The University of Texas Southwestern Medical Center

(A Division of the University of Texas System)

Consolidated Financial Statements as of and
for the Years Ended August 31, 2022 and 2021,
and Independent Auditor’s Report

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER
(A Division of the University of Texas System)

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Deloitte & Touche LLP
JPMorgan Chase Tower
2200 Ross Avenue, Suite 1600
Dallas, TX 75201-6778
USA

Tel: +1 214 840 7000
www.deloitte.com

Independent Auditor's Report

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

Report on the Audits of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The University of Texas Southwestern Medical Center ("UTSW"), a division of the University of Texas System, as of and for the year ended August 31, 2022 and 2021, and the related notes to the consolidated financial statements, which collectively comprise UTSW's consolidated financial statements as listed in the table of contents.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of UTSW as of August 31, 2022 and 2021, and the changes in its net position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of UTSW and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in Note 1, the consolidated financial statements of UTSW are intended to present the net position, changes in net position, and cash flows of The University of Texas System attributable to UTSW. They do not purport to, and do not, present the net position of The University of Texas System as of August 31, 2022 and 2021, the changes in its net 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.

As discussed in Note 1, UTSW restated its ending consolidated financial statements as of August 31, 2021 to reflect the effects of the adoption of Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- obtain an understanding of internal control relevant to the audit 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 UTSW's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, the Other Post Employment Benefits Plan Schedule of UTSW'S Proportionate Share of the Total OPEB Liability and the Teacher Retirement System Pension Plan Schedule of UTSW'S Proportionate Share of Net Pension Liability and Teacher Retirement System Pension Plan Schedule of UTSW's Contributions, be presented to supplement the consolidated financial statements. Such information is the responsibility of management and, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who 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 GAAS, 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 audits 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 part of the consolidated financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operation, 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 January 18, 2023 on our consideration of UTSW'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 the effectiveness of UTSW's 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 UTSW’s internal control over financial reporting and compliance.

Deloitte & Touche LLP

January 18, 2023

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER
(A Division of the University of Texas System)

CONSOLIDATED STATEMENTS OF NET POSITION
AS OF AUGUST 31, 2022 AND 2021
(Amounts in thousands)

	2022	2021
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 279,269	$ 209,059
Balance in state appropriations	32,853	29,687
Patient accounts receivable—less allowance for uncollectible accounts	524,031	467,334
Other accounts receivable—less allowance for uncollectible accounts	184,164	180,630
Inventories and other current assets	84,556	72,981
Restricted—cash and cash equivalents	153,297	138,282
Loans and contracts	130	249
Contributions receivable	25,306	10,202
Lease receivables—right of use assets	4,457	3,908
Due from UT System and other state agencies	13,093	11,265
Total current assets	1,301,156	1,123,597
NONCURRENT ASSETS:		
Restricted:		
Cash and cash equivalents	88,694	55,205
Loans and contracts	115	243
Investments	466,394	884,513
Contributions receivable	30,615	15,988
Due from UT System and other state agencies	12,911	20,316
Endowment investments	2,028,424	2,147,375
Total restricted assets—net	2,627,153	3,123,640
Capital assets:		
Nondepreciable assets	286,646	562,722
Depreciable assets	5,174,925	4,434,588
Total capital assets	5,461,571	4,997,310
Less accumulated depreciation and amortization	(2,315,971)	(2,082,317)
Total capital assets—net	3,145,600	2,914,993
OTHER NONCURRENT ASSETS:		
Lease receivables—right of use assets	16,867	7,137
Investments	964,615	824,219
Other noncurrent assets	196,890	158,494
Total other noncurrent assets	1,178,372	989,850
Total assets	8,252,281	8,152,080
DEFERRED OUTFLOWS OF RESOURCES:		
Asset retirement obligation	455	657
Pension related	389,552	409,717
Retiree healthcare	876,959	486,484
Total deferred outflows	1,266,966	896,858
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 9,519,247	$ 9,048,938

(Continued)

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER
(A Division of the University of Texas System)

CONSOLIDATED STATEMENTS OF NET POSITION
AS OF AUGUST 31, 2022 AND 2021
(Amounts in thousands)

	2022	2021
LIABILITIES AND DEFERRED INFLOWS		
CURRENT LIABILITIES:		
Accounts payable, accrued expenses, and other	$ 388,769	$ 375,355
Estimated third-payor settlements	47,813	34,595
Unearned revenue	59,932	58,639
Employees’ compensable leave—current	62,796	55,870
Net other post-employment benefits—current	44,207	35,891
Notes, loans, and leases payable	33,221	7,557
Due to UT System and other state agencies	38,383	23,400
Total current liabilities	675,121	591,307
NONCURRENT LIABILITIES:		
Employees’ compensable leave—noncurrent	112,101	117,134
Net pension liability	483,352	937,445
Net other post-employment benefits—noncurrent	2,621,633	1,988,970
Notes, loans, and leases payable	105,689	47,726
Other noncurrent liabilities	4,106	4,310
Total noncurrent liabilities	3,326,881	3,095,585
Total liabilities	4,002,002	3,686,892
DEFERRED INFLOWS OF RESOURCES:		
Pension related	524,528	136,863
Retiree healthcare related	235,030	277,691
Third party beneficiary related	2,494	5,518
Lease related	20,902	10,889
Total deferred inflows of resources	782,954	430,961
Total liabilities and deferred inflows	4,784,956	4,117,853
COMMITMENTS AND CONTINGENCIES (Note 12)		
NET POSITION:		
Net investment in capital assets	3,025,692	2,878,710
Restricted:		
Nonexpendable	1,140,331	1,063,075
Expendable	1,647,611	2,185,175
Unrestricted	(1,079,343)	(1,195,875)
Total net position	4,734,291	4,931,085
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$ 9,519,247	$ 9,048,938

See notes to consolidated financial statements.

(Concluded)

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER
(A Division of the University of Texas System)

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021
(Amounts in thousands)

	2022	2021
OPERATING REVENUES:		
Net student tuition and fees	$ 28,260	$ 24,585
Net patient services and professional fees	2,907,255	2,577,750
Sponsored programs revenue	833,015	773,686
Sales and services of educational activities	12,255	18,490
Auxiliary and other	295,313	202,460
Total operating revenues	4,076,098	3,596,971
OPERATING EXPENSES:		
Salaries, wages, and benefits	2,850,943	2,589,081
Professional and contracted services	288,814	248,182
Materials and supplies	851,591	757,096
Maintenance and repairs	107,463	64,074
Utilities	29,641	26,511
Depreciation and amortization	243,739	232,658
Other operating expenses	128,135	140,203
Total operating expenses	4,500,326	4,057,805
OPERATING LOSS	(424,228)	(460,834)
NONOPERATING REVENUES AND EXPENSES:		
State appropriations	214,022	203,519
Gift contributions for operations	103,635	85,620
Net investment (loss) income, including change in fair value	(246,338)	792,809
Net other nonoperating revenue	13,073	91,918
Total nonoperating revenues and expenses	84,392	1,173,866
(LOSS) INCOME BEFORE CAPITAL CONTRIBUTIONS, ADDITIONS TO PERMANENT ENDOWMENTS, AND TRANSFERS	(339,836)	713,032
CAPITAL CONTRIBUTIONS	44,612	8,905
ADDITIONS TO PERMANENT ENDOWMENTS	61,298	53,687
TRANSFERS FROM UT SYSTEM AND STATE AGENCIES	171,066	294,991
TRANSFERS TO UT SYSTEM AND STATE AGENCIES	(133,934)	(56,356)
CHANGE IN NET POSITION	(196,794)	1,014,259
NET POSITION—Beginning of year	4,931,085	3,916,826
NET POSITION—End of year	$4,734,291	$4,931,085

See notes to consolidated financial statements.

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER
(A Division of the University of Texas System)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021
(Amounts in thousands)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Proceeds from tuition and fees	$ 20,800	$ 24,851
Proceeds from third-party payors and patients	2,873,051	2,489,104
Proceeds from sponsored programs	830,803	743,246
Payments to suppliers	(1,409,240)	(1,213,211)
Payments to employees	(2,676,279)	(2,372,956)
Receipts for loans provided	155	470
Other receipts	290,405	236,964
Net cash used in operating activities	(70,305)	(91,532)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from state appropriations	210,856	244,210
Proceeds from gifts	90,113	94,255
Proceeds from private gifts for endowments and annuity life purposes	61,298	53,687
Transfers from UT System and other agencies	6,619	7,659
Transfer to UT System or other agencies	(4,996)	(1,921)
Proceeds and payments for other nonoperating activities	5,503	101,598
Net cash provided by noncapital financing activities	369,393	499,488
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from capital debt transferred from UT System	175,802	291,397
Proceeds from capital appropriations, grants, and gifts	28,083	8,406
Proceeds from sale of capital assets	128	236
Payments for additions to capital assets	(382,165)	(456,037)
Payments for capital related debt and other long term obligations	(13,932)	(8,720)
Mandatory transfers to UT System for capital-related debt	(133,934)	(56,356)
Net cash used in capital and related financing activities	(326,018)	(221,074)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	6,542	7,770
Proceeds from interest and investment income	263,969	221,230
Payments to acquire investments	(124,867)	(210,449)
Net cash provided by investing activities	145,644	18,551
INCREASE IN CASH AND CASH EQUIVALENTS	118,714	205,433
CASH AND CASH EQUIVALENTS—Beginning of year	402,546	197,113
CASH AND CASH EQUIVALENTS—End of year	$ 521,260	$ 402,546

(Continued)

THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER
(A Division of the University of Texas System)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021
(Amounts in thousands)

	2022	2021
RECONCILIATION OF OPERATING (EXPENSES) REVENUES TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (424,228)	$ (460,834)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	243,739	232,658
Bad debt	92	1,864
Change in operating assets and liabilities:		
Accounts receivable—net	(51,291)	(148,383)
Lessor related balances	(267)	(154)
Loans and contracts	155	470
Inventories	(9,652)	(3,796)
Due to UT System	1,055	1,591
Other current and noncurrent assets	(39,333)	5,527
Accounts payable, accrued expenses, and estimated third-payor settlements	45,615	58,121
Unearned revenue	1,292	14,064
Employees' compensable leave	1,894	14,185
Pension and retiree benefits related obligations, deferred inflows and outflows	161,580	192,741
Asset retirement related obligations, deferred inflows and outflows	202	(222)
Other current and noncurrent liabilities	(1,158)	636
NET CASH USED IN OPERATING ACTIVITIES	$ (70,305)	$ (91,532)
SUPPLEMENTAL NONCASH ACTIVITY INFORMATION:		
Unrealized (loss) gain on investments	$ (508,672)	$ 566,984
Capital assets acquired/adjusted under lease purchases or direct borrowings	$ 96,875	$ 368
Unpaid purchases of capital assets in accounts payable and accrued expenses	$ 45,986	$ 50,104

See notes to consolidated financial statements.

(Concluded)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—The University of Texas Southwestern Medical Center (UTSW) is a division of the University of Texas System (“UT System”). The UT System is an agency of the State of Texas and reported as part of the “Colleges and Universities” major enterprise fund in the State of Texas financial statements. In 1949, UTSW became a division of the UT System. UTSW is located in Dallas, TX 75390.

Blended Component Units—The accompanying financial statements for UTSW are presented on a consolidated basis and include the accounts for UT Southwestern Health Systems (“UTSHS, Inc.”), UT Southwestern Moncrief Cancer Center (“Moncrief”), and Moncrief Cancer Foundation (the “Foundation”).

