The University of Texas M.D. Anderson Cancer Center and Subsidiaries, a Division of The University of Texas System

Consolidated Financial Statements as of and
for the Years Ended August 31, 2019 and 2018, and
Independent Auditors' Report

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER AND SUBSIDIARIES

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Deloitte.

Deloitte & Touche LLP
1111 Bagby Street
Suite 4500
Houston, TX 77002-2591
USA

Tel: +1 713 982 2000
Fax: +1 713 982 2001
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Members of the Audit, Compliance, and
Management Review Committee of
the University of Texas System Board of Regents:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the University of Texas M.D. Anderson Cancer Center and subsidiaries (the "Center") as of and for the years ended August 31, 2019 and 2018, and the related notes to the consolidated financial statements, which collectively comprise the Center's consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

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 the *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 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 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 respective financial position of the Center as of August 31, 2019 and 2018, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the consolidated financial statements of the Center are intended to present the financial position, the changes in financial position, and cash flows of the University of Texas System attributable to the Center. They do not purport to, and do not, present fairly the financial position of the University of Texas System as of August 31, 2019 and 2018, the changes in its financial position, or cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of the Center's Proportionate Share of Total OPEB Liability, the Schedule of the Center's Proportionate Share of the Net Pension Liability, and the Schedule of the Center's Contributions for the Teachers Retirement System Pension Plan be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the consolidated 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.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the consolidated financial statements. Such missing information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. Our opinion on the consolidated financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated December 6, 2019, on our consideration of the Center's 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Deloitte & Touche LLP

December 6, 2019

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF AUGUST 31, 2019 AND 2018
(In thousands)

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 469,304	$ 128,549
Patient accounts receivable—net of bad debt allowances of $113,078 and $90,084 in 2019 and 2018, respectively	438,940	413,889
Estimated third-party payor settlements	58,262	53,730
Inventories and other current assets	213,408	208,398
Grants receivable	155,558	128,278
Restricted:		
Cash and cash equivalents	452,640	430,086
Contributions receivable—net—current portion	4,593	7,102
Due from UT System	2,607	1,611
Total current assets—net	1,795,312	1,371,643
NONCURRENT ASSETS:		
Restricted assets:		
Investments held by UTIMCO	718,431	746,108
T. Boone Pickens Fund	648,144	649,492
Contributions receivable—net—noncurrent	5,968	9,958
Assets held for others	517,442	495,994
Due from UT System—noncurrent	6,183	24,624
Total restricted assets—net	1,896,168	1,926,176
Capital assets:		
Land	223,703	223,703
Buildings and other improvements	4,411,649	4,045,711
Equipment	1,869,394	1,694,281
Nondepreciable collections	2,147	2,147
Construction in progress	148,961	289,281
Total capital assets	6,655,854	6,255,123
Less accumulated depreciation	(3,775,866)	(3,479,364)
Capital assets—net	2,879,988	2,775,759
Other noncurrent assets:		
Investments held by UTIMCO	4,918,271	4,356,204
Joint ventures and other noncurrent assets	64,604	72,305
Total other noncurrent assets	4,982,875	4,428,509
Total noncurrent assets	9,759,031	9,130,444
Total assets	11,554,343	10,502,087
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows—asset retirement obligations	1,989	860
Deferred outflows—Proton Therapy Center acquisition	23,205	
Deferred outflows—pension related	634,816	154,992
Deferred outflows—other postemployment benefits related	27,255	26,008
Total deferred outflows of resources	687,265	181,860
TOTAL ASSETS AND DEFERRED OUTFLOWS	$12,241,608	$10,683,947

(Continued)

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF AUGUST 31, 2019 AND 2018
(In thousands)

	2019	2018
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 457,089	$ 461,121
Unearned revenue	290,568	230,218
Estimated third-party payor settlements	48,581	75,080
Compensated absences—current	183,425	175,970
Other postemployment benefit liability	56,459	51,127
Other current liabilities	102,328	89,613
Due to UT System	25,651	25,114
Total current liabilities	1,164,101	1,108,243
NONCURRENT LIABILITIES:		
Compensated absences—noncurrent	15,541	4,269
Assets due to others	517,442	495,994
Net pension liability	1,435,826	855,563
Other postemployment benefit liability	2,479,089	2,654,005
Asset retirement obligation	16,632	15,076
Other	3,813	5,403
Total noncurrent liabilities	4,468,343	4,030,310
Total liabilities	5,632,444	5,138,553
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows—pension related	170,039	222,432
Deferred inflows—other postemployment benefit related	656,682	394,019
Deferred inflows—split interest	2,750	2,724
Total deferred inflows of resources	829,471	619,175
Total liabilities and deferred inflows	6,461,915	5,757,728
COMMITMENTS AND CONTINGENCIES (Note 11)		
NET POSITION:		
Net investment in capital assets	2,879,988	2,775,760
Restricted:		
Nonexpendable	988,938	968,802
Expendable	765,998	838,122
Unrestricted	1,144,769	343,535
Total net position	5,779,693	4,926,219
TOTAL LIABILITIES AND NET POSITION	$12,241,608	$10,683,947

See notes to consolidated financial statements. (Concluded)

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018
(In thousands)

	2019	2018
OPERATING REVENUES:		
Net patient service revenue	$ 4,122,568	$ 3,680,396
Net professional fees	451,272	403,759
Grants and contracts revenue	405,559	383,383
Net sales and services of educational activities	4,534	3,145
Auxiliary revenue	45,856	44,292
Other	125,466	117,232
Total operating revenues	5,155,255	4,632,207
OPERATING EXPENSES:		
Salaries and benefits	2,571,327	2,367,726
Pension expense	143,876	68,435
Other postemployment benefit expense	130,663	192,873
Medical supplies and drugs	1,122,632	944,732
Travel	21,155	19,865
Professional and contractual services	423,898	354,247
Utilities	62,150	60,611
Repairs and maintenance	115,151	104,668
Rentals and leases	40,316	43,441
Depreciation and amortization	361,058	365,028
Other	71,025	76,405
Total operating expenses	5,063,251	4,598,031
OPERATING INCOME	92,004	34,176
NONOPERATING REVENUES:		
State appropriations	209,734	210,130
Gift contributions for operations	110,517	113,965
Net investment income	375,200	266,802
Other—net	27,735	2,117
Total nonoperating revenues	723,186	593,014
INCOME BEFORE CAPITAL CONTRIBUTIONS, ADDITIONS TO PERMANENT ENDOWMENTS, AND TRANSFERS	815,190	627,190
CAPITAL CONTRIBUTIONS	838	6
ADDITIONS TO PERMANENT ENDOWMENTS	15,424	11,026
TRANSFERS FROM UT SYSTEM	172,176	165,450
TRANSFERS TO UT SYSTEM	(150,154)	(143,885)
INCREASE IN NET POSITION	853,474	659,787
NET POSITION—Beginning of year (as restated, Note 1)	4,926,219	4,266,432
NET POSITION—End of year	$ 5,779,693	$ 4,926,219

See notes to consolidated financial statements.

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018
(In thousands)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Proceeds from third-party payors and patients	$ 4,548,789	$ 4,061,869
Proceeds from grants and contracts	441,131	408,726
Proceeds from auxiliary enterprise charges	45,977	44,118
Proceeds from other revenues and expenses	153,181	146,480
Payments to employees	(2,664,192)	(2,489,838)
Payments to suppliers	(1,902,689)	(1,503,482)
Net cash provided by operating activities	622,197	667,873
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from state appropriations	209,734	210,131
Operating gifts	116,945	135,514
Private gifts for endowment and annuity life purposes	15,424	11,026
Other nonoperating transfers from UT System	66,057	69,892
Other nonoperating transfers to UT System	(3,056)	(13,958)
Proceeds from other uses	27,734	2,117
Net cash provided by noncapital financing activities	432,838	414,722
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of capital assets	(482,888)	(347,992)
Nonmandatory capital-related transfers from UT System	72,609	98,753
Mandatory transfers to UT System for capital-related debt	(101,458)	(88,727)
Proceeds from sales of capital assets	1,613	1,226
Proceeds from capital grants and gifts	689	466
Net cash used in capital and related financing activities	(509,435)	(336,274)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(483,049)	(1,135,160)
Interest and dividends	300,758	201,220
Net cash used in investing activities	(182,291)	(933,940)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	363,309	(187,619)
CASH AND CASH EQUIVALENTS—Beginning of year	558,635	746,254
CASH AND CASH EQUIVALENTS—End of year	$ 921,944	$ 558,635

(Continued)

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018
(In thousands)

	2019	2018
SUPPLEMENTAL DISCLOSURES—Noncash investing activity:		
Unrealized gain on investments	$ 73,572	$ 64,278
Capital asset acquisitions in accounts payable and accrued expenses	$ 24,234	$ 40,336
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 92,004	$ 34,176
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	361,058	365,028
Changes in assets and liabilities:		
Receivables—net	(49,219)	111,029
Inventories and other assets	(2,690)	(13,170)
Accounts payable and accrued expenses	(12,698)	75,565
Due to UT System	537	1,129
Unearned revenue	60,421	(109,896)
Compensated absences	18,727	5,379
Asset retirement obligations	427	14,216
Pension-related obligations, deferred inflows, and deferred outflows	48,046	(19,270)
Other postemployment benefits-related obligations, deferred inflows, and deferred outflows	91,830	164,749
Other liabilities	13,754	38,938
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 622,197	$ 667,873

See notes to consolidated financial statements. (Concluded)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—The University of Texas M.D. Anderson Cancer Center and subsidiaries (the "Center") is an agency of the State of Texas and a division of The University of Texas System ("UT System" or the "System"). It was established in 1941 through a legislative act to provide for the establishment of a state cancer hospital and the division of cancer research, the location, control, and management to be under the supervision of the UT System. Additionally, the legislative act was provided for the appointment of the president of the Center. The Center is located in Houston, Texas, in the Texas Medical Center.

The accompanying financial statements are presented on a consolidated basis, and include the accounts of the following blended component units:

- M. D. Anderson Physicians Network (MDAPN), 7505 South Main, Suite 500, Houston, TX 77030, is governed by a four-member board appointed by the Center. MDAPN transfers programs' representative of the Center to the broad community. MDAPN is blended rather than discretely presented because it is organized as a not-for-profit corporation and the Center is the sole corporate member. MDAPN's fiscal year end is August 31.

- M. D. Anderson Services Corporation (MDASC), 7505 South Main, Suite 500, Houston, TX 77030, is governed by a seven-member board appointed by the president of the Center and the UT System Board of Regents. MDASC serves as an instrument of the Center in its efforts to achieve its mission beyond the Center's main campus. MDASC is blended rather than discretely presented because it is organized as a not-for-profit corporation and the Center is the sole corporate member. MDASC's fiscal year end is August 31.

