Travis County Healthcare District
dba Central Health

Financial Statements
as of and for the Year Ended
September 30, 2022 and
Independent Auditors' Report

MAXWELL & LOCKE & RITTER

Travis County Healthcare District dba Central Health

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Independent Auditors' Report

To the Board of Managers of
Travis County Healthcare District:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the Travis County Healthcare Central Health (dba and hereinafter referred to as "Central Health"), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise Central Health's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and the aggregate discretely presented component units of Central Health, as of September 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Sendero Health Plans, Inc. ("Sendero"), a discretely presented component unit of Central Health. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as if relates to the amounts included for Sendero, is based solely on the report of the other auditors.

Basis for Opinion

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

Affiliated Company
ML&R WEALTH MANAGEMENT LLC
"A Registered Investment Advisor"
This firm is not a CPA firm

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Central Health's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 generally accepted auditing standards 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards 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 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 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 Central Health'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 financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Central Health's ability to continue as a going concern for a reasonable period of time.

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 audit.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2023 on our consideration of Central Health'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 Central Health'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 Central Health's internal control over financial reporting and compliance.

Maxwell Locke & Ritter LLP

Austin, Texas
January 25, 2023

This section of the Travis County Healthcare District's (dba and hereinafter referred to as "Central Health") financial report presents background information and management's analysis of Central Health's financial results for the fiscal year ended September 30, 2022. Please read this section in conjunction with Central Health's financial statements, which begin on page 13.

Background and Formation

In 2003, the 78th Session of the Texas Legislature amended Chapter 281 of the Texas Health and Safety Code to enable Travis County, Texas ("Travis County") to create a hospital district. For a copy of the code see: www.statutes.legis.state.tx.us/Docs/hs/htm/hs.281.htm. Chapter 281 states that a county may create a countywide hospital district to furnish medical aid and hospital care to indigent and needy persons residing in Travis County. The law stipulates that creation of a hospital district is dependent upon approval by a majority of the qualified voters of the county. On May 15, 2004, Travis County held a countywide election to determine if the voters of the county supported the creation of a hospital district. The proposition passed with 54.73% of the voters supporting the creation of the new district, now doing business as Central Health.

Upon creation of Central Health, Travis County and the City of Austin, Texas ("City of Austin") transferred the portion of their tax base dedicated to health care to Central Health. This change served to redistribute the cost of health care more equally across all residents of Travis County. Previously, City of Austin residents paid a higher percentage of their taxes for health care than did those residing within Travis County but outside the City of Austin's city limits. With the creation of Central Health, the tax burden was distributed equally across all residents.

In addition to the tax base, Central Health received ownership of and responsibility for the Downtown Campus, which at the time was leased to Seton Healthcare Family which was a predecessor to Ascension Texas ("Seton") to operate University Medical Center Brackenridge ("UMCB") and Children's Hospital of Austin, the hospitals located on the campus, Austin Women's Hospital (leased to the University of Texas Medical Branch to operate), and the Central Texas Community Health Centers, operated until March 1, 2009 by the City of Austin through an interlocal agreement between Central Health and the City of Austin. In June 2007, Seton opened the new Dell Children's Medical Center of Central Texas which is not located on the Downtown Campus nor owned by Central Health. The former Children's Hospital associated with the Downtown Campus was converted into various other uses and is currently leased from Central Health by Seton.

Chapter 281 allows Central Health to create a health maintenance organization to provide or arrange for health care services for the residents of the district. Central Health may also create a charitable organization to facilitate management of a district health care program by providing or arranging health care services, developing resources for health care services, or providing ancillary support services for the district. Under state law, counties are required to provide medical services for indigent residents. In Texas, indigent is defined as an individual with net income at or below 21% of federal poverty income guidelines (Chapter 61 of the Texas Health and Safety Code).

Central Health may levy taxes to finance health care services and the levy may not exceed 25 cents on each $100 of assessed valuation of property taxable by Central Health. The fiscal year 2022 tax levy for Central Health was 11.1814 cents per $100 valuation of assessed property.

Effective March 1, 2009, Central Health and its affiliated entity, the Central Texas Community Health Centers, Inc. (dba and herein after referred to as "CommUnityCare"), a 501(c)(3) nonprofit corporation, became joint holders of the Federally Qualified Health Center ("FQHC") designation awarded by the Health Resources and Services Administration of the U.S. Department of Health and Human Services Department. This designation allows the countywide system of primary clinics operated by CommUnityCare and supported by Central Health to participate in various federal programs; to receive enhanced Medicaid reimbursement for primary care patient visits at CommUnityCare; to receive medical malpractice insurance coverage under the Federal Tort Claims for its physicians; and to benefit from substantial reductions in the cost of pharmaceuticals prescribed to patients in Central Health's Medical Assistance Program who are treated at CommUnityCare.

In addition, on March 1, 2009, other assets formerly owned by the City of Austin were transferred pursuant to State law to Central Health upon resolution of the FQHC status of CommUnityCare and Central Health.

In 2011, Texas received approval from the Centers for Medicare and Medicaid Services ("CMS") to operate the Texas Healthcare Transformation and Quality Improvement Program through a waiver of Section 1115 of the Social Security Act (the "Waiver"). In 2012, Central Health asked Travis County voters for an increased tax rate to provide adequate local matching funds to participate in the Waiver. Following a successful referendum, Central Health increased its property tax rate in fiscal year 2014 by five cents (63 percent) to 12.9 cents per $100 of property assessed value.

Local public funding and matching federal Medicaid dollars serve as the funding sources for the Waiver. It allows Central Health to provide local funds to participants, known as Performing Providers, to perform Delivery System Reform Incentive Payment ("DSRIP") projects to enhance and transform elements of the health delivery system for the safety net population. The Community Care Collaborative, a non-profit partnership between Central Health and Seton, was formed in 2014 to participate in the Waiver as a Performing Provider to receive risk-based payments for the performance of the DSRIP projects.