UT Southwestern Health Systems, 5323 Harry Hines Boulevard, Dallas, Texas 75390, is governed by a three-member board appointed by the president of UTSW. UTSW provides support of health care services and grants to conduct research and provide educational programs to accomplish the mission of UTSW. The corporation is blended rather than discretely presented because it is organized as a not-for-profit corporation and the president of UTSW is the sole corporate member. The corporation’s fiscal year end is August 31.

UT Southwestern Moncrief Cancer Center, 400 West Magnolia Avenue, Fort Worth, Texas 76104, is governed by a four-member board appointed by the president of UTSW. Moncrief provides resources for cancer prevention, early detection, and support services to cancer patients and their families within Tarrant County and surrounding areas. Moncrief is blended rather than discretely presented because it is organized as a not-for-profit corporation and the president of UTSW is the sole corporate member. The corporation’s fiscal year end is August 31.

Moncrief Cancer Foundation, 5323 Harry Hines Blvd., Dallas, Texas 75390, is governed by a six-member board appointed by the president of UTSW. The Foundation supports cancer prevention, early detection, and support services to cancer patients and their families within Tarrant County and surrounding areas through Moncrief. The Foundation is blended rather than discretely presented because it is organized as a not-for-profit foundation and the president of UTSW is the sole corporate member. The Foundation’s fiscal year end is August 31.

Significant Accounting Policies:

Basis of Accounting—UTSW uses the accrual method of accounting, whereby revenues are recognized in the accounting period when services are rendered and expenses are recognized when incurred. UTSW’s consolidated financial statements are reported as a business-type activity as defined by the Government Accounting Standards Board (GASB).

Tax Status—The Internal Revenue Service ruled on March 20, 1984, October 9, 1997, December 7, 2010, and May 11, 2017 that UTSW is an agency of the State of Texas. As an agency of the state, UTSW is generally exempt from federal income taxes, although certain activities are subject to federal unrelated business income tax.

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

Net Position—UTSW classifies net position into three components: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets—This component of net position consists of capital assets, net of accumulated depreciation. Unspent related debt proceeds are excluded from the calculation of net investment in capital assets. UTSW has not recorded outstanding debt issued to acquire capital assets as these are obligations of UT System (see Note 9).

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

Restricted—Expendable—Net position whose use by UTSW is subject to externally imposed stipulations that can be fulfilled by actions of UTSW pursuant to those stipulations or that expire with the passage of time. Such assets include gifts for operations and investment income earned from restricted endowments, grants, loan funds, and funds restricted for capital projects.

Unrestricted—This component of net position consists of those assets that do not meet the definition of "restricted" or "investments in capital assets."

Consolidated Statements of Revenues, Expenses, and Changes in Net Position—For purposes of financial statement presentation, operating revenues include those generated from direct patient care, related support services, sponsored programs, and educational activities. Non-operating revenues consist of those revenues that are related to financing and investing types of activities and result from non-exchange transactions or investment income. When an expense is incurred for the purposes for which there are both restricted and unrestricted resources available, it is UTSW's policy to use restricted resources first to the extent that such are available, and then to use unrestricted resources.

Cash and Cash Equivalents and Investments—Short-term, highly liquid investments with maturities of three months or less when purchased are generally considered cash and cash equivalents. UTSW'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 (PUF) 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 UTSW and UT System.

Patient Accounts Receivable—Patient accounts receivable is presented net of allowances for contractual discounts and bad debts. The amount of bad debt allowances was approximately $148.8 million and $131.6 million as of August 31, 2022 and 2021, respectively.

Cost of Charity Care—The American Institute of Certified Public Accountants defines charity care as care for which hospitals never expect 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. Charity care costs amounted to approximately $41.0 million and $39.5 million for 2022 and 2021, respectively. To calculate cost of charity care, charges are converted to costs by the application of the Medicare cost to charge ratio, as calculated in the most recent Medicare cost report.

Inventories—Inventories are stated at the lower of cost (determined on an average-cost basis) or market.

Deferred Outflows and Inflows—Deferred outflows and inflows consist primarily of changes in the net pension and net other post-employment benefits (OPEB) liability not included in pension or OPEB expense and are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions and OPEB. Employer contributions subsequent to the measurement date of the net pension and OPEB liabilities are also required to be reported as deferred outflows of resources. Beneficial interests in irrevocable split-interest agreements, and future period revenues from leases are also required to be reported as deferred inflows.

Net Pension Liability—UTSW 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. UTSW 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.

Net Other Post-Employment Benefits (OPEB) Liability—UTSW's eligible retirees are provided benefits under the UT System Employee Group Insurance Program (EGIP). The EGIP is a single-employer defined benefit OPEB plan. Under 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. UT's and the State's portion of the related liabilities and deferred outflows and inflows, expensed based on contributions to OPEB, are 81.9% and 18.1%, respectfully.

Asset Retirement Obligation—The liability related to clean-up and decommissioning of items using radiation such as broad scope licenses, cyclotrons, and nuclear reactors is reported as an asset retirement obligation. The liability is measured using best estimates of current values of expected outlays.

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.

Investments—Certain investments of UTSW are managed by The University of Texas Investment Management Company (UTIMCO), a private investment corporation that provides services to UTSW and its related foundations. All investments are reported as noncurrent as these funds have an investment horizon extending beyond one year. Restricted investments include investments restricted by legal or contractual requirements, including those related to donor and constitutional restrictions.

The audited 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.

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.

UT System is authorized to invest funds, as provided in Section 51.0031 of the Texas 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, hedge funds, public market funds, and private investments. The investments of UT System are governed by various investment policies approved by the UT System Board of Regents.

Foundation investments are carried at fair value, and unrealized gains and losses are reflected in the consolidated statements of revenues, expenses, and changes in net position.

Capital Assets—Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gifts. UTSW follows the State of Texas’ capitalization policy, which calls for capitalization of those items with an estimated useful life greater than one year and a cost equal to or greater than $5,000 for equipment items; $100,000 for buildings, building improvements, and improvements other than buildings; and $500,000 for infrastructure items. Purchases of library books 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. The capitalization thresholds for software are $100,000 for purchased software and $1,000,000 for internally developed software. The capitalization threshold for Right of Use Leases related to Land, Building, and Equipment is $100,000 over the life of the agreement. Right-of-Use (ROU) intangible assets are recognized at the lease commencement date and represent UTSW's right to use an underlying asset for the lease term. ROU assets are measured at the initial value of the lease liability plus any payments made to the lessor at or before commencement and initial direct costs. UTSW capitalizes, but does not depreciate, works of art and historical treasures that are held for exhibition, education, research, and public service. These collections are protected and preserved.

Disposals are removed at carrying cost, less accumulated depreciation, with any resulting gain or loss included in other non-operating revenue or expense. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Amortization for ROU intangible assets is computed using the straight-line method over the shorter of the lease term or estimated useful lives of the assets; if the underlying lease contains a purchase option determined to be reasonably certain of being exercised, the ROU intangible asset is amortized over the estimated useful life of the asset. Estimated useful lives for buildings are 10 to 50 years; for equipment, estimated useful lives range from 3 to 20 years. Hospital assets are depreciated based on the American Hospital Association’s recommended useful life.

UTSW evaluates long-lived assets regularly for impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of assets. An impairment charge is recorded on those assets for which the estimated fair value is below its carrying amount. No material impairment charges to long-lived assets were recorded for the fiscal years ended August 31, 2022 and 2021.

Employees' Compensable Leave—Substantially all full-time employees earn annual leave from 8 to 21 hours per month depending upon the respective employee's years of state employment. State law permits employees to carry accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours, up to 532 for those employees with 35 or more years of state service. Eligible part-time employees' annual leave accrual rates and maximum carryover are proportional to the number of hours appointed to work. Employees with at least six months of continuous state service who terminate their employment are entitled to payment for all accumulated annual leave. Both an expense and a liability are recorded as the benefit accrues to employees. Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of the employee's death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated sick leave or 336 hours, whichever is less. UTSW's policy is to recognize the cost of sick leave only when paid. Eligible part-time employees' sick leave accrual rates are proportional to the number of hours appointed to work.

This obligation is usually paid from the same funding source(s) as the employee's salary or wage compensation. Changes in compensated absences during the year were as follows (in thousands):

	As of September 1, 2021	Additions	Reductions	As of August 31, 2022	Current Portion
Compensable leave	$ 173,004	$ 86,228	$ 84,335	$ 174,897	$ 62,796

	As of September 1, 2020	Additions	Reductions	As of August 31, 2021	Current Portion
Compensable leave	$ 158,818	$ 71,920	$ 57,734	$ 173,004	$ 55,870

Unearned Revenue—UTSW receives grant funds from public and private entities. Unearned revenue consists primarily of amounts received in advance, such as student tuition and fees related to future fiscal years. Unearned revenue also includes amounts received from grant and contract sponsors, which have not yet been earned under the terms of the agreement.

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 UTSW primarily supports the instruction and research missions of UTSW. Approximately 83.4% of UTSW's state appropriation is calculated based on formulas using space, research expenditures, graduate medical education, and mission-specific support. The balance of the state appropriation provides for health care, education, and tuition revenue bond retirement for infrastructure support. There is no assurance that the Legislature will continue its state appropriations to UTSW in future years; however, UTSW expects that the Legislature will continue to do so.

Net Patient Services Revenue—UTSW has agreements with third-party payors that provide reimbursement to UTSW at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between UTSW's established rates for services and the amounts reimbursed by third-party payors.

Allowances for uncollectible amounts are estimated using historical experience, current trend and policy information, aged account balances, and a collectability analysis. Net patient services revenue in the accompanying consolidated statements of revenues, expenses, and changes in net position is net of contractual adjustments and bad debt provisions, which total approximately $5.6 billion and $4.8 billion for the years ended August 31, 2022 and 2021, respectively.

In accordance with provisions of Medicare, inpatient services to beneficiaries are paid at prospectively determined rates per discharge based on a patient classification system utilizing clinical, diagnostic, and other factors. Medicare outpatient services are reimbursed on a prospective basis through ambulatory payment classifications, which are based on clinical resources used in performing the procedure. Medicaid inpatient and outpatient services are paid based on the lower of reasonable costs or customary charges, a fee schedule, or blended rates. For certain costs, as defined by the Medicare program, including kidney organ acquisition, medical education, and bad debts, additional reimbursement is provided based on cost pass-through payments and the cost report.

Medicare and Medicaid cost-reimbursable items are reimbursed to UTSW at a tentative rate, with final settlement determined after submission of annual cost reports by UTSW, which are subject to audit by the intermediaries prior to final settlement. Any differences between final audited settlements and amounts accrued at the end of the prior reporting period are included currently in the consolidated statements of revenues, expenses, and changes in net position as an adjustment to the appropriate allowance account. Such adjustments increased net patient services revenue by $1.5 million and $0.4 million for 2022 and 2021, respectively. UTSW's cost reports have been audited by the fiscal intermediaries through 2017 for Medicare and Medicaid with the exception of 2005 and settled through 2017. Cost reports for both programs are subject to certain reopening and appeals as per federal and state regulations. UTSW has liabilities of approximately $20.1 million and $13.5 million as of August 31, 2022 and 2021, respectively, related to the estimated Medicare and Medicaid cost report settlements.

Sponsored Program Revenues—Sponsored program revenues are received primarily from governmental and private sources and relate to research programs that normally provide for the recovery of direct and indirect costs.

