

**University Health System OPEB Plan
(A Component Unit of Bexar County Hospital District
d/b/a University Health System)**
Independent Auditor's Reports and Financial Statements
December 31, 2018 and 2017



University Health System OPEB Plan

December 31, 2018 and 2017

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the University Health System OPEB Plan (the Plan), a component unit of Bexar County Hospital System d/b/a University Health System, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 2018 and 2017, and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

BKD, LLP

Dallas, Texas
May 17, 2019

University Health System OPEB Plan
(A Component Unit of Bexar County Hospital District
d/b/a University Health System)
Management's Discussion and Analysis
Years Ended December 31, 2018 and 2017

This discussion and analysis of the University Health System OPEB Plan (the Plan) is for the years ended December 31, 2018 and 2017. This analysis provides a summary of the financial position of the Plan, including highlights and comparisons. For more detailed information regarding the Plan's financial activities, the reader should also review the actual financial statements, including notes and supplementary schedules.

Financial Statements

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

Summarized Financial Information

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>Changes 2018-2017</u>	<u>Changes 2017-2016</u>
Assets	\$ 43,644,713	\$ 45,294,071	\$ 38,608,523	-3.64%	17.32%
Liabilities	17,329	-	5,000	100.00%	-100.00%
Net position	<u>\$ 43,627,384</u>	<u>\$ 45,294,071</u>	<u>\$ 38,603,523</u>	<u>-3.68%</u>	<u>17.33%</u>

The Plan's assets are comprised of investments. The decrease in net position is primarily a result of the fair value of investments decreasing due to a negative performance in the markets in 2018 as compared to 2017. Net position held in trust by the Plan totaled \$43,627,384 and \$45,294,071 at December 31, 2018 and 2017, respectively. The Plan's net position decreased by \$1,666,687 in 2018 compared to an increase of \$6,690,548 in 2017. The net position of the Plan is held exclusively for the benefit of the Plan participants and reasonable administrative expenses for administering the Plan.

The following table displays the changes in plan net position:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>Changes 2018-2017</u>	<u>Changes 2017-2016</u>
Contributions	\$ 3,541,334	\$ 2,437,076	\$ 4,094,172	45.31%	28.02%
Net investment income (loss)	(1,593,142)	6,735,044	3,622,628	-123.65%	144.01%
Total additions	<u>1,948,192</u>	<u>9,172,120</u>	<u>7,716,800</u>	<u>-78.76%</u>	<u>82.02%</u>
Benefits paid	3,541,334	2,437,076	3,202,172	45.31%	-1.34%
Administrative expenses	73,545	44,496	28,223	65.28%	-4.18%
Total deductions	<u>3,614,879</u>	<u>2,481,572</u>	<u>3,230,395</u>	<u>45.67%</u>	<u>-1.37%</u>
Change in net position	<u>\$ (1,666,687)</u>	<u>\$ 6,690,548</u>	<u>\$ 4,486,405</u>	<u>-124.91%</u>	<u>132.63%</u>

The additions to the plan are comprised of contributions and investment returns, and the primary deductions from the Plan are for benefits paid to the Plan's participants. Contributions made in 2018 totaled \$3,541,334, which was an increase of \$1,104,258 from the contributions made in 2017. Contributions made in 2017 totaled \$2,437,076, which was a decrease of \$1,657,096 from the contributions made in 2016. Benefits payments made in 2018 totaled \$3,541,334, which was an increase of \$1,104,258 from the benefits payments made in 2017. Benefits payments made in 2017 totaled \$2,437,076, which was a decrease of \$765,096 from the benefits payments made in 2016. Total investment loss was \$1,593,142 in 2018, compared to a total investment income of \$6,735,044 in 2017, which represented a decrease in investment income of \$8,328,186 in 2018.

Contact Information

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

University Health System OPEB Plan
(A Component Unit of University Health System)
Statements of Fiduciary Net Position
December 31, 2018 and 2017

	2018	2017
Assets		
Investments		
Wells Fargo Treasury Money Market	\$ 864,821	\$ 916,922
Vanguard Institutional Index Fund	33,678,682	35,237,651
Dodge & Cox Income Fund	4,577,941	4,591,976
Natixis Loomis Sayles Core Plus Bond	4,523,269	4,547,522
Total assets	43,644,713	45,294,071
Liabilities		
Accounts payable and accrued expenses	17,329	-
Net position restricted for other postemployment benefits	\$ 43,627,384	\$ 45,294,071

University Health System OPEB Plan
(A Component Unit of University Health System)
Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Additions		
Employer contributions		
Benefits paid by System not reimbursed to the System using OPEB plan assets	\$ 3,541,334	\$ 2,437,076
Net investment income		
Interest income	13,488	4,443
Dividend income	981,172	892,859
Net appreciation (depreciation) in fair value of investments	(2,577,802)	5,837,742
Investment expenses	(10,000)	-
Total additions	<u>1,948,192</u>	<u>9,172,120</u>
Deductions		
Benefit payments	3,541,334	2,437,076
Administrative expenses	73,545	44,496
Total deductions	<u>3,614,879</u>	<u>2,481,572</u>
Net Increase (Decrease) in Net Position	(1,666,687)	6,690,548
Net Position Restricted for Other Postemployment Benefits, Beginning of Year	<u>45,294,071</u>	<u>38,603,523</u>
Net Position Restricted for Other Postemployment Benefits, End of Year	<u>\$ 43,627,384</u>	<u>\$ 45,294,071</u>

University Health System OPEB Plan
(A Component Unit of University Health System)
Notes to Financial Statements
December 31, 2018 and 2017

Note 1: Summary of Significant Accounting Policies

Reporting Entity and Basis of Presentation

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

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

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

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

Investments

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value. At December 31, 2018 and 2017, all of the Plan's investments are classified as Level 1 since they have quoted prices in active markets for identical investments.