In May of 2017, Seton transitioned operations from the Downtown Campus to Dell Seton Medical Center at The University of Texas ("DSMC-UT"), a new 211-bed teaching hospital and Level 1 trauma center. Built, owned and operated by Seton, DSMC-UT serves as the safety net hospital in Travis County and can accommodate more patients than UMCB and serves as the primary teaching hospital for Dell Medical School at The University of Texas at Austin. The Dell Medical School at The University of Texas at Austin welcomed its inaugural class in 2016 to support the training of local doctors to provide services in local hospitals and healthcare clinics.

With the transition of hospital operations, Central Health is redeveloping the 14.3 acre Central Health Downtown Campus to provide long-term funding for the mission of Central Health. Central Health continues to evaluate the best use of the property and opportunity for revenue that will support healthcare services throughout all of Travis County. Seton continues to lease two buildings on the campus; the existing parking garage and the former Children's Hospital for parking and clinical education. In 2018, a portion of the Central Health Downtown Campus was leased to the 2033 LP. Under the agreement, the 2033 LP leased approximately 2.8 acres of the 14.3 acre Downtown Campus. In October 2018, the 2033 LP assigned the lease to the 2033 Higher Education Development Foundation, a Texas nonprofit corporation.

The 2033 Higher Education Development Foundation has substantially completed construction of a new 17-story office building on the land referred to as Block 164. A portion of the parcel, referred to as Block 167, is also leased to the 2033 Higher Education Development Foundation for a period of 99 years. The remaining parcel, Block 165, will be available for future redevelopment plans. The properties currently under lease by Seton may also be available for future redevelopment after those leases have expired. The Central Health Board of Managers will contemplate future decisions regarding the ongoing redevelopment of the Central Health Downtown Campus.

Fiscal Year 2022 Operational Highlights

- Central Health's net position increased $122.8 million, an 26% increase compared to prior year net position.
- During the year, Central Health's total operating revenues were $18.9 million and operating expenses were $142.2 million. Nonoperating revenues, comprised primarily of property tax revenue, were $246.1 million, net of nonoperating expenses.
- In order to responsibly manage financial resources, Central Health maintains reserve funds to protect its financial security and operational stability in consideration of the risks it faces. The Emergency Reserve is budgeted as a funding source for unanticipated emergencies that arise from unusual circumstances and is maintained at approximately 15% of eligible budgeted expenses and set annually through adoption of the budget. In addition, Central Health maintains a Contingency Reserve to serve as a funding source for one-time expenditures or for ongoing expenditures when needed for cyclical or temporary structural deficits. Central Health also maintains a Capital Reserve established to fund capital assets or projects funded through the issuance of debt, grants, or operating transfers.
- Provided direct specialty care to MAP patients for podiatry surgical services and began extensive operational planning to open a new multispecialty clinic to provide six new specialty care services at the Rosewood-Zaragosa building.
- Adopted Phase 1 of the Central Health Equity Focused Service Delivery Strategic Plan (Healthcare Equity Plan) which will guide the immediate and long term work to improve health and reduce inequities for Travis County's low income population.
- Provided local matching funds to draw over 91.0% of the total value of the Community Care Collaborative Delivery Service Reform Incentive Payment projects metrics and outcomes that were reported in calendar year 2021.
- Through its partner, CommUnityCare, provided health care services to over 123,000 patients.
- Continued in the role of anchor entity for the Medicaid 1115 Waiver Program for Regional Healthcare Partnership Region 7, which consists of Travis County and five other surrounding counties.
- In 2022 Central Health continued to provide funding for a premium assistance program for high risk patients enrolled in Sendero Health Plans that served over 730 people.
- Successful state legislation was passed during fiscal 2019 to create a Local Provider Participation Fund and appoint Central Health as the administrator to assess and collect mandatory payments from hospitals in Travis County. Central Health collected $184.7 million in mandatory payments and made intergovernmental transfers within eligible supplemental funding programs of $198.8 million during the fiscal year.

- Central Health and Seton continue discussions of hospital service obligations and levels of service to ensure access to care for low income Travis County residents. There are no assurances that any revisions to the current agreements will occur as a result of these discussions.
- In March 2020, Central Health and its partners began directing their operational focus to the outbreak of COVID-19. Resources were dedicated throughout the enterprise organizations in the following areas and continue to be supported throughout the ongoing pandemic. Central Health has received approval to receive reimbursement of certain eligible expenditures from Federal Emergency Management Agency (FEMA) and has received $99,269 to date and anticipates an additional $2,358,907 to be considered for future reimbursement.

Financial Statements

Central Health's financial statements are prepared on an accrual basis of accounting and are accounted for as a single enterprise fund. The financial statements consist of three statements: (1) statement of net position, (2) statement of revenues, expenses, and changes in net position, and (3) statement of cash flows.

The statement of net position and the statement of revenues, expenses, and changes in net position reflect Central Health's financial position at the end of the fiscal year and report Central Health's net position and changes in net position as a result of Central Health's revenues and expenses for the year. The term "net position" represents the difference between assets, or Central Health's investment in resources, and liabilities, or Central Health's obligation to its creditors. Increases or decreases in net position are an indicator of whether financial health is improving or deteriorating. Other nonfinancial factors should be considered, however, in evaluating financial health, such as changes in Central Health's patient base, changes in economic conditions, taxable property values, tax rates, and changes in government legislation or required government accounting standards.

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. The statement summarizes where cash came from, how it was used, and the change in cash balance during the year.

The financial statements include not only Central Health itself (known as the primary government entity), but also three legally separate entities known as component units. CommUnityCare is included as a discretely presented component unit as there is some financial accountability by CommUnityCare to Central Health. Sendero is also presented as a discretely presented component unit as there is some financial accountability by Sendero to Central Health. Lastly, the Community Care Collaborative is included as a discretely presented component unit as there is some financial accountability by Community Care Collaborative to Central Health. Additional information regarding the component units can be found in Note 1 of the notes to the financial statements.