Notes, Loans, and Leases Payable—In September 2014, the Foundation obtained a note in the amount of $19,000,000 from a bank for the purpose of financing construction of the Moncrief Cancer Center building. The note was due on August 31, 2015, with an interest rate of the adjusted London InterBank Offered Rate (LIBOR), plus 0.8%. On August 31, 2015, August 26, 2017, and August 28, 2019, the Foundation's board approved the renewal of the note for two years. In September of 2021, the Foundation's board approved the long-term renewal of the note to be due August 31, 2023 that bears a fixed rate 1.79%. The note is collateralized by a security interest in Foundation investments held by the bank in the amount of $69,133,560 and $78,083,579 as of August 31, 2022 and 2021, respectively. The outstanding loan balance as of August 31, 2022 and 2021 is $19,000,000 and is included in the consolidated statements of net position in current liabilities. Lease liabilities, included as part of notes, loans, and leases payable on the statement of net position, represent UTSW's obligation to make lease payments arising from leases other than short term leases. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments over the remaining lease term. Short term leases, those with a maximum period of 12 months, are expensed as incurred.

COVID-19—In January 2020, the World Health Organization declared the novel coronavirus (COVID-19) a Public Health Emergency of International Concern. On March 13, 2020, the Governor of the State of Texas declared a state of emergency. On March 19, 2020, the Governor signed Executive Orders to mitigate the spread of COVID-19 in Texas that closed all non-essential businesses and services statewide, canceled or postponed all non-essential gatherings of individuals, and emphasized social distancing practices in business and personal life. The orders resulted in work-from-home policies, travel restrictions, online education and closure of student residential buildings, and cancellation of events. In addition, the restrictions required rescheduling of elective or non-critical surgical and procedural cases along with non-urgent and routine provider appointments, as well as redeployment of resources to address the novel coronavirus needs. This resulted in reduced hospital and faculty practice patient care revenues and operating cash flows. To alleviate the economic impact, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act provides economic grants to offset additional expenses and forgone revenue in the amount of $22,884,965 and $94,260,699 for the years ended August 31, 2022 and 2021, respectively. The CARES act grant revenue has been reported as Net other nonoperating revenue. In mid-April of fiscal year 2020, consistent with the guidance from regulatory agencies, UTSW resumed surgical and professional services that were postponed in March and early April in fiscal year 2020. The outbreak of COVID-19 has caused domestic and global disruption in operations for institutions of higher education and healthcare organizations. Other adverse consequences of COVID-19 or any other similar outbreaks in the future may include, but are not limited to, decline in student enrollment, decline in demand for student housing, decline in demand for UTSW programs that involve travel or that have international connections, and declines in patient service revenues. UTSW continues to carefully monitor developments and the directives of federal, state and local officials to determine what additional precautions and procedures may need to be implemented. While the COVID-19 outbreak adversely impacted UTSW's fiscal year 2020 results, there was an improvement in fiscal year 2021 results. UTSW cannot at this time accurately predict the full extent to which the COVID-19 outbreak will affect UTSW's future finances and operations.

OPEB Error Corrections and GASB Statements Implemented in Fiscal Year 2022— Subsequent to the issuance of the August 31, 2021 consolidated financial statements, UT System identified errors in the census data which also impacted the actuarial assumptions used to calculate the total other postemployment benefits (OPEB) liability as of September 1, 2020. UT System determined that certain demographic information and assumptions related to assumed rates of participation by eligible terminated employees had been excluded from the determination of the OPEB liability. UTSW has restated the September 1, 2020 OPEB liability and related accounts and footnotes for the year ended August 31, 2021. The impacts of the restatements are detailed in the table below. See Note 7 for additional information.

GASB Statement No. 87, *Leases*, effective 2022, establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Limited exceptions to the single approach guidance are provided for short-term leases, defined as lasting a maximum of twelve months at inception, including any options to extend, financed purchases, leases of assets that are investments and certain regulated leases.

Changes adopted to conform to the provisions of this Statement were applied retroactively by restating the financial statements for the earliest period presented, August 31, 2021, and related disclosures for September 1, 2020.

The effect of the correction of the OPEB error and the implementation of GASB Statement No. 87 on UTSW's financial statements for the year ended August 31, 2021 was as follows:

Statement of Net Position as of August 31, 2021	As Reported in Fiscal Year 2021	Correction of OPEB Errors	Fiscal Year 2021 as Corrected	GASB Statement No. 87 Restatement	Restated Fiscal Year 2021
Assets:					
Total current assets	$ 1,119,689	$ -	$ 1,119,689	$ 3,908	$ 1,123,597
Total capital assets—net	2,879,114	-	2,879,114	35,879	2,914,993
Total other noncurrent assets	982,713	-	982,713	7,137	989,850
Total assets	8,105,156	-	8,105,156	46,924	8,152,080
Total deferred outflows	960,315	(63,457)	896,858	-	896,858
Total assets and deferred outflows	$ 9,065,471	$ (63,457)	$ 9,002,014	$ 46,924	$ 9,048,938
Liabilities and deferred inflows:					
Total current liabilities	$ 588,167	$ (4,417)	$ 583,750	$ 7,557	$ 591,307
Total noncurrent liability	3,467,371	(400,512)	3,066,859	28,726	3,095,585
Total liabilities	4,055,538	(404,929)	3,650,609	36,283	3,686,892
DEFERRED INFLOWS OF RESOURCES:					
Total deferred inflows of resources	420,072	-	420,072	10,889	430,961
Total liabilities and deferred inflow	4,475,610	(404,929)	4,070,681	47,172	4,117,853
Net position:					
Net investment in capital assets	2,879,113	-	2,879,113	(403)	2,878,710
Unrestricted	(1,537,502)	341,472	(1,196,030)	155	(1,195,875)
Total net position	4,589,861	341,472	4,931,333	(248)	4,931,085
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$ 9,065,471	$ (63,457)	$ 9,002,014	$ 46,924	$ 9,048,938

Statement of Revenues, Expenses, and Changes in Net Position for the Year Ended August 31, 2021	As Reported in Fiscal Year 2021	Correction of OPEB Errors	Fiscal Year 2021 as Corrected	GASB Statement No. 87 Restatement	Restated Fiscal Year 2021
Total operating revenues	3,596,857	-	3,596,857	114	3,596,971
Total operating expenses	4,090,984	(33,329)	4,057,655	150	4,057,805
Operating loss	(494,127)	33,329	(460,798)	(36)	(460,834)
Total nonoperating revenues and expenses	1,174,078	-	1,174,078	(212)	1,173,866
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS, ADDITIONS TO PERMANENT ENDOWMENTS, AND TRANSFERS	679,951	33,329	713,280	(248)	713,032
Change in net position	981,178	33,329	1,014,507	(248)	1,014,259
Beginning net position	3,608,683	308,143	3,916,826	-	3,916,826
Ending net position	$ 4,589,861	$ 341,472	$ 4,931,333	$ (248)	$ 4,931,085

	Statement of Cash Flows for the Year Ended August 31, 2021				
	As Reported in Fiscal Year 2021	Correction of OPEB Errors	Fiscal Year 2021 as Corrected	GASB Statement No. 87 Restatement	Restated Fiscal Year 2021
CASH FLOWS FROM OPERATING ACTIVITIES:					
Payments to suppliers	$ (1,221,930)	$ -	$ (1,221,930)	$ 8,719	$ (1,213,211)
Other receipts	237,004	-	237,004	(40)	236,964
Net cash used in operating activities	(100,211)	-	(100,211)	8,679	(91,532)
ACTIVITIES:					
Payments for capital related debt and other long term oblig	-	-	-	(8,720)	(8,720)
Net cash used in capital and related financing activitie	(212,354)	-	(212,354)	(8,720)	(221,074)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from interest and investment income	221,189	-	221,189	41	221,230
Net cash provided by investing activities	18,510	-	18,510	41	18,551
RECONCILIATION OF OPERATING (EXPENSES) REVENUES TO NET CASH USED IN OPERATING ACTIVITIES:					
Operating income (loss)	(494,127)	33,329	(460,798)	(36)	(460,834)
Depreciation and amortization	223,789	-	223,789	8,869	232,658
Pension and retiree benefits related obligations, deferred inflows and outflows	226,070	(33,329)	192,741	-	192,741
Lessor related balances	-	-	-	(154)	(154)
NET CASH USED IN OPERATING ACTIVITIES	(100,211)	-	(100,211)	8,679	(91,532)

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, other than the portions of this statement implemented in 2021, the remainder is effective beginning 2022 or later depending on when LIBOR is no longer available. This statement preserves consistency and comparability of reporting hedging derivative instruments and leases after agreements are amended to replace LIBOR. The application of this portion of the statement had no effect on UTSW's net position or changes in net position.

GASB Statement No. 97, *Certain Component Unit Criteria*, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, is effective 2022. The application of this portion of the statement had no effect on UTSW's net position or changes in net position.

GASB Statement No. 98, *The Annual Comprehensive Financial Report*, effective 2022, establishes the term annual comprehensive financial report and its acronym ACFR. The application of this portion of the statement had no effect on UTSW's net position or changes in net position.

For GASB Statement No. 99, *Omnibus 2022*, the following portions of the statement are effective 2022: the requirements related to extension of the use of LIBOR, accounting for the Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63. The application of this portion of the statement had no effect on UTSW's net position or changes in net position.

2. DEPOSITS AND INVESTMENTS

Deposits of Cash in Bank—The carrying amount of deposits was $5,576,344 and $198,980 as of August 31, 2022 and 2021, respectively, as presented below (in thousands):

	2022	2021
Carrying amount of deposits	$ 5,576	$ 199
Cash in state treasury	27,304	30,353
Cash equivalent investments in UTIMCO	484,705	370,982
Other	3,675	1,012
Total cash and cash equivalents	$ 521,260	$ 402,546

UTSW has invested in the UTIMCO Short-Term Fund (STF); these funds are invested in money markets. As of August 31, 2022 and 2021, UTSW had $484,705,109 and $370,981,650, respectively, invested in the STF. As noted above, these funds are included in cash and cash equivalents.

Cash Held by UTSW Deposit Risk:

Custodial Credit Risk—Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, UTSW 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. UTSW maintains depository relationships with various banking institutions. UTSW's policy is that all deposits are governed by a bank depository agreement between UTSW and the respective banking institution. This agreement provides that UTSW'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 rating organization or a combination thereof. As of August 31, 2022 and 2021, 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.

UTSW'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 UTSW's ownership interest in partners' capital as a practical expedient. Investments valued in this manner are not classified in the fair value hierarchy.

Investments Held in UTIMCO Funds—As discussed in Note 1, UTSW has investments held by and under the management of UTIMCO, a private investment corporation that provides services to the UT System and its related foundations. UTSW's UTIMCO investments are held at NAV.

- As of August 31, 2022 and 2021, investments held by UTIMCO in its Intermediate Term Fund (ITF) on behalf of UTSW were $612,091,627 and $1,147,594,857, 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. UTSW'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.

- UTSW holds investments in UTIMCO's LTF and the 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 Foundation, a blended component unit of UTSW, also hold investments in the LTF. UTSW's investment in the LTF and PHF as of August 31, 2022 and 2021 $2,663,836,414 and $2,527,100,400, respectively. LTF investments are redeemable quarterly. If the withdrawal is greater than $25 million, advance notice of sixty 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. PHF investments are nonredeemable by UTSW.

- Investment income from UTSW held investments at UTIMCO for the years ended August 31, 2022 and 2021 was as follows:

	2022	2021
Net interest income and realized gains	$ 245,114,269	$ 221,121,077
Net unrealized (loss)/gain	(492,493,969)	566,983,864
Investment (loss)/income	$ (247,379,700)	$ 788,104,941

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, UTSW 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 UTSW's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. Further, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of August 31, 2022 and 2021, UTSW did not have any investments that are exposed to custodial credit risk.

Concentrations of Credit Risk—UTSW's investment policy statement contains the limitation that no more than 5% for the fair value of domestic fixed-income securities may be invested in corporate or municipal bonds of a single issuer. UTSW 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 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. One of the ways that UTSW manages its exposures to interest rate risk is by investing in UTIMCO's Investment Portfolios. Inherent Interest rate risk in UTIMCO is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of UTIMCO's investments to changes in interest rates. UTIMCO 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 UTSW's non-US dollar investments. There are no limitations on investments in non-US-denominated bonds or common stocks in relation to UTSW's total fixed-income and developed country equity exposures in UT System's investment policy statements. However, these types of investments are typically not a significant portion of the investment strategy.