Benefit Payments

Benefit payments are recorded when the OPEB benefits come due.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported

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amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Note 2: Description of Plan

Plan Description and Contributions

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

Benefits Provided

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

The employees covered by the OPEB Plan at December 31, 2018 and 2017, are:

	<u>2018</u>	<u>2017</u>
Inactive plan members or beneficiaries currently receiving payments	860	804
Active plan members	<u>3,093</u>	<u>3,346</u>
Total inactive participants	<u><u>3,953</u></u>	<u><u>4,150</u></u>

Net OPEB Liability

The System's net OPEB Plan liability of \$31,033,138 and \$24,441,182 was measured as of December 31, 2018 and 2017, for the years ended December 31, 2017 and 2016, respectively, and the total OPEB Plan liability used to calculate the net OPEB Plan liability was determined by actuarial valuations as of January 1, 2018 and 2017, respectively, and rolled forward to the measurement dates. The total OPEB liability in the January 1, 2017 and 2016 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

The long-term expected rate of return on the OPEB Plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information. The target allocation and best estimates of rates of return presented as geometric means for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	75%	4.6%
Fixed income	25%	0.8%
Total	<u>100%</u>	

The components of the net OPEB Plan liability of the System at December 31, 2018 and 2017, were as follows:

	2018	2017
Total OPEB liability	\$ 74,660,522	\$ 69,735,253
Less: plan fiduciary net position	<u>43,627,384</u>	<u>45,294,071</u>
Net OPEB liability	<u>\$ 31,033,138</u>	<u>\$ 24,441,182</u>
Plan fiduciary net position as a % of total OPEB liability	58%	65%

Discount Rate

The discount rate used to measure the total OPEB Plan liability was 7.0%, for both years ended December 31, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected OPEB Plan payments for current active and inactive

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employees. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB Plan liability.

The liability at December 31, 2018 and 2017 was determined using the entry age normal cost method.

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
System's net OPEB liability - 2018	\$ 39,764,279	\$ 31,033,138	\$ 23,661,588
System's net OPEB liability - 2017	\$ 32,487,384	\$ 24,441,182	\$ 17,642,253

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

	<u>1% Decrease</u>	<u>Current Health Care Cost Trend Rates</u>	<u>1% Increase</u>
System's net OPEB liability - 2018	\$ 22,154,492	\$ 31,033,138	\$ 41,843,091
System's net OPEB liability - 2017	\$ 15,086,274	\$ 24,441,182	\$ 35,940,968

Required Supplementary Information

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

	<u>2018</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 3,100,947	\$ 3,191,072
Interest	4,975,439	3,942,281
Demographic (gains)/losses	424,473	11,204,080
Expected benefit payments	<u>(3,573,746)</u>	<u>(3,404,922)</u>
Net Change in Total OPEB Liability	4,927,113	14,932,511
Total OPEB Liability - Beginning	<u>69,733,409</u>	<u>54,800,898</u>
Total OPEB Liability - Ending (a)	<u>\$ 74,660,522</u>	<u>\$ 69,733,409</u>
Plan Fiduciary Net Position		
Contributuons - employer	\$ 3,541,334	\$ 2,437,076
Benefit payments	(3,541,334)	(2,437,076)
Net investment income	<u>(1,664,844)</u>	<u>6,685,604</u>
Net Change in Plan Fiduciary Net Position	(1,664,844)	6,685,604
Plan Fiduciary Net Position - Beginning	<u>45,292,227</u>	<u>38,606,623</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 43,627,383</u>	<u>\$ 45,292,227</u>
Net OPEB Liability - Ending (a) - (b)	<u>\$ 31,033,139</u>	<u>\$ 24,441,182</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	58.4%	65.0%
Covered Employee Payroll	\$ 180,712,047	\$ 189,368,419
System's Net OPEB Liability as a Percentage of Covered Employee Payroll	17%	13%

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

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

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

Notes to Schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry age normal cost
Amortization method:	Level percentage open
Remaining amortization period:	30
Asset valuation method:	5-year smoothed market
Inflation:	N/A
Salary increases:	3.5%
Investment rate of return:	7.0%, net of OPEB plan investment expense, including inflation
Retirement age:	Annual rates based on age and age at satisfaction of rule
Mortality - Active Lives:	RP-2000 Combined Healthy; with no collar adjustment; projected with Generational Mortality (Scale AA)
Mortality - Retired Lives:	RP-2000 Combined Healthy; with no collar adjustment; projected with Generational Mortality (Scale AA)

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

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

	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	-12%	10%

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