Statement of Net Position

The following table summarizes Central Health's assets, liabilities and net position as of September 30, 2022 and 2021:

TABLE 1
Condensed Statement of Net Position

	2022	2021	% Fluctuation
Current assets	$ 400,282,311	$ 290,825,712	38%
Noncurrent assets	463,328,114	230,062,841	101%
Capital assets	130,565,341	85,085,385	53%
Total assets	994,175,766	605,973,938	64%
Current liabilities	19,648,301	20,603,766	(5%)
Noncurrent liabilities	141,763,791	117,439,162	851%
Total liabilities	161,412,092	138,042,928	21%
Deferred inflows of resources	242,069,035	-	100%
Net position:			
Net investment in capital assets	7,154,193	470,779	1,420%
Restricted for capital outlay	89,420,658	81,153,931	10%
Unrestricted	494,119,788	386,306,300	28%
Total net position	$ 590,694,639	$ 467,931,010	26%

As shown in Table 1, net position was $590.7 million as of September 30, 2022 and $467.9 million as of September 30, 2021. The increase in net position is a result of an increase in tax revenue of $23 million and lower than anticipated uses of funds.

Statement of Revenues, Expenses, and Changes in Net Position

The following table summarizes Central Health's revenues, expenses, and changes in net position during the years ended September 30, 2022 and 2021:

TABLE 2
Condensed Statement of Revenues, Expenses, and Changes in Net Position

	2022	2021	% Fluctuation
Operating revenues:			
Downtown Campus lease revenue	$ 16,543,784	$ 10,996,054	50%
Ground sublease revenue	2,239,755	961,380	133%
Grant revenue	99,938	699,269	(86%)
Total operating revenues	18,883,477	12,656,703	49%
Operating expenses:			
Health care delivery	125,726,629	115,859,007	9%
Salaries and benefits	5,867,451	4,986,916	17%
Other purchased goods and services	4,288,135	3,862,308	11%
Depreciation	6,314,128	4,972,430	27%
Total operating expenses	142,196,343	129,680,661	10%
Operating loss	(123,312,866)	(117,023,958)	5%
Nonoperating revenues, net:			
Net ad valorem tax revenue	259,633,936	237,114,513	9%
Net tobacco settlement revenue	4,676,730	3,872,274	21%
Investment income	3,600,352	1,145,379	214%
Interest expense	(3,329,331)	(1,230,931)	170%
Gain (loss) on disposal of capital assets	19,200	(52,160,957)	(100%)
Other expense, net	(18,524,392)	(1,710,623)	983%
Total nonoperating revenues, net	246,076,495	187,029,655	32%
Change in net position	122,763,629	70,005,697	75%
Total net position - beginning of year	467,931,010	397,925,313	18%
Total net position - end of year	$ 590,694,639	$ 467,931,010	26%

Central Health's operating revenues were $18.9 million for the year ended September 30, 2022, comprised of $16.5 million in lease revenue relating to the Downtown Campus. Central Health's operating loss was $123.3 million for the year ended September 30, 2022. Central Health receives property tax revenues to subsidize the cost of services provided to qualified uninsured patients. Although the costs incurred to provide these services are reflected above as operating expenses, the property tax revenues levied to subsidize those costs are required to be reported as nonoperating revenues.

Nonoperating revenues, net were $246.1 million for the year ended September 30, 2022, comprised mainly of net property taxes of $259.6 million and tobacco settlement revenue of $4.7 million.

Capital Assets

With the creation of Central Health, the City of Austin conveyed ownership of assets associated with the Downtown Campus, the Austin Women's Hospital, and medical equipment used in the health care clinics to Central Health. Travis County also conveyed medical equipment used in the health care clinics to Central Health. The City of Austin donated an office building to Central Health, which Central Health currently uses for its headquarters.

On March 1, 2009, other assets formerly owned by the City of Austin were transferred pursuant to State law to Central Health upon resolution of the FQHC status of CommUnityCare and Central Health, including the David Powell Clinic and the Montopolis Clinic. During the year ended September 30, 2016, Central Health re-conveyed one of the buildings back to the City of Austin.

During the years ended September 30, 2020 and September 30, 2019, Central Health acquired two parcels of land in eastern Travis County to build new clinic facilities to serve the Central Health covered patient population. Each of these facilities is active and construction is anticipated to be completed in the fall of 2023. In addition, in January 2022, Central Health entered into an agreement to purchase a third parcel of land in eastern Travis County, located in the Colony Park Master Development, to build a clinical facility which is anticipated to close in early 2023.

In August 2021, Central Health acquired land and buildings (formerly the Sears building and existing CommUnityCare clinic site located in Hancock Center) located along the IH 35 corridor to expand healthcare services and consolidate administrative operations that are currently maintained at multiple leased sites. The design phase of the building has begun and is anticipated to be complete in 2023 with construction to begin thereafter.

All conveyed and donated assets were recorded at acquisition value at the date of receipt based on an independent third-party appraisal. The following table summarizes Central Health's capital assets at September 30, 2022 and 2021.

TABLE 3
Capital Assets

	2022	2021
Land	$ 26,302,223	$ 26,302,223
Capital projects in progress	17,024,100	9,259,026
Buildings and improvements	56,696,419	132,674,528
Equipment and furniture	17,954,906	17,692,503
Right to use leased assets	43,445,560	-
Subtotal	161,493,208	109,749,724
Less accumulated depreciation and amortization	(30,927,867)	(24,664,339)
Total capital assets, net	$ 130,565,341	$ 85,085,385

The redevelopment of this property continues to be a priority for Central Health. Additional information regarding Central Health's capital assets can be found in Note 6 of the notes to the financial statements.

TABLE 4
Long-Term Debt

	2022	2021
Bonds payable	$ 4,915,000	6,105,000
Certificates of obligation	75,240,178	78,509,606
Total	$ 80,155,178	$ 84,614,606

Central Health issued $16,000,000 in certificates of obligation on September 20, 2011. On May 5, 2020, Central Health issued $7,285,000 of Limited Tax Refunding Bonds to advance refund previously issued certificates of obligation with lower interest expense resulting in $601,684 in total savings.