Other Investments Held by UT System—UTSW also has other investments held by UT System for the purpose of endowment, annuity and life income funds. These separately invested assets totaled $80,690,475 and $36,185,272 as of August 31, 2022 and 2021, respectively. These holdings are primarily invested in publicly listed money market funds categorized as Level 1 in the fair value hierarchy.

Investments Held by UTSW—Investments not held by UT System are recorded in the consolidated statement of net position in noncurrent assets—restricted assets and assets held for others.

Debt securities include U.S. treasury securities and corporate obligations. U.S. government obligations are valued based on unadjusted prices in active markets and are categorized as Level 1. Corporate obligations are valued based on multiple quotations or models utilizing observable market inputs and are categorized as Level 2.

Fair values of equity securities, 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, foreign currencies, and overnight funds. Investments in publicly listed money market funds are categorized as Level 1.

Investments include a Moncrief's $1.6 million and $2.0 million trust held at Bank of America categorized as other investments as of August 31, 2022 and 2021.

Fair Value Measurements—Held outside of UTIMCO

Fair value measurements as of August 31, 2022:

	Level 1	Level 2	Level 3	NAV	Total
Equity securities	$ 70,296,767	$ -	$ -	$ -	$ 70,296,767
International equity	164,502	-	-	-	164,502
Fixed income and bond funds	24,267,313	-	-	-	24,267,313
Private equity investments	-	-	6,452,613	-	6,452,613
Other investments	1,633,095	-	-	-	1,633,095
Total	$ 96,361,677	$ -	$ 6,452,613	$ -	$ 102,814,290

The fair value measurements as presented above are comprised of the Foundation's investments of $90,047,715, of Equity securities in technology companies $11,133,480, and Moncrief's investments of $1,633,095.

Fair value measurements as of August 31, 2021:

	Level 1	Level 2	Level 3	NAV	Total
Equity securities	$ 111,777,425	$ -	$ -	$ -	$ 111,777,425
International equity	410,775	-	-	-	410,775
Fixed income and bond funds	26,384,917	-	-	-	26,384,917
Private equity investments	-	-	4,656,103	-	4,656,103
Other investments	1,997,741	-	-	-	1,997,741
Total	$ 140,570,858	$ -	$ 4,656,103	$ -	$ 145,226,961

The fair value measurements as presented above are comprised of the Foundation's investments of $105,977,683, of Equity securities in technology companies $37,251,537, and Moncrief's investments of $1,997,741.

Investments Held by the Foundation—The fair value of investments held by the Foundation as of August 31, 2022 and 2021, amounted to $105,752,943 and $123,368,408, respectively.

Investments are authorized by the Foundation's Amended and Restated Investment Policy (the "Policy"), which provides that assets shall be allocated among a number of managers with different investment styles. By diversifying assets among managers whose performance returns may vary, the Foundation seeks to reduce the overall risk of its portfolio. This includes risks related to changing interest rates and foreign currencies exchange rates, credit default of issuers, and credit concentration among any one issuer.

Interest Rate Risk—Interest rate risk is the risk that changes in market interest rates 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.

One of the ways that the Foundation manages its exposures to interest rate risk is by investing in a combination of shorter-term and longer-term investments.

Credit Risk—Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The Policy of the Foundation provides that assets shall be allocated among a number of managers with different investment styles. By diversifying assets among managers whose performance returns may vary, the Foundation seeks to reduce the overall risk of its portfolio, including credit risk. The Foundation's investments in the hedge fund and UTIMCO are subject to market risk as well as the risk that the manager will not be able to redeem the shares. The Foundation reviews the performance of the managers to determine when to redeem the investments.

Custodial Credit Risk—The custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the Foundation will not be able to recover the value of its investments that are in possession of another party. All the Foundation's investments are registered in the Foundation's name. The majority of investments are held by the Foundation's depository bank, while the underlying investments of the hedge fund and UTIMCO are held by the manager or its custodian. The Foundation did not have any investments that are exposed to custodial credit risk.

Concentration of Credit Risk—Concentration of credit risk is the risk of loss attributed to the magnitude of the Foundation's investment in a single issuer. By diversifying assets among managers whose performance returns may vary, the Foundation seeks to reduce the overall risk of its portfolio, including concentration of credit risk.

Foreign Currency Risk—Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. There were no investments held in foreign currency as of August 31, 2022 and 2021. In addition, the Foundation's investments in the hedge fund and UTIMCO may also contain investments in foreign currencies subjecting the investments to foreign currency risk. However, these types of investments are typically not a significant portion of the manager's investment strategy.

3. CAPITAL ASSETS

Capital assets as of August 31, 2022 are summarized as follows (in thousands):

	Balance September 1, 2021	Additions/ Transfers	Retirements/ Transfers	Balance August 31, 2022
Nondepreciable assets:				
Land	$ 99,089	$ 42,413	$ -	$ 141,502
Construction in progress	449,940	240,896	(561,039)	129,797
Nondepreciable collections	13,693	1,654	-	15,347
Total nondepreciable assets	562,722	284,963	(561,039)	286,646
Depreciable assets:				
Buildings and improvements	3,261,305	510,552	(316)	3,771,541
Equipment	907,296	133,959	(7,436)	1,033,819
Total depreciable assets	4,168,601	644,511	(7,752)	4,805,360
Less accumulated depreciation:				
Buildings and improvements	(1,277,752)	(133,788)	31	(1,411,509)
Equipment	(597,486)	(82,675)	6,239	(673,922)
Total accumulated depreciation	(1,875,238)	(216,463)	6,270	(2,085,431)
Depreciable intangible assets:				
Software	221,239	10,643	(18)	231,864
Right of use land	-	139	-	139
Right of use buildings	39,164	95,621	(1,753)	133,032
Right of use equipment	5,584	1,115	(2,169)	4,530
Total depreciable intangible assets	265,987	107,518	(3,940)	369,565
Less accumulated depreciation:				
Software	(198,210)	(12,166)	18	(210,358)
Right of use land	-	(106)	-	(106)
Right of use buildings	(6,491)	(13,155)	1,754	(17,892)
Right of use equipment	(2,378)	(1,975)	2,169	(2,184)
Total accumulated depreciation	(207,079)	(27,402)	3,941	(230,540)
Depreciable assets—net	2,352,271	508,164	(1,481)	2,858,954
Capital assets—net	$ 2,914,993	$ 793,127	$ (562,520)	$ 3,145,600

A summary of changes in the capital assets for the year ended August 31, 2021, is presented below and includes adjustments made for GASB Statement No. 87, *Leases*. See Note 1 for further details on the restatements.

	Balance—September 1, 2020	Additions/ Transfers	Retirements/ Transfers	Balance—August 31, 2021
Nondepreciable assets:				
Land	$ 96,771	$ 2,318	$ -	$ 99,089
Construction in progress	672,370	313,720	(536,150)	449,940
Nondepreciable collections	9,636	4,057	-	13,693
Total nondepreciable assets	778,777	320,095	(536,150)	562,722
Depreciable assets:				
Buildings and improvements	2,737,133	526,597	(2,425)	3,261,305
Equipment	804,524	111,954	(9,182)	907,296
Total depreciable assets	3,541,657	638,551	(11,607)	4,168,601
Less accumulated depreciation:				
Buildings and improvements	(1,146,294)	(133,104)	1,646	(1,277,752)
Equipment	(526,231)	(79,855)	8,600	(597,486)
Total accumulated depreciation	(1,672,525)	(212,959)	10,246	(1,875,238)
Depreciable intangible assets assets:				
Software	215,425	5,836	(22)	221,239
Right of use land	-	-	-	-
Right of use buildings	38,974	190	-	39,164
Right of use equipment	5,406	178	-	5,584
Total intangible assets	259,805	6,204	(22)	265,987
Less accumulated depreciation:				
Software	(187,394)	(10,838)	22	(198,210)
Right of use land	-	-	-	-
Right of use buildings	-	(6,491)	-	(6,491)
Right of use equipment	-	(2,378)	-	(2,378)
Total accumulated depreciation	(187,394)	(19,707)	22	(207,079)
Depreciable assets—net	1,941,543	412,089	(1,361)	2,352,271
Capital assets—net	$2,720,320	$732,184	$ (537,511)	$ 2,914,993

4. COMPONENT UNIT CONDENSED FINANCIAL STATEMENTS

Component unit condensed financial statements are presented below (in thousands) for UTSHS, Inc., Moncrief, and Foundation as of and for the year ended August 31, 2022.

	UTSHS, Inc.	Moncrief	Foundation	Total
Condensed statement of net position:				
Current assets	$ 2,482	$ 4,568	$ 4,493	$ 11,543
Capital assets	-	25,862	-	25,862
Other assets	7,634	7,446	105,753	120,833
Total assets	10,116	37,876	110,246	158,238
Current liabilities	-	10,180	2,578	12,758
Noncurrent liabilities	-	-	19,000	19,000
Total liabilities	-	10,180	21,578	31,758
Net investment in capital assets	-	25,862	-	25,862
Restricted-nonexpendable	-	1,633	-	1,633
Restricted-expendable	-	-	88,667	88,667
Unrestricted	10,116	201	-	10,317
Total net position	$ 10,116	$ 27,696	$ 88,667	$126,479
Condensed statement of revenues, expenses and changes in net position:				
Operating revenues	$ 3	$ 6,736	$ 4	$ 6,743
Operating expenses	39	12,104	508	12,651
Operating loss	(36)	(5,368)	(504)	(5,908)
Net investment income	2,128	3,467	(10,826)	(5,231)
Gift contributions for operations	-	-	-	-
Income (loss) income before other changes in net positions	2,092	(1,901)	(11,330)	(11,139)
Transfers/other changes in net position	(2,800)	(593)	(3,594)	(6,987)
Change in net position	(708)	(2,494)	(14,924)	(18,126)
Net position—September 1, 2021	10,824	30,190	103,591	144,605
Net position—August 31, 2022	$ 10,116	$ 27,696	$ 88,667	$126,479
Condensed statement of cash flows:				
Net cash (used in) provided by:				
Operating activities	$ 296	$ (500)	$ 4,126	$ 3,922
Investing activities	(323)	91	(859)	(1,091)
Net (decrease) increase in cash and cash equivalents	(27)	(409)	3,267	2,831
Cash and cash equivalents—September 1, 2021	2,505	1,252	1,144	4,901
Cash and cash equivalents—August 31, 2022	$ 2,478	$ 843	$ 4,411	$ 7,732

Component unit condensed financial statements are presented below (in thousands) for UTSHS, Inc., Moncrief, and Foundation as of and for the year ended August 31, 2021.