Blended financial information is available upon request. Condensed financial statement information related to the Center's blended component units as of and for the year ended August 31, 2019, is as follows (in thousands):

Condensed Balance Sheet	**M. D. Anderson Physicians Network**	**M. D. Anderson Services Corporation**	**Total**
Current assets	$ 64,728	$ 97,148	$161,876
Noncurrent assets	107,965	670,532	778,497
Total assets	172,693	767,680	940,373
Current liabilities	16,836	121,255	138,091
Noncurrent liabilities		184,231	184,231
Total liabilities	16,836	305,486	322,322
Net investment in capital assets	1,167	7	1,174
Restricted nonexpendable		50,000	50,000
Restricted expendable		383,831	383,831
Unrestricted	154,690	28,356	183,046
Total net position	$155,857	$462,194	$618,051
Condensed Statement of Revenues, Expenses, and Changes in Net Position			
Operating revenues	$ 52,195	$ 3,187	$ 55,382
Operating expenses	(23,930)	(2,059)	(25,989)
Operating income	28,265	1,128	29,393
Nonoperating revenues	6,153	29,718	35,871
Income before other changes in net position	34,418	30,846	65,264
Change in net position	34,418	30,846	65,264
Net position—August 31, 2018	121,439	431,348	552,787
Net position—August 31, 2019	$155,857	$462,194	$618,051
Condensed Statement of Cash Flows			
Net cash provided by (used in):			
Operating activities	$ 33,939	$ 31,877	$ 65,816
Noncapital financing activities		(29,315)	(29,315)
Investing activities	(20,961)	(1,690)	(22,651)
Net increase in cash and cash equivalents	12,978	872	13,850
Cash and cash equivalents—August 31, 2018	38,231	94,610	132,841
Cash and cash equivalents—August 31, 2019	$ 51,209	$ 95,482	$146,691

Condensed financial statement information related to the Center's blended component units as of and for the year ended August 31, 2018, is as follows (in thousands):

Condensed Balance Sheet	M. D. Anderson Physicians Network	M. D. Anderson Services Corporation	Total
Current assets	$ 50,336	$ 95,933	$146,269
Noncurrent assets	86,667	668,839	755,506
Total assets	137,003	764,772	901,775
Current liabilities	15,466	118,948	134,414
Noncurrent liabilities	99	214,475	214,574
Total liabilities	15,565	333,423	348,988
Net investment in capital assets	633	3	636
Restricted nonexpendable		50,000	50,000
Restricted expendable		355,865	355,865
Unrestricted	120,806	25,481	146,287
Total net position	$121,439	$431,349	$552,788
Condensed Statement of Revenues, Expenses, and Changes in Net Position			
Operating revenues	$ 42,853	$ 2,617	$ 45,470
Operating expenses	(22,697)	(3,614)	(26,311)
Operating income(loss)	20,156	(997)	19,159
Nonoperating revenues	2,685	61,713	64,398
Income before other changes in net position	22,841	60,716	83,557
Change in net position	22,841	60,716	83,557
Net position—August 31, 2017	98,598	370,632	469,230
Net position—August 31, 2018	$121,439	$431,348	$552,787
Condensed Statement of Cash Flows			
Net cash provided by (used in):			
Operating activities	$ 22,758	$ 59,918	$ 82,676
Noncapital financing activities		(28,970)	(28,970)
Investing activities	(16,320)	(31,623)	(47,943)
Net increase (decrease) in cash and cash equivalents	6,438	(675)	5,763
Cash and cash equivalents—August 31, 2017	31,793	95,285	127,078
Cash and cash equivalents—August 31, 2018	$ 38,231	$ 94,610	$132,841

Tax Status—The Internal Revenue Service ruled, on March 20, 1984, that the Center is an agency of the State of Texas. As an agency of the state, the Center is generally exempt from federal income taxes, although certain activities are subject to federal unrelated business income tax.

Basis of Accounting—The consolidated financial statements of the Center have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when services are provided or, in the case of nonexchange transactions, when eligibility requirements are met, and expenses are recorded when an obligation has been incurred. The Center reports as a business-type activity. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The consolidated financial statements of the Center have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

GASB STATEMENTS IMPLEMENTED IN FISCAL YEAR 2018

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective 2018, addressed reporting by governments that provide Other Postemployment Benefits (OPEB) to their employees and for governments that finance OPEB for employees of other governments.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, effective 2018, required that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement.

GASB STATEMENTS IMPLEMENTED IN FISCAL YEAR 2019

GASB Statement No. 83, *Certain Asset Retirement Obligations* (ARO), effective 2019, addressed accounting and financial reporting for AROs related to cleanup and decommissioning of items using radiation such as broadscope, irradiator, gamma knife, and cyclotrons. The effect of implementing GASB Statement No. 83 on the Center's consolidated financial statements for the year ended August 31, 2018, was as follows (in thousands):

	Consolidated Statement of Net Position as of August 31, 2018		
	As Reported in Fiscal Year 2018	**GASB Statement No. 83 Restatement**	**Restated Fiscal Year 2018**
Asset:			
Total current assets	$ 1,371,643	$ -	$ 1,371,643
Total noncurrent assets	9,130,444		9,130,444
Total assets	10,502,087	-	10,502,087
Total deferred outflows of resources	181,000	860	181,860
Total assets and deferred outflows	$10,683,087	$ 860	$10,683,947
Liabilities:			
Current ARO	$ -	$ 15,076	$ 15,076
Other current liabilities	1,108,243		1,108,243
Total current liabilities	1,108,243	15,076	1,123,319
Noncurrent ARO	4,015,234		4,015,234
Total noncurrent liabilities	4,015,234	-	4,015,234
Total liabilities	5,123,477	15,936	5,138,553
Total deferred inflows of resources	619,175		619,175
Total liabilities and deferred inflows	5,742,652	15,936	5,757,728
Net position:			
Net investment in capital assets	2,775,760		2,775,760
Restricted nonexpendable	968,802		968,802
Restricted expendable	838,122		838,122
Unrestricted	357,751	(14,216)	343,535
Total net position	$ 4,940,435	$(14,216)	$ 4,926,219

	Consolidated Statement of Revenues, Expenses, and Changes in Net Position for the Year Ended August 31, 2018		
	As Reported in Fiscal Year 2018	GASB Statement No. 83 Restatement	Restated Fiscal Year 2018
Operating income (loss)—			
Total operating revenue	$4,632,207	$ -	$4,632,207
Less operating expenses:			
Asset retirement expense		14,216	14,216
Other operating expense	4,583,815		4,583,815
Total operating expense	4,583,815	14,216	4,598,031
Operating income (loss)	48,392	(14,216)	34,176
Nonoperating revenue:			
Gift contributions for operations	113,965		113,965
Investment income	266,802		266,802
Net increase in fair value of investments			-
Appropriations and other nonoperating revenue (expense)	212,247		212,247
Total net nonoperating revenue (expense)	593,014	-	593,014
Income (loss) before other revenue, expenses, gain (losses), and transfers	641,406	(14,216)	627,190
Additions to permanent endowment annuities	11,026		11,026
Other revenues/transfers	21,571		21,571
Change in net position	674,003	(14,216)	659,787
Beginning net position	4,266,432		4,266,432
Ending net position	$4,940,435	$(14,216)	$4,926,219

GASB Statement No. 85, *Omnibus 2017*, effective 2019, addressed practice issues that were identified during implementation and application of certain GASB statements. The implementation of GASB Statement No. 85 had no effect on the Center's net position or changes in net position for the years ended August 31, 2019 and 2018.

GASB Statement No. 88*, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements,* effective 2019, addressed note disclosures based on liability type. The implementation of GASB Statement No. 88 had no effect on the Center's net position or changes in net position for the years ended August 31, 2019 and 2018.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective 2021, simplifies interest expense accounting and enhances the relevance of information about capital assets. GASB Statement No. 89 discontinued the capitalization of interest costs during construction. The Texas State Comptroller's Office decided to early implement this standard in 2019. The implementation of GASB Statement No. 89 had no effect on the Center's net position or changes in net position for the years ended August 31, 2019 and 2018.

Cash and Cash Equivalents—Short-term, highly liquid investments with maturities of three months or less when purchased are generally considered cash and cash equivalents. The Center's policy is to exclude items that meet this definition if they are part of an investment pool that has an investment horizon of one year or greater. Therefore, highly liquid investments that are part of the intermediate-term fund (ITF) and the long-term fund (LTF) are not considered cash and cash equivalents. Cash held in the state treasury for the Permanent University Fund and the Permanent Health Fund (PHF) are considered cash and cash equivalents. Other highly liquid investments of these major funds invested with custodians are not considered cash and cash equivalents according to the investment policies of the Center and UT System.

Restricted Assets—Restricted assets include funds restricted by legal or contractual requirements, including those related to sponsored programs, donors, bond proceeds receivable, trust funds, and constitutional restrictions.

Net Position—The Center has classified resources into the following three net position categories:

Net Investment in Capital Assets—Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted:

Nonexpendable—Net position subject to externally imposed stipulations that require the amounts be maintained in perpetuity by the Center. Such assets include the Center's permanent endowment funds.

Expendable—Net position whose use by the Center is subject to externally imposed stipulations that can be fulfilled by actions of the Center pursuant to those stipulations or that expire with the passage of time.

Unrestricted—Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for special purposes by action of management or the UT System Board of Regents. Substantially, all unrestricted net position is designated for academic and research programs and initiatives, and capital programs.

Donor-Restricted Gifts—Unconditional promises to give cash and other assets are reported at fair value when eligibility requirements are met. The gifts are reported as restricted net position if they are received with donor stipulations that limit the use of the donated assets.

Pharmacy Inventory—Pharmacy inventory is valued at the lower of cost (weighted average) or market, which is generally determined on a first-in, first-out basis.

Primate Inventory—Primate inventory is valued at the lower of cost or market, which is generally determined on an actual-census basis.

Investments—Certain investments of the Center are managed by The University of Texas/Texas A&M Investment Management Company (UTIMCO), a private investment corporation that provides services to UT System and its consolidated entities and blended component units. Investments not managed by UTIMCO largely consist of equities, fixed-income money market and bond mutual funds, and commingled funds. The Center's investments are carried at fair value.

UT System is authorized to invest funds, as provided in Section 51.0031 of the Texas Higher Education Code and the Constitution of the State of Texas, under prudent investor investment standards. Such investments include various fixed-income and equity-type securities as well as alternative investments, such as hedge funds and private equity funds. The investments of UT System are governed by various investment policies approved by the UT System Board of Regents.

Other Noncurrent Assets—Joint Ventures—The Center records the equity interest for investments in joint ventures where the Center shares in the operating results of the joint venture. The cost method of accounting is used for investments in joint ventures where the Center has only an initial investment or the Center does not share in operating results of the joint venture.

Endowments—Distributions that are reinvested in endowments become permanent additions to the principal of the endowments; therefore, there is no amount of net appreciation on investments of donor-restricted endowments available for authorized expenditures. This provision is typically outlined in the endowment agreements with donors.

Endowments include state and other-than-state permanent endowments, funds functioning as endowments, life income funds, and other investments. Permanent endowments are those funds received from the state or from donors with the stipulation that the corpus remains intact and invested in perpetuity to produce income that is to be expended for specified purposes. Funds functioning as endowments consist of amounts (restricted gifts or unrestricted funds) that have been internally dedicated by the Center for long-term investment purposes. The Center's endowments are used to support operations in consideration of the restrictions placed by the donors, which are funded through the earnings of the invested funds. Programs supported by the endowments include scholarships, fellowships, professorships, research efforts, and other important programmatic activities.

All real estate holdings by endowments are recorded at fair value. As of August 31, 2019 and 2018, the Center had real estate holdings approximating $1,289,000 and $1,178,000, respectively.

Deferred Outflows and Inflows—Deferred outflows and inflows consisting of changes in the net pension liability or OPEB liability not included in pension or OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions or OPEB. Employer contributions or premiums subsequent to the measurement date of the net pension liability or OPEB liability, asset retirement obligation and acquisition-related deferred outflows are also required to be reported as deferred outflows of resources.

Net Pension Liability—The Center participates in a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the Teacher Retirement System of Texas (TRS). TRS is primarily funded through state and employee contributions. UT System receives a proportional share of the net pension liability, pension-related deferred outflows, and pension-related deferred inflows from the Texas Comptroller of Public Accounts.

Total OPEB Liability—OPEBs are provided to the System's retirees under the UT System Employee Group Insurance Program (EGIP). The EGIP is a single-employer defined benefit OPEB plan. The System and member contribution rates are determined annually by the System based on the recommendations of the Office of Employee Benefits staff and consulting actuary. The contribution rates are determined based on the benefit and administrative costs expected to be incurred and (i) the funds appropriated and (ii) the funding policy established by the Texas Legislature in connection with benefits provided through the EGIP. The System revises benefits when necessary to match expected benefit and administrative costs with available revenue. The plan is operated on a pay-as-you-go basis. The OPEB plan described herein is not administered through a trust.

Asset Retirement Obligation—The liability related to anticipated clean-up and decommissioning costs of items using radiation, such as broadscope irradiator, gamma knife, and cyclotrons, is reported as asset retirement obligation. The liability is measured using best estimates of current values of outlays expected and amortized over the life of the related assets.

Excess Consideration Paid—The Center entered into an asset purchase agreement for all the assets, including nonexcluded working capital accounts, with PTC- Houston Management, LP (see Note 17). The related excess consideration paid is the difference between the consideration provided for the purchase of the assets and the market value of the assets and will be reported as a deferred outflow and amortized over 40 years through November 2059.