On September 21, 2021, Central Health issued $62,755,000 of Certificates of Obligation, Taxable Series 2021 (Limited Tax) and $13,630,000 of Certificates of Obligation, Series 2021 (Limited Tax) for the construction, acquisition, improvement, renovation and equipping of buildings and land to be used as a site for the management and administration of District services and the delivery and provision of clinical and medical services. Additional information regarding the District's long-term debt can be found in Note 8 of the notes to the financial statements.

Economic Conditions and Plan for Fiscal Year 2023

In planning for fiscal year 2023, there were a number of factors Central Health will need to consider, including the following:

- The COVID-19 pandemic continues which will impact several key areas: continued outreach and education efforts to residents and high-risk populations, ongoing testing and vaccine distribution efforts from enterprise partners and ongoing administrative support of remote work and safe practices to continue to prevent the spread of the disease.
- Central Health has completed a safety net community health needs assessment and gap analysis as part of developing its Healthcare Equity Plan. The next phase of this work is underway to develop an operational and financial sustainability plan for implementation of the Healthcare Equity Plan.
- The final year of reporting and wind-down requirements of the Medicaid 1115 Waiver Program.
- Collaborating with Seton and the Dell Medical School at The University of Texas at Austin and other community partners to ensure the provision of quality health services for our communities.
- Continued evaluation regarding the development and reuse of the Central Health Downtown Campus.
- The continued use of funds to subsidize premiums for certain eligible members to enroll in Affordable Care Act Marketplace coverage.
- Funding requirements of HMO risk-based capital reserves and financial capacity for Sendero (a community-based health plan and a component unit of Central Health), including continued funding for an expanded premium assistance program for low income Travis County residents. Actual payments will be based on risk-based capital requirement levels as determined by the Texas Department of Insurance.

- Evolution and ongoing mediation of the current agreements for the provision of hospital and specialty care with Seton.
- Central Health continues to serve as the fiduciary administrator for the Travis Local Provider Participation Fund (LPPF). Hospitals pay a uniform rate into the fund to provide local dollars for intergovernmental transfers to draw matching federal funds from Medicaid supplemental funding programs.
- The Central Health Board of Managers adopted a total tax rate of 9.8684 cents per $100 valuation of real and personal property for fiscal year 2023 that balances affordability and sustainability of current and future healthcare services.

Contacting Central Health Financial Management

The financial report is designed to provide the taxpayers and Central Health's customers, creditors, and suppliers with a general overview of Central Health's finances and to demonstrate Central Health's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact Central Health's financial offices as follows:

By mail: Travis County Healthcare District, 1111 E. Cesar Chavez, Austin, Texas 78702
Attention: Deputy Chief Financial Officer

By telephone: 512.978.8000, Travis County Healthcare District
Attention: Deputy Chief Financial Officer

Travis County Healthcare District dba Central Health

Statements of Net Position
September 30, 2022

	Primary Government	Component Units		
	Business-type Activities	CommUnityCare	Sendero (December 31, 2021)	Community Care Collaborative
Assets				
Current assets:				
Cash and cash equivalents	$ 3,420,496	$ 26,020,521	$ 16,802,360	$ 17,033,373
Cash restricted for Local Provider Participation Fund (Note 15)	25,688	-	-	-
Short-term investments	382,075,278	7,545,954	2,698,989	-
Ad valorem taxes receivable, net of allowance for uncollectible taxes of $2,869,443	1,885,295	-	-	-
Accounts receivable, net of allowance for doubtful amounts of $9,424,482	-	16,079,223	-	-
Accounts receivable	-	-	2,702,008	-
Risk adjustments receivable	-	-	29,564,593	-
Premium receivable, net	-	-	1,957	-
Reinsurance recoverables	-	-	3,568,889	-
Grants receivable	-	3,449,320	-	-
Lease receivable	5,510,993	-	-	-
Other receivables	6,807,132	-	-	-
Inventory	-	225,353	-	-
Prepaid expenses and other assets	557,429	655,361	485,440	103,433
Total current assets	400,282,311	53,975,732	55,824,236	17,136,806
Noncurrent assets:				
Investments restricted for capital acquisition	34,988,616	-	-	-
Investments restricted for Local Provider Participation Fund (Note 15)	22,788,588	-	-	-
Investments restricted for facilities	54,432,042	-	-	-
Long-term receivables	4,000,000	-	-	-
Investment in Sendero	71,000,000	-	-	-
Sendero surplus debenture	37,083,000	-	-	-
Lease receivable	239,035,868	-	-	-
Goodwill	-	17,849,487	-	-
Capital assets:				
Land	26,372,223	-	-	-
Right to use leased assets - land	42,921,307	-	-	-
Capital projects in progress	17,024,100	2,780,711	-	-
Buildings and improvements	56,696,419	1,279,040	-	-
Right to use leased assets - buildings	524,253	-	-	-
Equipment and furniture	17,954,906	1,185,016	38,215	-
Less accumulated depreciation and amortization	(30,927,867)	(1,251,280)	(38,215)	-
Total capital assets, net	130,565,341	3,993,487	-	-
Total noncurrent assets	593,893,455	21,842,974	-	-
Total assets	994,175,766	75,818,706	55,824,236	17,136,806
Liabilities and Deferred Inflows of Resources				
Current liabilities:				
Accounts payable	3,680,892	2,538,081	698,704	-
Unpaid losses, loss adjustment expenses and risk adjustment payable	-	-	11,027,790	-
Claims payable	-	-	337,843	-
Funds held under reinsurance agreements	-	-	21,803,020	-
Salaries and benefits payable	3,114,806	8,194,363	-	-
Accrued interest	894,200	-	-	-
Deferred rent	-	109,683	-	-
Other accrued liabilities	6,996,708	3,301,582	3,653,465	4,076,735
Bonds and certificates of obligations payable	4,345,000	-	-	-
Lease payable	116,632	-	-	-
Unearned revenue	500,063	906,327	2,267,227	9,045,686
Surplus debenture	-	-	37,083,000	-
Seller note payable	-	4,652,335	-	-
Note payable	-	1,140,000	-	-
Due to Central Health	-	723,895	2,080,707	75,977
Total current liabilities	19,648,301	21,566,266	78,951,756	13,198,398
Noncurrent liabilities:				
Bonds and certificates of obligations payable	75,810,178	-	-	-
Due to Local Provider Participation Fund (Note 15)	22,814,275	-	-	-
Lease payable	43,139,338	-	-	-
Note payable	-	1,900,000	-	-
Due to Central Health	-	4,000,000	-	-
Total noncurrent liabilities	141,763,791	5,900,000	-	-
Total liabilities	161,412,092	27,466,266	78,951,756	13,198,398
Deferred inflows of resources-				
Leases	242,069,035	-	-	-
Total liabilities and deferred inflows of resources	403,481,127	27,466,266	78,951,756	13,198,398
Net position				
Net investment in capital assets	7,154,193	-	-	-
Restricted for capital acquisition	34,988,616	-	-	-
Restricted for facilities	54,432,042	-	-	-
Restricted for HMO	-	-	71,000,000	-
Unrestricted	494,119,788	48,352,440	(94,127,520)	3,938,408
Total net position	$ 590,694,639	$ 48,352,440	$ (23,127,520)	$ 3,938,408