	UTSHS, Inc.	Moncrief	Foundation	Total
Condensed statement of net position:				
Current assets	$ 2,505	$ 2,865	$ 1,208	$ 6,578
Capital assets	-	27,185	-	27,185
Other assets	8,319	1,998	123,368	133,685
Total assets	10,824	32,048	124,576	167,448
Current liabilities	-	1,858	1,985	3,843
Noncurrent liabilities	-	-	19,000	19,000
Total liabilities	-	1,858	20,985	22,843
Net investment in capital assets	-	27,185	-	27,185
Restricted-nonexpendable	-	1,998	-	1,998
Restricted-expendable	-	-	103,591	103,591
Unrestricted	10,824	1,007	-	11,831
Total net position	$ 10,824	$ 30,190	$103,591	$144,605
Condensed statement of revenues, expenses and changes in net position:				
Operating revenues	$ -	$ 6,576	$ -	$ 6,576
Operating expenses	23	10,386	583	10,992
Operating loss	(23)	(3,810)	(583)	(4,416)
Net investment income	2,271	309	23,898	26,478
Gift contributions for operations	-	126	16	142
Income (loss) income before other changes in net positions	2,248	(3,375)	23,331	22,204
Transfers/other changes in net position	(4,999)	2,522	(6,042)	(8,519)
Change in net position	(2,751)	(853)	17,289	13,685
Net position—September 1, 2020	13,575	31,043	86,302	130,920
Net position—August 31, 2021	$ 10,824	$ 30,190	$103,591	$144,605
Condensed statement of cash flows:				
Net cash (used in) provided by:				
Operating activities	$ (1,746)	$ (56)	$ (7)	$ (1,809)
Investing activities	(219)	67	(650)	(802)
Net (decrease) increase in cash and cash equivalents	(1,965)	11	(657)	(2,611)
Cash and cash equivalents—September 1, 2020	4,470	1,241	1,801	7,512
Cash and cash equivalents—August 31, 2021	$ 2,505	$ 1,252	$ 1,144	$ 4,901

5. RISK FINANCING AND RELATED INSURANCE

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

Employee Health and Dental Insurance—The UT System Employee Group Insurance (EGI) program provides health and dental coverage to all benefits-eligible employees and retirees of UT System. These insurance benefits are provided through a self-insured plan and fully insured health maintenance organizations. The UT System Office of Office of Employee Benefits (OEB) is responsible for the overall administration of the insurance plans. OEB was established by Article 3.50-3 of the Texas Insurance Code and complies with state laws and statutes 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 (TWC) for 50% of the unemployment benefits paid to former employees that were paid from general revenue funds. The UT System reimburses the TWC 100% of the unemployment benefits paid to former employees that were paid from local funds.

Workers' Compensation Insurance (WCI)—The Workers' Compensation Insurance (WCI) program provides coverage to all employees of UT System and its thirteen institutions. Under the oversight of the UT System's Office of Risk Management (ORM), the UT System self-insures and administers the system wide program through the use of a third-party administrator. The coverage provides income and medical benefits to all employees who have sustained compensable 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 "Plan")—The coverage provided under the Professional Medical Liability Benefit Plan (the "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 system staff physicians, dentists, residents, fellows, and medical and dental students who have been enrolled as well as all healthcare professional staff members and faculty who are licensed, certified or registered to provide patient care. 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, resident, fellow and healthcare professional ($500,000 per claim) and a $75,000 annual aggregate for each medical and dental 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 incident.

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

Comprehensive Property Protection Program (CPPP)—The CPPP 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 sub limits that apply. UT System participates in a seven percent (7%) quota share of the primary $75,000,000 layer excess of the $25,000,000 layer of commercial insurance coverage. Deductibles for Fire and AOP are $10,000,000 per occurrence as a system ($500,000 for the institution with the loss) with a $15,000,000 annual aggregate limit. Coverage for Wind and Flood and resulting perils provides a $250,000,000 per occurrence limit also on a quota share basis as mentioned for Fire and AOP; a deductible of $10,000,000 per occurrence applies for UT System ($500,000 for the institution with the loss).

In addition, primary policies are purchased on certain Wind and Flood-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 exceed 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 UTSW in addition to paying insurance premiums.

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

Coverage applies to individual board members, employees, faculty, and other covered individuals, as well as to each of the institutions and UT System Administration. The limit of liability is a $15 million annual aggregate (Coverages A, B and C combined), with an additional $5 million self-insured annual aggregate excess limit for Coverages A and B. Self-insured retentions for the Plan are subject to a $5 million annual aggregate. Coverage A applies to non-indemnifiable claims made against individuals and it has no deductible. Coverage B applies to a U.T. 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 U.T. institution with a $300,000 deductible. In the event a loss involves any or all of Coverages A, B, and C, then only the single largest deductible amount will apply.

The Cyber Liability Program 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). Each claim is subject to a $2.5 million retention and annual aggregate with a $500,000 each and every claim retention once the annual aggregate has been met, except for PCI-DSS which is $500,000 per claim and annual aggregate with a $500,000 each and every claim retention once the annual aggregate has been met. Institutions have a $250,000 per claim deductible.

Rolling Owner Controlled Insurance Program (ROCIP)—The ROCIP was established for the centralized purchase of construction contractor insurance on various capital projects. This program provides workers' compensation and general liability insurance for all contractors enrolled on projects participating in the program. The insurance carries a $250,000 per claim and a $375,000 per occurrence cash deductible, which is 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 non-owned (excess liability only) vehicles, along with general liability coverage for certain scheduled exposures. All coverages are subject to a self-insured retention of $2,500 for liability claims and $1,000 for physical damage claims, subject to an aggregate stop loss deductible per policy term.

6. LEASES

Leases where UTSW is the Lessee—UTSW enter into various leases for land, building, and equipment. Of these leases, some agreements call for payments that are partially or completely variable and therefore were not included in ROU assets or lease liabilities. These variable lease payments are derived from a percentage of sales, use of the leased asset, or changes in indexes or rates. UTSW recognized a total of $3,834,515 and $2,663,918 as expenses from these variable payments for the years ended August 31, 2022 and 2021, respectively.

The principal and interest expense for the next five years and beyond are projected below for lease obligations:

Years	Principal	Interest	Total
2023	$ 14,220,743	1,809,012	16,029,755
2024	15,124,932	1,630,270	16,755,202
2025	14,967,635	1,443,958	16,411,593
2026	14,845,111	1,259,076	16,104,187
2027	14,999,019	1,069,886	16,068,905
2028–2032	35,514,253	2,912,319	38,426,572
2033–2037	10,237,605	655,020	10,892,625
	$ 119,909,298	$ 10,779,541	$ 130,688,839

See Note 3 for a summary of changes in the ROU assets, displayed by the nature of underlying assets, for the years ended August 31, 2022 and 2021.

The lease liability on the statement of net position represents the institution’s obligation to make lease payments arising from leases other than short term leases. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments over the remaining lease term. Short term leases, those with a maximum period of 12 months, are expensed as incurred.

The lease liability activity for the year ended August 31, 2022 and 2021 is summarized as follows:

	September 1, 2021	Additions	Reductions	August 31, 2022	Current Portion
Lease liability	$ 36,283	$ 96,876	$ (13,249)	$ 119,910	$ 14,221

	Balance at September 1, 2020	Additions	Reductions	Balance at August 31, 2021	Current Portion
Lease liability	$ 44,380	$ 368	$ (8,465)	$ 36,283	$ 7,557

Future Leases—UTSW entered into additional leases that have not yet commenced as of August 31, 2022, including leases for buildings with both fixed payments required. Terms range from March 2023 to January 2034 with a total future commitment of $19,797,096.

Leases where UTSW is the Lessor—For the years ended August 31, 2022, and 2021, UTSW earned a total of $6,381,703 and $4,076,730 in lease revenue and $259,930 and $40,491 in lease interest revenue, respectively, from arrangements meeting the definition of a lease. The leased properties are composed of a land lease and building space.

7. POST-EMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

OPEB Error Corrections—As discussed in Note 1, UTSW has restated fiscal year 2021 information within this disclosure to correct for the effects of the census data errors and resultant changes to actuarial assumptions used to calculate the total OPEB liability. Specifically, the employees covered by the benefit terms has been adjusted for errors in the census data. Further, the Last State Employer Assumption (described below), representing the assumed rates of participation by eligible terminated employees, was added to restate the total OPEB liability as of September 1, 2020.

Health and Life Insurance Benefits for Retired Employees—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, 2022 and 2021, 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.

	2022		2021	
Level of Coverage	Employer	Retiree	Employer	Retiree
Retiree Only	$ 628.06	$ -	$ 628.06	$ -
Retiree/Spouse	957.26	270.42	957.26	270.42
Retiree/Children	838.70	282.82	838.70	282.82
Retiree/Family	1,169.88	532.52	1,169.88	532.52

Plan Description and Funding Policy—OPEB are provided to UTSW's retirees under the UT System Employee Group Insurance Program (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 18.06 and 18.26 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, 2022 and 2021. UTSW's proportion as of August 31, 2022 and 2021 was 14.86 percent and 13.87 percent.

UTSW and member contribution rates are determined annually by UT System based on the recommendations of the OEB staff and the 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. UT 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 authority under which the obligations of the plan members and UT System are established and may be amended is Chapter 1601, *Texas Insurance Code*. At the respective measurement dates, the following employees were covered by the benefit terms:

	Measurement Dates	
	December 31, 2021	December 31, 2020
a. Inactive employees or beneficiaries currently receiving benefit payments	31,104	30,057
b. Inactive employees entitled to but not yet receiving benefit payments	15,091	13,089
c. Active employees	104,546	99,474
d. Total	150,741	142,620

Total OPEB Liability—UTSW has elected to use a measurement date that is eight months in advance of the fiscal year end. UTSW's proportionate share of the total OPEB liability is $2,665,840,940, including a current portion of $44,207,659 and a noncurrent portion of $2,621,633,281, reported for the fiscal year ended August 31, 2022 was measured as of December 31, 2021 and was determined by an actuarial valuation as of December 31, 2021. UTSW's proportionate share of the total OPEB liability is $2,024,861,035, including a current portion of $35,890,856 and a noncurrent portion of $1,988,970,179, reported for the fiscal year ended August 31, 2021 was measured as of December 31, 2020 and was determined by an actuarial valuation as of December 21, 2019.

Actuarial Assumptions and Other Inputs—The total OPEB liability as of December 31, 2021 was determined by an actuarial valuation as of that same date using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.30%
Salary increases	3.05% to 9.05% (includes inflation)
Discount rate	2.06% for December 31, 2021; 2.12% for December 31, 2020;
Healthcare cost trend rates	
Medical	6.00% for calendar year (CY)23, 5.50% for CY24, 5.25% for CY25, 5.00% for CY26, 4.75% for CY27, 4.60% for CY28, 4.50% for CY29, 4.40% for CY30 and 4.30% for CY31 and later years
Pharmacy	10.50% for CY23, 10.00% for CY24, 9.50% for CY25, 9.00% for CY26, 8.00% for CY27, 7.00% for CY28, 6.00% for CY29, 5.00% for CY30 and 4.30% for CY31 and later years
Retiree contributions and opt-out	

credit trend rates	7.50% for CY23, 6.90% for CY24, 6.60% for CY25, 6.25% for CY26, 5.80% for CY27, 5.35% for CY28, 4.95% for CY29, 4.60% for CY30 and 4.30% for CY31 and later years

Mortality:

a. Service Retirees, Survivors and other Inactive Members:
Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018.

b. Disability Retirees:
Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 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 Ultimate MP Projection Scale from the year 2014.

Discount Rate

a. For fiscal year ended August 31, 2022: The discount rate used to measure the total OPEB liability as of December 31, 2021 was 2.06%. The discount rate used to determine the total OPEB liability as of December 31, 2020 was 2.12%.

b. For fiscal year ended August 31, 2021: The discount rate used to measure the total OPEB liability as of December 31, 2020 was 2.12%. The discount rate used to measure the total OPEB liability as of December 31, 2019 was 2.74%.

c. Municipal Bond Rate: 2.06% as of December 31, 2021 and 2.12% as of December 31, 2020; 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.

Last State Employer Assumption

Members who terminate employment are assumed to participate in the EGIP (i.e., as a result of UT System being their last State employer), provided all other eligibility requirements are satisfied, according to the following schedule:

Age at Termination Rate	Participation
<20	20%
20-24	20%
25-34	20%
35-44	40%
45-54	40%
≥55	40%

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 as of August 31, 2017.