Statements of Revenues, Expenses, and Changes in Net Position—All revenues and expenses directly related to the delivery of health care services or research activities are included in operating revenues and expenses in the consolidated statements of revenues, expenses, and changes in net position. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or investment income. When an expense is incurred for purposes for which there are both restricted and unrestricted net positions available, it is the Center's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Capital Assets—Capital assets are recorded at cost at the date of acquisition or estimated fair value at the date of donation in the case of gifts. The Center follows the state's capitalization policy and capitalizes amounts with a cost equal to or greater than $5,000 for equipment items and $100,000 for buildings, building improvements, and improvements other than buildings, with an estimated useful life of greater than one year. Renovations to buildings and land improvements that increase the value by at least 25% or extend the useful life by at least 25% of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Outlays for construction in progress are capitalized as incurred. Interest expense related to construction is capitalized net of interest income earned on the resources at UT System that are reserved for this purpose (see Note 9). GASB Statement No. 89 discontinued the capitalization of interest costs during construction. The Texas State Comptroller's Office decided to early implement this standard in 2019.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 2 to 15 years for equipment items, 10 to 50 years for buildings and their components, and 3 to 7 years for internally developed software.

State Appropriations—The appropriation of tax revenues by the Texas Legislature ("Legislature") is in the form of general revenue. The Legislature meets every odd-numbered year and approves a two-year budget (biennial) for all state agencies. The general revenue appropriation to the Center supports the instruction, research, and patient care mission of the Center. Approximately, 95% of the Center's state appropriation is calculated based on formulas using space, research expenditures, student headcount, and the number of new cancer cases in Texas. The balance of the state appropriation supports patient care activities and unsponsored charity care to Texas residents. There is no assurance that the Legislature will continue its state appropriations to the Center in future years; however, the Center expects that the Legislature will continue to do so.

Uncompensated Care and Charity Care—The Center provides uncompensated care to patients who meet certain criteria. Uncompensated care includes the unreimbursed costs for the uninsured and the underinsured, as well as the unreimbursed costs from government-sponsored health programs. Generally, to calculate uncompensated care, charges are converted to costs and providers recognize appropriate patient-specific funding and lump-sum funding available to offset costs. Hospital charges are converted to cost by the application of the Medicare cost-to-charge ratio, as calculated in the most recent Medicare cost report. Since a standard cost report does not exist for physician charges, a proxy cost-to-charge ratio was developed through a process involving all Texas public academic medical centers and the State Auditor's Office. Uncompensated care costs amounted to $283,635,000 and $170,374,000 for the years ended August 31, 2019 and 2018, respectively.

GASB requires health-related institutions to report the cost of providing "charity care." The American Institute of Certified Public Accountants defines charity care as care for which hospitals never expected to be reimbursed. Charity care occurs when a patient applies to the hospital for financial assistance, and the hospital waives all or part of its charges, consistent with its internal charity care policy. The cost of charity care is calculated using the uncompensated care calculation methodology discussed above. Charity care costs amounted to $28,280,000 and $18,402,000 for the years ended August 31, 2019 and 2018, respectively.

Use of Estimates—The preparation of consolidated financial statements in conformity with 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. NET PATIENT SERVICE REVENUE AND NET PROFESSIONAL FEES

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

Medicare—Inpatient acute care services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology that is limited by a facility-specific amount per discharge. The final reimbursement also includes a calculation of an incentive or relief payment determined through a comparison of the facility's current-year cost to the facility-specific cost per discharge. Certain outpatient services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Effective August 1, 2000, the Medicare program implemented a prospective payment system for outpatient services. However, since the Center is designated as a cancer hospital, the Medicare program provides for a "hold harmless" payment that is equal to the difference between the prospectively determined amounts and the current-year adjusted cost (i.e., the current-year adjusted cost is determined through application of a payment-to-cost ratio, which is derived from a previous Medicare cost report, to the current-year actual cost). The Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Center and audits thereof by the Medicare fiscal intermediary. The Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through August 31, 2017.

Medicaid—Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement methodology. Certain outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Center and audits thereof by the Medicaid fiscal intermediary. The Center's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through August 31, 2017.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by $42,146,000 and $79,043,000 in 2019 and 2018, respectively, due to changes in estimates resulting from the addition of allowances or removal of allowances previously estimated that are no longer necessary as a result of final settlements; years that are no longer subject to audits, reviews, or investigations; revision of allowance estimates recorded in prior years relating to expected retroactive adjustments; and revisions based on updated information from the fiscal intermediary.

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

The Center recognized contractual and bad debt expense of $5,508,837,000 and $4,842,147,000 in 2019 and 2018, respectively, which is included as a deduction to derive net patient service revenue and net professional fees in the consolidated statements of revenues, expenses, and changes in net position.

3. DEPOSITS AND INVESTMENTS

Deposits of Cash in Bank—The carrying amount of deposits was $14,360,000 and $21,714,000 as of August 31, 2019 and 2018, respectively, as presented below (in thousands):

	2019	**2018**
Cash and cash equivalents	$921,944	$558,635
Less:		
Cash in state treasury	7,428	11,185
Cash equivalent investments in money market funds (STF)	900,028	525,621
Other	128	115
Total	$ 14,360	$ 21,714

As of August 31, 2019 and 2018, the total bank balance was $21,632,000 and $28,539,000, respectively.

In addition, the Center has also invested in UTIMCO's short-term fund (STF); these funds are invested in money market funds. At August 31, 2019 and 2018, the Center had $900,028,000 and $525,621,000, respectively, invested in the STF; these amounts are included in cash and cash equivalents.

Deposit Risks:

Custodial Credit Risk—Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Center will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Center maintains depository relationships with various banking institutions. The Center's policy is that all deposits are governed by a bank depository agreement between the Center and the respective banking institution. This agreement provides that the Center's deposits, to the extent such deposits exceed the maximum insured limit under deposit insurance provided by the Federal Deposit Insurance Corporation, shall at all times be collateralized with either government securities or a surety bond issued by an insurer rated "AAA" or its equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO) or a combination thereof.

As of August 31, 2018, UT System held deposits that were exposed to custodial credit risk due to unexpected inflows on August 31, 2018. As of August 31, 2018, the bank balances exposed to custodial risk as uninsured and uncollateralized deposits were $27,160,000. As of August 31, 2019, there were no bank balances exposed to custodial risk as uninsured and uncollateralized deposits.

Investments—Investments are reported at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between two market participants at the measurement date. GAAP provides a hierarchy that prioritizes the inputs of fair value measurements based on the extent to which inputs to valuation techniques are observable in the marketplace. The hierarchy assigns a higher priority to observable inputs that reflect verifiable information obtained from independent sources, and a lower priority to unobservable inputs that would reflect management's assumptions about how market participants would value an asset or liability based on the best information available. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the hierarchy of inputs used to measure fair value are as follows:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date

Level 2—Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3—Unobservable inputs

The Center's investments with readily available fair values are primarily valued on the basis of market valuations provided by independent pricing services.

GAAP permits management to fair value certain investments that do not have a readily determinable fair value using the investment's net asset value (NAV) per share or the Center's ownership interest in partners' capital as a practical expedient. Investments valued in this manner are not classified in the fair value hierarchy.

The Center also reports current assets of the Physicians Referral Service Supplemental (SRP)/Retirement Benefit Plan (RBP) (see Note 13) as Other Investments Not at Fair Value.

Investments Held by the Center—Investments not held by UT System are recorded in the consolidated balance sheets in noncurrent assets—restricted assets and assets held for others: (in thousands)

		Fair Value Hierarchy				
	2019	**Level 1**	**Level 2**	**Level 3**	**NAV**	**Other Investments Not at Fair Value**
Exchange traded and equity mutual funds (domestic and international)	$335,461	$335,461	$ -	$ -	$ -	$ -
Fixed-income money market and bond mutual funds	141,631	141,631				
Other commingled funds (hedge funds and real estate)	39,507				39,507	
Miscellaneous	843					843
Total	$517,442	$477,092	$ -	$ -	$39,507	$843

		Fair Value Hierarchy				
	2018	**Level 1**	**Level 2**	**Level 3**	**NAV**	**Other Investments Not at Fair Value**
Exchange traded and equity mutual funds (domestic and international)	$296,961	$296,961	$ -	$ -	$ -	$ -
Fixed-income money market and bond mutual funds	125,639	125,639				
Other commingled funds (hedge funds and real estate)	70,058				70,058	
Miscellaneous	3,336					3,336
Total	$495,994	$422,600	$ -	$ -	$70,058	$3,336

The fair value of exchange traded and equity mutual funds, including domestic and international stocks, are based on the closing price on the primary exchange on which they are traded (if a closing price is not available, the average of the last reported bid and ask price is used). When these securities are actively traded and valuation adjustments are not applied, they are categorized as Level 1.

Fixed-income money market and bond mutual funds consist primarily of money market investments and bond mutual funds. Investments in publicly listed money market funds are categorized as Level 1.

Other commingled funds (hedge funds and real estate) are valued using NAV, are redeemable monthly to quarterly, both within one year, with 30 to 180 days' notice, and beyond one year, with 60 to 90 days' notice.

Other Investments Held by UT System—The Center also has other investments held by UT System for the purpose of endowment, annuity, and life income funds. These separately invested assets totaled $10,672,000 and $354,995,000 at August 31, 2019 and 2018, respectively. These holdings are primarily invested in publicly listed money market funds categorized as Level 1 in the fair value hierarchy.

Investments Held in UTIMCO Funds—The Center has investments held by and under the management of UTIMCO. These investments are recorded at NAV.

- As of August 31, 2019 and 2018, investments held by UTIMCO in its ITF on behalf of the Center were $3,578,458,000 and $3,833,821,000, respectively. The ITF includes investments in fixed-income and equity securities in both domestic and international markets. In addition to traditional exchange-traded equity and fixed-income securities, the portfolio includes marketable alternative investments, hedge funds, and various other specialized public market investments. The Center's investments in the ITF are redeemable monthly. Redemption requests from the ITF should be initiated on or before the last business day of the month. ITF transactions will be effective on the first business day of the following month; however, proceeds from ITF redemptions may take up to five business days depending upon the liquidity available in the ITF. For ITF transactions greater than $25 million, at least three business days' notice is required.

- The Center holds investments in UTIMCO's LTF and PHF, which are invested in a combination of government and nongovernment securities, which include various fixed-income, and equity-type securities as well as alternative investments, such as hedge funds, private equity funds, and specialized public market investments. The Center's T. Boone Pickens Fund is invested primarily in LTF (see Note 19—T. Boone Pickens Contribution). The Center's total investments in the LTF and PHF as of August 31, 2019 and 2018, were $2,665,060,000 and $1,894,651,000, respectively. The LTF investments are redeemable quarterly. If the withdrawal is greater than $25 million, advance notice of 60 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than $25 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 5% of the LTF's NAV, the UT System Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the time frame to liquidate illiquid investments and the best interests of all LTF unit holders. The PHF investments are nonredeemable by the Center.

- As of August 31, 2019, Tech Stocks of $1 are categorized as Level 1 and $28,558,000 are categorized as Level 3. As of August 31, 2018, Tech Stock was included in the Center's investment held by UTIMCO. Tech Stocks of $521,000 were categorized as Level 1 and $21,251,000 were categorized as Level 3.

The audited consolidated financial statements of the funds managed by UTIMCO may be found on UTIMCO's website and inquiries may be directed to UTIMCO via www.utimco.org.

