Texas Health Resources

Consolidated Financial Statements

December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1400
2323 Ross Avenue
Dallas, TX 75201-2721

Independent Auditors' Report

The Board of Trustees,
Texas Health Resources:

We have audited the accompanying consolidated financial statements of Texas Health Resources and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Texas Health Resources and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2021 on our consideration of Texas Health Resources' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Texas Health Resources' 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 Texas Health Resources' internal control over financial reporting and compliance.

KPMG LLP

Dallas, Texas
April 28, 2021

TEXAS HEALTH RESOURCES
CONSOLIDATED BALANCE SHEETS
December 31, 2020 and 2019
(Dollars in Thousands)

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	$ 981,196	$ 619,977
Short-term investments	8,005	7,805
Patient accounts receivable	578,333	564,292
Other receivables, net	131,272	153,089
Assets limited as to use	537,737	439,682
Other current assets	179,006	142,526
Total current assets	2,415,549	1,927,371
Assets limited as to use	6,267,889	5,341,342
Property and equipment, net	2,342,916	2,269,513
Investments in unconsolidated affiliates	590,744	532,817
Goodwill and intangible assets, net	133,796	137,794
Operating lease assets	190,690	151,754
Long-term fund unrestricted	73,052	67,631
Other assets, net	73,157	70,387
Total assets	$ 12,087,793	$ 10,498,609
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	$ 345,366	$ 345,060
Accounts payable	312,391	277,123
Estimated third-party payor settlements	12,635	16,699
Accrued salaries, wages, and employee benefits	287,685	235,712
Current portion of operating lease liabilities	41,319	38,548
Other accrued liabilities	351,272	303,898
Total current liabilities	1,350,668	1,217,040
Long-term debt, net of current portion	2,031,601	1,658,313
Operating lease liabilities, net of current portion	156,971	117,705
Other noncurrent liabilities	78,458	58,768
Total liabilities	3,617,698	3,051,826
Net assets:		
Net assets of Texas Health Resources		
Without donor restrictions	8,044,797	7,025,899
With donor restrictions	194,096	184,592
Total net assets of Texas Health Resources	8,238,893	7,210,491
Non-controlling ownership interests in equity of consolidated affiliates	231,202	236,292
Total net assets	8,470,095	7,446,783
Total liabilities and net assets	$ 12,087,793	$ 10,498,609

See accompanying notes to the consolidated financial statements.

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2020 and 2019
(Dollars in Thousands)

	2020	2019
Operating revenue:		
Patient service revenue	$ 4,458,777	$ 4,627,386
Equity in earnings of unconsolidated affiliates	93,731	102,983
CARES Act Provider Relief Funds, net	124,945	—
Other operating revenue	184,467	157,530
Total operating revenue	4,861,920	4,887,899
Operating expenses:		
Salaries, wages, and employee benefits	2,577,575	2,479,529
Supplies	758,719	780,784
Depreciation and amortization	258,322	238,054
Interest expense	91,063	91,642
Other operating expenses	1,013,076	974,065
Total operating expenses	4,698,755	4,564,074
Operating income	163,165	323,825
Nonoperating gains (losses), net:		
Net realized investment income and gains	333,691	315,519
Net change in unrealized gains on investments	566,075	636,005
Equity in earnings of unconsolidated affiliates, nonoperating	13,548	5,279
Loss on extinguishment of long-term debt	—	(11,780)
Other, net	(1,963)	(6,031)
Total nonoperating gains, net	911,351	938,992
Revenue and gains in excess of expenses and losses before income taxes	1,074,516	1,262,817
Less: Income tax expense	5,864	5,690
Revenue and gains in excess of expenses and losses	1,068,652	1,257,127
Less: Revenue and gains in excess of expenses and losses attributable to non-controlling interests	55,775	86,091
Revenue and gains in excess of expenses and losses from continuing operations attributable to Texas Health Resources	1,012,877	1,171,036

(Continued)

See accompanying notes to the consolidated financial statements.

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
For the Years Ended December 31, 2020 and 2019
(Dollars in Thousands)

	2020	2019
Other changes in net assets without donor restrictions:		
Net unrealized gains on investments	$ 1,201	$ 3,726
Net assets released from restrictions used for purchase of property and equipment	6,867	5,511
Change in fair value of interest rate swap agreements	(86)	(106)
Other changes, net	(1,961)	(3,183)
Increase in net assets without donor restrictions	1,018,898	1,176,984
Changes in net assets with donor restrictions:		
Contributions received for purchases of property and equipment	631	6,174
Contributions received for operations	8,370	6,880
Net realized investment income and gains	5,845	5,407
Net change in unrealized gains on investments	10,414	13,107
Change in value of split-interest agreements	449	584
Net assets released from restrictions	(16,205)	(14,069)
Increase in net assets with donor restrictions	9,504	18,083
Increase in net assets of Texas Health Resources	1,028,402	1,195,067
Net assets of Texas Health Resources, beginning of year	7,210,491	6,015,424
Net assets of Texas Health Resources, end of year	$ 8,238,893	$ 7,210,491

See accompanying notes to the consolidated financial statements.

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019
(Dollars in Thousands)

	2020	2019
Cash flows from operating activities:		
Increase in net assets of Texas Health Resources	$ 1,028,402	$ 1,195,067
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Loss on extinguishment of long-term debt	—	11,780
Net unrealized gains on investments	(577,690)	(670,591)
Net realized gains on investments	(259,414)	(214,546)
Change in value of split-interest agreement	(449)	(584)
Provision for bad debts	263	436
Restricted contributions received for purchases of property and equipment	(631)	(6,174)
Depreciation and amortization	258,322	238,054
Amortization of bond premiums/discounts and debt issuance costs	(2,845)	(2,690)
Net losses on disposal of property and equipment	4,013	1,235
Equity in earnings of unconsolidated affiliates	(93,731)	(102,983)
Distributions from unconsolidated affiliates	102,797	93,349
Equity in earnings of unconsolidated affiliates, nonoperating	(13,548)	(5,279)
Change in fair value of interest rate swap agreements	86	106
Revenue and gains in excess of expenses and losses attributable to non-controlling interest	55,775	86,091
Changes in operating assets and liabilities:		
Patient accounts receivable	(14,041)	(4,479)
Other receivables, net	21,554	(29,909)
Other assets, net	(39,336)	(25,487)
Accounts payable	35,268	43,954
Estimated third-party payor settlements	(4,064)	(7,682)
Accrued salaries, wages, and employee benefits	51,973	16,155
Other accrued liabilities	47,374	(4,605)
Operating lease assets and liabilities, net	3,101	525
Other noncurrent liabilities	19,690	17,563
Net cash provided by operating activities	622,869	629,306

(Continued)

See accompanying notes to the consolidated financial statements.

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2020 and 2019
(Dollars in Thousands)

	2020	2019
Cash flows from investing activities:		
Purchases of property and equipment, net	$ (329,417)	$ (390,173)
Proceeds from disposal of property and equipment	6,292	4,030
Cash used to acquire physician practices and other consolidated affiliates	(2,208)	(1,769)
Investment in unconsolidated affiliates, net	(53,445)	(92,633)
Purchases of short-term investments and assets limited as to use, net	(192,670)	(64,398)
Net cash used in investing activities	(571,448)	(544,943)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt and drawn lines of credit	609,495	234,113
Debt issuance costs	(2,922)	(2,393)
Principal payments on capital lease obligations	(2,083)	(1,163)
Principal payments on long-term debt and drawn lines of credit	(234,510)	(16,687)
Redemption of long-term debt	—	(157,550)
Contributions from non-controlling interest holders	16,418	124,434
Distributions to non-controlling interest holders	(77,231)	(94,079)
Proceeds from restricted contributions received for purchases of property and equipment	631	6,174
Net cash provided by financing activities	309,798	92,849
Net increase in cash and cash equivalents	361,219	177,212
Cash and cash equivalents, beginning of year	619,977	442,765
Cash and cash equivalents, end of year	$ 981,196	$ 619,977
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 96,927	$ 100,822
Cash paid for income taxes	$ 6,111	$ 5,928
Property and equipment acquired through finance lease obligations	$ 6,459	$ 7,778

See accompanying notes to the consolidated financial statements.

(Dollars in Thousands)

1. Organization

Texas Health Resources (THR), a Texas non-profit corporation, operates through its controlled affiliates a health care system with services and facilities throughout north central Texas. THR is organized and operated for the benefit of its tax-exempt controlled affiliates and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended (the Code), as an organization described in Section 501(c)(3). THR's wholly-controlled facilities include 14 acute care hospital locations, a long-term care hospital, and a rehabilitation center. The following table provides the locations of THR's wholly-controlled tax-exempt member hospitals (the Tax-Exempt Hospitals) as of December 31, 2020. The Tax-Exempt Hospitals have been recognized as exempt from federal income taxes under the Code as organizations described in Section 501(c)(3).

Tax-Exempt Hospital	Location (Texas)
Texas Health Arlington Memorial Hospital	Arlington
Texas Health Harris Methodist Hospital Alliance	Fort Worth
Texas Health Harris Methodist Hospital Azle	Azle
Texas Health Harris Methodist Hospital Cleburne	Cleburne
Texas Health Harris Methodist Hospital Fort Worth	Fort Worth
Texas Health Harris Methodist Hospital Hurst-Euless-Bedford	Bedford
Texas Health Harris Methodist Hospital Southwest Fort Worth	Fort Worth
Texas Health Harris Methodist Hospital Stephenville	Stephenville
Texas Health Hospital Clearfork[1]	Fort Worth
Texas Health Presbyterian Hospital Allen	Allen
Texas Health Presbyterian Hospital Dallas	Dallas
Texas Health Presbyterian Hospital Denton	Denton
Texas Health Presbyterian Hospital Kaufman	Kaufman
Texas Health Presbyterian Hospital Plano	Plano
Texas Health Specialty Hospital Fort Worth (long-term care hospital)	Fort Worth

[1] *Texas Health Hospital Clearfork is a separate hospital location serving as a licensed department of Texas Health Harris Methodist Hospital Southwest Fort Worth.*

THR is the sole member or sole shareholder of certain other wholly-controlled affiliates engaged in health care related activities in support of its mission, including Texas Health Physicians Group (THPG), a Texas non-profit organization certified by the Texas Medical Board pursuant to Section 162.001(b) of the Texas Occupations Code that currently consists of approximately 1,106 employed physicians and advanced practice providers in 258 locations throughout north central Texas, and Texas Health Recovery and Wellness Center (THRW), a rehabilitation center located in Mansfield, Texas. THPG and THRW have been recognized as exempt from federal income taxes under the Code as organizations described in Section 501(c)(3).

(Dollars in Thousands)

1. Organization, continued

THR and some of its controlled affiliates participate in joint ventures with physicians and non-physicians to operate hospitals and other health related ventures. The following table provides the location of the joint venture hospitals along with THR's ownership interest in those hospitals as of December 31, 2020 and 2019:

Hospital	Location (Texas)	2020 Ownership Interest	2019 Ownership Interest
Consolidated:			
AMH Cath Labs, L.L.C. (d/b/a Texas Health Heart & Vascular Hospital Arlington)	Arlington	55.4%	54.0%
Flower Mound Hospital Partners, L.L.C. (d/b/a Texas Health Presbyterian Hospital Flower Mound)	Flower Mound	54.0%	53.7%
Physicians Medical Center, L.L.C. (d/b/a Texas Health Center for Diagnostics & Surgery Plano)	Plano	54.6%	53.7%
Rockwall Regional Hospital, L.L.C. (d/b/a Texas Health Presbyterian Hospital Rockwall)	Rockwall	61.4%	61.3%
Southlake Specialty Hospital, L.L.C. (d/b/a Texas Health Harris Methodist Hospital Southlake)	Southlake	54.0%	54.0%
Texas Health Hospital Frisco	Frisco	51.0%	51.0%
Texas Institute for Surgery, L.L.P. (d/b/a Texas Institute for Surgery at Texas Health Presbyterian Hospital Dallas)	Dallas	50.0%	50.0%
Unconsolidated:			
Texas Health Huguley, Inc. (d/b/a Texas Health Huguley Hospital Fort Worth South and Texas Health Hospital Mansfield)	Fort Worth/Mansfield	51.0%	51.0%
Texas Rehabilitation Hospital of Arlington, L.L.C.	Arlington	30.0%	30.0%
Texas Rehabilitation Hospital of Fort Worth, L.L.C.	Fort Worth	30.0%	30.0%
USMD Hospital of Arlington, L.P.	Arlington	51.0%	51.0%
USMD Hospital of Fort Worth, L.P.	Fort Worth	51.0%	51.0%

In addition to the hospitals listed above, there are numerous other non-hospital health related joint ventures included in THR's accompanying consolidated financial statements, including outpatient imaging, ambulatory surgery and urgent care centers, commercial health plan and a clinically integrated network. THR maintains a majority ownership interest and controls the governing bodies of the consolidated affiliates. THR does not control the governing bodies of the unconsolidated affiliates.