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

i. <u>Economic Assumptions</u>

- Assumed Per Capita Health Benefit Costs and Health Benefit Cost and Retiree Contribution trends have been updated since the previous valuation to reflect recent health plan experience and its effects on our short-term expectations.

- The expenses directly related to the payment of EGIP health benefits have been updated since the previous valuation.

- The Patient-Centered Outcome Research Institute (PCORI) fees payable under the ACA have been updated since the previous valuation to reflect IRS Notice 2020-44 published June 8, 2020.

ii. <u>Other Inputs</u>

- The discount rate was changed as a result of requirements by GASB Statement No. 75 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, 2021, no changes in benefit terms have occurred. Accordingly, the benefit terms used in this valuation have not been changed since the prior valuation.

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

	FY22		
	1% Decrease (1.06) %	Discount Rate (2.06) %	1% Increase (3.06) %
Total OPEB liability	$ 3,253,220,979	$ 2,665,840,940	$ 2,214,408,074

	FY21		
	1% Decrease (1.12) %	Discount Rate (2.12) %	1% Increase (3.12) %
Total OPEB liability	$ 2,464,890,747	$ 2,024,861,035	$ 1,686,017,403

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

	FY22		
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Total OPEB liability	$ 2,163,132,812	$ 2,665,840,940	$ 3,348,010,809

	FY21		
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Total OPEB liability	$ 1,632,171,388	$ 2,024,861,035	$ 2,559,486,804

Healthcare Cost Trend Rates used for fiscal year 2022 are shown below:

	Medical			Pharmacy		
Calendar Year	1% Decrease	Trend Rates	1% Increase	1% Decrease	Trend Rates	1% Increase
2023	5.00 %	6.00 %	7.00 %	9.50 %	10.50 %	11.50 %
2024	4.50	5.50	6.50	9.00	10.00	11.00
2025	4.25	5.25	6.25	8.50	9.50	10.50
2026	4.00	5.00	6.00	8.00	9.00	10.00
2027	3.75	4.75	5.75	7.00	8.00	9.00
2028	3.60	4.60	5.60	6.00	7.00	8.00
2029	3.50	4.50	5.50	5.00	6.00	7.00
2030	3.40	4.40	5.40	4.00	5.00	6.00
2031 and beyond	3.30	4.30	5.30	3.30	4.30	5.30

Healthcare Cost Trend Rates used for fiscal year 2021 are shown below:

Calendar Year	1% Decrease	Healthcare Cost Trend Rates	1% Increase
2022	6.50 %	7.50 %	8.50 %
2023	6.00	7.00	8.00
2024	5.50	6.50	7.50
2025	5.00	6.00	7.00
2026	4.50	5.50	6.50
2027	4.00	5.00	6.00
2028	3.75	4.75	5.75
2029 and beyond	3.30	4.30	5.30

UTSW recognized OPEB expense of $246,256,850 for the fiscal year ended August 31, 2022 and $158,579,288 for the fiscal year ended August 31, 2021.

Changes in UT System's proportionate share of the Total OPEB liability are shown below:

	Increase (Decrease) in Total OPEB Liability	
	For Measurement Year from December 31, 2020 to December 31, 2021	For Measurement Year from December 31, 2019 to December 31, 2020
Balance at beginning of measurement year	$ 11,931,417,814	$ 9,683,463,315
Changes for the year:		
Service cost	708,022,293	572,677,209
Interest	266,654,173	286,398,460
Differences between expected and actual experience	160,861,824	-
Changes of assumptions or other inputs	1,780,677,623	1,269,349,798
Benefit payments (employer)	(181,252,716)	(153,657,997)
Net changes	2,734,963,197	1,974,767,470
Changes in proportional share	29,213,295	273,187,029
Balance at end of measurement year	$ 14,695,594,306	$ 11,931,417,814

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

	Increase (Decrease) in Total OPEB Liability	
	For Measurement Year from December 31, 2020 to December 31, 2021	For Measurement Year from December 31, 2019 to December 31, 2020
Balance at beginning of measurement year	$ 14,597,601,922	$ 12,181,554,654
Changes for the year:		
Service cost	864,120,588	700,647,153
Interest	325,443,652	350,396,808
Differences between expected and actual experience	196,327,171	-
Changes of assumptions or other inputs	2,173,265,178	1,552,997,585
Benefit payments (employer)	(221,213,661)	(187,994,278)
Net changes	3,337,942,928	2,416,047,268
Balance at end of measurement year	$ 17,935,544,850	$ 14,597,601,922

At each fiscal year-end, UTSW 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, 2022		As of August 31, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 25,764,015	$ 20,089,001	$ -	$ 23,769,901
Changes of assumptions or other inputs	520,836,311	214,941,076	254,416,804	253,921,141
Change in proportion and contribution difference	304,804,273	-	211,641,689	-
Contributions subsequent to the measurement date	25,555,160	-	20,425,552	-
	$ 876,959,759	$ 235,030,077	$ 486,484,045	$ 277,691,041

Amounts reported as Deferred Outflows/(Inflows) of Resources will be recognized in OPEB expense as follows:

For the fiscal year ended August 31, 2022:

Year Ending August 31:	Increase of OPEB expense
2023	$ 69,042,519
2024	69,042,519
2025	74,702,126
2026	87,736,273
2027	94,765,555
Thereafter	221,085,530
Total	$ 616,374,522

8. RETIREMENT PLANS

TRS—The State of Texas (the "State") has a joint contributory retirement plans for substantially all of its employees. The primary plan that UTSW participates in is a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the Teacher Retirement System of Texas. TRS is primarily funded through state and employee contributions. Depending upon the source of funding for a participant's salary, UTSW may be required to make contributions in lieu of the State.

All UTSW personnel employed in a position on a half time or greater basis for at least 4½ 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 totaling 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 8.0 percent of gross earnings for 2022 and 2021. Depending upon the source of funding for the employee's compensation, the State or UTSW contributes a percentage of participant salaries totaling 7.5 percent of annual compensation for 2022 and 2021. UTSW's actual contributions excluding the State match to TRS previously reported for the years ended August 31, 2022 and 2021 were $95,748,839 and $80,982,004, 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, 2021 and August 31, 2020 measurement dates.

Summary of Actuarial Methods and Assumptions—TRS Plan

Actuarial Valuation Date	August 31, 2020 rolled forward to August 31, 2021
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Floating
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.25 %
Investment Rate of Return	7.25 %
Long-term Expected Rate of Return	7.25 %
Municipal Bond Rate as of August 2020*	1.95 %
Inflation	2.30 %
Salary Increase	3.05% to 9.05% including inflation
Payroll Growth Rate	3.00 %
Mortality:	
Active	90% of the RP 2014 Employee Mortality Tables for males and females with full generational mortality
Post-Retirement	2018 TRS Healthy Pensioner Mortality Tables with full generation projection using Scale U-MP
Ad Hoc Post-Employment Benefit Changes	None

Summary of Actuarial Methods and Assumptions—TRS Plan

Actuarial Valuation Date	August 31, 2019 rolled forward to August 31, 2020
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Floating
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.25 %
Investment Rate of Return	7.25 %
Long-term Expected Rate of Return	7.25 %
Municipal Bond Rate as of August 2020*	2.33%
Inflation	2.30 %
Salary Increase	3.05% to 9.05% including inflation
Payroll Growth Rate	3.00 %
Mortality:	
Active	90% of the RP 2014 Employee Mortality Tables for males and females with full generational mortality
Post-Retirement	2018 TRS Healthy Pensioner Mortality Tables with full generation projection using Scale U-MP
Ad Hoc Post-Employment Benefit Changes	None

Notes:

*Source for the municipal bond rate is the 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 the 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 with full generation projection using Scale U-MP.

The actuarial assumptions used in the determination of the total pension liability as of the August 31, 2021 measurement date are the same assumptions used in the actuarial valuation as of August 31, 2020, with no changes since the prior measurement date. There have been no changes to the benefit provisions of the plan since the prior measurement date.

The discount rate of 7.25% 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%. The projected cash flows into and out of the pension plan assumed that active members, employers, and non-employer contributing entity make their contributions at the statutorily required rates. It is assumed that future employer and State contributions will be 8.50% of payroll for the measurement period ending August 31, 2021, gradually increasing to 9.55% over the next several years. This includes a factor for all employer and State contributions for active and rehired retirees. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

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 geometric real rates of return for each major asset class for the Plan's investment portfolio as of August 31, 2021 measurement date are presented below:

Asset Class	Target Allocation*	Long-Term Expected Geometric Real Rate of Return**
Global equity:		
U.S.	18.0%	3.6%
Non-US developed	13.0%	4.4%
Emerging markets	9.0%	4.6%
Private equity	14.0%	6.3%
Stable value:		
U.S. treasury	16.0%	-0.2%
Absolute return:	- %	1.1%
Stable value hedge funds	5.0%	2.2%
Real return:		
Real assets	15.0%	4.5%
Energy and natural resources & infrastructure	6.0%	4.7%
Commodities	- %	1.7%
Risk parity:		
Risk parity	8.0%	2.8%
Asset allocation leverage cash	2.0%	-0.7%
Asset allocation leverage	-6.0%	-0.5%
Total	100.0%	

Notes:

*Target allocations are based on fiscal year 2021 policy model.
**Capital Market assumptions come from Aon Hewitt (as of August 31, 2021).

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, 2020, measurement date are presented below:

Asset Class	Target Allocation*	Long-Term Expected Geometric Real Rate of Return**
Global equity:		
U.S.	18.0 %	3.9 %
Non-US developed	13.0 %	5.1 %
Emerging markets	9.0 %	5.6 %
Private equity	14.0 %	6.7 %
Stable value:		
U.S. treasury	16.0 %	(0.7)%
Absolute return:	- %	1.8 %
Stable value hedge funds	5.0 %	1.9 %
Real return:		
Real assets	15.0 %	4.6 %
Energy and natural resources & infrastructure	6.0 %	6.0 %
Commodities	- %	0.8 %
Risk parity:		
Risk parity	8.0 %	3.0 %
Asset allocation leverage cash	2.0 %	(1.5)%
Asset allocation leverage	(6.0)%	(1.3)%
Total	100.0 %	

Notes:

*Target allocations are based on fiscal year 2020 policy model.
**Capital Market assumptions come from Aon Hewitt (as of August 31, 2020).

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

Sensitivity of UTSW's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate 2022

1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$1,056,200,238	$483,351,726	$ 18,597,702

Sensitivity of UTSW's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate 2021

1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$1,445,522,771	$937,444,583	$524,642,187

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 2021 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 TRS website at www.trs.state.tx.us.

As of August 31, 2022 and 2021, UTSW reported a liability of $483,351,726 and $937,444,583, respectively, for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of August 31, 2021 and 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2020 and 2019, respectively, and rolled forward to the measurement date. UTSW's proportion as of the August 31, 2021 and 2020 was 1.8980% and 1.7503%, respectively. UTSW'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 non-employer contributing entity to the plan for the periods September 1, 2020 through August 31, 2021 and September 1, 2019 through August 31, 2020. At August 31, 2022 and 2021, the amount of the net pension liability related to UTSW reported by the State was $153,349,123 and $309,786,318, respectively.

The amount reported by the State is related to the on-behalf contributions, which are recognized as State appropriation general revenue on UTSW's financial statements in the fiscal year that the State contributed the amounts to TRS on UTSW's behalf.