Investment Risks:

Credit Risk—Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a NRSRO. The Center's investment policy limits investments in US domestic bonds and non-dollar-denominated bond investments to those that are rated investment grade Baa3 or better by Moody's Investor Services, BBB or better by Standard & Poor's Corporation, or an equivalent rating by a NRSRO at the time of acquisition. This requirement does not apply to investment managers that are authorized by the terms of an investment advisory agreement to invest in below investment-grade bonds. The Center's credit quality distribution for investments with credit risk exposure as of August 31, 2019 and 2018, is as follows: (in thousands)

	2019					
	Moody's		Standard and Poor's		FITCH	
Investment Type	**Fair Value**	**Rating**	**Fair Value**	**Rating**	**Fair Value**	**Rating**
Fixed-income money market and bond mutual fund	$ 30,902	AAA	$ 30,902	Unrated	$ 30,902	AAA
	110,729	Unrated	110,729		110,729	Unrated
	$141,631		$141,631		$141,631	

	2018					
	Moody's		Standard and Poor's		FITCH	
Investment Type	**Fair Value**	**Rating**	**Fair Value**	**Rating**	**Fair Value**	**Rating**
Fixed-income money market and bond mutual fund	$ 21,694	AAA	$ 125,639	Unrated	$ 21,694	AAA
	103,945	Unrated			103,945	Unrated
	$125,639		$ 125,639		$125,639	

Custodial Credit Risk—The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Center will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the Center's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2019 and 2018, the Center does not have any investments that are exposed to custodial credit risk.

Concentrations of Credit Risk—The Center's investment policy statement contains the limitation that no more than 5% of the fair value of domestic fixed-income securities may be invested in corporate or municipal bonds of a single issuer. The Center does not hold any direct investments in any one issuer that represents 5% or more of total investments.

Interest Rate Risk—Interest rate risk is the risk that changes in market interest rates, which will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the Center is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the Center's investments to changes in interest rates. The Center has no specific policy statement limitations with respect to its overall modified duration.

Foreign Currency Risk—Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the Center's non-US dollar investments. There are no limitations on investments in non-US-denominated bonds or common stocks in relation to the Center's total fixed-income and developed-country equity exposures in the Center's investment policy statements.

4. UNCONDITIONAL PROMISES TO GIVE

Contributions and gifts received from donors resulting from nonexchange transactions are recorded as revenues when all the eligibility requirements are met. Restricted contributions are recorded as restricted net position if they are received with donor stipulations that limit the use or the timing of the donated asset.

Unconditional promises to give are recorded when the gift intent is made known in writing. A receivable is established and net position is increased by the time-discounted value of the promises. At August 31, 2019 and 2018, discount rates used ranged from 2.49% to 3.07% and 1.23% to 2.72%, respectively. Irrevocable trusts are recorded at the point of notification and are recorded as restricted expendable or restricted nonexpendable as determined by the trust instruments.

The Center estimates the year of receipt to the extent possible for unconditional promises. The anticipated present value of the contribution receivable as of August 31, 2019 and 2018, is as follows (in thousands):

	2019	**2018**
Due in one year	$ 2,253	$ 2,566
Due in two to five years	9,814	15,782
Due thereafter	1,150	1,850
Gross contributions receivable	13,217	20,198
Less present value discount of gross contributions	(1,141)	(1,731)
Less allowance for uncollectible contributions	(1,515)	(1,407)
Net contributions receivable	$10,561	$17,060

As of August 31, 2019 and 2018, the Center had received conditional promises to give and indications of intentions to give of approximately $55,203,000 and $83,789,000, respectively, in addition to the amounts recorded as contributions receivable. These amounts are not reflected in the accompanying consolidated financial statements.

5. ENDOWMENTS

The net position classifications in the consolidated balance sheets related to endowment funds as of August 31, 2019 and 2018, are as follows (in thousands):

Quasi-Endowments	**2019**	**2018**
Restricted—nonexpendable	$ 988,938	$ 968,802
Restricted—expendable:		
Net appreciation	299,639	307,928
Income	75,851	75,429
Funds functioning as endowments—unrestricted	41,221	41,220
Total	$1,405,649	$1,393,379

In the table above, amounts reported as "Net appreciation" represent net appreciation on investments of donor or constitutionally restricted endowments that are available for authorization for expenditure by the UT System Board of Regents. For donor-restricted endowments, pursuant to the Uniform Management of Institutional Funds Act, as adopted by the state of Texas, the UT System Board of Regents may distribute net appreciation, realized and unrealized, in the fair market value of the assets of endowment holdings over the historic dollar value of the gifts, to the extent prudent. UT System's policy is to retain all undistributed net realized and unrealized appreciation within the endowment funds. The Center's endowment distribution policy is further discussed below.

Endowments and Similar Funds—State—These endowments are composed of the PHF. A portion of the PHF was established for the benefit of the UT System's health-related institutions, as well as for the Texas A&M University Health Science Center, The University of North Texas Health Science Center at Fort Worth, The Texas Tech University Health Science Center, and Baylor College of Medicine.

The UT System Board of Regents manages certain permanent funds for health-related institutions of higher education as more fully described in Chapter 63 of the Texas Education Code. Certain funds created by this statute were transferred to The UT System Board of Regents on August 30, 1999, to be managed and invested in the same manner as the UT System Board of Regents manages and invests other endowment funds. The PHF as defined in the statute is classified as "Endowment and Similar Funds—State." These endowments provide support for programs that benefit medical research, health education, or treatment at health-related institutions. The UT System Board of Regents determines the amount of distributions to support the programs based on the PHF's investment policy.

The PHF's investment policy provides that the annual payout will be adjusted by the average Consumer Price Index of the previous 12 quarters. However, if this inflationary increase results in a distribution rate below 3.5%, the UTIMCO board may recommend an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 5.5%. If the distribution rate exceeds 5.5%, the board may recommend a reduction in the per-unit distribution amount. Notwithstanding any of the foregoing provisions, the UT System Board of Regents may approve a per-unit distribution amount that, in its judgment, would be more appropriate than the rate calculated by the policy provisions.

The general endowment fund (GEF), created on March 1, 2001, is a pooled fund established for the collective investment of LTFs under the control and management of the UT System Board of Regents. The GEF is organized as a pooled investment and has two participants, the PHF and the LTF. The PHF and LTF initially purchased units of the GEF on March 1, 2001, in exchange for the contribution of their investment assets. The GEF provides for greater diversification of investments than would be possible if each account were managed separately. As provided in the LTF investment policy, distributions from the LTF are determined in the same manner as the PHF described above.

Endowment and Similar Funds—**Other Than State**—These endowments are composed of funds, subject to restrictions of endowment and trust instruments, requiring that the principal be maintained and that only the income be utilized. Funds may include endowments, term endowments, and funds functioning as endowments. Funds functioning as endowments consist of amounts that have been internally dedicated by the Center for long-term investment purposes. Funds with external donor restrictions are classified as funds functioning as endowments—restricted. If no external restriction exists, the funds are classified as funds functioning as endowments—unrestricted. Endowment and term endowment holdings may be invested in the LTF, or may be separately invested based upon the following three factors: (i) there are investment restrictions incorporated into the trust or endowment document, (ii) the inability to sell the gifted investment asset, or (iii) the funds are holdings being migrated upon liquidation into the LTF. Distributions are based upon the actual income received from the separately invested holdings.

Annuity and Life Income Funds—The annuity funds consist of funds donated to an institution on the condition that the institution pays a stipulated amount of the funds to the donor or designated individual for a specified time or until the time of death of the annuitant. The life income funds consist of funds contributed to an institution subject to the requirement that the institution periodically pays the income earned on the assets, less management expenses, to designated beneficiaries. At August 31, 2019 and 2018, accounts payable to beneficiaries approximated $3,762,000 and $3,807,000, respectively.

6. CAPITAL ASSETS

The Center's capital assets as of August 31, 2019, are as follows (in thousands):

	Balance— August 31, 2018	Additions	Dispositions	Balance— August 31, 2019
Land	$ 223,703	$ -	$ -	$ 223,703
Buildings and other improvements	4,045,711	365,938		4,411,649
Equipment	1,694,281	240,721	(65,608)	1,869,394
Nondepreciable collections	2,147			2,147
Construction in progress	289,281	172,928	(313,248)	148,961
	6,255,123	779,587	(378,856)	6,655,854
Less accumulated depreciation for:				
Buildings and other improvements	(2,291,376)	(190,128)		(2,481,504)
Equipment	(1,187,987)	(170,227)	63,852	(1,294,362)
Total accumulated depreciation	(3,479,363)	(360,355)	63,852	(3,775,866)
Total capital assets—net	$ 2,775,760	$ 419,232	$(315,004)	$ 2,879,988

The Center's capital assets as of August 31, 2018, are as follows (in thousands):

	Balance— August 31, 2017	Additions	Dispositions	Balance— August 31, 2018
Land	$ 223,703	$ -	$ -	$ 223,703
Buildings and other improvements	4,016,595	29,975	(859)	4,045,711
Equipment	1,564,996	161,887	(32,602)	1,694,281
Nondepreciable collections	2,147			2,147
Construction in progress	105,905	228,992	(45,617)	289,281
	5,913,346	420,854	(79,078)	6,255,123
Less accumulated depreciation for:				
Buildings and other improvements	(2,099,567)	(192,618)	809	(2,291,376)
Equipment	(1,043,357)	(172,616)	27,986	(1,187,987)
Total accumulated depreciation	(3,142,924)	(365,234)	28,795	(3,479,364)
Total capital assets—net	$ 2,770,422	$ 55,620	$ (50,283)	$ 2,775,759

GASB Statement No. 83 requires the disclosure of ARO resulting from Texas Administrative Code, Title 25, Part 1, Chapter 289. Subchapter F, Rule 289.252, Licensing of Radioactive Material. The liabilities were measured using best estimates of current values of outlays expected. The Texas Administrative Code, Title 25, Part 1, Chapter 289. Subchapter F, Rule 289.252 (gg)(6)(D), exempts State licenses from providing financial assurances and no assets have been restricted for payment of the liability.

The Asset Retirement Obligation for the year ended August 31, 2019, is presented below:

The Asset Retirement Obligation for the year ended August 31, 2019, is presented below:

Asset Retirement Obligation	Amount	Life
Broadscope and Irradiator	$ 4,328	0 months, 36 months
Cyclotron	8,998	0 months
Gamma Knife	2,016	0 months
Proton Therapy	1,290	12 months
Total	$ 16,632	

The Asset Retirement Obligation for the year ended August 31, 2018, is presented below:

Asset Retirement Obligation	Amount	Life
Broadscope and Irradiator	$ 2,249	0 months
Cyclotron	8,998	0 months
Gamma Knife	2,539	0 months
Proton Therapy	1,290	24 months
Total	$ 15,076	

7. RISK FINANCING AND RELATED INSURANCE

UT System has eight funded self-insurance plans providing coverage in the following areas: employee health and dental insurance, unemployment compensation insurance, workers' compensation insurance, professional medical liability benefit plan, comprehensive property protection program, and directors and officers/employment practices liability self-insurance plan. The Center is covered under these individual insurance plans; the related liability is recorded at UT System level. The Center disperses funds to UT System for payment of their pro rata share of costs related to these insurance programs.

Employee Health and Dental Insurance—The UT System Employee Benefits program provides health insurance, dental insurance, vision insurance, life insurance, accidental death and dismemberment, long-term disability, short-term disability, long-term care, and flexible spending account coverage to all benefits-eligible employees and retirees of the UT System and its 14 institutions. These insurance benefits are provided through both self-funded and fully insured arrangements. A portion of UT System's cost of providing group health and basic life insurance coverage is paid by the state as specified in the General Appropriations Act. The UT System's Office of Employee Benefits (OEB) is responsible for the overall administration of the insurance plans. OEB was established by Chapter 1601 of the Texas Insurance Code and complies with state laws and statues pertinent to employee benefits for the UT System.

Unemployment Compensation Insurance—The General Appropriations Act requires the UT System to reimburse the Texas Workforce Commission for 50% of the unemployment benefits paid to qualified former employees paid from general revenue funds and 100% of the unemployment benefits paid from local funds.

Workers' Compensation Insurance—The University of Texas System Workers' Compensation Insurance program provides coverage to all employees of the UT System and its 14 institutions. Under the oversight of the UT System's Office of Risk Management, the UT System self-insures and administers the program through the use of a third-party administrator. The coverage provides income and medical benefits to all employees who have sustained job-related injuries or occupational diseases. The program's statutory authority is embodied in Chapter 503 of the Texas Labor Code.