The notes to the financial statements are an integral part of these statements.

Travis County Healthcare District dba Central Health

Statements of Revenues, Expenses, and Changes in Net Position
Year Ended September 30, 2022

	Primary Government	Component Units		
	Business-type Activities	CommUnityCare	Sendero (year ended (December 31, 2021)	Community Care Collaborative
Operating revenues:				
Downtown Campus lease revenue	$ 16,543,784	$ -	$ -	$ -
Ground sublease revenue	2,239,755	-	-	-
Net patient service revenue	-	133,291,213	-	-
Premium revenue, net	-	-	63,465,747	-
Grant revenue	99,938	19,600,399	-	-
Foundation grant revenue	-	1,424,399	-	-
Revenue received from Central Health	-	17,393,654	-	-
Revenue received from Delivery System Reform Incentive Payment	-	4,723,623	-	45,033,178
Revenue received from Seton Affiliation	-	641,490	-	-
Personnel services received from an affiliate	-	-	-	238,980
Total operating revenues	18,883,477	177,074,778	63,465,747	45,272,158
Operating expenses:				
Health care delivery	125,726,629	57,097,859	54,071,071	54,674,209
Administration	-	-	-	851,508
Salaries and benefits	5,867,451	107,061,800	4,232,139	-
Other purchased goods and services	4,288,135	-	6,367,007	-
Depreciation and amortization	6,314,128	316,415	-	-
Total operating expenses	142,196,343	164,476,074	64,670,217	55,525,717
Operating income (loss)	(123,312,866)	12,598,704	(1,204,470)	(10,253,559)
Nonoperating revenues (expenses):				
Ad valorem tax revenue	261,531,264	-	-	-
Tax assessment and collection expense	(1,897,328)	-	-	-
Tobacco settlement revenue, net	4,676,730	-	-	-
Investment income	3,600,352	-	-	-
Interest expense	(3,329,331)	-	-	-
Gain on sale of capital assets	19,200	-	-	-
Other revenue (expense)	(18,524,392)	-	43,853	68,823
Total nonoperating revenues, net	246,076,495	-	43,853	68,823
Change in net position	122,763,629	12,598,704	(1,160,617)	(10,184,736)
Total net position - beginning of year	467,931,010	35,753,736	(21,966,903)	14,123,144
Total net position - end of year	$ 590,694,639	$ 48,352,440	$ (23,127,520)	$ 3,938,408

The notes to the financial statements are an integral part of these statements.

Travis County Healthcare District dba Central Health

Statement of Cash Flows
Year Ended September 30, 2022

Cash flows from operating activities:	
Cash received from leases	$ 12,266,307
Cash payments for health care delivery	(129,838,281)
Cash payments to employees	(4,288,347)
Cash payments for goods and services	(4,454,269)
Net cash used in operating activities	(126,314,590)
Cash flows from noncapital financing activities:	
Ad valorem taxes received	261,261,487
Payments for tax assessment and collection	(1,897,328)
Tobacco settlement received, net	4,676,730
Other nonoperating expenses paid, net	(18,524,392)
Cash received for Local Provider Participation Fund	184,715,553
Cash payments on behalf of Local Provider Participation Fund	(198,752,357)
Payments to Affiliates, net	3,618,086
Net cash provided by noncapital financing activities	235,097,779
Cash flows from investing activities:	
Receipts of interest income	3,372,305
Net proceeds from sales and purchases of investment pools	(45,964,453)
Purchase of investment securities	(117,518,395)
Proceeds from maturities of investment securities	69,123,525
Purchase of capital assets	(8,348,634)
Proceeds from sale of capital assets	19,310
Payments on lease obligations	(189,590)
Principal payments on bonds	(4,459,428)
Interest paid on certificates of obligation and bonds and lease obligations	(2,492,476)
Net cash used in investing activities	(106,457,836)
Net increase in cash and cash equivalents	2,325,353
Cash, cash equivalents and restricted cash, beginning of year	1,120,831
Cash, cash equivalents and restricted cash, end of year	$ 3,446,184
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (123,312,866)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization expense	6,314,128
Changes in operating assets and liabilities that provided (used) cash:	
Lease receivables	(244,546,861)
Other receivables	(4,639,407)
Prepaid expenses and other assets	28,810
Accounts payable	(194,944)
Salaries and benefits payable	1,579,104
Other accrued liabilities	(4,111,652)
Deferred inflows of resources - leases	242,069,035
Unearned revenue	500,063
Net cash used in operating activities	$ (126,314,590)
Non-cash investing activities-	
Right to use leased assets and lease liability	$ 43,445,560

The notes to the financial statements are an integral part of this statement.

1. Organization and Mission

Travis County Healthcare District (dba and hereinafter referred to as ("Central Health") was created by authorization of the legislature of the State of Texas and subsequent approval by the voters of Travis County, Texas ("Travis County") in May 2004.