For the years ended August 31, 2022 and 2021, UTSW recognized pension expense of $49,500,296 and $145,735,472, respectively. At August 31, 2022 and 2021, UTSW reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2022	
	Deferred Outflows of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	$ 808,874	$ 34,028,344
Changes of assumptions	170,855,393	74,478,298
Net difference between projected and actual investment return	-	405,284,149
Change in proportion and contribution difference	122,138,435	10,737,118
Contributions subsequent to the measurement date	95,748,839	-
Total	$389,551,541	$524,527,909

	2021	
	Deferred Outflows of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	$ 1,711,699	$ 26,161,590
Changes of assumptions	217,520,496	92,488,198
Net difference between projected and actual investment return	18,977,762	-
Change in proportion and contribution difference	90,524,953	18,213,569
Contributions subsequent to the measurement date	80,982,005	-
Total	$409,716,915	$136,863,357

The $95,748,839 and $80,982,005 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 year ending August 31, 2022 and 2021, respectively.

Other amounts reported as deferred outflows and inflows of resources related to pensions as of August 31, 2022 will be recognized in pension expense in the following years:

Fiscal Years	(Reduction) Increase of Pension Expense
2023	$ (26,516,471)
2024	(34,491,241)
2025	(75,339,204)
2026	(106,212,341)
2027	9,391,929
Thereafter	2,442,121
Total	$ (230,725,207)

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 TRS, 1000 Red River Street, Austin, TX 78701 or found on the TRS website at www.trs.state.tx.us.

Optional Retirement Program (ORP)—The State has also established an ORP for institutions of higher education. Full-time faculty and certain staff members are eligible to participate in the ORP. Participation in the ORP is in lieu of participation in the TRS. 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 currently provided by the state and each participant are 6.6% and 6.65%, respectively. Depending upon the source of funding for the employee's compensation, UTSW may be required to make the employer contributions in lieu of the State. UTSW may make contributions of up to an additional 1.9% of the employee's compensation. Since these are individual annuity contracts, the state and UTSW have no additional or unfunded liability for this program. UTSW's contribution for the years ended August 31, 2022 and 2021 was $47,877,140 and $45,107,408, respectively. Employee contributions for the years ended August 31, 2022 and 2021 were $37,524,445 and $35,378,334, respectively.

9. BONDED INDEBTEDNESS

Short-Term Debt—UTSW 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. UTSW disburses funds to UT System for payments of principal and interest related to UTSW's internal loans. These disbursements are recorded as transfers to the UT System.

At August 31, 2022, UT System had outstanding Revenue Financing System (RFS) and Permanent University Fund (PUF) commercial paper notes payable of $1,788,750,000. No amount of indebtedness related to these commercial paper notes has been recorded in UTSW's financial statements, as the UT System is the party directly liable for these commercial paper notes. At August 31, 2022, however, UTSW's remaining unpaid share of short-term internal loans was $432,693,096.

Long Term Bond and Debt Service Requirements—UTSW receives proceeds from revenue bonds issued and held by UT System to support capital projects of the UT System and its institutions. These proceeds are evidenced through internal loan agreements and are recorded as transfers from UT System. UTSW disburses funds to UT System for payments of principal and interest related to UTSW's share of bond proceeds internal loans. These disbursements are recorded as transfers to the UT System.

At August 31, 2022, UT System had outstanding RFS bonds payable of $6,544,540,000. No amount of indebtedness related to these bonds has been recorded in UTSW's consolidated financial statements, as the UT System is the party directly liable for these bonds. At August 31, 2022, however, UTSW's remaining unpaid share of the bond proceeds long-term internal loans was $1,331,449,000.

Debt service requirements at August 31, 2022 were as follows (in thousands):

August 31	Principal	Interest	Total
2023	$ 64,838	$ 48,342	$ 113,180
2024	66,570	45,759	112,329
2025	62,166	43,065	105,231
2026	52,956	40,633	93,589
2027	50,815	38,658	89,473
2028-2032	231,359	166,767	398,126
2033-2037	226,640	125,048	351,688
2038-2042	225,491	85,690	311,181
2043-2047	242,667	44,211	286,878
2048-2052	107,947	7,972	115,919
Total	$ 1,331,449	$ 646,145	$ 1,977,594

UTSW has recorded a receivable due from UT System in the amount of $12,910,550 and $20,315,552 as of August 31, 2022 and 2021, respectively, of debt funds still to be received. Interest rates on UTSW's remaining unpaid share of RFS bonds range from 1.50% to 5.375%. A summary of interest cost for UTSW on borrowed funds held by UT System for the years ended August 31, 2022 and 2021, is as follows (in thousands):

	2022	2021
Interest cost:		
Charged to transfers	$ 53,317	$ 41,541
Total	$ 53,317	$ 41,541

10. ENDOWMENTS

Endowments—The net position classifications on the Statement of Net Position related to endowment funds, including annuity and life income funds, as of August 31, 2022 and 2021, were as follows (in thousands):

Net Position Classification of Endowments	2022	2021
Restricted—nonexpendable	$ 1,140,331	$ 1,063,075
Restricted—expendable:		
Net appreciation on true endowments	210,002	205,487
Funds functioning as endowments	678,091	878,813
Unrestricted—funds functioning as endowments	73,904	77,342
Total	$ 2,102,328	$ 2,224,717

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 Prudent Management of Institutional Funds Act, as adopted by 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. The UT System's policy is to retain all undistributed net realized and unrealized appreciation within the endowment funds. The UT System's endowment distribution policy is further discussed below.

These endowments are invested in the PHF and the General Endowment Fund (GEF). The balances in the PHF and GEF for UTSW at August 31, 2022 and 2021 were $88,444,150 and $97,731,100 and $2,013,883,688 and $2,126,986,438, respectively.

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 forgoing 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 GEF, created 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 separately managed.

Endowment and Similar Funds—Funds subject to restrictions of endowment and trust instruments require 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 UT System 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.

11. CONCENTRATIONS OF PATIENT ACCOUNTS RECEIVABLE CREDIT RISK

UTSW grants credit without collateral to its patients. The mix of gross and net receivables from patients and third-party payors as of August 31, 2022 and 2021 is as follows:

	Gross Receivables		Net Receivables	
	2022	2021	2022	2021
Commercial insurance	2.1 %	2.0 %	1.8 %	1.8 %
Medicaid	9.5	8.0	4.3	4.3
Medicare	27.5	26.6	25.3	23.2
Managed care organizations	38.9	39.6	56.0	57.4
Others	17.1	18.4	10.5	12.5
Self-pay	4.9	5.5	2.1	0.8
Total	100 %	100 %	100 %	100 %

12. COMMITMENTS AND CONTINGENCIES

Pending Lawsuits and Claims—UTSW 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 UTSW’s financial position or results from operations. UTSW is not aware of any significant pending or threatened litigation involving allegations of potential wrongdoing.

Commitments for Construction—As of August 31, 2022 and 2021, the remaining commitment on construction contracts for expansion and remodeling of UTSW’s facilities is approximately $144 million and $203 million, respectively. A majority of these commitments is related to the ongoing construction of the Texas Instruments Biomedical Engineering and Sciences Building, a partnership between UT Southwestern Medical Center and The University of Texas at Dallas.

Laws and Regulations—UTSW 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 the recorded estimates of third-party settlements will change by a material amount in the near term. UTSW's intent is to be in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future review and interpretations. Changes in Medicare and Medicaid programs and a reduction in funding could have an adverse effect on UTSW. Further, UTSW receives grants and other forms of reimbursement from various federal and state agencies. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing such funds. UTSW believes that the liability, if any, for reimbursement, which may arise as the result of audits, would not be material.

13. RELATED PARTIES

Through the normal course of operations, UTSW both receives funds from and provides funds to other state agencies in support of sponsored programs. Funds received and provided during the year ended August 31, 2022, related to pass-through grants were approximately $50,164,774 and $4,713,534 respectively. Funds received and provided during the year ended August 31, 2021, related to pass-through grants were approximately $51,278,835 and $4,117,009 respectively.

UTSW also routinely enters into transactions with UT System for the reimbursement of capital outlay and other expenses. Amounts due from UT System were approximately $23,529,687 and $29,279,670 at August 31, 2022 and 2021, respectively. Amounts due to UT System were approximately $23,676,897 and $22,621,867 as of August 31, 2022 and 2021, respectively.

14. DEFERRED COMPENSATION PROGRAMS

UTSW offers two types of 457 deferred compensation plans (DCPs): a 457(b) plan and a 457(f) plan. The 457(b) plan is available to all employees and the 457(f) plan is limited to senior executives. The 457 plans are consistent with the Internal Revenue Code of 1986, as amended, and its regulations thereunder including, but not limited to, Section 457 (b) (f) thereof and Subchapter D, Chapter 609 of the Texas Government Code. The assets of DCPs do not belong to UTSW or UT System and, therefore, neither UT System nor UTSW has any liability under DCPs. It is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

Section 457(b) Deferrals—UTSW employees may elect to participate in the UTSaver DCP, a supplemental retirement program that allows participants to tax-defer additional income for retirement, through pretax contributions. Participants can contribute a minimum of $15 per month or as much as 100% of eligible compensation up to $20,500 if employee is aged 49 or younger, or $27,000 if the employee is aged 50 or older for 2022 in the UTSaver DCP plan. The Plan is administered by UT System, which ensures compliance with applicable federal and state laws, and internal policies consistent with the UT System Board of Regents rules and regulations.

Section 457(f) Deferrals—UTSW has established a 457(f) DCP for a select group of individuals as identified by the president and with the approval of the executive vice chancellor for health affairs. The structure of the Plan allows for the deferral of compensation pursuant to Section 457 (f) of the Internal Revenue Code. The deferral agreements are for a minimum of three years and a maximum of five years. Deferrals are contributed to the participants established in 457(f) account on an annual basis. At the end of the deferral agreement period, provided the employee is still employed, he/she will become vested in the contributed amounts, including earnings and losses. It is at this time that the balance in the participant's account is considered as taxable income.

15. JOINT VENTURES

U.T. Southwestern Health Systems (UTSHS), a blended component unit of U.T. Southwestern Medical Center, is a participating member of U.T. Southwestern DVA Healthcare, LLP (DVA). DVA is a joint venture between UTSHS and DaVita Inc. to provide care for dialysis patients in the Dallas-Fort Worth area. UTSHS's equity interest in DVA at August 31, 2022 and 2021 was $6,614,563 and $7,411,072, respectively, or 49%. Separate financial statements for DaVita may be obtained at DaVita Inc., 601 Hawaii Street, El Segundo, CA, 90245 or www.DaVita.com.

UTSHS is a participating member of Crowder Dialysis, LLC (Crowder). Crowder is a joint venture between UTSHS, Crowder, and Renal Treatment Centers-Southeast, LP, formed for the purpose of developing, establishing, owning or leasing, and operating one or more licensed outpatient dialysis and renal care service centers and for the purpose of doing such other things as are necessary, convenient, desirable or incidental to the foregoing, and for such other purposes as may be agreed upon from time to time. UTSHS's equity interest in Crowder at August 31, 2022 and 2021 was $1,017,704 and $907,157, respectively, or 49%. Separate financial statements for Crowder may be obtained at c/o DaVita Inc., 2000 16th Street, Denver, Colorado, 80202 or www.DaVita.com.