Professional Medical Liability Benefit Plan—The coverage provided under the Professional Medical Liability Benefit Plan ("Plan") is on an occurrence basis; thus, a participant is covered by the Plan for claims and lawsuits relating to events that occurred while enrolled in the Plan, including those filed after the participant has left the System's employment or training. The Plan covers all of the UT System staff physicians, dentists, residents, fellows, and medical students who have been enrolled. The limits of liability of the Plan include an annual policy aggregate of $30 million, an annual aggregate of $1.5 million for each staff physician ($500,000 per claim), an annual aggregate of $300,000 for each resident or fellow ($100,000 per claim), and a $75,000 annual aggregate for each medical student ($25,000 per claim). Additional coverage is available outside of Texas and for approved international activities. Liability is limited to $2 million per claim, regardless of the number of claimants or plan participants involved in an accident.

The limits of liability are prescribed by law as $100,000 per health care liability claim per physician determined to be a public servant. UT System institutions are covered under the Plan for actions that could have been brought against an individual plan participant. The liability of a UT System institution is limited by law to $250,000 per claimant and $500,000 per occurrence for bodily injury or death.

Comprehensive Property Protection Program—The Comprehensive Property Protection Plan uses a combination of interim financing and commercial insurance to provide Fire and All Other Perils ("Fire and AOP") coverage, as well as coverage for Named Windstorm and Flood ("Wind and Flood"). All coverage is subject to the terms, exclusions, limits, and conditions of the Insurance Policies. The Fire and AOP program provides a $1.3 billion per occurrence limit for most perils, with sublimits that do apply. The System participates in a seven percent (7%) quota share of the $75 million layer excess of the $25 million layer of commercial insurance coverage. Deductibles for Fire and AOP are $5 million per occurrence with a $15 million annual aggregate limit. The commercial insurance coverage for Named Windstorm and resulting perils provides a $250 million per occurrence limit with the System participating in a seven percent (7%) quota share of the $75 million layer excess of the $25 million layer. Deductibles for Wind and Flood are $50 million per occurrence for M. D. Anderson (locations in Texas Medical Center Only). Named Windstorm coverage is provided for other locations with a lower deductible.

In addition, primary policies are purchased on certain flood and wind exposed properties. These policies provide underlying limits (up to $4.4 million per building/contents for wind and $1 million maximum building/contents for flood) and are purchased through the Texas Windstorm Insurance Association and the National Flood Insurance Program for facilities in Tier 1 seacoast territories and for properties located in various flood zones. The interim financing component of the program participates in losses resulting from physical damage that exceeds the coverage available under these primary policies and the institution's deductible. The interim financing for the Wind and Flood program is funded by annual contributions made by each institution in addition to the payment of insurance premiums.

Directors and Officers/Employment Practices Liability Self-Insurance Plan—The Directors and Officers Liability and Employment Practices Liability (EPL) Self-Insurance Plan (the "Plan") provides coverage for claims arising from actual or alleged wrongful acts performed by the plan beneficiaries. The Plan also provides coverage for EPL claims, such as wrongful termination, failure to promote, and wrongful discipline.

Coverage applies to individual board members, employees, faculty, etc., as well as to the UT System itself. The limit of liability is a $15 million annual aggregate (Coverages A, B, and C combined), except for $5 million annual aggregate sublimit for Coverage C. Coverage A applies to nonindemnifiable claims made against individuals and it has no deductible. Coverage B applies to a UT System institution that is required to indemnify a covered individual with deductibles of $100,000 per individual and $300,000 per occurrence. Coverage C applies to a UT System institution and related entities with a $300,000 deductible. An excess coverage commercial insurance policy provides $10 million limit of liability in excess of a $5 million aggregate retention, which is satisfied by payment of losses under the Plan.

The Cyber Liability Program—The Cyber Liability Program that was incepted on September 15, 2015, provides coverage for claims arising from the following causes of loss: media liability, network security liability, privacy liability, regulatory liability, loss of digital assets, network asset protection, and Payment Card Industry Data Security Standard (PCI-DSS). The limit of liability on the commercial insurance policy is a $50 million annual aggregate, except for $25 million annual aggregate sublimit for PCI-DSS coverage. Each coverage is subject to a $2.5 million retention.

Rolling Owner Controlled Insurance Program—The Rolling Owner Controlled Insurance Program was established for the centralized purchase of construction contractor insurance on various capital projects. This program provides workers' compensation and general liability insurance coverage for all contractors enrolled on projects participating in the program. Each coverage carries a $250,000 per occurrence deductible with a maximum $375,000 per occurrence cash deductible, if both a workers' compensation and general liability claim are triggered by the same occurrence. Deductibles are paid through the program's self-insurance fund.

Automobile, Property & Liability Plan—The Automobile, Property & Liability Plan provides automobile liability and physical damage coverage for owned, leased, hired, and nonowned (excess liability only) vehicles, along with general liability coverage for certain scheduled exposures. All coverages are subject to a self-insured retention of $50,000 for liability claims and $25,000 for physical damage claims, subject to an aggregate stop-loss deductible per policy term.

8. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits (see Note 13), the Center provides certain health, dental, and, in some instances, life insurance benefits for retired employees, in accordance with state statutes. Substantially, all of the Center's employees may become eligible for the health, dental, and life insurance benefits if they reach normal retirement age while working for the state. Currently, there are 4,982 Center retirees who are eligible for these benefits. Similar benefits for active employees are provided through self-insurance plans and health maintenance organizations. Depending upon the status of the employee at the time of retirement, the Center recognizes the cost of providing these benefits by expensing the annual insurance premiums. For the years ended August 31, 2019 and 2018, the contribution or the premium by the Center for eligible retirees was approximately $38,644,000 and $36,443,000, respectively. This payment covered all of the "retiree-only" premiums and a portion of the premiums for those retirees selecting dependent coverage. The retirees were required to pay a portion of the cost of dependent coverage. The Center disperses funds to UT System for payment of its pro rata share of costs related to these postretirement benefits.

9. DEBT SERVICES

Short-Term Debt—The Center receives proceeds from commercial paper and other short-term debt issued and held by UT System to provide interim financing for capital improvements and to finance equipment purchases. These proceeds are evidenced through internal loan agreements and are recorded as transfers from UT System. The Center disburses funds to UT System for payments of principal and interest related to the Center's internal loans. These disbursements are recorded as transfers to the UT System.

At August 31, 2019 and 2018, UT System had outstanding Revenue Financing Systems commercial paper notes payable of $800,522,000 and $730,868,000, respectively. No amount of indebtedness related to these commercial paper notes has been recorded in the Center's financial statements, as the UT System is the party directly liable for these commercial paper notes. At August 31, 2019 and 2018, however, the Center's remaining unpaid share of short-term internal loans was $214,080,000 and $180,232,000, respectively.

Long-Term Debt Service Requirements—The Center receives proceeds from revenue bonds issued and held by UT System to support capital projects of UT System and its consolidated entities and blended component units. These proceeds are evidenced through internal loan agreements and are recorded as transfers in from UT System. The Center disburses funds to UT System for payments of principal and interest related to the Center's internal loans. These disbursements are recorded as transfers out to UT System.

At August 31, 2019 and 2018, UT System had outstanding bonds payable of $6,424,415,000 and $8,952,160,000, respectively. All bonds issued by UT System are defined as revenue bonds. As such, the revenues of all UT System consolidated entities and blended component units, including the Center, are pledged for repayment of the bonds.

No amount of indebtedness related to these bonds has been recorded in the Center's consolidated financial statements, as the UT System is the party directly liable for these bonds. At August 31, 2019 and 2018, however, the Center's remaining unpaid share of long-term internal loans was $762,551,000 and $793,238,000, respectively. Such amount is expected to be transferred to UT System as of August 31 as follows (in thousands):

Years Ending August 31	**Principal**	**Interest**	**Total**
2020	$ 42,104	$ 31,924	$ 74,028
2021–2025	227,769	130,295	358,064
2026–2030	184,648	80,809	265,457
2031–2035	140,243	47,744	187,987
2036–2040	112,921	23,846	136,767
2041–2045	43,462	5,091	48,553
2046–2050	11,404	993	12,397
Total	$762,551	$320,702	$1,083,253

Interest rates on the Center's remaining unpaid pro rata share of bond proceeds range from 5.00% to 5.13%. At August 31, 2019 and 2018, the Center incurred $36,446,000 and $35,728,000, respectively, of interest expense on long-term and short-term internal loans held by UT System. A summary of interest cost for the Center on borrowed funds held by UT System for the years ended August 31, 2019 and 2018, is as follows (in thousands):

	2019	**2018**
Interest cost:		
Capitalized	$ -	$ 4,095
Expense	36,446	31,633
Total	$36,446	$35,728

10. COMPENSATED ABSENCES

Noneducational, benefits-eligible employees participate in the paid time-off (PTO) program. PTO is a system of pooling and managing employee leave time and has consolidated the traditional, separate leave for vacation, sick, and holiday time into one "bank" of time. Under the PTO program, employees will earn annual leave from 11 to 27 hours per month depending upon the employees' years of state employment. PTO hours are payable at termination if the employees have met the leave eligibility date. PTO balances carry over into the next fiscal year with a maximum cap of 150% of the annual PTO accrual rate. Any excess PTO hours roll into an employee's extended illness bank (EIB). EIB provides employees with illness income protection when the employee or his/her immediate family member is ill or injured. In most cases, employees are required to use 16 hours of PTO before accessing their EIB hours. Employees accrue EIB based on their years of total state service as of September 1 of each fiscal year and range from 24 to 32 hours annually. EIB hours are not capped and carry over to the next fiscal year. Accumulated extended illness leave is not reimbursed at termination of employment except in the case of an active employee's death. In case of an employee's death while actively employed, the employee's estate will be paid 50% of the employee's EIB balance, not to exceed a maximum of 336 hours, provided the employee has at least six months of service: (in thousands)

	Balance—August 31, 2018	Additions	Reductions	Balance—August 31, 2019	Current Portion
Compensated absences	$180,239	$209,962	$(191,235)	$198,966	$183,425

	Balance—August 31, 2017	Additions	Reductions	Balance—August 31, 2018	Current Portion
Compensated absences	$174,860	$183,205	$(177,826)	$180,239	$175,970

11. COMMITMENTS AND CONTINGENCIES

Pending Lawsuits and Claims—The Center is involved in litigation and regulatory investigations arising in the ordinary course of business. After consultation with legal counsel, management believes that these matters will be resolved without material adverse effect on the Center's financial position, results from operations, or cash flows.

Commitments for Construction—At August 31, 2019 and 2018, the remaining commitment on construction contracts for expansion and remodeling of the Center's facilities is approximately $164,846,000 and $194,954,000, respectively.

Laws and Regulations—The Center is subject to laws and regulations governing the Medicare and Medicaid programs and certain other third-party programs that are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates of third-party settlements will change by a material amount in the near term. The Center's intent is to be in compliance with all applicable laws and regulations and it is not aware of any significant pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future review and interpretation. Changes in the Medicare and Medicaid programs and a reduction of funding could have an adverse effect on the Center.

12. OPERATING LEASE OBLIGATIONS

The Center entered into various operating leases for buildings and equipment. Rental expenses for operating leases were $40,316,000 and $43,441,000 in 2019 and 2018, respectively. Future minimum lease rental payments under noncancelable operating leases having an initial term in excess of one year as of August 31, 2019, were as follows (in thousands):

Years Ending August 31	
2020	$ 30,819
2021	25,122
2022	16,575
2023	11,856
2024	5,935
2025–2029	24,079
Total minimum future payments	$114,386

13. EMPLOYEES' RETIREMENT PLANS

TRS—The state of Texas has joint contributory retirement plans for substantially all of its employees. One of the primary plans in which the Center participates is a cost-sharing multiemployer public employee retirement system administered by the TRS. TRS is primarily funded through state and employee contributions. Depending upon the source of funding for a participant's salary, UT System may be required to make contributions in lieu of the state.

All Center personnel employed in a position on a half-time or greater basis for at least 4 ½ months or more are eligible for membership in the TRS retirement plan. However, students employed in positions that require student status as a condition of employment do not participate. Members with at least five years of service have a vested right to unreduced retirement benefits at age 65 or provided they have a combination of age plus years of service, which equals 80 or more. However, members who began TRS participation on or after September 1, 2007, must be age 60 to retire with unreduced benefits and members who are not vested in TRS on August 31, 2014, must be age 62 to retire with unreduced benefits under the second option. Members are fully vested after five years of service and are entitled to any reduced benefits for which the eligibility requirements have been met prior to meeting the eligibility requirements for unreduced benefits.