THR and its tax-exempt controlled affiliates receive support from the Texas Health Resources Foundation (Foundation). The Foundation operates as a non-private foundation exempt from federal income taxes under Section 501(a) of the Code as an organization described in Section 501(c)(3), and THR is the sole corporate member.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of THR, the Foundation, and THR's wholly-controlled affiliates and consolidated joint ventures (collectively, the System). All significant intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash, money market funds, and governmental or other securities with original maturities of three months or less at the time of purchase, excluding amounts limited as to use by board designation or other arrangements which consist of cash equivalents and are included within investments of the System. THR's cash management system provides for daily investment of available balances and the funding of outstanding checks when presented for payment. Outstanding but unpresented checks totaling $38,849 and $43,799 at December 31, 2020 and 2019, respectively, have been included in accounts payable on the accompanying consolidated balance sheets. Upon presentation for payment, these checks are funded through available cash or cash equivalent balances. The change in outstanding but unpresented checks is included in cash used in operating activities on the accompanying consolidated statements of cash flows.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value on the consolidated balance sheets. Realized investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in revenue and gains in excess of expenses and losses unless the income or loss is restricted by donor or law. Investments in mineral interests, which have limited marketability, are stated at fair value, as estimated based on a multiple of annual revenues. Investments in real estate are stated at fair value, as estimated by private valuations. Investments in private equity funds are stated at fair value, if readily determinable, or at net asset value as a practical expedient to fair value if the fair value is not readily determinable, as estimated by the general partner of the private fund and reviewed by management. Unrealized gains and losses on investments are included in revenues and gains in excess of expenses and losses unless the gain or loss is restricted by donor or law or the gain or loss is for debt securities designated as other than trading. The unrealized gains and losses restricted by donor or law and for other than trading debt securities is included in other changes in net assets. Management reviews individual securities to determine whether a decline in fair value below the amortized cost basis is other than temporary. If the decline in fair value is judged to be other than temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is included in realized investment gains or losses in the consolidated statements of operations and changes in net assets. To determine whether a decline is other than temporary, management considers whether it has the ability and intent to hold the investment until a market price recovery, which may be maturity, and whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary.

2. Summary of Significant Accounting Policies, continued

Investments and Investment Income, *continued*

The System invests in various securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonable to assume that changes in the values of investment securities will occur in the near term and that such changes could be material to the accompanying consolidated financial statements.

Split-Interest Agreements

The System has received as contributions various types of split-interest agreements, including charitable gift annuities, charitable remainder unitrusts and perpetual trusts held by a third party. As of December 31, 2020 and 2019, assets of $18,118 and $17,227, respectively, were recorded in assets limited as to use and liabilities of $724 and $830, respectively, were recorded in other accrued liabilities on the consolidated balance sheets.

Under charitable gift annuity arrangements for which the System is the trustee of the assets, the System records the assets at fair value and the liabilities to the beneficiaries at the present value of the estimated future payments to be distributed by the System to such beneficiaries. The amount of the contribution is the difference between the asset and the liability and is recorded as unrestricted revenue, unless otherwise restricted by the donor. Subsequent changes to the annuity liability are recorded as changes in value of split-interest agreements in the appropriate net asset class.

Under charitable remainder unitrust arrangements for which the System is the trustee of the assets, the System records the present value of the residual interest in the trust as donor-restricted contributions in the period in which the trust is established. The assets held in trust are recorded at fair value when received, and the liabilities to the beneficiaries are recorded at the present value of the estimated future payments to be distributed by the System to such beneficiaries. The amount of the contribution is the difference between the asset and the liability and is recorded as support with donor restrictions. Subsequent changes in fair value for charitable remainder unitrusts are recorded as changes in value of split-interest agreements in the appropriate net asset class.

Under perpetual trusts held by a third-party arrangement, the System records contribution revenue and an asset when it is notified of the trust's existence. The fair value of the contribution is measured at the present value of the estimated future cash receipts from the trust's assets, and that value may generally be measured by the fair value of the assets contributed to the trust, unless facts and circumstances indicate that the fair value of the assets contributed to the trust differs from the present value of the expected future cash flows. Distributions from the trust are reported as investment income in the appropriate net asset class. Adjustments to the amount reported as an asset, based on periodic review, are recognized as net unrealized gains or losses on investments in net assets with donor restrictions.

Under the charitable gift annuity arrangements and charitable remainder unitrust arrangements for which the System is not the trustee of the assets, the System records a receivable and contribution revenue at the present value of the estimated future distributions expected to be received by the System over the expected term of the agreement. However, if an unrelated third-party has variance power to redirect the benefits to another organization or if the System's rights to the benefits are conditional, the System does not recognize its potential for future distributions from the asset held by the trustee.

2. Summary of Significant Accounting Policies, continued

Split-Interest Agreements, *continued*

The discount rates and actuarial assumptions used in calculating present values have been based on IRS guidelines and actuarial tables. For agreements in which the System is the trustee, the discount rates used are commensurate with the risks involved at the time the contributions are initially recognized and are not subsequently revised. For agreements in which the System is not the trustee, under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-30, *Not-for-Profit Entities Split-Interest Agreements*, and the guidance as provided in the *AICPA Audit and Accounting Guide*, *Not-for-Profit Organizations*, net expected cash flows are revalued to fair value at each year-end using a current risk-free rate of return, which ranged from 0.16% to 2.98% and 1.69% to 2.25% for the years ended December 31, 2020 and 2019, respectively.

Accounts Receivable and Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. Healthcare services promised in the contract with a patient represent a bundle of goods and (or) services that is distinct and accounted for as a single performance obligation. The transaction price for the bundled goods and (or) services provided is estimated by reducing the total standard charges by variable price concessions, including contractual adjustments based on the terms provided by (in the case of Medicare and Medicaid) or negotiated with (in the case of managed care and commercial insurance companies) third-party payors, the System's discount policies, and other implicit price concessions based on historical collections experience for uninsured and under-insured patients who do not qualify for financial assistance. A portfolio approach by major payor categories and types of service is used to estimate the historical collections experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Portfolio collection estimates are updated at least quarterly based on actual collections experience. The System believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used.

Under THR's financial assistance policy, the Tax-Exempt Hospitals, THRW, and THPG provide care to patients without charge or at amounts less than their established rates if the patient meets certain established criteria. The consolidated joint venture hospitals and healthcare entities have similar financial assistance policies, or have adopted the THR financial assistance policy. As the System does not pursue collection of amounts determined to qualify as financial assistance, those amounts are not reported as patient service revenue or patient accounts receivable.

Revenue related to providing care to patients is recognized as the performance obligation is satisfied over the period of time the patient is receiving treatment, as the patient is simultaneously receiving and consuming the benefits provided by the System. The performance obligation is generally satisfied over an average period of less than five days for inpatient services and one day for outpatient services. Generally, patients and third-party payors are billed within days after the services are performed and (or) the patient is discharged. The transaction price related to unsatisfied or partially unsatisfied performance obligations at the end of the reporting period primarily relate to inpatient acute care services for patients who remain admitted at that time (in-house patients). As of December 31, 2020 and 2019, contract assets of $49,827 and $33,617, respectively, were recorded in patient accounts receivable on the consolidated balance sheets.

2. Summary of Significant Accounting Policies, continued

Accounts Receivable and Patient Service Revenue, continued

Patient accounts receivable is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance company has paid the amounts covered by the applicable agreement, but patient responsibility amounts remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients based upon management's assessment of historical write-offs and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Patient accounts are monitored and, if necessary, past due accounts are placed with collection agencies in accordance with guidelines established by management. Accounts are written off when all reasonable internal and external collection efforts have been performed. Estimated implicit price concessions of $366,511 and $437,785 were recorded as reductions to patient accounts receivable at December 31, 2020 and 2019, respectively, on the consolidated balance sheets.

Assets Limited as to Use

The System maintains certain assets that are limited as to use under board designation, indenture and loan agreements, donor restriction, and other provisions. Amounts required to fund current liabilities of the System have been classified as current assets on the consolidated balance sheets.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under finance lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated statements of operations and changes in net assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from revenue and gains in excess of expenses and losses unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Goodwill and Intangible Assets

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized. The System reviews goodwill annually, or more frequently if circumstances warrant a more timely review, to determine if there has been an impairment.

(Dollars in Thousands)

2. Summary of Significant Accounting Policies, continued

Goodwill and Intangible Assets, *continued*

FASB ASC Topic 350, *Intangibles—Goodwill and Other* (ASC 350), provides an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount or that indefinite-lived assets are impaired. If, after assessing the totality of events and circumstances, an entity determines it is more likely than not that the fair value of the reporting unit is less than its carrying amount or that the indefinite-lived intangible asset is impaired, then the entity is required to perform the two-step goodwill impairment test described in ASC 350 or determine the fair value of the indefinite-lived intangible asset and perform a quantitative impairment test by comparing the fair value with the carrying amount. However, if an entity concludes otherwise, no further action is required. One of the System's consolidated for-profit joint ventures elected to amortize goodwill over a ten year period, effective January 1, 2015. All others are accounted for as an asset with an indefinite useful life and are subject to the annual goodwill impairment review. For the years ended December 31, 2020 and 2019, the System prepared a qualitative assessment of goodwill and indefinite-lived intangible assets impairment for all reporting units that have assigned goodwill and indefinite-lived intangible assets. No impairment was identified for the years ended December 31, 2020 and 2019.

A summary of goodwill activity for the years ended December 31, 2020 and 2019 is presented below:

	2020	2019
Balance at beginning of year	$ 133,567	$ 137,569
Amortization of goodwill - consolidated joint venture	(4,002)	(4,002)
Balance at end of year	$ 129,565	$ 133,567

Leases

The System follows the provisions of Accounting Standards Update 2016-02, *Leases (Topic 842)* ("ASU 842") to account for its leasing arrangements. It is determined if a contract is a lease, or contains a lease, at inception or upon modification of a contract. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control over the use of the identified asset means the lessee has both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset. Lease classification as operating or finance is determined at the lease commencement date.

Lease right-of-use assets and liabilities are recognized based on the present value of future minimum lease payments over the expected lease term on the lease commencement date. When the implicit lease rate is not determinable, the System uses a risk-free discount rate derived from Treasury Nominal Coupon (TNC) Treasury Yield Curve Spot Rates based on the information available at the lease commencement date, in determining the present value of future minimum lease payments. The expected lease terms include options to extend or terminate the lease when it is reasonably certain the System will exercise such options. Lease expense for minimum lease payments is recognized on a straight-line basis over the expected lease terms. Certain of the System's lease arrangements may have lease and non-lease components. The System accounts for the lease and non-lease components as a single lease component for all classes of underlying assets. Leases with an expected lease term of 12 months or less are not recorded on the consolidated balance sheet and the related lease expense is recognized on a straight-line basis over the expected lease term.

2. Summary of Significant Accounting Policies, continued

Impairment or Disposal of Long-Lived Assets

When events or changes in circumstances indicate that the carrying amount of long-lived assets, including property and equipment, or other long-lived assets, may not be recoverable, an evaluation of the recoverability of currently recorded costs is performed. When an evaluation is performed, the estimated value of undiscounted future net cash flows associated with the assets is compared to the assets' carrying value to determine if a write-down to fair value is required.

If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Long-lived assets to be disposed of are reflected at the lower of either their carrying amounts or their fair value less costs to sell or close. In such circumstances, estimates of fair value are based on independent appraisals, established market prices for comparable assets, or internal calculations of estimated discounted future cash flows. There were no impairment adjustments recorded for long-lived assets during the years ended December 31, 2020 or 2019.

Physician Income Guarantees

Consistent with its policy on physician relocation and recruitment, THR hospitals provide income guarantee agreements to certain non-employed physicians who agree to relocate to its communities and commit to remain in practice to fill a need in the hospital's service area. Under such agreements, THR hospitals are required to make payments to the physicians in excess of the amounts they earn in their practice up to the amount of the income guarantee. The income guarantee periods are generally 12 months, but are occasionally negotiated for longer periods of time if warranted. Such payments plus interest are recoverable from the physicians generally for three years subsequent to the guarantee period if the physicians do not fulfill their obligation to practice full-time in the community and maintain active privileges at the recruiting hospital. At December 31, 2020, the maximum potential amount of future payments under these guarantees was $3,353.

At December 31, 2020 and 2019, THR had a liability of $1,065 and $2,285, respectively, for the fair value of income guarantees, with a corresponding asset recorded in other current assets on the consolidated balance sheets, which is amortized over the physician's commitment period.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to THR and its tax-exempt controlled affiliates are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor-restricted net assets are reclassified as net assets without donor restrictions and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restrictions and other operating revenue.

Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by THR and its tax-exempt controlled affiliates have been limited by donors to a specific time period or purpose. Net assets with donor restrictions that are perpetual in nature have been restricted by donors to be maintained by THR and its tax-exempt controlled affiliates in perpetuity.

2. Summary of Significant Accounting Policies, continued

Revenue and Gains in Excess of Expenses and Losses

The consolidated statements of operations and changes in net assets include revenue and gains in excess of expenses and losses. Changes in net assets without donor restrictions excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include unrealized gains and losses on investments, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purposes of acquiring such assets), and other items required by GAAP to be reported separately.

Self-Insurance

Under THR's self-insurance programs, claims are reflected as liabilities based upon actuarial estimation, including both reported and incurred but not reported claims, taking into consideration the severity of the incidents and the expected timing of claim payments.

CARES Act

The outbreak of a novel strain of the coronavirus disease 2019 (COVID-19) continues to impact businesses, industrial sectors, and financial markets both in the United States (U.S.) and globally. Although conditions appear to be improving due to lower infection rates and the availability of vaccines to all eligible individuals, in mid-March 2020, the System began to see the negative financial impact of the COVID-19 pandemic to its operations due to the shelter-in-place mandates and restrictions around the performance of elective procedures which led to a significant decrease in patient volumes. The System is following the guidance of state and local governments and the Centers for Disease Control and Prevention (CDC). For inpatient facilities, the State of Texas initially mandated rescheduling elective surgeries and shifting inpatient diagnostic and surgical procedures to outpatient settings, when feasible; limiting visitors; and identifying additional space for patient care. In the event that inpatient COVID-19 cases increase above 15% for 7 straight days in a region within the System's service area, limitations on elective procedures could be implemented.

Through the date of this report, the System has received distributions of $248,341 under the Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Fund. At December 31, 2020, the System had received $167,634, of which $124,945 has been recognized as CARES Act Provider Relief Funds, net within the System's statements of operations and changes in net assets, with funds received in excess of this amount being deferred and recorded on the consolidated balance sheet in other accrued liabilities, to ensure all criteria for full recognition of funds received have been met. The System may receive additional grant funding under the CARES Act Provider Relief Fund; however, management cannot predict the amount or timing of any such future distributions. Of the available programs established under the CARES Act, the System elected not to participate in the Medicare Accelerated Payment Program or the Employer Payroll Tax Deferral Provisions, as these programs and provisions were not deemed essential to maintain liquidity or provide effective healthcare services associated with the COVID-19 pandemic to the communities in which the System serves. The System did not qualify for the Paycheck Protection Program established under the CARES Act due to the number of employees currently employed by the System.