In August 2004, Travis County and the City of Austin, Texas (the "City of Austin") appointed members to serve on the Board of Managers (the "Board") of Central Health, which is composed of nine members. The Board consists of four appointees from Travis County, four from the City of Austin, and one selected jointly.

Prior to the issuance of Governmental Accounting Standards Board ("GASB") Statement No. 61, Central Health was presented as a discrete component unit of Travis County. However, under GASB Statement No. 61, Central Health is no longer presented as a component unit of Travis County as Central Health is a legally separate entity from Travis County, and Travis County does not provide any funding to Central Health, hold title to any of Central Health's assets, or have any rights to any surpluses of Central Health.

Central Health's primary responsibility is to provide medical and hospital care to and coordinate care for the safety net population of Travis County. All activities conducted by Central Health are directly associated with the furtherance of this mission and, therefore, are considered to be operating activities.

On October 1, 2004, Central Health began operations with the transfer of $10,700,000 from the City of Austin. Thereafter, $2,560,807 was transferred from Travis County. Effective October 1, 2004, certain assets, obligations and rights of the City of Austin were transferred to Central Health, including title to the land and buildings of Brackenridge/Children's Hospital and Austin Women's Hospital, which were located on the Central Health Downtown Campus. In addition, the responsibility, obligations and rights of the City of Austin and Travis County to provide health care to their respective indigent population transferred to Central Health. Certain assets associated with the Federally Qualified Health Centers ("health clinics") of the City of Austin and Travis County also transferred to Central Health.

Central Health provides patient care to the safety net population of Travis County primarily through its network of hospital, specialty, primary care and post-acute providers, including Central Texas Community Health Centers, Inc. (doing business as and herein after referred to as "CommUnityCare"), its contractual relationship with Ascension Texas ("Seton"), and on a limited basis through the Community Care Collaborative (the "CCC"), which is a 501(c)(3) District formed on October 4, 2012, pursuant to the Master Agreement between Central Health and Seton. Through the CCC, Central Health and Seton jointly manage the provision of a portion of ambulatory healthcare services to the safety net population. The CCC is a separate legal entity with the Central Health Board appointing a majority of its governing board, although it has certain approval requirements for material and reserved items. Due to certain powers reserved to Seton in the Master Agreement, Central Health cannot impose its will on the CCC. The CCC does not meet any of the GASB criteria for blended reporting and, therefore, is presented as a discrete component unit in these financial statements. See Note 9 for further information about the CCC and the Master Agreement with Seton.

CommUnityCare is presented in this report as a discrete component unit of Central Health. CommUnityCare is legally separate from Central Health, but Central Health and CommUnityCare are joint holders of the Federally Qualified Health Center status that allows clinics operated by CommUnityCare to receive an enhanced level of Medicaid reimbursement and to participate in the Federal 340B program for reduced-cost prescription medicines. In addition, CommUnityCare's economic resources are primarily for the benefit of Central Health's constituents, Central Health has the ability to access a majority of the economic resources of CommUnityCare, and those resources are significant to Central Health. Accordingly, CommUnityCare is presented in this report as a discrete component unit of Central Health.

Sendero Health Plans, Inc. ("Sendero") is also presented in this report as a discrete component unit of Central Health. Sendero is legally separate from Central Health and is a single-member 501(c)(3) District, wholly owned by Central Health. The Central Health Board appoints members to the Sendero Board of Directors. There is a financial benefit/burden relationship between Central Health and Sendero in that Central Health has historically provided financial support to Sendero in the form of funding for risk-based capital levels established by the Texas Department of Insurance. Sendero provides services related to the Affordable Care Act in an eight-county service area. Sendero is expected to pay any debts it incurs with its own resources. Central Health has determined it is appropriate and in compliance with generally accepted accounting principles to present financial statement information for Sendero as of and for the year ended December 31st, which is Sendero's fiscal year end.

2. Summary of Significant Accounting Policies

Basis of Accounting - For financial reporting purposes, Central Health is accounted for as a single enterprise fund; the accompanying financial statements are prepared on the accrual basis of accounting.

In accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* Central Health's financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

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

Fair Value Measurements - Central Health complies with GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value of certain assets or liabilities as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

- Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.
- Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.
- Level 3 inputs are unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

- Market approach **-** uses prices generated by market transactions involving identical or comparable assets or liabilities.
- Cost approach **-** uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).
- Income approach **-** uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Cash and Cash Equivalents - Central Health defines cash and cash equivalents as cash and investments that are highly liquid with less than three-month maturities when purchased.

Investments - Investments, which include short-term and those restricted for capital acquisition, facilities, and the Local Provider Participation Fund, consisted of investments in external local government investment pools, governmental agencies and municipal bonds. The external local government investment pools are recognized at amortized cost as permitted by GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Any changes in fair value as well as the difference between historical cost and the proceeds received from the sale of the investments are reported in the statements of revenues, expenses, and changes in net position as investment income.

Capital Assets - Capital assets are carried at historical cost if purchased or fair market value at the time of donation (except for intangible right-to-use assets which are measured based on the information in the Leases accounting policy below). Central Health capitalizes outlays for new facilities and equipment that substantially increase the useful life of existing capital assets which have an initial, individual cost of $5,000 or more. Ordinary maintenance and repairs are expensed when incurred. Disposals are removed at carrying cost less accumulated depreciation and amortization, with any resulting gain or loss included in other nonoperating revenue or expense.

Depreciation and amortization are recorded on the straight-line method over the estimated useful lives of the assets. Estimated useful lives for buildings and improvements are 20 to 50 years and equipment and furniture are 3 to 20 years. Estimated useful lives for land right-of-use assets is 73 years and buildings right-of-use assets is 51 months.

Compensated Absences - Central Health maintains a paid-time-off plan for absences from work for illness or vacation. Under the plan, the cost of all compensated absences is accrued at the time the benefits are earned. At the time of termination, unused paid-time-off benefits may be paid up to a maximum of 240 hours for administrative staff and 280 hours for provider staff.

Long-Term Debt - General obligation bonds and certificates of obligation, which have been issued to fund capital projects, are to be repaid from tax revenues of Central Health.