On December 15, 2015, Texas Health Resources (THR) and The University of Texas Southwestern Medical Center (UTSW) formed an integrated regional health network through a Master Affiliation Agreement (MAA). The initial term of the MAA is twenty (20) years, beginning on the effective date of December 15, 2015. Unless one party to the agreement notifies the other party to the agreement by written termination notice at least three (3) years prior to the expiration of the first twenty (20) year initial term, the agreement will automatically extend for an additional ten-year period. The network, Southwestern Health Resources (SWHR), commenced activities on April 1, 2016 offering key advantages for patients in North Texas including: a) a broad, integrated continuum of physician-driven care utilizing UTSW's network of faculty and community-based physicians, THR's employed physicians, and independent physicians affiliated with both organizations; and b) an integrated hospital network consisting of UTSW's two university hospitals and THR's wholly-controlled and joint-ventured community hospitals, a key component of which is a new organization—a Joint Operating Company formed to centralize leadership of UTSW's University Hospital and THR's Texas Health Presbyterian Hospital Dallas) under a single Senior Executive Officer. UTSW and THR agreed to share in revenues and expenses between the joint operating company hospitals in accordance with an independent third party consultant's valuation that determined the adjusted earnings allocation percentage should be set at 46% for THR and 54% for UTSW. Though the agreement established a methodology by which revenues and expenses are shared through a monthly network settlement, UTSW and THR did not relinquish ownership of the individual hospitals. UTSW and THR continue to report their respective revenues and expenses generated by their respective hospitals. Accordingly, the MAA calls for a Network Settlement that is to be calculated no less frequently than annually and is to be paid no later than ninety (90) days after the end of the Hospitals JOC's fiscal year ending August 31st, based on the difference between the sharing allocation percentages and the actual operating results of the three hospitals. For the fiscal years ended August 31, 2022 and 2021, UTSW recorded payables of $23.2 million and $30.2 million, respectively, based on the network settlement calculation.

The second amended and restated MAA dated September 1, 2018 between THR and UTSW created three (3) separate corporations, Southwestern Health Resources Clinically Integrated Network (CIN), Southwestern Health Resources Corp (SWHR), and Southwestern Health Resources Hospitals JOC (JOC).

The Southwestern Health Resources Clinically Integrated Network (CIN) is the sole member of Southwestern Health Resources Physician Network. The Southwestern Health Resources Physician Network is the sole member of NTSP Holding Company, LLC and Southwestern Health Resources Accountable Care Network.

The purpose of Southwestern Health Resources Clinically Integrated Network (CIN) is to deliver nationally preeminent, highest-quality, patient-centered care to the communities of North Texas through our integrated network, creating value through health care, research and stewardship of societal resources. Membership interest in Southwestern Health Resources Clinically Integrated Network (CIN) is 51% UTSW and 49% THR.

The purpose of SWHR is to further the longstanding and complementary commitments and missions of UTSW and THR, provide support to Texas Health Presbyterian Hospital Dallas, William P. Clements Jr. University Hospital, and other tax-exempt hospitals associated with THR, and to provide support to one or more tax-exempt physician groups that are wholly controlled by either UTSW or THR. Membership interest in SWHR is 50% UTSW and 50% THR.

The purpose of the JOC is to further the longstanding and complementary commitments and missions of UTSW and THR, participate in a clinically integrated network of physicians, hospitals, and other care providers, operate and provide support to Texas Health Presbyterian Hospital Dallas, William P. Clements Jr. University Hospital, and other tax-exempt hospitals associated with THR, and engage in such other health care related activities as may be necessary. Membership interest in the JOC is 49% UTSW and 51% THR.

All three (3) entities, CIN, SWHR, and JOC created by the MAA are legally separate entities that are jointly owned, operated, and each are governed by both UTSW and THR as a separate and specific activity subject to joint control. Neither UTSW nor THR has the ability to unilaterally control the financial or operating policies of the joint ventures. UTSW’s combined financial interest in all of the aforementioned legal entities as of August 31, 2022 and 2021 was $61,751,430 and $28,774,637 or approximately 50% for both years.

On August 28, 2018, THR and UTSW signed a Members Agreement to form Texas Health Hospital Frisco (THHF) to provide superior health care to the residents of Collin County and the surrounding communities. The purpose is to enhance UTSW’s ability to conduct research and expand educational activities with exposure to all dimensions of care delivery necessary in the aggregate for an entire community. UTSW’s financial interest in THHF as of August 31, 2022 and 2021 was $117,814,831 and $112,668,427, respectively, or 49%. THHF commenced operations in December of 2019.

UTSW is a participating member of Pediatric Health Management Services. Pediatric Health Management Services is a non-profit corporate entity that was formed by UTSW and Children’s Health System of Texas on October 1, 2019 for the purpose of developing a joint pediatric enterprise. UTSW’s equity interest in Pediatric Health Management Services as of August 31, 2022 was $4,389,470 or 50%, and there were no financial transactions in fiscal year 2021. UTSW is committed to providing funding of up to $75,000,000 per a development agreement dated May 11, 2022.

16. UNCONDITIONAL PROMISES TO GIVE

Contributions received from donors resulting from non-exchange transactions are recorded as revenues when all the eligibility requirements are met. Restricted contributions are recorded as restricted net assets 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 has been established and net position has been increased by the time-discounted value of the promises. During the fiscal years ended August 31, 2022 and 2021, discount rates used ranged from 0.07% to 1.90% and 0.11% to 1.35%, 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 anticipated present value of the contributions receivable as of August 31, 2022 and 2021, is as follows (in thousands):

	2022	2021
Due in one year	$ 30,715	$ 10,927
Due in two to five years	33,821	16,925
Gross contributions receivable	64,536	27,852
Less present value discount of gross contributions	(8,615)	(1,663)
Net contributions receivable	$ 55,921	$ 26,189

The net contributions receivable balance as of August 31, 2022 and 2021 includes approximately $22.8 million and $6.5 million, respectively, of anticipated capital contributions for construction of the O'Donnell Brain Institute and other capital projects. On the Consolidated Statements of Net Position, these amounts are included in the noncurrent portion of contributions receivable because they are restricted for capital assets.

As of August 31, 2022 and 2021, UTSW had received conditional promises to give and indications of intentions to give of approximately $28.6 million and $58 million, respectively, in addition to the amounts recorded as contributions receivable. These amounts are not reflected in the accompanying consolidated financial statements.

17. FACULTY INCENTIVE PLANS

Incentive compensation may be paid to a medical service research development plan faculty member to promote future performance. The amount of such payment is determined through established and equitably applied formulas set forth in the departmental incentive plans. Incentive compensation is not guaranteed or fixed. To be eligible to receive incentive compensation, a faculty member must be a UTSW employee on the date the payment is made.

18. UPCOMING GASB PRONOUNCEMENTS

GASB Statement No. 91, *Conduit Debt Obligations, effective 2023*, provides a single method of reporting conduit debt obligations. UTSW is evaluating the effect that Statement No. 91 will have on its consolidated financial statements.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements*, effective 2023, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements and provides guidance for availability payment arrangements. UTSW is evaluating the effect that Statement No. 94 will have on its consolidated financial statements.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*, is effective 2023. This Statement defines a SBITA; establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA. UTSW is evaluating the effect that Statement No. 96 will have on its consolidated financial statements.

Other than the portion of this statement implemented in 2022, the remainder of GASB Statement No. 99*, Omnibus 2022*, is effective in 2023 and 2024. The requirements related to leases, PPPs, and SBITAs are effective 2023. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective 2024. UTSW is evaluating the effect that Statement No. 99 will have on its consolidated financial statements.

GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*, effective 2024, enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. UTSW is evaluating the effect that Statement No. 100 will have on its consolidated financial statements.

GASB Statement No. 101, *Compensated Absences*, effective 2025, updates the recognition and measurement guidance for compensated absences by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. UTSW is evaluating the effect that Statement No. 101 will have on its consolidated financial statements

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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

UT SOUTHWESTERN MEDICAL CENTER

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFITS PLAN AUGUST 31, 2022
SCHEDULE OF THE UTSW'S PROPORTIONATE SHARE OF THE TOTAL OPEB LIABILITY
AS OF THE DECEMBER 31 MEASUREMENT DATE

	2021	2020		2019	2018	2017	2016
UTSW's proportion of the total OPEB liability	14.86 %	13.87 %		13.13 %	12.90 %	11.53 %	12.38 %
UTSW's proportionate share of the total OPEB liability	$ 2,665,840,940	$ 2,024,861,035	*	$ 1,907,844,714	$ 1,686,650,925	$ 1,720,054,323	$ 1,669,316,788
State's proportionate share of the total OPEB liability related to UTSW	205,548,883	169,148,001	*	219,884,837	201,030,020	239,846,946	244,590,540
Total OPEB liability related to UTSW	$ 2,871,389,823	$ 2,194,009,036	*	$ 2,127,729,551	$ 1,887,680,945	$ 1,959,901,269	$ 1,913,907,328
UTSW's covered payroll	$ 1,856,684,595	$ 1,090,388,675		$ 1,031,671,829	$ 931,517,973	$ 888,629,758	$ 858,104,280
UTSW's proportionate share of the total OPEB liability as a percentage of UTSW's covered payroll	143.58 %	185.70 %	*	184.93 %	181.06 %	193.56 %	194.54 %
Plan fiduciary net position as a percentage of the total OPEB liability	- %	- %		- %	- %	- %	- %

*The total OPEB Liability related to UT System as well as the State's and UT System's proportionate share of the Total OPEB Liability for the measurement year ended December 31, 2020 was restated to correct demographic data errors and assumptions related to assumed rates of participation by eligible terminated employees. See Notes 1 and 7 for additional details. Measurement years prior to December 31, 2020 have not been restated for the correction of the error.

Only six years of information is presented due to GASB Statement 75 being implemented in fiscal year 2018.
Additional years will be displayed as they become available

UT SOUTHWESTERN MEDICAL CENTER

REQUIRED SUPPLEMENTARY INFORMATION
TEACHER RETIREMENT SYSTEM PENSION PLAN AUGUST 31, 2022

Schedule of UTSW's Proportionate Share of the Net Pension Liability as of the August 31 Measurement Date

	2021	2020	2019	2018	2017	2016	2015	2014
UTSW's proportion of the net pension liability	1.89799 %	1.75034 %	1.66781 %	1.72148 %	1.52801 %	1.44082 %	1.30157 %	1.42402 %
UTSW's proportionate share of the net pension liability	$ 483,352	$ 937,445	$ 866,980	$ 947,545	$ 488,575	$ 544,466	$ 460,089	$ 380,452
States's proportionate share of the net pension liability related to UTSW	153,349	309,786	364,436	261,095	164,996	155,176	131,829	147,472
Total net pension liability related to UTSW	$ 636,701	$ 1,247,231	$ 1,231,416	$ 1,208,640	$ 653,571	$ 699,642	$ 591,918	$ 527,924
UTSW's covered payroll	$ 1,173,396	$ 1,044,563	$ 933,809	$ 851,568	$ 803,043	$ 738,927	$ 690,965	$ 601,207
UTSW's proportionate share of the net pension liability as a percentage of its covered payroll	41.19 %	89.75 %	92.84 %	111.27 %	60.84 %	73.68 %	66.59 %	63.28 %
TRS Plan fiduciary net position as a percentage of the total pension liability	88.79 %	75.54 %	75.24 %	73.74 %	82.17 %	78.00 %	78.43 %	83.25 %

Schedule of UTSW's Contributions For the Year Ended August 31

	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contributions	$ 103,424	$ 88,005	$ 78,342	$ 63,499	$ 57,907	$ 54,606	$ 50,247	$ 46,986
Contributions in relation to the statutorily required contributions	95,749	80,982	72,162	58,362	52,806	50,079	45,779	40,428
Contribution deficiency	$ 7,675	$ 7,023	$ 6,180	$ 5,137	$ 5,101	$ 4,527	$ 4,468	$ 6,558
UTSW's covered payroll	$ 1,334,499	$ 1,173,396	$ 1,044,563	$ 933,809	$ 851,569	$ 803,043	$ 738,927	$ 690,965
Contributions as a percentage of covered payroll	7.17 %	6.90 %	6.91 %	6.25 %	6.20 %	6.24 %	6.20 %	6.08 %

Contributions by the State of Texas on behalf of UTSW substantially resolve the contribution deficiency.

Only eight years of information is presented due to GASB Statement 68 being implemented in 2015.
Additional years will be displayed as they become available.