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3. Patient Service Revenue

The System has agreements with third-party payors that provide for payments at amounts different from established billing rates. A summary of the payment arrangements with major payors follows:

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, outpatient services, and certain capital and medical education costs related to Medicare beneficiaries are paid based on a combination of prospective and cost reimbursement methodologies or fee schedule. The hospitals are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospitals and audits thereof by the Medicare fiscal intermediary.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospectively determined system similar to Medicare. Most outpatient services are reimbursed by the Medicaid program under a fee schedule or cost reimbursement methodology. The hospitals are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospitals and audits thereof by the Medicaid fiscal intermediary.

Managed Care and Other Commercial. The System has 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 arrangements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, as well as capitated payments. Items such as high cost drugs and implants are sometimes paid as an add-on to prospectively determined rates. All of these payment methods can occur independently or in combination for different commercial agreements.

Private Pay. The Tax-Exempt Hospitals and THRW provide self-pay price concessions to uninsured patients. The pricing is calculated by applying a discount to charges for services received. The price concession was 45% in 2020 and 2019. The consolidated and unconsolidated joint venture hospitals and THPG also provide similar discounted pricing to uninsured patients.

Medicare and Medicaid cost report settlements are estimated in the period services are provided to the program beneficiaries. These estimates are revised as needed until final settlement of the cost report. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Patient service revenue increased approximately $4,861 and $11,043 in 2020 and 2019, respectively, due to reassessment of settlement issues and other changes in estimates related to final settlements.

The System recognizes patient service revenue associated with a bundle of goods and (or) services provided to patients over the period of time the patient is receiving treatment or as the performance obligation is satisfied. Based on historical experience, a significant portion of the System's uninsured patients will be unable or unwilling to pay for the services provided; thus, the System records a significant uninsured price concession and (or) provides financial assistance related to uninsured patients in the period the services are provided. For uninsured patients that do not qualify for financial assistance, the System recognizes revenue using the “expected value” method for the bundle of goods and (or) services provided.

(Dollars in Thousands)

3. Patient Service Revenue, continued

Patient service revenue, net of all price concessions, disaggregated by major payor sources, are as follows:

	2020	2019
Managed care and other commercial	$ 2,724,801	$ 2,830,043
Medicare	755,515	786,758
Medicare managed care	623,946	635,366
Medicaid	144,773	136,751
Medicaid managed care	162,893	181,869
Private pay	46,849	56,599
	$ 4,458,777	$ 4,627,386

The estimated percentage of patient service revenue, net of all price concessions for the years ended December 31, 2020 and 2019, disaggregated by major service line, are as follows:

	2020	2019
Inpatient	52%	48%
Outpatient	35	39
Physician	9	10
Other	4	3
	100%	100%

4. Section 1115 Waiver

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 Waiver Program provides for two pools of supplemental Medicaid funding: an Uncompensated Care (UC) pool and a Delivery System Reform Incentive Payment (DSRIP) pool. THR (through certain wholly controlled tax-exempt and joint venture hospitals) participates in both the UC pool and DSRIP pool in Tarrant, Dallas, Collin, and Johnson Counties. The Centers for Medicare & Medicaid Services (CMS) has approved an extension of the Section 1115 Wavier Program through September 30, 2022. The DSRIP program is currently scheduled to end on September 30, 2021.

The UC pool of the 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. During 2020 and 2019, THR, on behalf of its participating hospitals, recorded UC pool supplemental Medicaid revenue of $121,406 and $121,386, respectively, included in patient service revenue in the accompanying consolidated statements of operations and changes in net assets. At December 31, 2020 and 2019, THR had a receivable of $26,882 and $29,625, respectively, related to the UC pool recorded in other receivables, net on the consolidated balance sheets.

4. Section 1115 Waiver, continued

The DSRIP pool of the Waiver Program provides funding distributed as incentive payments to be earned by facilities for initiating and performing projects that benefit the community and help redesign the overall healthcare delivery system to improve access, quality, and efficiency. Hospitals receive funding for reaching predetermined, CMS-approved metrics for each project. In year one of the program, facilities that chose to participate received incentive payments for submitting acceptable project plans that would span the five years of the initially-approved Waiver Program. For years two through six of the program, providers continued to receive DSRIP pool funding by meeting the project metrics and reporting achievement to HHSC. Beginning in year seven of the program, providers earned payments by meeting entity level metrics chosen from a menu of standardized metrics. THR recorded DSRIP revenue of $43,778 and $29,916 for the years ended December 31, 2020 and 2019, respectively, included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets. At December 31, 2020 and 2019, THR had a receivable of $25,912 and $20,677, respectively, related to the DSRIP pool recorded in other receivables, net, on the accompanying consolidated balance sheets. CMS and HHSC have purview over project achievement and initiate regular audits to ensure DSRIP project metrics are met in accordance with the requirements set forth by the agencies.

During the course of the Waiver Program, CMS has reviewed funding arrangements in certain geographic areas of the State of Texas to ensure the Waiver Program is in compliance with the provider-related donation prohibitions in federal law. On June 9, 2015, CMS acknowledged in writing in response to an HHSC inquiry that the longstanding public-private collaborative funding model arrangements in Texas could continue without risk of disallowance of federal financial participation matching funds, provided that HHSC worked with CMS to redesign certain components of Waiver Program financing as identified by CMS prior to September 2017. However, in September 2016, CMS proceeded to disallow federal financing participation matching funds for the fourth quarter of 2015 in the Dallas and Tarrant markets, as noted below.

During the disallowed time period, funding for THR's participation in the Waiver Program resulted from public-private collaborations including several private hospitals and the Tarrant County Hospital District (TCHD) d/b/a JPS Health Network (JPS) and the Dallas County Hospital District (DCHD) d/b/a Parkland Health & Hospital System (Parkland). These affiliations were documented pursuant to HHSC Waiver Program requirements. Under the affiliation with JPS (the Tarrant Affiliation) and with Parkland (the Dallas Affiliation), the respective governmental entity provided intergovernmental transfers to HHSC as the State share, which were then matched by federal funds. It was at all times within the sole discretion of JPS and Parkland to make, or not make, intergovernmental transfers to HHSC as the State share. In a letter to HHSC dated September 1, 2016, CMS disallowed federal matching funds totaling $26,845 for the quarter ended December 31, 2015, of which $7,306 is THR's disallowed federal match portion. CMS alleged that the private hospitals participating in these affiliations 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 of CMS' disallowance and subsequently appealed to the Department of Health and Human Services' Departmental Appeals Board (DAB). The private hospital systems impacted by the disallowance, including THR, participated in the DAB administrative litigation as intervenors. In August 2018, the DAB ruled in favor of CMS, but reduced the total disallowed amount to $25,276. THR and the other participating private hospitals repaid the disallowed funds in September 2018, as requested by HHSC, which would be refunded if the private hospitals ultimately prevail in the litigation. HHSC and the intervenor private hospitals sought DAB reconsideration in October 2018.

4. Section 1115 Waiver, continued

In October 2019, the DAB declined to reconsider its decision. In December 2019, HHSC appealed the unfavorable DAB ruling to U.S. District Court for the Northern District of Texas, Dallas Division. Several private hospital systems, including THR, filed a motion to intervene in the matter, which the federal district court granted in March 2020. The litigation is ongoing and in the briefing stage. If the federal district court upholds the DAB's unfavorable decision and the federal government and the State do not settle the dispute, all Waiver Program payments made to THR using this funding mechanism could be at risk not considering any possible legal defenses. It is too early to predict the ultimate outcome of the litigation or its possible financial impact; however, management believes THR is adequately reserved and does not anticipate a material financial impact. Total payments received by THR using this funding mechanism from inception of the Waiver Program in 2011 through September 30, 2017 were $554,552.

On March 1, 2018, THR began participation in the Uniform Hospital Rate Increase Program (UHRIP). UHRIP is designed to offset a portion of unreimbursed Medicaid costs through managed care payments made to providers to enhance care coordination and access to care for Medicaid managed care patients. Funding from non-state governmental entities are used to support capitation payment increases for the Dallas and Tarrant service delivery areas (SDA) and other SDAs in the State that choose to participate in the program. Under UHRIP, each managed care organization (MCO) within the SDAs is contractually required by the State to increase hospital payment rates by a specified percentage for all of its public and private contracted hospitals. The increased payments from MCOs to hospitals for inpatient and outpatient services are based on the utilization and delivery of those services by the hospitals to the Medicaid managed care members enrolled with that MCO. Payments are made according to a letter of agreement between the hospitals and the MCOs, which contains payment terms that are substantially similar to the regular MCO claims payment processes and deadlines. In addition, the UHRIP program has a Quality Incentive Fund component to incentivize providers to improve the quality of patient care and contain costs. THR recorded UHRIP revenue of $52,241 and $47,963, respectively, for the years ended December 31, 2020 and 2019, included in patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

In May and June 2017, respectively, the 85th Texas Legislature enacted legislation to authorize DCHD and TCHD to each establish and administer a local health care provider participation program (LPPF). The purpose of the LPPF is to generate local revenue by requiring a mandatory payment from nonpublic hospitals, including THR, that can be used to fund certain intergovernmental transfers for securing reimbursement in Medicaid supplemental payment programs, including UC and UHRIP. By the terms of the respective LPPF enabling statutes, the fees on nonpublic hospitals cannot exceed 6% of net patient revenue. The providers' mandatory payment must be consistent with CMS regulations regarding provider taxes, which require the fee must be broad-based and uniform, and prohibit a hold harmless guarantee from the sponsoring governmental entity. Upon collection of the mandatory payments, funds held by DCHD and TCHD are considered restricted and included as assets limited as to use until funds are used for their intended purpose, to fund the state Share of Medicaid supplemental payments to eligible entities. In a letter to HHSC dated December 20, 2018, CMS opined the mandatory payment fee met the broad-based and uniformity requirements and did not constitute a hold harmless arrangement. In June 2020, the Texas Legislature enacted legislation to extend the program for another six years.

4. Section 1115 Waiver, continued

In October 2017, THR, Baylor Scott & White Health, HCA Healthcare, Methodist Health System, Children's Health System, and Cook Children's Medical Center formed the Dallas Safety Net Service Corporation (DSNSC) and (or) the Tarrant Safety Net Service Corporation (TSNSC). The DSNSC and TSNSC are organized to operate as charitable organizations exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Code. The purpose of DSNSC and TSNSC is to operate exclusively for the benefit of, to perform the function of, or to carry out the exempt purposes of hospitals that are located within Dallas and Tarrant Counties, respectively, by promoting high-quality and cost-effective healthcare services to low-income individuals and encouraging community benefit program participation of hospitals. This includes the provision of grants from time to time to Dallas and Tarrant hospitals supporting the provision of cost-effective healthcare services to low-income individuals.

As of December 31, 2020 and 2019, $115,537 and $97,595, respectively, were recorded in assets limited as to use on the accompanying consolidated balance sheets related to payments of the LPPF mandatory payment, and $63,909 and $58,788, respectively, were recorded in other accrued liabilities on the accompanying consolidated balance sheets related to accrued LPPF mandatory payments. Additionally, THR recorded expenses related to both the UC and UHRIP programs of $60,995 and $75,436 for the years ended December 31, 2020 and 2019, respectively, included in other operating expenses in the consolidated statements of operations and changes in net assets.

5. Financial Assistance and Community Benefit

In accordance with its mission, the System commits substantial resources to sponsor a broad range of services for the indigent as well as the broader community. Community benefit provided to the indigent includes the cost of providing services to persons who cannot afford health care due to inadequate resources and (or) to financial assistance qualifying persons who are underinsured. This category of community benefit, in accordance with Texas law, includes the unreimbursed costs of traditional financial assistance as well as the estimated unreimbursed costs of care provided to beneficiaries of Medicaid and other indigent public programs. The System also benefits the communities it serves by providing facilities for the education and training of health care professionals and by participating in research activities that offer the potential of improving health care, as well as unreimbursed costs of care provided to Medicare beneficiaries.

The System promotes access to health care services by providing support for indigent care clinics, promoting community health education and wellness programs, supporting other local community based non-profit organizations through charitable donations, and sponsoring a variety of health-related support groups and programs. These activities are classified as community benefit under Texas law.

The System provides care to patients who meet criteria established under its financial assistance policy without charge or at amounts less than established rates. As the System does not pursue collection of amounts determined to qualify as financial assistance, they are not reported as patient service revenue. When the System does not have the information required to properly determine financial status, the amounts owed by these individuals are classified as a price concession. The System estimates costs associated with financial assistance of $314,947 and $336,874 for the years ended December 31, 2020 and 2019, respectively, applying the ratio of cost to gross charges. The System receives certain funds to offset or subsidize financial assistance provided from gifts or grants restricted for financial or indigent care. The amount of such funds recognized in operations from such sources totaled $363 and $608 for the years ended December 31, 2020 and 2019, respectively.