Long-term debt and other long-term obligations are reported as liabilities in the statements of net position. Obligation premiums and discounts are deferred and amortized over the life of the obligations using the straight-line method. Issuance costs are expensed in the period incurred. Bonds and certificates of obligation payable are reported net of the applicable bond premium or discount.

Leases - Central Health is a lessee for noncancellable leases of land and buildings. Central Health recognizes a lease liability and an intangible right-to-use lease asset in the financial statements.

At the commencement of a lease, Central Health initially measures the lease liability at the present value of payments expected to be made during the lease term and the lease liability is reduced by the principal portion of lease payments when made. The intangible right-to-use lease asset is initially measured at the initial amount of the lease liability and is amortized on a straight-line basis over its useful life.

The key estimates and judgements related to leases include how Central Health determines the discount rate used to discount the expected lease payments to present value, lease term, and lease payments. Central Health uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease and lease payments included in the measurement of the lease liability are comprised of fixed payments.

Central Health monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the intangible right-to-use lease asset and lease liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Central Health is a lessor for noncancellable leases of land and buildings. Central Health recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of a lease, Central Health initially measures the lease receivable at the present value of payments expected to be received during the lease term and the lease receivable is reduced by the principal portion of lease payments when received. The deferred inflow of resources is initially measured at the initial amount of the lease receivable and is recognized as revenue over the life of the lease term.

The key estimates and judgements related to leases include how Central Health determines the discount rate used to discount the expected lease receipts to present value, lease term, and lease receipts. Central Health uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease and lease receipts included in the measurement of the lease receivable are comprised of fixed payments from the lessee.

Central Health monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Statements of Revenues, Expenses, and Changes in Net Position - For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Operating revenues consist of lease payments generated from the lease of specific properties on the Central Health Downtown Campus. In addition, Central Health subleases the site of the Dell Seton Medical Center at the University of Texas ("UT") through a lease agreement with UT. Nonoperating revenues consist of those revenues that are related to financing types of activities, which are primarily the result of property tax revenues.

Statement of Cash Flows - For purposes of the statement of cash flows, Central Health considers temporary investments with original maturities of three months or less to be cash equivalents.

Ad Valorem Tax Revenue - Ad valorem tax revenue is recorded as a nonoperating revenue in the year for which the taxes are levied, net of provisions for uncollectible amounts. Central Health levies a tax as provided under state law with the approval of the Travis County Commissioners Court. The taxes are collected by the Travis County Tax Assessor-Collector and are remitted to Central Health as received. Taxes are levied and become collectible from October 1 to January 31 of the succeeding year. Subsequent adjustments to the tax rolls, made by the Travis Central Appraisal District ("Appraisal District"), are included in revenues in the period such adjustments are made by the Appraisal District. Allowances for uncollectibles are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but Central Health is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Tobacco Settlement Revenue - Tobacco settlement revenue is the result of a settlement between various counties and hospital districts in Texas and the tobacco industry for tobacco-related health care cost. Central Health recognized $4,676,730 associated with the settlement during the year ended September 30, 2022. Settlement revenues for fiscal year 2022 are based on the investment earnings and the proportionate amount of eligible expenses to the entire pool of eligible expenses of the tobacco settlement fund as administered by the Comptroller's Office of the State of Texas. Central Health is unable to estimate the continuance or level of future distributions.

During the year ended September 30, 2022, Central Health recognized its tobacco settlement revenue net of amounts distributed to Seton and to Travis County, which were $913,355 and $359,404, respectively, and are able to participate through a joint expense eligibility submission process through Central Health. Such amounts represent their respective share of total eligible local healthcare expenses claimed for the year ended September 30, 2022.

Codification of Accounting and Financial Reporting Guidance - Central Health complies with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into GASB's authoritative literature certain accounting and financial reporting guidance issued by the Financial Accounting Standards Board and the American Institute of Certified Public Accountants on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

Deferred Outflows and Deferred Inflows of Resources - Central Health complies with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of Central Health's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent Central Health's acquisition of net position applicable to a future reporting period.

Central Health complies with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Deferred inflows of resources as of September 30, 2022 consisted of amounts related to leases.

Change in Accounting Principle for Recently Adopted Accounting Pronouncement - For the year ended September 30, 2022, Central Health implemented GASB Statement No. 87, *Leases*. GASB Statement No. 87 enhances the relevance and consistency of information of the Central Health's leasing activities and establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. 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. These changes were incorporated in the Central Health's financial statements for the year ended September 30, 2022 but had no effect on the beginning net position since Central Health recognized a intangible right to use lease asset and a lease liability of $43,445,560 at October 1, 2021 and a lease receivable and a deferred inflow of resources of $251,246,007 at October 1, 2021.

Recently Issued Accounting Pronouncement - In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for fiscal years beginning after June 15, 2022. The objective of GASB Statement No. 96 is to improve accounting and financial reporting by establishing a definition for a subscription-based information technology arrangement ("SBITA") and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. GASB Statement No. 96 will require a government to report a right-to-use subscription asset as an intangible asset and a corresponding subscription liability for a SBITA, and also require certain disclosures about the SBITA. GASB Statement No. 96 also provides capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. Management is evaluating the effects that the full implementation of GASB Statement No. 96 will have on its financial statements for the year ended September 30, 2023.

3. Deposits and Short-Term Investments

Central Health has developed a formal investment policy that is in compliance with the Texas Public Funds Investment Act. Central Health uses the "prudent investor rule" in investment decisions. The objectives of Central Health's investment policy are to ensure the safety of the principal, maintain adequate liquidity, and receive yield to the highest possible return subject to the first two principles.

Central Health's depository agreement with JPMorgan Chase Bank requires collateralization with a fair market value equal of at least 105% of Central Health funds in excess of $250,000 on deposit in the bank. The depository agreement states that collateral shall consist of one or more of the following: U.S. Treasury securities, Federal National Mortgage Association ("FNMA") securities, pools or REMIC CMO's, Federal Farm Credit Bank ("FFCB") securities, Federal Home Loan Bank ("FHLB") agencies, Federal Home Loan Mortgage District ("FHLMC") pools or REMIC CMO's, Government National Mortgage Association ("GNMA") pools, obligations of states, agencies, counties, cities, and other political subdivisions of any state that are rated not less than "A" or its equivalent. The REMIC CMOs must not have variable rates or original maturities longer than ten years.