The TRS plan provides retirement, disability annuities, and death and survivor benefits. The benefit and contribution provisions of the TRS plan are authorized by state law and may be amended by the Legislature. The pension benefit formulas are based on members' average annual compensation and years of service credit. The standard annuity is 2.3% of the average of the five highest annual salaries multiplied by years of service credit. For grandfathered members who were hired on or before August 31, 2005, and meet certain criteria, the standard annuity is based on the average of the three highest annual salaries. The plan does not provide automatic cost of living adjustments.

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Contributions by employees were 7.7 percent of gross earnings for 2019, 2018, and 2017. Depending upon the source of funding for the employee's compensation, the State or the Center contributes a percentage of participant salaries totaling 6.8 percent of annual compensation for 2019, 2018, and 2017. Participants' contributions for the years ended August 31, 2019 and 2018, were $112,750,000 and $103,466,000, respectively. The Center's contributions for the years ended August 31, 2019 and 2018, were $100,064,000 and $91,373,000, respectively.

The total pension liability is determined by an annual actuarial valuation. The tables below present the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2018 and 2017, measurement dates.

Summary of Actuarial Methods and Assumptions *—TRS Plan	
Actuarial Valuation Date	August 31, 2017, rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Floating
Asset Valuation Method	Market Value

Summary of Actuarial Methods and Assumptions *—TRS Plan	
Actuarial Assumptions:	
Discount Rate	6.907%
Investment Rate of Return	8.00%
Long-Term Expected Rate of Return	7.25%
Municipal Bond Rate as of August 2018	3.69%**
Inflation	2.30%
Salary Increase	3.05% to 9.05% including inflation
Payroll Growth Rate	2.50%
Mortality:	
Active	90% of the RP 2014 Employee Mortality Tables for males and females with full generational mortality using Scale BB
Post-Retirement	2018 TRS Healthy Pensioner Mortality Tables with full generation projection using Scale BB
Ad Hoc Post-Employment Benefit Changes	None

Summary of Actuarial Methods and Assumptions—TRS Plan	
Actuarial Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Floating
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	8.00%
Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increase	3.50% to 9.50% including inflation
Payroll Growth Rate	2.50%
Mortality:	
Active	90% of the RP 2014 Employee Mortality Tables for males and females
Post-Retirement	2015 TRS Healthy Pensioner Mortality Tables
Ad Hoc Post-Employment Benefit Changes	None

Notes:

* The assumptions used to determine the ADC are those in effect for the August 31, 2017, actuarial valuation. Due to the lag between valuation data and the measurement date, they may not be the same assumptions used to measure the net pension liability.

** Source for the rate is Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."

The actuarial assumptions used in valuation were primarily based on the result of an actuarial experience study for the three-year period ending August 31, 2017, and adopted July 2018. The mortality rates were based on 90% of the RP 2014 employee Mortality

Tables for males and females. The post-retirement mortality rates were based on the 2018 TRS Healthy Pensioner Mortality Tables.

Furthermore, assumptions, methods, and plan changes were updated from the prior year's report. The net pension liability increased significantly since the prior measurement date due to a change in the following assumptions:

- The total pension liability as of August 31, 2018, was developed using a roll forward method from the August 31, 2017, valuation;

- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement was updated based on the experience study performed for TRS for the period ending August 31, 2017;

- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study;

- The discount rate changed from 8.000% as of August 31, 2017, to 6.907% as of August 31, 2018;

- The long term assumed rate of return changed from 8.00% as of August 31, 2017, to 7.25% as of August 31, 2018; and

- The change in the long term assumed rate of return combined with the change in the discount rate was the primary reason for the increase in the net pension liability.

There have been no changes to the benefit provisions of the plan since the prior measurement date.

The discount rate of 6.907% was applied to measure the total pension liability. The discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.69%. The projected cash flows into and out of the pension plan assumed that active members, employers, and nonemployer contributing entity make their contributions at the statutorily required rates. It is assumed that future employer and State contributions will be 7.76% of payroll. This includes a factor for the rehired retirees and the nonold age, survivor, and disability insurance surcharge. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date.

The long-term expected rate of return on plan investments was developed using a building-block method, in which best estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the plan's investment portfolio as of the August 31, 2018, measurement date are presented below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Global Equity		
U.S.	18%	5.7%
Non-U.S. Developed	13%	6.9%
Emerging Markets	9%	8.95%
Directional Hedge Funds	4%	3.53%
Private Equity	13%	10.18%
Stable Value		
U.S. Treasury	11%	1.11%
Absolute Return	0%	0.00%
Stable Value Hedge Funds	4%	3.09%
Cash	1%	(0.30)%
Real Return		
Global Inflation Linked Bonds	3%	0.70%
Real Assets	14%	5.21%
Energy and Natural Resources	5%	7.48%
Commodities	0%	0.00%
Risk Parity		
Risk Parity	5%	3.70%
Total	100%	

The target allocation and best estimates of geometric real rates of return for each major asset class for the plan's investment portfolio as of the August 31, 2017, measurement date are presented below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Global Equity		
U.S.	18%	4.6%
Non-U.S. Developed	13%	5.1%
Emerging Markets	9%	5.9%

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Global Equity		
Directional Hedge Funds	4%	3.2%
Private Equity	13%	7.0%
Stable Value		
U.S. Treasury	11%	0.7%
Absolute Return	0%	1.8%
Stable Value Hedge Funds	4%	3.0%
Cash	1%	(0.2)%
Real Return		
Global Inflation Linked Bonds	3%	0.9%
Real Assets	16%	5.1%
Energy and Natural Resources	3%	6.6%
Commodities	0%	1.2%
Risk Parity		
Risk Parity	5%	6.7%
Total	100%	

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of the Center's net pension liability. The result of the analysis is presented in the table below:

Sensitivity of Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate 2019

1% Decrease (5.907)%	Current Discount Rate (6.907)%	1% Increase (7.907)%
$2,167,006,000	$1,435,826,000	$843,893,000

Sensitivity of Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate 2018

1% Decrease (7)%	Current Discount Rate (8)%	1% Increase (9)%
$1,442,310,000	$855,563,000	$367,001,000

The pension plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by TRS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Fair value is a market-based measurement, not an entity-specific measurement. TRS utilizes one or more of the following valuation techniques in order to measure fair value: the market approach, the cost approach, and the income approach. More detailed information on the plan's investment policy, assets, and fiduciary net position, may be obtained from TRS' fiscal 2018 Comprehensive Annual Financial Report. Further information regarding actuarial assumptions and conclusions, together with audited financial statements are included in the TRS' annual financial report, which may be obtained from the Teacher Retirement System of Texas, 1000 Red River Street, Austin, TX 78701 or found on the TRS website at www.trs.state.tx.us.

At August 31, 2019 and 2018, the Center reported a liability of $1,435,826,000 and $855,563,000, respectively, for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of August 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Center's proportion at August 31, 2018 and 2017, was 2.61% and 2.68%, respectively. The Center's proportion of the collective net pension liability was based on its contributions to the pension plan relative to the contributions of all the employers and nonemployer contributing entity to the plan for the period September 1, 2017, through August 31, 2018. At August 31, 2019 and 2018, the amount of the net pension liability related to the Center reported by the state was $395,640,000 and $288,930,000, respectively. The amount reported by the state is related to the on-behalf contributions, which are recognized as state appropriation general revenue on the Center's financial statements in the fiscal year that the state contributed the amounts to TRS on the Center's behalf.

For the years ended August 31, 2019 and 2018, the Center recognized pension expense of $143,876,000 and $68,435,000, respectively. At August 31, 2019, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
	(In thousands)	
Difference between expected and actual experience	$ 8,950	$ 35,229
Changes of assumptions	517,684	16,178
Net difference between projected and actual investment return		27,244
Change in proportion and contribution difference	12,354	91,388
Contributions subsequent to the measurement date	95,828	
Total	$634,816	$170,039

	2018	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
	(In thousands)	
Difference between expected and actual experience	$ 12,517	$ 46,139
Changes of assumptions	38,972	22,311
Net difference between projected and actual investment return		62,352
Change in proportion and contribution difference	15,629	91,630
Contributions subsequent to the measurement date	87,874	
Total	$154,992	$222,432

The $95,828,000 and $87,874,000 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the years ended August 31, 2019 and 2018, respectively.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in the following years (in thousands):

Fiscal Years	
2020	$ 93,729
2021	36,396
2022	25,170
2023	81,540
2024	77,684
Thereafter	54,430
Total	$368,949

Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health and life insurance benefits for retired employees (OPEB), in accordance with State statutes. Many employees may become eligible for the health and life insurance benefits as a retired employee if they meet certain age and service requirements as defined by the State. Similar benefits for active employees are provided through the same self-funded plan. For the years ended August 31, 2019 and 2018, the State and retiree contribution rates for the self-funded plan per full-time retired employee are shown in the following table. The retiree contributes any premium charged over and above the State contributions.

	2019		2018	
Level of Coverage	**Employer**	**Retiree**	**Employer**	**Retiree**
Retiree only	$ 598.14	$ -	$ 598.14	$ -
Retiree/spouse	911.69	257.53	911.69	257.53
Retiree/children	798.76	269.34	798.76	269.34
Retiree/family	1,114.18	507.15	1,114.18	507.15

Plan Description and Funding Policy

OPEB are provided to the System's retirees under the UT System EGIP. The EGIP is a single-employer defined benefit OPEB plan; however, due to the State statute requiring appropriations for funding the plan, the State is reporting a proportionate share. The benefits provided are discussed in Note 8.

OPEB are provided to the System's retirees under the UT System EGIP. The EGIP is a single-employer defined benefit OPEB plan; however, due to the State statute requiring appropriations for funding the plan, the State is reporting a proportionate share. Chapter 1551 of the Texas Insurance Code, Sections 310 and 311, require that the State contribute to the cost of each participant's insurance coverage. The funds are appropriated under the General Appropriations Act Higher Education Employees Group Insurance (HEGI) Contributions. The State's proportion was 20.82 and 22.83 percent of the collective OPEB-related liabilities, deferred outflows and inflows, and expense based on HEGI contributions by the State to total contributions as of August 31, 2019 and 2018. The Center's proportion as of December 31, 2018 and 2017, valuation dates was 19.39 percent and 19.48 percent, respectively. At August 31, 2019 and 2018, the amount of the total OPEB liability related to the Center reported by the State was $2,249,698,000 and $2,705,132,000, respectively. The amount reported by the State is related to the premium-sharing contributions, which are recognized as State appropriation general revenue on the System's financial statements in the fiscal year that the State contributed the amounts for OPEB on the System's behalf.

The System and member contribution rates are determined annually by the System based on the recommendations of the OPEB staff and consulting actuary. The contribution rates are determined based on the benefit and administrative costs expected to be incurred and (i) the funds appropriated and (ii) the funding policy established by the Texas Legislature in connection with benefits provided through the EGIP. The System revises benefits when necessary to match expected benefit and administrative costs with available revenue. The plan is operated on a pay-as-you-go basis and no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Employees Covered by Benefit Terms

The benefits provided are discussed in Note 8. The authority under which the obligations of the plan members and the System are established and may be amended in Chapter 1601 of the Texas Insurance Code. At the respective valuation dates, the following System employees were covered by the benefit terms:

	Valuation Date	
	December 31, 2017	December 31, 2016
a. Inactive employees or beneficiaries currently receiving benefit payments	27,597	25,324
b. Inactive employees entitled to but not yet receiving benefit payments	12,311	11,383
c. Active employees	90,605	87,265
d. Total	130,513	123,972

Total OPEB Liability

The System has elected to use a measurement date that is eight months in advance of the fiscal year end. The Center's proportionate share of the total OPEB liability of $2,535,548,000 includes a current portion of $56,459,000 and a noncurrent portion of $2,479,089,000, reported for the fiscal year ended August 31, 2019, was measured as of December 31, 2018, and was determined by an actuarial valuation as of December 31, 2017, and rolled forward 12 months to December 31, 2018. The Center's total OPEB liability of $2,705,132,000 includes a current portion of $51,127,000 and a noncurrent portion of $2,654,005,000 reported for the fiscal year ended August 31, 2018, was measured as of December 31, 2017, and was determined by an actuarial valuation as of that same date.