(Dollars in Thousands)

6. Investments

Short-Term Investments

The composition of short-term investments at December 31, 2020 and 2019 is set forth in the following table:

	2020	2019
Cash equivalents	$ 744	$ 816
U.S. government securities	-	480
Fixed income securities	7,135	6,402
Equity securities	126	107
	$ 8,005	$ 7,805

Assets Limited as to Use

Assets limited as to use that are required for obligations classified as current liabilities are included in current assets in the consolidated balance sheet. The composition of assets limited as to use at December 31, 2020 and 2019 is set forth in the following table:

	2020	2019
Internally designated:		
Cash equivalents	$ 319,506	$ 143,449
Fixed income securities	1,842,960	1,870,730
Equity securities	4,121,959	3,382,635
Mutual funds	7,058	6,390
Other alternative investments	62,511	44,018
Donor-restricted special purpose and endowment funds:		
Cash equivalents	1,192	993
Fixed income securities	46,182	46,753
Equity securities	114,771	101,211
Mineral interests	1,383	1,851
Real estate	18	18
Beneficial interest in perpetual trust, held in charitable remainder unitrusts, and held in charitable gift annuities:		
Cash equivalents	465	703
Fixed income securities	877	1,119
Equity securities	15,656	14,058
Mineral interests	323	476
Real estate	797	872
Other provisions:		
Cash equivalents	81,866	3,864
Fixed income securities	51,943	37,543
Equity securities	6,745	8,801
	6,676,212	5,665,484
Less: Assets limited as to use required for current liabilities	(537,737)	(439,682)
	$ 6,138,475	$ 5,225,802

6. Investments, continued

Assets Limited as to Use, *continued*

Excluded from the above table are funds held for use related to LPPF mandatory payments (see footnote 4 – Section 1115 Waiver) of $115,537 and $97,595 at December 31, 2020 and 2019, respectively, and promises to give of $13,877 and $17,945 at December 31, 2020 and 2019, respectively. Both the funds held for use related to LPPF mandatory payments and the promises to give are included in assets limited as to use on the accompanying consolidated balance sheets.

THR and its wholly-controlled affiliates participate in a pooled, long-term investment fund administered by THR. Amounts internally designated represent THR and its wholly-controlled affiliates' pro rata share of the fund. This fund exists to provide liquidity for the System, to support its capital program, and to backstop short-term reserves as a buffer against interruption of business operations due to catastrophic events. The fund's asset allocation is a reflection of THR's investment objectives as stated in its investment policy statement.

Management evaluates THR and its wholly-controlled affiliates' fixed income securities purchased prior to July 16, 2012 to determine whether any are deemed to be other-than-temporarily impaired due to credit worthiness of the bond issuers. There were no securities deemed to be other-than-temporarily impaired at December 31, 2020 or 2019.

Prior to July 16, 2012, the fixed income securities in the pool, which are primarily U.S. government obligations, were designated as other-than-trading securities while the equity securities were designated as trading. As a result of modifications to THR's investment policy statement effective July 16, 2012, all purchases of fixed income securities in the pool after this date are designated as trading securities. The fair value and gross unrealized losses on THR and its wholly-controlled affiliates' fixed income securities that were purchased prior to July 16, 2012 and have been in a continuous unrealized loss position for twelve months or greater were $3,210 and $5 at December 31, 2019. There were no fixed income securities that were purchased prior to July 16, 2012 that have been in a continuous unrealized loss position for twelve months or greater at December 31, 2020. Because THR has the ability and intent to hold these investments until a market price recovery, which may be maturity, these investments are not considered other-than-temporarily impaired.

Long Term Fund Unrestricted

THR maintains an unrestricted long term investment fund whose aim is to assist the communities that are served by THR, to further promote the healthcare industry and provide an additional source of liquidity for the System. These investments include an investment in a public equity investment as well as investments in private equity investments, totalling $73,052 and $67,631 at December 31, 2020 and 2019, respectively.

(Dollars in Thousands)

6. Investments, continued

Investment Income

Net realized investment income and gains in the consolidated statements of operations and changes in net assets, is comprised of the following for the years ended December 31, 2020 and 2019:

	2020	2019
Interest and dividends	$ 80,122	$ 106,380
Realized gains, net	259,414	214,546
Total net realized investment income and gains	339,536	320,926
Less: Net realized investment income and gains related to donor restricted funds	(5,845)	(5,407)
Net realized investment income and gains, other than amount related to donor restricted funds	$ 333,691	$ 315,519

7. Liquidity and Availability

The System's financial assets available for general expenditures within one year of December 31, 2020 and 2019 are as follows:

	2020	2019
Cash and cash equivalents	$ 981,196	$ 619,977
Short-term investments	8,005	7,805
Patient accounts receivable	578,333	564,292
Other receivables, net	131,272	153,089
Assets limited as to use - board-designated	6,291,482	5,403,204
Other current assets	179,006	142,526
	$ 8,169,294	$ 6,890,893

The System board-designated assets limited as to use are internally designated for future capital expenditures and operating reserves, but could be made available, if necessary, for general expenditures within the next year. Accordingly, these assets have been included in the above table. The System has other assets limited as to use for donor-restricted purposes, debt service, professional and general liability captive insurance program, and other restricted purposes of $451,632 and $333,802 at December 31, 2020 and 2019, respectively, that are not available for general expenditures within the next year and are not reflected in the amounts above. Additionally, the System has certain board-designated assets limited as to use with time horizons greater than one year of $62,511 and $44,018 at December 31, 2020 and 2019, respectively, that are not reflected in the amounts above. See footnote 6 – Investments for the composition of assets limited as to use.

As part of the System's liquidity management plan, cash balances in excess of daily requirements are invested in short-term investments. Additionally, the System maintains $250 million in lines of credit, as discussed in more detail in footnote 9 – Long-term Debt. At December 31, 2020 and 2019, $250 million remained available on the System's lines of credit; however, the available lines of credit are not reflected in the amounts above.

(Dollars in Thousands)

8. Property and Equipment

A summary of property and equipment at December 31, 2020 and 2019 is as follows:

	2020	2019
Land	$ 173,592	$ 175,944
Buildings and improvements	2,717,642	2,608,952
Fixed equipment	637,960	620,783
Major movable equipment	1,278,885	1,266,810
Building and equipment under finance lease obligations	17,616	10,812
	4,825,695	4,683,301
Less: Accumulated depreciation and amortization	(2,733,706)	(2,617,306)
	2,091,989	2,065,995
Construction and renovation in progress	250,927	203,518
Property and equipment, net	$ 2,342,916	$ 2,269,513

Depreciation and amortization expense related to property and equipment for the years ended December 31, 2020 and 2019 was $252,168 and $231,579, respectively. Included in the above table is the cost, $466,929 and $442,751, and accumulated amortization, $270,992 and $247,472, of property and equipment held out for lease at December 31, 2020 and 2019, respectively.

The System has several construction projects in progress, which include renovation and modernization of existing facilities and construction of new facilities. Total remaining estimated costs of these projects is $699,348, of which the System has outstanding commitments of $414,025 at December 31, 2020. Total interest capitalized during the years ended December 31, 2020 and 2019 was $4,082 and $7,135, respectively.

9. Long-Term Debt

A summary of long-term debt at December 31, 2020 and 2019 is as follows:

	2020	2019
System Revenue Bonds (Texas Health Resources), Series 2020 (Taxable), fixed interest rate of 2.33%, due through 2050	$ 300,000	$ —
System Revenue Bonds (Texas Health Resources), Series 2019 (Taxable), fixed interest rate of 3.37%, due through 2051	200,000	200,000
System Revenue Bonds (Texas Health Resources), Series 2017A and 2017B, variable interest rates, due through 2051, (interest rates ranged from 0.08% to 0.09% and 1.55% to 1.69% at December 31, 2020 and 2019, respectively	133,470	133,470
System Revenue Bonds (Texas Health Resources), Series 2016A fixed interest rates of 2.25% to 5.00%, due through 2047	631,105	631,105
System Revenue Bonds (Texas Health Resources), Series 2015 (Taxable), fixed interest rate of 4.33%, due through 2055	300,000	300,000
System Revenue Bonds (Texas Health Resources), Series 2015A fixed interest rates of 4.25% and 5.00%, due through 2052	60,000	60,000

(Dollars in Thousands)

9. Long-Term Debt, continued

	2020	2019
System Tax-Exempt Loan (Texas Health Resources), The Northern Trust Company Private Loan, variable interest rates, due through 2033, (interest rate was 0.60% and 1.64% at December 31, 2020 and 2019, respectively)	$ 67,500	$ 67,500
System Tax-Exempt Loan (Texas Health Resources), UMB Bank, N.A. Private Loan, variable interest rates, due through 2035, (interest rate was 0.78% and 1.78% at December 31, 2020 and 2019, respectively)	65,610	66,090
System Revenue Bonds (Texas Health Resources), Series 2012A (Taxable), fixed interest rate of 4.37%, due through 2047	100,000	100,000
System Revenue Bonds (Texas Health Resources), Series 2012B, variable interest rates, due through 2047 (interest rates were 0.08% and 1.52% at December 31, 2020 and 2019, respectively)	50,000	50,000
System Revenue Bonds (Texas Health Resources), Series 2008A, 2008B, and 2008C, variable interest rates, due through 2033, (interest rates ranged from 0.07% to 0.08% at December 31, 2020, and 1.52% to 1.72% at December 31, 2019)	149,180	149,180
Term and Revolving Loans (Rockwall Regional Hospital, L.L.C.), fixed interest rate of 2.70%, due through 2029	108,476	42,576
Term and Revolving Loans (Flower Mound Hospital Partners, L.L.C.), fixed and variable interest rates, due through 2022, (interest rates ranging from 2.83% to 3.32% and 3.18% to 3.99% at December 31, 2020 and 2019, respectively)	73,524	65,508
Term and Revolving Loans (AMH Cath Labs, L.L.C.), variable interest rates, due through 2022, (interest rates ranging from 0.65% to 1.40% and 2.21% to 2.96% at December 31, 2020 and 2019, respectively)	13,919	14,955
Notes Payable (Health Imaging Partners, LLC), varying rates of interest, due through 2026, (interest rates ranging from 0.31% to 5.71% and 4.54% to 5.71% at December 31, 2020 and 2019, respectively)	9,061	8,929
Finance Lease Obligations, collateralized by leased equipment, varying rates of interest ranging from 0.01% to 2.95% at December 31, 2020 and 2019	14,221	9,574
Other loans and notes payable, fixed and variable interest rates, due through 2032 (interest rates ranging from 2.40% to 5.00% and 2.01% to 5.00% at December 31, 2020 and 2019, respectively)	50,418	48,236
	2,326,484	$1,947,123
Add:		
Unamortized original issue premium/discount, net	65,010	68,262
Less:		
Costs of issuance	(14,527)	(12,012)
Current portion of long-term debt	(345,366)	(345,060)
Long-term debt, net of current portion	$ 2,031,601	$ 1,658,313

9. Long-Term Debt, continued

THR issued Series 2020 Taxable Revenue bonds (Series 2020 Bonds) in the amount of $300,000 (official statement dated August 4, 2020). The proceeds of the Series 2020 Bonds were used (a) for eligible corporate purposes; and (b) to pay certain costs incurred in connection with the issuance of the Series 2020 Bonds.

THR issued Series 2019 Taxable Revenue bonds (Series 2019 Bonds) in the amount of $200,000 (official statement dated September 11, 2019). The proceeds of the Series 2019 Bonds were used (a) to refund the Tarrant County Cultural Education Facilities Finance Corporation Texas Health Resources System Revenue Bonds, Series 2010 (the Series 2010 Refunded Bonds); (b) for other eligible corporate purposes; and (c) to pay certain costs incurred in connection with the issuance of the Series 2019 Bonds.

THR issued variable rate demand bonds, Series 2017A (Series 2017A Bonds) and 2017B (Series 2017B Bonds) bonds (collectively, the Series 2017 Bonds) through the Tarrant County Cultural Education Facilities Finance Corporation (official statement dated October 11, 2017) in the amount of $133,470. The proceeds of the Series 2017 Bonds were used to (a) refund the Tarrant County Cultural Education Facilities Finance Corporation Texas Health Resources System Refunding Revenue Bonds, Series 2007B, (b) finance and (or) refinance the costs of acquisition, construction, renovation, remodeling and (or) equipping of capital improvements, and (c) pay certain expenses incurred in connection with the issuance of the Series 2017 Bonds. The Series 2017 Bonds are tax-exempt variable rate demand bonds, and are as such subject to periodic tender and remarketing provisions. The interest rates at which the bonds are remarketed are determined in accordance with the remarketing agreement applicable to the Series 2017 Bonds. Liquidity for payment of the Series 2017 Bonds tendered for purchase and not remarketed is provided by THR under a self-liquidity program. As a result, THR has classified the Series 2017 Bonds as a current liability in the current portion of long-term debt. Actual scheduled principal repayment dates range from 2048 – 2051.

THR issued Series 2016A bonds (Series 2016A Bonds) through Tarrant County Cultural Education Facilities Finance Corporation (official statement dated October 5, 2016) in the amount of $631,105. The proceeds of the Series 2016A Bonds were used to (a) refund a portion of the Tarrant County Cultural Education Facilities Finance Corporation Texas Health Resources System Refunding Revenue Bonds, Series 2007A, (b) finance and (or) reimburse certain capital projects of THR, and (c) pay costs of issuance of the Series 2016A Bonds.

THR issued Series 2015 Taxable (Series 2015 Taxable Bonds) and 2015A (Series 2015A Bonds) bonds (collectively, the Series 2015 Bonds) through Tarrant County Cultural Education Facilities Finance Corporation (official statements dated April 28 and May 6, 2015) in the amounts of $300,000 and $60,000, respectively. The proceeds of the Series 2015 Bonds were used (a) to finance and (or) reimburse certain capital projects of THR, (b) to pay costs of issuance of the Series 2015 Bonds, and (c) for other eligible corporate purposes.

Effective July 31, 2015, THR refinanced tax-exempt advancing term loan agreements (Bank Loans) with Kansas City Financial Corporation, an affiliate of UMB Bank, N.A. (UMB) and The Northern Trust Company (Northern). The UMB bank loan was issued for $67,375 with a final maturity date of September 1, 2035, and an optional tender date of July 31, 2030. The Northern bank loan was issued for $67,500 with a final maturity date of December 1, 2033, and a mandatory tender date of July 31, 2025. The Bank Loans bear interest at variable rates calculated as a percentage of LIBOR plus a spread. The refinanced notes were effective November 2010 with Bank of America, N.A. and Compass Mortgage Corporation in the aggregate principal amount of $135,000. The proceeds of these Bank Loans were used to (a) pay costs of acquiring, constructing, renovating, remodeling and (or) equipping

9. Long-Term Debt, continued

capital improvements for certain THR tax-exempt health facilities and (b) pay certain costs incurred in connection with the issuance of the Bank Loans.

