyterian Hospital Dallas to determine whether the hospital complied with Medicare requirements for billing certain inpatient and outpatient services on selected claims from January 1, 2016 through December 31, 2017. The OIG issued a draft report on June 11, 2019, which stated that the OIG found the hospital complied with Medicare billing requirements for 59 of the 100 inpatient and outpatient claims reviewed, and 41 claims had billing errors resulting in net overpayments of \$500,000 for the audit period. The OIG extrapolated these net overpayments and estimates that the hospital received net overpayments of at least \$10,597,000. In its written response provided to the OIG on July 11, 2019, THR generally disagreed with many of the findings and recommendations set forth in the draft report. THR specifically disagreed with the OIG's recommendation to refund to the Medicare contractor \$10,597,000 in estimated overpayments. The amount of the proposed refund represents the extrapolation of many payments that are still in dispute. THR intends to exercise all of its existing appeal rights in this matter. Further, as noted in the draft report, the recommendations are not final determinations by the Medicare Program. Management believes it is too early to predict with certainty the outcome of this matter; however, management has established a reserve for the extrapolated amount and does not anticipate any further financial impact.

THR's Corporate Compliance Department investigates all compliance matters reported through its compliance program. As of the date of this disclosure, there was no additional pending or, to the knowledge of management, threatened litigation, including professional liability claims, or reported compliance issues which in the opinion of management involves any substantial risk of material liability, and where applicable, in excess of available reserves and insurance coverages.