Actuarial Assumptions and Other Inputs

The total OPEB liability as of December 31, 2018 and 2017, was determined by an actuarial valuation as of December 31, 2017, and rolled forward 12 months to December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation 2.50%

Salary increases 3.50% to 9.50% (includes inflation)

Discount rate 4.10% for December 31, 2018, and 3.44% for December 31, 2017

Health care cost trend rates 7.00% for FY19, 8.00% for FY20, then decreasing 0.50% per year to an ultimate rate of 4.50% for FY27 and later years

Mortality:

a. Service Retirees, Survivors, and Other Inactive Members:

Tables based on TRS experience with full generational projection using Scale BB from base year 2014.

b. Disability Retirees:

Tables based on TRS experience with full generational projection using Scale BB from base year 2014 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members.

c. Active Members:

Sex Distinct RP-2014 Employee Mortality multiplied by 90% with full generational projection using Scale BB.

Discount Rate

a. For fiscal year ended August 31, 2019: The discount rate used to measure the total OPEB liability as of December 31, 2018, was 4.10%. The discount rate used to determine the total OPEB liability as of December 31, 2017, was 3.44%.

b. For fiscal year ended August 31, 2018: The discount rate used to measure the total OPEB liability as of December 31, 2017, was 3.44%. The discount rate used to measure the total OPEB liability as of December 31, 2016, was 3.78%.

c. Municipal Bond Rate: 4.10% as of December 31, 2018, 3.44% as of December 31, 2017, and 3.78% as of December 31, 2016; the source of the municipal bond rate is the Bond Buyer Index of general obligation bonds, with 20 years to maturity and mixed credit quality. In describing their index, the Bond Buyer notes that the bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

Many of the actuarial assumptions used in this valuation were based on the results of an actuarial experience study performed by the TRS retirement plan actuary for the period September 1, 2010, to August 31, 2014.

The following assumptions or other inputs were changed since the previous measurement date:

The discount rate was changed as a result of requirements by GAAP to utilize the yield or index rate as of the measurement date for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher.

As of the measurement date of December 31, 2018, no changes in benefit and eligibility provisions have occurred. Accordingly, the benefit and eligibility provisions used in this valuation have not been changed since the prior valuation.

Sensitivity of the Center's Proportionate Share of the Total OPEB Liability to Changes in the Discount Rate

	1% Decrease (3.1%)	**FY19 Discount Rate (4.1%)**	**1% Increase (5.1%)**
Total OPEB liability	$ 3,076,669,000	$ 2,535,548,000	$ 2,125,767,000

	1% Decrease (2.44%)	FY18 Discount Rate (3.44%)	1% Increase (4.44%)
Total OPEB liability	$3,328,208,000	$2,705,132,000	$2,240,849,000

Sensitivity of the Center's Proportionate Share of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

	1% Decrease	FY19 Healthcare Cost Trend Rates	1% Increase
Total OPEB liability	$2,107,164,000	$2,535,548,000	$3,104,600,000

	1% Decrease	FY18 Healthcare Cost Trend Rates	1% Increase
Total OPEB liability	$2,249,698,000	$2,705,132,000	$3,312,902,000

Health Care Cost Trend Rates used for FY19 and -1%/+1% sensitivities are shown below:

Fiscal Year	1% Decrease	FY19 Healthcare Cost Trend Rates	1% Increase
2020	7.00 %	8.00 %	9.00 %
2021	6.50	7.50	8.50
2022	6.00	7.00	8.00
2023	5.50	6.50	7.50
2024	5.00	6.00	7.00
2025	4.50	5.50	6.50
2026	4.00	5.00	6.00
2027	3.50	4.50	5.50
2028 and beyond			

Healthcare Cost Trend Rates used for FY18 and -1%/+1% sensitivities are shown below:

Fiscal Year	1% Decrease	FY18 Healthcare Cost Trend Rates	1% Increase
2019	6.00 %	7.00 %	8.00 %
2020	7.00	8.00	9.00
2021	6.50	7.50	8.50
2022	6.00	7.00	8.00
2023	5.50	6.50	7.50
2024	5.00	6.00	7.00
2025	4.50	5.50	6.50
2026	4.00	5.00	6.00
2027 and beyond	3.50	4.50	5.50

Changes in THE SYSTEM'S PROPORTIONATE SHARE OF the Total OPEB Liability

	Increase (Decrease) in Total OPEB Liability	
	For Measurement Year from December 31, 2017, to December 31, 2018	**For Measurement Year from December 31, 2016, to December 31, 2017**
Balance at Beginning of Measurement Year	$ 10,717,111,000	$ 10,777,029,000
Changes for the year:		
Service cost	548,093,000	569,297,000
Interest	394,481,000	426,299,000
Differences between expected and actual experience		(136,663,000)
Changes of assumptions or other inputs	(1,429,460,000)	(781,693,000)
Benefit payments (employer)	(153,396,000)	(137,157,000)
Net changes	(640,282,000)	(59,917,000)
Changes in Proportional Share	278,957,000	
Balance at End of Measurement Year	$ 10,355,786,000	$ 10,717,112,000

The Center recognized OPEB expense of $130,663,000 for the fiscal year ended August 31, 2019, and $192,873,000 for the fiscal year ended August 31, 2018.

The changes in the total OPEB liability, including both the System's and the State's portion, are shown in the table below.

		Increase (Decrease) in Total OPEB Liability	
		For Measurement Year from 12/31/2017 to 12/31/2018	For Measurement Year from 12/31/2016 to 12/31/2017
Balance at Beginning of Measurement Year	$	13,888,295,000	13,965,942,000
Changes for the year:			
Service cost		692,255,000	737,751,000
Interest		498,238,000	552,440,000
Differences between expected and actual experience			(177,101,000)
Changes of assumptions or other inputs		(1,805,442,000)	(1,012,995,000)
Benefit payments (employer)		(193,743,000)	(177,742,000)
Net changes		(808,692,000)	(77,647,000)
Balance at End of Measurement Year	$	13,079,603,000	13,888,295,000

At each fiscal year end, the Center reported deferred outflows of resources and deferred inflows of resources related to OPEB from the sources listed in the table below:

	As of August 31, 2019		**As of August 31, 2018**	
	Deferred Outflows of Resources (in thousands)	**Deferred Inflows of Resources**	**Deferred Outflows of Resources (in thousands)**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ -	$ 25,495	$ -	$ 30,056
Changes of assumptions or other inputs		503,924		229,546
Change in proportion and contribution difference		127,263		134,417
Contributions subsequent to the measurement date	27,255		26,008	
Total	$ 27,255	$ 656,682	$ 26,008	$ 394,019

Amounts reported as deferred outflows/(inflows) of resources will be recognized in OPEB expense as follows:

For the fiscal year ended August 31, 2019:

Fiscal Year Ended August 31, 2019 (in thousands)		Amount
2020	$	(100,583)
2021		(100,583)
2022		(100,583)
2023		(100,583)
2024		(100,583)
Thereafter		(153,767)
Total	$	(656,682)

For the fiscal year ended August 31, 2018:

Fiscal Year Ended August 31, 2018 (in thousands)		Amount
2019	$	(58,777)
2020		(58,777)
2021		(58,777)
2022		(58,777)
2023		(58,777)
Thereafter		(100,134)
Total	$	(394,019)

Optional Retirement Program (ORP)—The state has also established an ORP for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS. ORP is available to certain eligible employees who hold faculty positions and other professional positions, including, but not limited to, director-level and above, librarians, and coaches. The ORP provides for the purchase of annuity contracts and mutual funds. Participants are vested in the employer contributions after one year and one day of service. The contributory percentages of participant salaries provided by the state are 6.6% for 2019 and 2018. The contributory percentage for each participant is 6.65% for 2019 and 2018. Depending upon the source of funding for the employee's compensation, the Center may be required to make the employer contributions in lieu of the state. Since these are individual annuity contracts, the state and the Center have no additional or unfunded liability for this program. The participants' contributions for the years ended August 31, 2019 and 2018, were $24,279,000 and $22,948,000, respectively. The Center's contributions for the years ended August 31, 2019 and 2018, were $31,030,000 and $29,321,000, respectively.

Physicians Referral Service Supplemental Retirement Plan (SRP)/Retirement Benefit Plan (RBP)—The Center has established, primarily for the physicians of its Physicians Referral Service, the Physicians Referral Service SRP/RBP of the Center, and has also established separate plans for certain executives (collectively, the "Retirement Plans"). The Retirement Plans are nonqualified plans described by Section 457(f) of the Internal Revenue Code of 1986, as amended. The Retirement Plans are reported on the accrual basis of accounting. Assets of the Retirement Plans recorded as assets held for others remain subject to the claims of the general creditors of the Center and approximate $517,442,000 and $495,994,000 at August 31, 2019 and 2018, respectively. An offsetting liability has been recorded as assets due to others representing deferred compensation payable.

In general, only physicians hired before July 1, 1986, participate in the SRP. The remainder of eligible employees participate in the RBP. Retirement benefits are available to persons who have reached the normal retirement age (55 for the RBP and 65 for the SRP) with five years of service. Early retirement benefits are available under the SRP. Additional information can be obtained from the separately issued financial statements of the Retirement Plans.

14. EXECUTIVE MANAGEMENT INCENTIVE PLANS

The Center sponsors two incentive plans for senior-level management. The Senior Management Performance Incentive Plan provides an achievement incentive for nonfaculty senior management by using variable pay to maintain consistent treatment of comparable levels of management for market earning potential. The payout is based upon the attainment of specific and measurable goals, triggered by meeting a set institutional financial goal, and the availability of funds. At August 31, 2019 and 2018, the Center had a recorded liability related to the attainment of these goals of $10,054,000 and $10,168,000, respectively. The Center paid out $10,327,000 and $9,000,000 for the plan years August 31, 2019 and 2018, respectively. The Senior Executive and Executive Management Supplemental Benefit Program provides an annual supplemental cash benefit award to senior executives and executive management to maintain consistent treatment of comparable levels of executive management for market earning potential. Payments of these benefits are made on the first day of the following new fiscal year. For the fiscal years ended 2019 and 2018, the Center paid out $4,350,0000 and $3,900,000, respectively.

15. DEFERRED COMPENSATION

The Center's employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the TEX. GOV'T. CODE ANN., Section 609.001. The deferred compensation plan is administered by the State of Texas Employee Retirement System and is accounted for in the financial statements of UT System.

The state's 457 plan complies with Section 457 of the Internal Revenue Code of 1986, as amended. Deductions, purchased investments, and earnings attributed to the 457 plan are the property of the state, subject only to the claims of the state's general creditors. Participants' rights under the plan are equal to those of the general creditors of the state in an amount equal to the fair market value of the 457 accounts for each participant. The state has no liability under the 457 plan, and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

16. CONCENTRATIONS OF CREDIT RISK

The Center grants credit without collateral to its patients, most of whom are local residents of Texas and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors as of August 31, 2019 and 2018, is as follows:

	2019	**2018**
Medicare	32.9 %	31.7 %
Medicaid	2.8	3.2
Managed care organizations	45.2	46.1
Self-pay	8.5	9.7
Others	10.6	9.3
Total	100 %	100 %

17. NONCURRENT ASSETS—JOINT VENTURES

The Center is a participating member of P.E.T. Net Houston, LLC ("PETNet"). PETNet is a joint venture entered into by the Center and P.E.T. Net Pharmaceuticals, Inc. to lease and operate a facility located on the Center's campus to produce positron radiopharmaceuticals and isotopes. The Center's equity interest in PETNet at August 31, 2019 and 2018, was $2,849,000 and $2,489,000, respectively, or 49%. Separate financial statements for PETNet may be obtained at Siemens Medical Solutions USA, Inc., 51 Valley Stream Parkway, Malvern, PA 19355.