THR issued variable rate demand bonds, Series 2012A (Series 2012A Bonds) and 2012B (Series 2012B Bonds) bonds (collectively, the Series 2012 Bonds) through the Tarrant County Cultural Education Facilities Finance Corporation (official statements dated September 27, 2012) in the amounts of $100,000 and $50,000, respectively. The proceeds of the Series 2012 Bonds were used to (a) finance and reimburse THR for the costs of the acquisition, construction, renovation, remodeling and (or) equipping of capital improvements and (b) pay certain costs incurred in connection with the issuance of the Series 2012 Bonds. The Series 2012B Bonds are tax-exempt variable rate demand bonds, and are as such subject to periodic tender and remarketing provisions. The interest rates at which the bonds are remarketed are determined in accordance with the remarketing agreement applicable to the Series 2012B Bonds. Liquidity for payment of the Series 2012B Bonds tendered for purchase and not remarketed is provided by THR under a self-liquidity program. As a result, THR has classified the Series 2012B Bonds as a current liability in the current portion of long-term debt. Actual scheduled principal repayment dates range from 2041 – 2047.

In December 2012, THR entered into credit agreements with Wells Fargo Bank, N.A. (Wells Fargo) and U.S. Bank N.A. for lines of credit of $75,000 each bearing interest at a variable rate calculated as a percentage of LIBOR plus a spread. In December 2017, the U.S. Bank agreement was amended to extend the term date to December 31, 2020. In December 2019, the Wells Fargo agreement was amended to extend the term date to March 31, 2020. On March 30, 2020, THR closed on a $150,000 syndicated general-purpose revolving line of credit with JPMorgan Chase Bank N.A. (Chase) as the lead bank. The revolving line of credit has a three year maturity to March 31, 2023. THR's $75,000 line with Wells Fargo was terminated with the close of the Chase revolving line as Wells Fargo is one of the participating banks. THR drew down on the Chase and U.S. Bank N.A. lines of credit totaling $225,000 on April 3, 2020 and subsequently made payments of $150,000 and $75,000, respectively, on September 1, 2020 and December 31, 2020, respectively, as a precautionary measure to maintain liquidity during the COVID-19 pandemic. The initial interest rate was 1.3625% for the Chase syndicated line and 1.56625% on the U.S. Bank line of credit. The U.S. Bank N.A. line of credit was terminated upon repayment. On December 31, 2020, THR closed on a $100,000 syndicated general-purpose revolving line of credit with Chase. The revolving line of credit matures on December 30, 2021. At December 31, 2020 and 2019, there were no outstanding balances on the lines of credit.

THR issued Series 2010 bonds (the Series 2010 Bonds) through the Tarrant County Cultural Education Facilities Finance Corporation (official statement dated November 11, 2010) in the amount of $157,550. The proceeds of the Series 2010 Bonds were used to (a) refund the Tarrant County Cultural Education Facilities Finance Corporation Texas Health Resources System Revenue Bonds, Series 2008D, 2008F, and 2008G; and (b) pay certain costs incurred in connection with the issuance of the Series 2010 Bonds and the provisions for payment of the refunded Series 2008D, 2008F, and 2008G Bonds. As previously discussed, THR legally defeased all of the outstanding Series 2010 Bonds in September 2019 with proceeds from the issuance of the Series 2019 Bonds, whereby $166,044 of the proceeds of the Series 2019 Bonds were irrevocably deposited in trust for the benefit of the holders of the refunded Series 2010 Bonds which were deemed paid and no longer outstanding under the bond indenture.

THR issued variable rate demand bonds, Series 2008A-G bonds (the Series 2008 Bonds) through the Tarrant County Cultural Education Facilities Finance Corporation (official statement dated October 27, 2008) in the amount of $366,120. The proceeds of the Series 2008 Bonds were used to (a) refund the Tarrant County Health Facilities Development Corporation Texas Health Resources System Revenue Bonds, Series 2003 (the Series 2003 Bonds) and the Plano Health Facilities Development Corporation

9. Long-Term Debt, continued

Unit Priced Demand Adjustable Revenue Bonds (Children's and Presbyterian Healthcare Center of North Texas Project) Series 1989 (the Series 1989 Bonds), (b) finance or refinance the purchase, development, construction, reconstruction, renovation, rehabilitation, and (or) equipping of certain THR tax-exempt health facilities, and (c) pay certain costs incurred in connection with the issuance of the Series 2008 Bonds and the provisions for payment of the refunded Series 2003 and Series 1989 Bonds. As previously discussed, THR defeased all of the outstanding Series 2008D, 2008F, and 2008G Bonds in the aggregate principal amount of $153,925 in November 2010, with proceeds from the issuance of the Series 2010 Bonds. In addition, THR redeemed all of the outstanding Series 2008E Bonds on November 22, 2010 at a purchase price equal to the principal amount of $36,140 thereof plus interest accrued thereon to the redemption date. THR used available cash to redeem the Series 2008E Bonds. In May 2015, THR remarketed the Series 2008C Bonds, converting them from a daily to a weekly rate and converting the liquidity provision from a Standby Bond Purchase Agreement (SBPA) to self-liquidity. On October 17, 2017, THR used available cash to redeem a portion of the outstanding Series 2008A, 2008B, and 2008C Bonds in the aggregate principal amount of $26,875 plus interest accrued through the redemption date.

The Series 2008 Bonds are subject to periodic tender and remarketing provisions. The interest rates at which the bonds are remarketed are determined in accordance with the remarketing agreement applicable to each series of the Series 2008 Bonds. Liquidity for payment of the outstanding Series 2008 Bonds tendered for purchase and not remarketed is provided by THR under a self-liquidity program. As a result, THR has classified these series as current liabilities in the current portion of long-term debt. Actual scheduled principal repayment dates range from 2027 – 2033.

Concurrent with the issuance of the Series 1997 Bonds and amended in connection with the issuance of the Series 2008, Series 2012, Series 2015 Bonds, Series 2016A Bonds, and Series 2017 Bonds, THR entered into the Second Amended and Restated Master Trust Indenture (the Master Indenture). Among other requirements, THR granted a security interest in (a) certain of its revenue (as defined in the Master Indenture) and accounts receivable of the grantor, (b) all money and investments held or required to be held for the credit of the funds and accounts established by or under the Master Indenture, and (c) any and all property that may, from time to time, be subjected to the lien and security interest of the Master Indenture.

On March 31, 2016, Rockwall entered into a credit agreement with Chase (the 2016 Rockwall Agreement). The 2016 Rockwall Agreement provides Rockwall with a term loan of $36,302, comprised of a fixed rate term loan of $25,550 bearing interest at 3.52%, a variable rate term loan of $10,752 bearing interest at one-, two-, three-, or six-month LIBOR plus 1.75% and a $5,000 Revolving Credit Agreement. On July 31, 2019, Rockwall amended and restated the 2016 Rockwall Agreement to refinance $28,436 of existing term loans, and provide funding of $90,824 for facility expansions, and fund $239 of costs of issuance into a new advancing term loan commitment totalling $119,500 (the 2019 Rockwall Agreement). The new advancing term loan bears a fixed rate of interest of 2.70% and matures on July 31, 2029. Quarterly principal payments of $1,195 commence on September 30, 2022 and extend through June 30, 2029. The 2019 Rockwall Agreement amended and restated the $5,000 Revolving Credit Agreement with a commitment fee of 0.20% and a variable interest rate of LIBOR plus 1.30% on drawn funds. The amount outstanding on the term loans at December 31, 2020 and 2019 was $108,476 and $42,576, respectively. There was no outstanding balance under the revolving credit agreement at December 31, 2020.

9. Long-Term Debt, continued

On February 28, 2008, Flower Mound Hospital Partners, L.L.C. entered into a Credit Agreement (the Flower Mound Agreement) with various lending institutions with Chase acting as agent for the lenders for an Advancing Term Loan Commitment of $105,000 and a Revolving Loan Commitment of $20,000 later reduced to $1,000. On July 18, 2014, the Flower Mound Agreement was amended to provide Additional Term Loans of $11,280 comprised of a $7,896 fixed rate term loan bearing interest at 3.46% and a $3,384 variable term loan bearing interest at LIBOR plus 1.43%. On December 22, 2015, a new amended and restated credit agreement with Chase provided a term loan of $81,176 comprised of a $57,400 fixed rate term loan bearing interest at 3.32% and a $23,776 variable rate term loan bearing interest at one, two, three or six month LIBOR plus 1.43%. The fixed rate term loan required quarterly principal payments of $957 beginning December 31, 2015 through September 30, 2022 with a final balloon payment due at maturity on December 22, 2022. Amounts outstanding on both term loans at December 31, 2019 were $65,508. On April 30, 2020, the Company amended the December 22, 2015 Chase credit agreement to provide additional funds of $16,592 for a facility expansion and to refinance $23,787 of the outstanding balance under a new advancing term loan. At closing, the balance outstanding under the 2015 fixed rate term loan was $40,180 bearing interest at fixed rate of 3.32% with quarterly principal payments of $957 through maturity at December 22, 2022. The new advancing term loan balance at closing was $24,383 bearing interest at a fixed rate of 2.83% with quarterly principal payments of $404 commencing June 30, 2021 through maturity at April 30, 2030. At December 31, 2020, the amounts outstanding were $37,310 under the 2015 fixed rate loan and $36,214 under the 2020 advancing term loan for a total outstanding balance of $73,524. Drawn pricing under the revolving line of credit is LIBOR + 0.75% and the commitment fee is 0.05%. There was no outstanding balance under the revolving line of credit at December 31, 2020.

On December 28, 2011, AMH Cath Labs, L.L.C. (ACL) entered into three loan agreements with Bank of America, N.A., (collectively, the ACL Agreements). The ACL Agreements are secured by the THR guaranty (discussed below) as well as the revenues and substantially all the assets of ACL. The first agreement provides ACL with a ten-year floating rate Service Line Term Loan of $15,300 bearing interest at LIBOR plus a credit spread. The credit spread at inception of the loan was at the maximum rate of 1.30%; however, the spread can be reduced to 1.15% if ACL's Funded Debt to EBITDA ratio declines to specific agreed upon levels. The interest rate at December 31, 2020 was 1.40%, with balances outstanding of $10,404 and $11,016 as of December 31, 2020 and 2019, respectively. The second agreement provides ACL with a seven-year floating rate Equipment Term Loan of $6,400 bearing interest at LIBOR plus a credit spread. The credit spread at inception of the loan was at the maximum rate of 0.90%; however, the spread can be reduced to 0.75% if ACL's Funded Debt to EBITDA ratio, as defined, declines to specific agreed upon levels. The original maturity date of January 1, 2019 was later extended to January 1, 2022 per the Second Amendment to the Equipment Term Loan agreement dated January 2, 2019. The interest rate at December 31, 2020 was 0.65%, with balances outstanding of $3,515 and $3,939 as of December 31, 2020 and 2019, respectively. The third agreement provides ACL with a five-year floating rate Revolving Line of Credit of $10,000, which was amended to reduce the amount of available funding to $2,000 and extend the maturity date to January 1, 2022. The Revolving Line of Credit bears interest at LIBOR plus a credit spread. The floating rate credit spread is determined annually based upon ACL's Funded Debt to EBITDA ratio, which provides a maximum rate of 0.55%; however, the spread can be reduced to 0.30% if ACL's Funded Debt to EBITDA ratio declines to specific agreed upon levels. The Revolving Line of Credit can be priced at daily LIBOR, one-, three-, six-, nine- or twelve-month LIBOR plus the applicable credit spread. There was no outstanding balance on the Revolving Line of Credit at December 31, 2020 and 2019.

(Dollars in Thousands)

9. Long-Term Debt, continued

On December 22, 2011, ACL entered into Interest Rate Swap Agreements (collectively, the ACL Swap Agreements) with Bank of America, N.A., with respect to the Service Line Term Loan and Equipment Term Loan. These swaps are intended to reduce the financial risk related to rising LIBOR interest rates by executing a cash flow hedge that will convert the floating rate exposure to a synthetic fixed rate. ACL accounts for these interest rate swap agreements as cash flow hedges in accordance with FASB ASC Topic 815, *Derivatives and Hedging*, which requires entities to recognize all derivative instruments as either assets or liabilities on the consolidated balance sheets at their respective fair values and the effective portion of the gain or loss on the derivative as changes in fair value of interest rate swap agreements in net assets without donor restrictions and reclassified into earnings in the same period or periods during which earnings are affected by the variability in cash flows of the designated hedged item. Gains or losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in revenues and gains in excess of expenses and losses.

ACL will discontinue hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting cash flows or the hedged item, the derivative expires or is sold, terminated, or exercised, or the derivative designation is removed, and subsequent changes in its fair value are recorded in revenues and gains in excess of expenses and losses. When it is probable that a forecasted transaction will not occur, ACL discontinues hedge accounting and recognizes immediately any gains and losses that were accumulated in other changes in net assets without donor restrictions.

While the associated swaps are outstanding, the Service Line Term Loan and the Equipment Term Loan will be priced at one-month LIBOR plus the applicable credit spread mentioned in the paragraphs above. The fixed rate on the Service Line Term Loan hedge is 2.0025%, with a start date of December 28, 2011 and ending date of January 1, 2022. The fixed rate on the Equipment Term Loan hedge is 1.6470%, with a start date of December 28, 2011 and ending date of January 1, 2019. The swap maturity was not extended in conjunction with the refinancing of the Equipment Term loan discussed above. The fair value of the interest rate swap agreements at December 31, 2020 and 2019 was ($187) and ($88), respectively, and included in other noncurrent liabilities, net and other assets, net, respectively, on the accompanying consolidated balance sheets.

Scheduled principal repayments on long-term debt are as follows:

Year Ending December 31,	Scheduled Principal Payments	Principal Based on Liquidity Provisions
2021	$ 12,716	$ 345,366
2022	57,291	57,291
2023	13,120	13,120
2024	28,297	28,297
2025	94,905	94,905
Thereafter	2,120,155	1,787,505
Total	$ 2,326,484	$ 2,326,484

(Dollars in Thousands)

9. Long-Term Debt, continued

Unamortized bond and debt issuance costs at December 31, 2020 and 2019 were $14,527 and $12,012, respectively, and are included as a component of long-term debt on the accompanying consolidated balance sheets.

The Master Indenture, Bank Loans and Credit Agreements contain various covenants which require, among other things, the maintenance of certain financial ratios and certain other restrictions. Management believes THR is in compliance with its covenants as of December 31, 2020.

10. Net Assets

Net assets with donor restrictions at December 31, 2020 and 2019 were held for the following purposes:

	2020	2019
Subject to expenditure for specific purpose:		
Patient care	$ 14,946	$ 16,700
Research and education	17,088	14,964
Capital improvements	24,052	28,996
Community outreach	6,354	5,840
Other restricted purposes	5,374	4,352
	67,814	70,852
Subject to the System spending policy and appropriation:		
Endowments, including corpus restricted in perpetuity of $62,303 and $61,910 at December 31, 2020 and 2019, respectively, which, once appropriated, is expendable to support:		
Patient care	22,175	19,411
Research and education	71,447	64,659
Capital improvements	6,028	5,521
Community outreach	5,395	4,900
Other restricted purposes	3,244	2,898
	108,289	97,389
Subject to appropriation and expenditure when a specified event occurs:		
Beneficial interest in perpetual trusts to provide proceeds when distributed by the trustee	15,224	14,020
Split-interest agreements that will provide proceeds at termination	2,218	1,840
Paid-up life insurance policy that will provide proceeds upon death of insured for capital improvements	551	491
	17,993	16,351
Total net assets with donor restrictions	$ 194,096	$ 184,592

(Dollars in Thousands)

10. Net Assets, continued

Net assets were released from donor restrictions by incurring the following expenses for the years ended December 31, 2020 and 2019, respectively, satisfying the restricted purposes specified by donors:

	2020	2019
Patient care	$ 5,080	$ 3,047
Research and education	2,081	1,990
Capital improvements	6,867	5,511
Community outreach	1,287	1,569
Other restricted purposes	890	1,952
	$ 16,205	$ 14,069

Net assets without donor restrictions at December 31, 2020 and 2019 are as follows:

	2020	2019
Undesignated	$ 7,911,801	$ 6,903,692
Quasi-endowment	83,887	73,098
Board-designated for research and education	49,109	49,109
	$ 8,044,797	$ 7,025,899

11. Endowment

The System's endowments consist of donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Based on the interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) by the Board of Trustees, the guidance in FASB ASC 958-205, *Not-for-Profit Entities Presentation of Financial Statements*, and absent explicit donor stipulations to the contrary, the System classifies the original value of gifts donated to the permanent endowment, as well as accumulations to the permanent endowment made at the direction of the donor or by policy, as net assets with donor restrictions until appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed in UPMIFA.

In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the Foundation and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the Foundation

(7) The investment policies of the Foundation

(Dollars in Thousands)

11. Endowment, continued

Changes in the System's invested endowment assets for the years ended December 31, 2020 and 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Funds
Balance at January 1, 2019	$ 62,004	$ 96,653	$ 158,657
Contributions collected	—	192	192
Interest and dividends	870	1,542	2,412
Realized and unrealized losses, net	10,643	14,362	25,005
Amounts appropriated for expenditure	(419)	(1,612)	(2,031)
Balance at December 31, 2019	73,098	111,137	184,235
Contributions collected	—	98	98
Interest and dividends	3,758	5,569	9,327
Realized and unrealized losses, net	7,285	8,716	16,001
Amounts appropriated for expenditure	(254)	(1,982)	(2,236)
Balance at December 31, 2020	$ 83,887	$ 123,538	$ 207,425

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the original value of the fund. In accordance with U.S. Generally Accepted Accounting Principles (GAAP), deficiencies of this nature are reported in unrestricted net assets and were insignificant as of December 31, 2020 and 2019.

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in securities and other instruments which complement or balance one another, thereby reducing risk without significantly reducing average returns.

To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The System has spending policies that allow up to 4% of the endowment to be appropriated for expenditure unless otherwise stipulated in the donor agreement, calculated after the endowment principal has been increased by the annual Consumer Price Index. This is consistent with the System's objectives to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth.

(Dollars in Thousands)

12. Non-Controlling Interests

The System does not control and therefore does not consolidate certain investments in its joint ventures with physicians and non-physicians to operate hospitals and other health related ventures. The activity for non-controlling interests for the years ended December 31, 2020 and 2019 is summarized below:

	2020	2019
Non-controlling ownership interests in equity of consolidated affiliates, beginning of year	$ 236,292	$ 119,934
Revenue and gains in excess of expenses and losses attributable to non-controlling interests	55,775	86,091
Non-controlling interests in change in fair value of interest rate swap agreements	(52)	(88)
Contributions from non-controlling interest holders	16,418	124,434
Distributions to non-controlling interest holders	(77,231)	(94,079)
Non-controlling ownership interests in equity of consolidated affiliates, end of year	$ 231,202	$ 236,292

13. Retirement Plans

The System has various plans, primarily defined contribution plans, which cover eligible full-time and part-time employees of the System. System contributions, included in salaries, wages, and employee benefits in the consolidated statement of operations and changes in net assets, were $83,098 and $80,376 for the years ended December 31, 2020 and 2019, respectively.

14. Federal and State Income Taxes

The System has certain subsidiaries and operations such as joint venture interests, retail pharmacies and outside laboratory services that are taxable for federal income tax purposes. THR accrued $651 and $934 related to the excise tax on employee compensation for the years ended December 31, 2020 and 2019, respectively, included in income tax expense in the accompanying consolidated statements of operations and changes in net assets and accounts payable on the accompanying consolidated balance sheets. The taxable activities of all includible entities have approximately $2,895 and $754 in net deferred tax assets, against which a 100% valuation allowance has been recorded, for the years ended December 31, 2020 and 2019, respectively. While the System expects to generate taxable income from certain activities in the future, the valuation allowance has been recorded as the System does not believe taxable income will be incurred by the entities that generated the net deferred tax assets.

The Texas franchise tax applies to certain of the System's consolidated for-profit and joint venture interests. Under this law, tax is calculated on a margin base and is therefore reflected in the System's statements of operations and changes in net assets as income tax expense.

Federal and state income tax expense that includes excise tax on employee compensation of $5,864 and $5,690 is included in the accompanying consolidated statements of operations and changes in net assets for the years ended December 31, 2020 and 2019, respectively.

(Dollars in Thousands)

15. Concentrations of Credit Risk

Financial instruments that potentially subject the System to concentrations of credit risk consist of deposits in banks and investments in excess of the Federal Deposit Insurance Corporation, Securities Investor Protection Corporation and other privately insured limits. The System maintains cash and cash equivalents in excess of the federally insured limits at financial institutions with strong credit ratings and has not experienced any credit losses on these financial instruments.

The System grants credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The concentrations of patient receivables on a percentage basis at December 31, 2020 and 2019 are as follows:

	2020	2019
Medicare	12%	9%
Medicare managed care	12	15
Medicaid	1	1
Medicaid managed care	5	5
Managed care and other commercial	64	68
Private pay	6	2
	100%	100%

16. Leases

The System has operating and finance leases for equipment and real estate expiring at various dates through 2035. Under its real estate lease agreements, the System is responsible for most operating costs, including maintenance and repairs, insurance, and property taxes, and are subject to annual rent increases. Total rental expense, included in other operating expenses in the consolidated statements of operations and changes in net assets, was $77,485 and $74,064 for the years ended December 31, 2020 and 2019, respectively.

Most of the System's lease agreements include one or more options to renew the lease term at the System's option. The recoverability of assets and depreciable life of leasehold improvements are limited by expected lease terms.

There are various financial covenants and other restrictions in the System's lease agreements. The System's lease agreements do not contain any material residual value guarantees. Management believes THR is in compliance with its covenants as of December 31, 2020.

(Dollars in Thousands)

16. Leases, continued

The following table summarizes other lease information related to the System's lease activities during the years ended December 31, 2020 and 2019:

	2020	2019
Weighted-average remaining lease term (years)		
Operating leases	6.68	5.42
Finance leases	4.15	4.51
Weighted-average discount rate		
Operating leases	2.59%	2.74%
Finance leases	0.36%	1.23%

Future minimum lease payments associated with operating lease liabilities recognized on the System's Balance Sheet as of December 31, 2020, are as follows:

Year ending December 31:	
2021	$ 44,384
2022	39,886
2023	32,452
2024	27,310
2025	18,887
Thereafter	55,283
Total	218,202
Less: Amount representing interest (present value discount)	(19,912)
Present value of operating lease liabilities	198,290
Less: Current portion of operating lease liabilities	(41,319)
Operating lease liabililties, net of current portion	$ 156,971

The System's finance lease assets are included within other assets, net and finance lease liabilities are included within long-term debt on the consolidated balance sheets. Finance leases primarily consist of equipment and tenant improvements. Future minimum lease payments associated with finance leases are included within long-term debt. See footnote 9 – Long-term Debt for further discussion.

The System leases office space and land at fair market value to non-THPG physicians, health care related businesses, and others under operating leases expiring at various dates through 2072. Total rental income, included in other operating revenue in the consolidated statements of operations and changes in net assets, was $40,859 and $39,416 for the years ended December 31, 2020 and 2019, respectively.

(Dollars in Thousands)

16. Leases, continued

The following is a five-year schedule, by year, of future minimum rental income payments under non-cancelable leases that have initial terms in excess of one year as of December 31, 2020:

Year Ending December 31,	
2021	$ 29,160
2022	24,068
2023	19,113
2024	13,311
2025	10,611
Thereafter	199,747
	$ 296,010

17. Commitments and Contingencies

Management evaluates contingencies based upon available evidence. In addition, allowances for losses are provided each year for disputed items which have continuing significance. Management believes that allowances for losses have been provided to the extent necessary, and that its assessment of contingencies is reasonable. Due to the inherent uncertainties and subjectivity involved in accounting for contingencies, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. To the extent that the resolution of contingencies results in amounts which vary from management's estimates, future operating results will be charged or credited. The principal commitments and contingencies are described below.

Professional and General Liability Insurance

The System has known professional and general liability claims and incidents that may result in the assertion of claims, as well as exposure from unknown incidents that may be asserted. In connection with these risks, THR maintains a self-insurance program for the professional and general liabilities of THR and its wholly-controlled affiliates, whereby undiscounted reserves are recorded based on actuarial estimates from an independent third-party actuary. In December 2014, THR formed Grace Indemnity Company, Ltd., a wholly-owned captive insurance company, for the purpose of paying professional and general liability claims. The System also purchases insurance for professional and general liability claims in excess of THR's self-insurance retention level. The System's consolidated joint ventures each maintain separate professional and general liability insurance programs covering their risks individually. The System's established liability for professional and general liability claims was $95,972 and $75,725 at December 31, 2020 and 2019, respectively, and is recorded in other accrued liabilities and other noncurrent liabilities on the accompanying consolidated balance sheets.

Workers' Compensation Insurance

The System purchases workers' compensation insurance from commercial carriers with per claim deductibles and aggregate limits. Accrued claims include estimates for known claims and incidents incurred but not reported at December 31, 2020 and 2019, respectively. The System's established liability for workers' compensation claims was $5,894 and $4,523 at December 31, 2020 and 2019, respectively, and is recorded in other accrued liabilities on the accompanying consolidated balance sheets.

17. Commitments and Contingencies, continued

Employee Health Insurance

THR maintains a self-insurance medical plan for the employees of THR and its wholly-controlled affiliates. Accrued claims include estimates for known claims and services incurred but not reported at December 31, 2020 and 2019, respectively. The System's consolidated joint ventures each maintain separate employee health insurance programs. The System's established liability for employee health claims was $26,059 and $25,725 at December 31, 2020 and 2019, respectively, and is recorded in accrued salaries, wages, and employee benefits on the accompanying consolidated balance sheets.

Guarantees of Indebtedness

The Tax-Exempt Hospitals and ACL guaranteed $14,697 of patient notes purchased by banks at December 31, 2019. The System recorded a contingent liability of $4,062 at December 31, 2019, for these guarantees based on historical default rates. There were no guarantees of patient notes at December 31, 2020.

In February 2013, THR entered into a limited guaranty agreement with Chase for 51% of any indebtedness outstanding between Chase and USMD Arlington. In September 2015, the limited guaranty agreement for USMD Arlington was amended in conjunction with a debt refinancing to add a maximum guaranty amount of $24,000. In May 2013, THR entered into a limited guaranty agreement with Southwest Bank for 51% of any indebtedness outstanding between Southwest Bank and USMD Fort Worth up to a maximum guaranty amount of $6,150. At December 31, 2020 and 2019, THR's share of principal on USMD Arlington's and USMD Fort Worth's outstanding indebtedness was $2,486 and $7,754, and $0 and $12,274, respectively. The guarantee with USMD Fort Worth has been fully satisfied due to the repayment of all outstanding indebtedness as of December 31, 2020. See footnote 20 – Investments in Unconsolidated Affiliates for additional discussion. Payments are due from THR if USMD Arlington or USMD Fort Worth is unable to fulfill its obligations at the scheduled payment dates. As of December 31, 2020, it is not probable that THR will be required to make significant payments under the limited guaranty agreement. No amounts have been recorded in the accompanying consolidated financial statements for this guarantee.