The Center entered into a limited partnership agreement on December 19, 2002, with PTC—Houston Management, L.P. and PTC—Houston Investors, L.L.C. to create The Proton Therapy Center—Houston LTD., L.L.P. ("PTC Partnership"). PTC Partnership was established to develop and operate a proton therapy facility, which provides cancer treatment to patients utilizing proton therapy technology. Under the staffing and operations agreement between the Center and PTC Partnership, the Center is the exclusive supplier of all technical and operational services to support PTC Partnership operations, and for which the Center is reimbursed on a monthly basis. Under a separate agreement, the professional services agreement, the Center provides services of physicians, medical physicists, and medical dosimetrists to PTC Partnership, for which the Center bills patients and retains all professional fees associated with such services. The initial capital contribution of the Center will be determined by the general partner in order to fund the obtaining of licenses for intellectual property deemed necessary to operate the facility and costs directly related thereto, unless otherwise agreed to in writing by the Center. As of August 31, 2011, the general partner had not required the Center to make any payments related to the initial capital contribution. However, at the time the contract was executed, the value of the intellectual property was estimated to be $3,000,000, which equates to an approximate 8.95% interest. The investment has not been recorded in the consolidated balance sheets of the Center.

The Center entered into a limited liability company agreement on December 19, 2002, to form PTC—Houston Investors, L.L.C. ("Investors"). Investors was established to invest in and be a limited partner in the PTC Partnership. Investors entered into a ground lease with the Center on December 19, 2002, to lease approximately four acres on the Center's property for an initial term of 60 years. The Center's initial capital contribution of $2,500,000 to Investors was provided through the ground lease.

On March 30, 2010, the Center entered into an agreement and stipulation among purchasers of LLC membership interests of Investors in which PTC Partnership assigned the right to purchase additional shares of Investors to its partners. As part of this agreement, the Center purchased 13.12195 units of interest in Investors for $5,726,000 giving the Center a total ownership interest of approximately 51.22%. In addition, all members of Investors further consented to the redemption of the Center's total interest in Investors in exchange for the conveyance by Investors to the Center of 51.22% of Investors' right, title, and interest under PTC Partnership agreement, including without limitation, 51.22% of Investors' capital contributions and Investors' right to receive distributions and 51.22% of the percentage interests in PTC Partnership owned by Investors, which approximated $15,622,000 as of March 30, 2010.

Following the execution of the foregoing, the Center entered into an Amended and Restated Limited Partnership Agreement ("Agreement") dated March 30, 2010, between PTC Partnership, Investors, PTC-Houston Management, L.P., and the Center. As part of the Agreement, each partner has made, or is deemed to have made, the initial contribution, which equaled $15,622,000 for the Center or 51.22%. As previously stated, the Center's only capital contribution to PTC Partnership has been through the ground lease, which equals $2,500,000. The Center has recorded cash distributions and has adjusted its carrying value based on the operating results of PTC Partnership as required by the Agreement, which does not equal the initial contribution. As of August 31, 2019 and 2018, the Center's equity interest in PTC Partnership was $0. The Center received cash contributions totaling $0 and $1,225,000 during the years ended August 31, 2019 and 2018, respectively.

The Center entered into an asset purchase agreement for all the assets, including nonexcluded working capital accounts, with PTC Partnership. The transaction was effective December 1, 2018. The consideration provided by the Center was $155,964,000 (the initial purchase price), plus $20,400,000 for the purchase of the management contract (between PTC–Houston Management L.P. and PTC Partnership). The total amount of net position acquired as of the date of acquisition was $153,159,000.

As a 49% residual interest holder, the Center recovered approximately $43,486,000 in distributions through the dissolution of the partnership.

Included in the tangible and intangible assets purchased by the Center from PTC Partnership are the rights to expand, develop, and utilize more technologically advanced applications in the field of proton therapy. The Center wanted and needed these rights in order to increase accessibility to this advanced form of precise radiation therapy to its patient base.

Contingent consideration included $16,000,000 held in an Escrow Fund, subject to the terms of an Escrow agreement, to secure PTC Partnership and PTC-Houston Management, L.P., general partner's continuing obligations, covenants, agreements, and liabilities under this Escrow agreement.

The Center is a participating member in the National Center for Therapeutics Manufacturing (NCTM). The Center entered into a collaboration, investment, and facility use agreement as of May 19, 2010, with Texas A&M University System to collaborate on the design of the NCTM and on grants and proposals relating to cancer therapeutics that could be developed at the NCTM. The Center's cost-based interest in NCTM at August 31, 2019 and 2018, was $1,245,000 or, approximately, 2.5%; separate financial statements for NCTM may be obtained by sending an email to programs@NCTMMail.tamu.edu.

18. RELATED PARTIES

Through the normal course of operations, the Center both receives funds from, and provides funds to, other state agencies in support of sponsored research programs. Funds received and provided during the year ended August 31, 2019, related to pass-through grants were approximately $48,250,000 and $4,389,000, respectively. Funds received and provided during the year ended August 31, 2018, related to pass-through grants were approximately $51,856,000 and $3,825,000, respectively.

The Center also routinely enters into transactions with UT System for the reimbursement of capital outlay and other expenses. Amounts due from UT System were approximately $8,790,000 and $26,235,000 at August 31, 2019 and 2018, respectively. Amounts due to UT System were approximately $25,651,000 and $25,114,000 at August 31, 2019 and 2018, respectively.

In addition, the Center purchased services from the Texas Medical Center Laundry Association in the amount of $4,593,000 and $4,497,000 for the years ended August 31, 2019 and 2018, respectively. The Center also purchased services from TECO in the amount of $26,291,000 and $30,087,000 for the years ended August 31, 2019 and 2018, respectively.

The Center provided services to PTC Partnership in the amount of $3,490,000 prior to acquisition and $14,333,000 for the years ended August 31, 2019 and 2018, respectively.

19. T. BOONE PICKENS CONTRIBUTION

In 2007, MDASC received a $50 million contribution to create the T. Boone Pickens Fund (the "Fund") for the benefit of the Center. MDASC has agreed that the gift would grow to at least $500 million by August 31, 2032, through a combination of investment income (including unrealized and realized gains and losses) and matching funds from new outside sources or the Center's unrestricted net position. Were the Fund not to grow to $500 million by 2032, any amount in the Fund in excess of $50 million at that time would be donated to the Oklahoma State University Student Scholarship Fund.

In a supplemental agreement in 2007 with the T. Boone Pickens Foundation, the Center agreed to create a separate, segregated quasi-endowment with contributions made from income before capital contributions of the Center, additions to endowments, and transfers. At a point in time, the separate quasi-endowment would be transferred to the Fund to reach the $500 million goal. The quasi-endowment was reported by the Center on its financial statements and was managed by UTIMCO.

On August 12, 2010, The University of Texas System Board of Regents approved resolutions authorizing the Center to transfer to MDASC matching funds (the "Matching Funds"). The Matching Funds when combined with the original gift satisfied the $500 million goal, and a quasi-endowment (the "Endowment") was established for the benefit of the Center.

The Endowment is managed by UTIMCO. As of August 31, 2019 and 2018, the value of the Endowment was $648,144,000 and $649,492,000, respectively, and is recorded as restricted—nonexpendable.

20. UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 84, *Fiduciary Activities*, effective 2020, establishes criteria for identifying fiduciary activities, which should be reported in a fiduciary fund in the financial statements. The Center is evaluating the effect that Statement 84 will have on its financial statements.

GASB Statement No. 87, *Leases*, effective 2021, establishes a single model for lease accounting. The Center is evaluating the effect that Statement 87 will have on its financial statements.

GASB Statement No. 90, *Majority Equity Interests*, effective 2020, improves the consistency and comparability of reporting majority equity interests in a legally separate organization and improves the relevance of financial statement information for certain component units. Statement 90 will have no effect on the Center's net position or changes in net position.

GASB Statement No. 91, *Conduit Debt Obligations*, effective 2022, provides a single method of reporting conduit debt obligations. The Center is evaluating the effect that Statement 91 will have on its financial statements.

21. SUBSEQUENT EVENTS

The Center entered into an agreement on October 28, 2019, with Millennium Pharmaceuticals, Inc., a wholly owned subsidiary of Takeda Pharmaceutical Company Limited. The Center received $300 million on November 15, 2019. The funding will support further research, development, and manufacturing of technology, which is consistent with the Center's educational and research missions and goals.

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REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER

REQUIRED SUPPLEMENTARY INFORMATION
TEACHER RETIREMENT SYSTEM PENSION PLAN
AUGUST 31, 2019

Pension RSI 2019
Schedule of the Center's Proportionate Share of the Net Pension Liability
As of the August 31 Measurement Date

	2018	2017	2016	2015	2014
Center's proportion of the net pension liability	2.608580 %	2.675756 %	2.792495 %	2.268041 %	3.053255 %
Center's proportionate share of the net pension liability	$ 1,435,826	$ 855,563	$ 1,055,242	$ 947,491	$ 815,733
State's proportionate share of the net pension liability related to System	395,640	288,930	300,751	271,484	316,196
Total net pension liability related to System	$ 1,831,466	$ 1,144,493	$ 1,355,993	$ 1,218,975	$ 1,131,929
Center's covered payroll	$ 1,339,879	$ 1,328,316	$ 1,346,292	$ 1,325,743	$ 1,181,712
Center's proportionate share of the net pension liability as a percentage of its covered payroll	107.16 %	64.41 %	78.38 %	71.47 %	69.03 %
Plan fiduciary net position as a percentage of the total pension liability	73.74 %	82.17 %	78.00 %	78.43 %	83.25 %

Schedule of the Center's Contributions As of August 31	**2019**	**2018**	**2017**	**2016**	**2015**
Statutorily required contributions	$ 99,042	$ 91,112	$ 90,325	$ 91,548	$ 90,151
Contributions in relation to the statutorily required contributions	$ 95,828	$ 87,874	$ 87,695	$ 88,725	$ 86,682
Contribution deficiency	$ 3,214	$ 3,238	$ 2,630	$ 2,823	$ 3,469
Center's covered payroll	$ 1,456,501	$ 1,339,879	$ 1,328,316	$ 1,346,292	$ 1,325,743
Contributions as a percentage of covered payroll	6.58 %	6.56 %	6.60 %	6.59 %	6.53 %

Contributions by the State of Texas on behalf of the Center substantially resolved the contribution deficiency. Only three years of information is presented due to GASB Statement No. 68 being implemented in 2015. Additional years will be displayed as they become available.

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS PLAN
AUGUST 31, 2019

Schedule of the Center's Proportionate Share of the Total OPEB Liability as of the December 31 Measurement Date

	2018	2017	2016
Center's proportion of the total OPEB liability	19.385514 %	19.477785 %	20.390611 %
Center's proportionate share of the total OPEB liability	$ 2,535,548,000	$ 2,705,132,000	$ 2,847,741,000
State's proportionate share of the total OPEB liability related to Center	93,544,000	95,126,000	103,241,000
Total OPEB liability related to Center	$ 2,629,092,000	$ 2,800,258,000	$ 2,950,982,000
Center's covered payroll	$ 1,432,895,000	$ 1,371,722,000	$ 1,516,457,000
Center's proportionate share of the total OPEB liability as a percentage of its covered payroll	176.95 %	197.21 %	187.79 %
Plan fiduciary net position as a percentage of the total OPEB liability	- %	- %	- %

Deloitte.

Deloitte & Touche LLP
1111 Bagby Street
Suite 4500
Houston, TX 77002-2591
USA

Tel: +1 713 982 2000
Fax: +1 713 982 2001
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS 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 Members of the Audit, Compliance, and
Management Review Committee of
the University of Texas System Board of Regents:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the University of Texas M.D. Anderson Cancer Center and subsidiaries (the "Center"), as of and for the year ended August 31, 2019, and the related notes to the consolidated financial statements, which collectively comprise the Center's consolidated financial statements, and have issued our report thereon dated December 6, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Center's internal control over financial reporting ("internal control") to determine the 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 the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated 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 material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center'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 determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of This Report

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

Deloitte & Touche LLP

December 6, 2019