Litigation

The System is a party to several legal actions arising in the ordinary course of its business. In management's opinion, the System has adequate legal defenses, insurance coverage, and (or) self-insured retention for each of these actions, and management estimates that these matters will be resolved without material adverse effect on the System's future financial position, results of operations, or cash flows.

Regulatory Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments, and compliance can be subject to future review and interpretation as well as the possible emergence of regulatory actions unknown or unasserted at this time. Management believes that the System is in substantial compliance with applicable government laws and regulations. Regulatory inquiries and voluntary reports may be made from time to time. It is management's policy to cooperate fully in resolving any such reports or inquiries.

In March 2015, the System made a disclosure to the Office of Inspector General (OIG) regarding THPG billing of certain PET scan tests and nuclear stress tests that did not meet Medicare medical necessity requirements. To date, the OIG has not responded. Management does not anticipate a material financial impact due to this incident.

17. Commitments and Contingencies, continued

Regulatory Compliance, *continued*

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 for the audit period. The OIG extrapolated these net overpayments and estimates that the hospital received net overpayments of at least $10,597. 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 in estimated overpayments. The amount of the proposed refund represents the extrapolation of many payments that are still in dispute. OIG issued its final report to THR on December 10, 2019, while disagreeing with THR's response and finalized its findings as specified in its draft report. THR continues the appeal process on denied claims and intends to exercise all of its existing appeal rights in this matter. THR refunded the disputed amount to CMS in 2020. Despite THR's continued disagreement with the OIG's findings, a self-assessment and due diligence as recommended by the OIG following their initial review was conducted with rebill/repayment of $1,138 occurring in 2021. THR is awaiting confirmation of acceptance and closure of the recommended self-assessment. Management believes it is too early to predict with certainty the outcome of this matter.

Flower Mound Hospital Partners L.L.C. (Flower Mound) received a Civil Investigative Demand ("CID") from the Civil Division of the U.S. Department of Justice (DOJ) on June 1, 2020. The CID relates to: (1) the requirement in Flower Mound's First Amended and Restated Company Agreement that Class P Physician Members be members of the Active Medical Staff category; and (2) a recent amendment to the Company Agreement permitting Flower Mound to redeem units from Class P Members upon reaching the age of 63. THR is cooperating with the DOJ in responding to the CID and is working closely with its legal counsel. To date, the DOJ has not asserted any monetary or other claims against Flower Mound. Consequently, at this time, management is unable to determine the potential impact, if any, that will result from the final resolution of the investigation.

On October 6, 2020, THR was served with a Qui Tam complaint against THR and Texas Health Harris Methodist Hospital Fort Worth alleging violations of the False Claims Act and the Anti-Kickback Statute. On April 15, 2021, the court granted THR's motion to dismiss the complaint for failure to plead with particularity. However, the plaintiff was granted leave to file an amended complaint by May 3, 2021. Management believes it is too early to predict the outcome of this matter; however, management does not anticipate a material financial impact.

THR's Corporate Compliance Department investigates all compliance matters reported through its compliance program. As of the date of these financial statements, there was no additional pending or, to the knowledge of System management, threatened litigation, including professional liability claims, or reported compliance issues which in the opinion of System management involves any substantial risk of material liability for the System, and where applicable, in excess of available reserves and insurance coverage. In management's opinion, the System does not expect the resolution of any known regulatory compliance matters to have a material adverse effect on the System's future financial position, results of operations, or cash flows.

(Dollars in Thousands)

18. Functional Operating Expenses

The System provides general and comprehensive health care services to residents within its geographic locations. The table below presents expenses by both nature and function for the years ended December 31, 2020 and 2019:

	2020				
	Patient Care Services	General and Administrative	Research and Education	Fundraising	Total
Salaries, wages, and employee benefits	$ 2,174,224	$ 391,414	$ 8,175	$ 3,762	$ 2,577,575
Supplies	754,803	3,563	332	21	758,719
Depreciation and amortization	209,705	48,449	127	41	258,322
Interest expense	60,366	30,697	—	—	91,063
Other operating expenses	712,390	271,364	27,751	1,571	1,013,076
	$ 3,911,488	$ 745,487	$ 36,385	$ 5,395	$ 4,698,755

	2019				
	Patient Care Services	General and Administrative	Research and Education	Fundraising	Total
Salaries, wages, and employee benefits	$ 2,098,359	$ 369,198	$ 7,645	$ 4,327	$ 2,479,529
Supplies	777,232	3,073	452	27	780,784
Depreciation and amortization	191,760	46,117	135	42	238,054
Interest expense	62,880	28,762	—	—	91,642
Other operating expenses	675,422	269,658	26,256	2,729	974,065
	$ 3,805,653	$ 716,808	$ 34,488	$ 7,125	$ 4,564,074

The financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including interest and insurance (included in other operating expenses) are allocated based on percentage of property and equipment basis or an appropriate exposure metric, such as percentage of payroll, percentage of insured value, percentage of revenue, and (or) loss history, depending on the type of insurance.

19. Fair Value Measurements

The System follows the provisions of FASB ASC 820, *Fair Value Measurement*, for its financial assets and liabilities that are measured and reported at fair value each reporting period. The financial assets recorded at fair value on a recurring basis primarily relate to investments, assets limited as to use, interest rate swap agreements, and contributions receivable from split-interest agreements. FASB ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

In general, fair values determined by Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates, and yield curves. Fair values determined by Level 3 inputs utilize unobservable data points for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The System's assets limited as to use that are categorized as Level 3, or valued using significant unobservable inputs, primarily represent contributions receivable from split-interest agreements and funds primarily holding real estate and mineral interests.

(Dollars in Thousands)

19. Fair Value Measurements, continued

The following tables present information about the System's assets and liabilities that are measured at fair value as of December 31, 2020 and 2019, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	2020			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial Assets:				
Domestic equity securities	$ 3,358,986	$ 3,358,986	$ -	$ -
International equity securities	296,929	296,929	-	-
Fixed income securities:				
U.S. Government, including agency mortgage-backed securities	1,465,491	-	1,465,491	-
Corporate bonds and other	479,590	1,913	477,677	-
Mutual funds (blended securities)	7,479	1,223	6,256	-
Texas Methodist Foundation	1,244	-	1,244	-
Real estate	815	-	-	815
Mineral interests	1,706	-	-	1,706
Contributions receivable from split-interest agreements	2,056	-	-	2,056
Total investments	$ 5,614,296	$ 3,659,051	$ 1,950,668	$ 4,577
Held for sale real estate	$ 20,046		$ 20,046	
Interest rate swap agreements	$ (187)		$ (187)	

	2019			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial Assets:				
Domestic equity securities	$ 2,595,634	$ 2,595,634	$ -	$ -
International equity securities	344,738	344,738	-	-
Fixed income securities:				
U.S. Government, including agency mortgage-backed securities	1,540,493	-	1,540,493	-
Corporate bonds and other	418,557	-	418,557	-
Mutual funds (blended securities)	6,390	768	5,622	-
Texas Methodist Foundation	1,234	-	1,234	-
Real estate	890	-	-	890
Mineral interests	2,327	-	-	2,327
Contributions receivable from split-interest agreements	1,775	-	-	1,775
Other alternative investments	124	-	26	98
Total investments	$ 4,912,162	$ 2,941,140	$ 1,965,932	$ 5,090
Held for sale real estate	$ 19,178	$ -	$ 19,178	$ -
Interest rate swap agreements	$ (88)	$ -	$ (88)	$ -

19. Fair Value Measurements, continued

Included in short-term investments, assets limited as to use and long-term fund unrestricted on the accompanying consolidated balance sheets, but excluded from total investments in the above fair value tables, are $11,821 and $16,169 of pledges receivable, $2,772 and $2,741 of short-term investments not subject to fair value measurement, $737,756 and $677,987 of international equity common collective trust investments and other alternative investments whereby the fair market value of the investments is determined using net asset value as a practical expedient, and $404,501 and $149,825 of cash equivalents recorded at cost or cost plus accrued interest at December 31, 2020 and 2019, respectively. Of the total cash equivalents excluded from the above table, $49,725 and $53,973 relates to residual cash equivalents in the allocated fixed income portfolio, and $57,450 and $79,418 relates to residual cash equivalents in the allocated equity securities portfolio at December 31, 2020 and 2019, respectively.

There were no transfers into or out of Level 3 during the years ended December 31, 2020 or 2019.

The following methods and assumptions were used by the System in estimating the fair value of its financial instruments on a recurring and non-recurring basis, as well as financial assets and liabilities stated at a measure other than fair value.

Equity Securities

Equity securities held by THR or held in trust controlled by THR are measured using quoted market prices. Equity securities held in trust not controlled by THR are measured using the net asset value of the trust based on the fair value of underlying securities, which are measured using quoted market prices.

Common Collective Trusts

Investments in common collective trusts may be accessed at any time at the net asset value as reported by the manager on a daily basis. THR's interest in these trusts contains no other rights or obligations. As such, net asset value represents fair value for these investments. Each common collective trust invests in either equity or fixed income securities. The domestic equity common collective trust is an exchange traded collective trust, thus the net asset value of the trust is based on the fair value of the underlying securities, which are measured using quoted market prices.

Fixed Income Securities

Fixed income securities are measured using quoted market prices, if available, or estimated using quoted market prices for similar assets.

Mutual Funds

Values of investments in mutual funds are based on quoted market prices for publicly traded funds and net asset values for funds that are not publicly traded. THR's interest in these funds contains no other rights or obligations. As such, net asset value represents fair value for these investments. Each fund invests in either equity or fixed income securities.

19. Fair Value Measurements, continued

Texas Methodist Foundation

The value of the investment in the Texas Methodist Foundation is based on the original investment plus accrued interest as set by the manager of the foundation.

Real Estate

Investments in real estate, including real estate held for sale, are measured by private valuations.

Mineral Interests

Investments in mineral interests are estimated based on a multiple of annual revenues.

Contributions Receivable from Split-Interest Agreements

The fair value of the contribution is measured at the present value of the estimated future cash receipts from the trust's assets.

Other Alternative Investments

Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation models involve some level of management estimation and judgement, the degree of which is dependent on the price transparency for the assets or liabilities or market, and the assets' or liabilities' complexity. The following factors may where relevant be taken into consideration in determining the fair value of such investments: the enterprise value of a portfolio company, the nature and realizable valuable of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons to publicly traded securities, and changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made and other relevant factors.

Interest Rate Swap Agreements

Current market pricing models are used to estimate fair values of interest rate swap agreements.

20. Investments in Unconsolidated Affiliates

THR and its controlled affiliates participate with other organizations, physicians, and non-physicians to provide health care related services. At December 31, 2020 and 2019, THR and its controlled affiliates own interests in Community Hospice of Texas (Hospice), a provider of hospice services; Imaging Center Partnership, L.L.P. (d/b/a Southwest Diagnostic Imaging Center) (SDIC), a provider of outpatient diagnostic imaging services; North Central Texas Services (d/b/a CareFlite) (CareFlite), a provider of helicopter, fixed wing and ground ambulance services; North Texas Health Care Laundry Cooperative Association (NTHC Laundry), a provider of laundry services; Southwestern Health Resources Network (SWHR Network), multiple legal entities consisting of a clinically integrated network of physicians, a joint operating company that clinically and financially aligns the operations of the participating hospitals, and a payor relations and quality oversight entity; Texas Health Aetna, a health plan company; Texas Health Huguley, Inc. (d/b/a Texas Health Huguley Hospital Fort Worth South and Texas Health Hospital Mansfield) (Huguley), acute care hospitals; USMD Arlington and USMD Fort Worth, short-stay hospitals; 26 ambulatory surgery centers; one endoscopy center; and other joint ventures.

(Dollars in Thousands)

20. Investments in Unconsolidated Affiliates, continued

The ownership interests, carrying values, and equity in earnings of investments in unconsolidated affiliates at December 31, 2020 and 2019 were as follows:

	Ownership Interest		Carrying Value		Equity in Earnings	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Texas Health Aetna	50.0%	50.0%	$ 77,199	$ 105,269	$ (5,569)	$ (8,979)
Surgery centers	22.5% - 73.6%	48.8% - 74.6%	116,062	114,777	56,691	65,540
Huguley	51.0%	51.0%	178,226	127,012	9,828	18,128
USMD Arlington	51.0%	51.0%	40,419	38,811	1,609	3,645
SWHR Network	49.0% - 51.0%	49.0% - 51.0%	86,796	63,714	20,633	9,354
Endoscopy center	51.0%	51.0%	22,599	23,130	6,693	9,205
Hospice	50.0%	50.0%	27,849	24,489	3,360	2,730
USMD Fort Worth	51.0%	51.0%	11,934	15,702	(3,768)	(508)
NTHC Laundry	43.9%	43.9%	5,967	6,523	(429)	393
CareFlite	50.0%	50.0%	18,334	8,521	10,188	2,550
SDIC	50.0%	50.0%	2,737	1,909	3,380	2,308
Others	1.2% - 30.0%	1.2% - 51.0%	2,622	2,960	4,663	3,896
			$ 590,744	$ 532,817	$ 107,279	$ 108,262

While THR may maintain a majority ownership interest, it does not control the governing bodies of the unconsolidated affiliates. The equity in earnings of unconsolidated affiliates providing services that the System does not provide as part of its routine services are included in nonoperating gains (losses), net in the accompanying consolidated statements of operations and changes in net assets. All others are included in operating revenue. On January 3, 2020, USMD Fort Worth ceased operations and the board of directors approved a plan of liquidation shortly thereafter. USMD Fort Worth management has been working to unwind the operations and liquidate the assets throughout 2020. The carrying amount of the System's investment at December 31, 2020 reflects the estimated amount of cash or other consideration we would receive in carrying out the plan of liquidation.

21. Related-Party Transactions

THR incurred expenses for purchased services from NTHC Laundry of $8,944 and $9,595 for the years ended December 31, 2020 and 2019, respectively, which is recorded in other operating expenses in the accompanying consolidated statements of operations and changes in net assets. Amounts due to NTHC Laundry, which total $2,078 and $2,626 at December 31, 2020 and 2019, respectively, are reflected in current liabilities on the accompanying consolidated balance sheets. THR recorded management services and purchased workforce revenue from SWHR Network totaling $2,604 and $17,232 for the years ended December 31, 2020 and 2019, respectively, which is recorded in other operating revenue in the accompanying consolidated statements of operations and changes in net assets. THPG recorded capitation and shared savings revenue from SWHR Network totaling $37,507 and $37,317 for the years ended December 31, 2020 and 2019, respectively, which is recorded in patient service revenue in the accompanying consolidated statements of operations and changes in net assets. In addition, THR recorded payor relations management services expense from SWHR Network totaling $5,025 and $2,832 for the years ended December 31, 2020 and 2019, respectively, which is recorded in other operating expenses in the accompanying consolidated statements of operations and changes in net assets. Net amounts due from SWHR Network, which total $37,516 and $44,066 at December 31, 2020 and 2019, respectively, are reflected in other receivables, net, and accounts payable on the accompanying consolidated balance sheets. Additionally, THR had various other immaterial transactions with certain of its unconsolidated affiliates throughout the year.

22. Subsequent Events

The System evaluated events subsequent to December 31, 2020 and through April 28, 2021, the date on which the financial statements were issued.

TEXAS HEALTH RESOURCES

Audit in Accordance with the Uniform Guidance

Year Ended December 31, 2020

(With Independent Auditors’ Reports Thereon)

TEXAS HEALTH RESOURCES

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KPMG LLP
Suite 1400
2323 Ross Avenue
Dallas, TX 75201-2721

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

To the Board of Trustees
Texas Health Resources:

We have audited, in accordance with the 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 consolidated financial statements of Texas Health Resources and its subsidiaries (Texas Health), which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 28, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Texas Health's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Texas Health's internal control. Accordingly, we do not express an opinion on the effectiveness of Texas Health'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Texas Health's consolidated financial statements are free from 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 financial statements. 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*.

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 Texas Health's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Texas Health's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Dallas, Texas
April 28, 2021

KPMG LLP
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2323 Ross Avenue
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Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Board of Trustees
Texas Health Resources:

Report on Compliance for Each Major Federal Program

We have audited Texas Health Resources and its subsidiaries (Texas Health's) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on Texas Health's major federal program for the year ended December 31, 2020. Texas Health's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Texas Health's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about Texas Health's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Texas Health's compliance.

Opinion on Each Major Federal Program

In our opinion, Texas Health complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Report on Internal Control over Compliance

Management of Texas Health is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Texas Health's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Texas Health's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of Texas Health as of and for the year ended December 31, 2020 and have issued our report thereon dated April 28, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Dallas, Texas
December 22, 2021

TEXAS HEALTH RESOURCES

Schedule of Expenditures of Federal Awards

Twelve months ended December 31, 2020

Federal grantor/pass-through grantor/program title	Federal CFDA number	Pass-through entity identifying number	YTD December 31, 2020 grant expenditures
Research and Development Cluster:			
National Aeronautics and Space Administration/University of Texas Southwestern Medical Center of Dallas:			
Venous Congestion Countermeasure Study – Benjamin D. Levine, MD	43.003	80NSSC19K0300	$ 117,539
Coronary Anatomy and Physiology During 1 year in Space – Benjamin D. Levine, MD	43.003	80NSSC20K0987	2,699
			120,238
Department of Defense/University of Texas Southwestern Medical Center of Dallas:			
Effects of Burn Injuries on Thermoregulaory and Cardiovascular Responses in Soldiers:			
Implications for Standards of Medical Fitness – Craig G. Crandall, PhD.	12.420	W81XWH-15-1-0647	252,837
Analgesics in the Pre-hospital Setting: Implications on Hemorrhage Tolerance – Craig G. Crandall, PhD.	12.420	W81XWH-18-2-0012	109,075
			361,912
Department of Health and Human Services:			
YES Dallas Initiative – Tauane Araujo-Cruz	93.137	1 ASTWH190082-01-00	223,309
YES Dallas Initiative – Tauane Araujo-Cruz	93.088	6 ASTWH190082-02-01	41,005
National Institute on Aging/University of Texas Southwestern Medical Center of Dallas:			
Chronic Lower Leg Heating for the Treatment of Hypertension in Older Women – Qui Fu, PhD	93.866	R01AG059314	315,930
Exercise and Intensive Vascular Risk Reduction in Preventing Dementia – Rong Zhang, PhD	93.866	R01AG049749	826,520
Hypertension, Intracranial Pulsatility and Brain A-beta Accumulation in Older Adults – Rong Zhang, PhD	93.866	R01AG057571	108,155
Heat Waves and the Elderly: Reducing Thermal and Cardiovascular Consequences – Craig G. Crandall, PhD.	93.866	1R56AG069005	17,961
National Institute on Aging/University of Southern California/University of Texas Southwestern Medical Center of Dallas:			
Model-based Cerebrovascular Markers Extracted from Hemodynamic Data Data for Diagnosing – Rong Zhang, PhD	93.866	R01AG058162	112,360
			1,380,926
National Heart, Lung and Blood Institute/University of Texas Southwestern Medical Center of Dallas:			
Respiratory Effects of Obesity in Children – Tony G. Babb, PhD	93.838	R01HL136643	426,663
Obesity and Sleep Apnea in Pregnancy – Qui Fu, PhD	93.233	1R01HL142605-01	360,722
Mechanisms of Exercise Intolerance in Heart Failure with Preserved Ejection Fraction – Benjamin D. Levine, MD	93.837	P01HL137630	780,956
Functional Characterization of Children with Chronic thromemboic Disease – Tony G. Babb, PhD	93.839	1R56HL153963	2,212
National Institute of Diabetes and Digestive and Kidney Diseases/University of Texas Southwestern Medical Center of Dallas:			
Improving Cronic Disease with Pieces – Ferdinand Velasco, MD	93.847	5UH3DK104655-05 Revised	82,509
Improving Cronic Disease with Pieces – Ferdinand Velasco, MD	93.847	3UH3DK104655-05S1	739
			83,248
National Institute of General Medical Sciences/University of Texas Southwestern Medical Center of Dallas:			
Exercise in Burn Survivors – Craig G. Crandall, PhD	93.859	2R01GM068865	72,806
Total Research and Development Cluster			3,853,997
Department of Health and Human Services:			
HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461	N/A-Direct Award	19,166,360
Department of Treasury/City of Dallas:			
Community Mental Health Program – Tauane Araujo-Cruz	21.019	OCC-2020-000-14439	79,538
Department of Justice/Texas Office of the Govenor:			
Sexual Assault Forensic Services Initiative – Cindy Burnette DNP, RN	16.575	3430402	51,172
Sexual Assault Forensic Services Initiative – Cindy Burnette DNP, RN	16.575	3430403	18,565
			69,737
Total expenditure of federal awards			$ 23,169,632

See accompanying independent auditors' report.

(1) Summary of Significant Accounting Policies

(a) Organization and Operations

Texas Health Resources (Texas Health), a Texas nonprofit corporation, operates through its controlled affiliates a health care system with services and facilities throughout north central Texas. Texas Health is organized and operated for the benefit of its tax-exempt controlled affiliates and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended (the Code), as an organization described in Section 501(c)(3). Texas Health's wholly controlled facilities include 14 acute-care hospital locations, a 10-bed long-term care hospital, and a rehabilitation hospital. Texas Health's wholly controlled tax-exempt member hospitals (the Tax-Exempt Hospitals) are located in the north central Texas cities of Allen, Arlington, Azle, Bedford, Cleburne, Dallas, Denton, Fort Worth, Kaufman, Plano, Mansfield, and Stephenville. The Tax-Exempt Hospitals have been recognized as exempt from federal income taxes under the Code as organizations described in Section 501(c)(3). Texas Health and some of its controlled affiliates participate in joint ventures with physicians and non-physicians to operate hospitals and other health related ventures. Consolidated joint ventures that are managed by Texas Health (the Managed Joint Ventures) are located in the north central Texas cities of Arlington, Flower Mound, Frisco, Plano, Rockwall, and Southlake.

In addition, Texas Health is the sole member or sole shareholder of certain other wholly controlled affiliates engaged in health care related activities in support of its mission including Texas Health Physicians Group (THPG), a Texas nonprofit organization certified by the Texas Medical Board pursuant to Section 162.001(b) of the Texas Occupations Code and recognized as exempt from federal income taxes under the Code as an organization described in Section 501(c)(3) that consists of approximately 1,106 employed physicians and mid-level providers in more than 258 locations throughout north central Texas.

The majority of federal awards of Texas Health and its wholly controlled tax-exempt hospitals and managed joint ventures are provided by the Department of Health and Human Services and are associated with the Health Resources and Services Administration (HRSA) COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured Program and the COVID-19 Coverage Assistance Fund for the treatment of COVID-19 patients. The remaining federal awards are primarily associated with the research and development cluster and received by the Institute for Exercise and Environmental Medicine (IEEM). IEEM was founded as a joint program of Texas Health Presbyterian Hospital Dallas, a Texas Health tax-exempt member hospital, and the University of Texas Southwestern Medical Center at Dallas (UTSWMC). The mission of IEEM is to promote basic and clinical research, education, and clinical practice in defining the limits of human functional capacity in health and disease with the objective of improving the quality of life of human beings of all ages. Research at IEEM is directed to generate and disseminate new knowledge of integrative biological questions regarding human physiological and pathophysiological function. Clinical programs associated with IEEM currently include aerospace medicine, hyperbaric medicine, neuromuscular diseases, cardiopulmonary diseases, autonomic nervous system dysfunction, and thermoregulation. IEEM will also provide research fellowships for medical students and graduate students of area universities subject to budgetary availability.

(b) Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Texas Health and its tax-exempt hospitals and managed joint ventures and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

(2) Cluster of Programs

Texas Health and its wholly controlled tax-exempt hospitals and managed joint ventures federal award programs for research and development are considered a cluster of programs according to the guidelines of the Uniform Guidance. A cluster of programs means a grouping of closely related programs that share common compliance requirements. The cluster of federal programs is considered as one program when determining major programs.

(3) Commitments and Contingencies

Texas Health and its wholly controlled tax-exempt hospitals and managed joint ventures participate in several federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that Texas Health and its wholly controlled tax-exempt hospitals and managed joint ventures have not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2020 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants.

(4) Loans

There were no loans outstanding as of December 31, 2020.

(5) Indirect Cost Rate

Texas Health has elected not to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

(6) Subrecipients

There were no subrecipients during the year ended December 31, 2020.

TEXAS HEALTH RESOURCES

Schedule of Findings and Questioned Costs

Year ended December 31, 2020

Section I – Summary of Auditors' Results

(a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**

(b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:

- Material weaknesses: **No**
- Significant deficiencies: **None Reported**

(c) Noncompliance material to the financial statements: **No**

(d) Internal control deficiencies over major program disclosed by the audit:

- Material weaknesses: **No**
- Significant deficiencies: **None Reported**

(e) Type of report issued on compliance for major programs: Unmodified

(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**

(g) Major program:

- HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund – CFDA 93.461

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$750,000**

(i) Auditee qualified as a low-risk auditee: **Yes**

Section II – Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

Section III – Findings and Questioned Costs Relating to Federal Awards

None.

TEXAS HEALTH RESOURCES
Summary Schedule of Prior Audit Findings
Year ended December 31, 2020

Finding Number:	2019-001
Type of Finding:	Significant deficiency in internal control and noncompliance
Federal Program:	Research and Development (R&D) Cluster, CFDA Number 93.837, Award Number: 1P01HL137630-01A1
Federal Agency:	National Institute of Health
Pass-through Entity:	University of Texas Southwestern Medical Center of Dallas
Federal Award year:	January 1, 2019 to December 31, 2019

Criteria

The requirements for cash management are contained in Section 200.305 of Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance), the A 102 Common Rule (§___.21), OMB Circular A 110 (2 CFR section 215.22), Treasury regulations at 31 CFR part 205, program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

Additionally, Section 200.303 of the Uniform Guidance indicates that the nonfederal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the nonfederal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. The Uniform Guidance also indicates that these internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” (Green Book) issued by the Comptroller General of the United States or the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Office of Management and Budget (OMB) has clarified that the references to the Green Book and COSO were only provided as best practices and not requirements.

Condition

The Research and Development Cluster is funded on the cash reimbursement basis. The review performed by the Principal Investigator that was in place to ensure the accuracy of program costs requested for reimbursement failed to operate as designed for non-payroll expenditures. During our test work over cash management for non-payroll expenditures, we noted one exception out of the 40 items we selected for test work. The transaction related to this exception was for an allowable cost. There was no questioned cost associated with this item.

Cause

The review of the Principal Investigator failed to identify that an invoice had not been paid when a reimbursement request was made. Therefore, THR’s controls that were in place to ensure compliance with cash management failed to operate as designed. As a result, THR was not in compliance with the cash management compliance requirement.

Recommendation

We recommend that management strengthen the organization’s review procedures to help ensure invoices are paid before reimbursement requests.

TEXAS HEALTH RESOURCES
Summary Schedule of Prior Audit Findings
Year ended December 31, 2020

View of responsible officials

Management concurs with this finding. Management has developed a new report in the new financial software system rolled out January 2020 to capture these transactions appropriately. Management will train appropriate personnel on report utilization and reinforce the importance of reviewing all reimbursement requests for compliance with all requirements of the Uniform Guidance, including cash management requirements. This new report will ensure that individuals responsible for reviewing reimbursement requests validate that payments for goods and services are made by THR prior to submitting the request.