However, for the year ended September 30, 2022 collateral was maintained through a letter of credit from the FHLB, which in the case of default by JPMorgan Chase will act as agent for Central Health. During fiscal year 2022, collateral coverage was more than the 105% of bank balances on all days during the year, with the exception of October 13, 2021 and June 30, 2022. The collateral balances were increased immediately the next business day to the required amount of collateral. As of September 30, 2022, Central Health's bank balances in excess of federal depository insurance were fully collateralized.

Deposits are stated at cost plus accrued interest, if any, and the carrying amounts are displayed on the statement of net position as cash and cash equivalents.

Central Health is authorized to purchase, sell, and invest its funds and funds under its control in accordance with the Texas Public Funds Investment Act, Government Code Chapter 2256 and its subsequent amendments. During the fiscal period, investments consisted of U.S. government agencies securities, municipal bonds, commercial paper, and participation in three external local government investment pools (TexPool, TexSTAR and Texas Range). The carrying amount of investments as of September 30, 2022, is displayed on the statement of net position as short-term and restricted investments.

Texas Local Government Investment Pool ("TexPool") operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure.

Texas Short Term Asset Reserve Program ("TexSTAR") is administered by Hilltop Securities Inc. and JPMorgan Asset Management Inc. TexSTAR is overseen by a five-member governing board made up of three participants and one of each of the program's professional administrators. The responsibility of the board includes the ability to influence operations, designation of management and accountability for fiscal matters. In addition, TexSTAR has a Participant Advisory Board which provides input and feedback on the operations and directions of the program on a quarterly basis, as well as reviewing the Standard and Poor's ratings of the holdings, to ensure the pool's compliance with its rating requirements. TexSTAR's investment policy stipulates that it must invest in accordance with the Texas Public Funds Investment Act.

The Texas Range Investment Program ("Texas Range"), formerly known as TexasTERM Local Government Investment Pool ("TexasTERM"), is organized in conformity with Texas Government Code 2256.016 & .019 (Texas Public Funds Investment Act). Among its local government investment pool portfolios are TexasTERM, fixed-rate, fixed term investment for a period of 60 days to one year, and TexasDAILY and TexasDAILY Select, portfolios seeking to maintain a $1.00 net asset value and offering daily liquidity to its investors. An advisory board, composed of participants in Texas Range and other parties who do not participate in the Texas Range investment products, maintains oversight responsibility for the pool, including formulation and implementation of its investment and operating policies. PFM Asset Management LLC (recently purchased by U.S. Bancorp Asset Management, Inc.) is a leading national financial and investment advisory firm and is the investment advisor to Texas Range.

The government agency securities and municipal bonds are valued using Level 2 inputs that are based in market data obtained from independent sources. The investments are reported by Central Health at fair value in accordance with the GASB Statement No. 72. Balances in the external local government investment pools are stated at amortized cost, in accordance with GASB Statement No. 79, *Certain External Investments Pools and Pool Participants.* In accordance with GASB Statement No. 79, the external local government investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

As of September 30, 2022, Central Health had the following investments:

Type	Fair Value	Weighted Average Maturity (Days)
Government agencies	$ 213,717,816	770
Local government investment pools	211,886,671	1
Municipal bonds	68,680,037	526
Total fair value	$ 494,284,524	
Portfolio weighted average maturity		406

Interest Rate Risk - In accordance with its investment policy, Central Health manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to one and one-half years or less. Individual security types are limited as well, with the longest permitted maturity being four years for government treasuries and government agencies.

Credit Risk - State law limits investment in municipal bonds to an A rating or its equivalent by a nationally recognized investment rating firm. Central Health's investment policy requires at least an A rating by a nationally recognized investment firm. For commercial paper, state law limits investments to a rating not less than A-1 by Standard & Poor's or P-1 by at least two nationally recognized credit rating agencies. Central Health's investment policy limits commercial paper to a rating not less than A-1 by Standard & Poor's and P-1 by Moody's Investors Service. For investments in government agencies, Central Health's investment policy requires at least an A rating by a nationally recognized investment firm. Central Health's investments in government agencies carry the implicit guarantee of the U.S. government. Central Health's investment policy requires that certificates of deposits be either federally insured or collateralized.

Investments at September 30, 2022	Standard & Poor's Rating
Local government investment pools	AAAm
Government agencies	AA+
Municipal bonds	AAA, AA+, AA, AA-, A+, Aa2, A1

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributable to the magnitude of investments in a single issuer. Central Health's investment policy limits the percentage of the combined portfolios for each type of eligible investment to reduce the risk of principal loss.

	Percentage of Portfolio	Portfolio Limit
Investments at September 30, 2022:		
Government agencies	43%	75%
Local government investment pools	43%	80%
Municipal bonds	14%	20%

Information regarding investments in any one issuer that represents five percent or more of Central Health total investments must be disclosed under GASB Statement No. 40, excluding investments issued or explicitly guaranteed by the U.S. government. As of September 30, 2022, Central Health's investments which require disclosure are as follows:

	Fair Value	Percentage of Portfolio
Investments at September 30, 2022:		
Federal Home Loan Bank	$124,211,745	25%
Federal National Mortgage Association	$ 28,056,000	6%
Federal Farm Credit Banks	$ 27,439,080	6%
Federal Home Loan Mortgage Corporations	$ 25,885,740	5%

4. Disaggregation of Receivable Balances

Central Health's receivables, (including taxes receivable, other receivables, long-term receivable and the applicable allowances), are comprised of the following as of September 30, 2022:

	Taxes	Due from Component Units	Other	Total
Total	$ 4,754,738	5,525,414	5,281,718	15,561,870
Less:				
Allowance for uncollectibles	(1,534,012)	-	-	(1,534,012)
Allowance for long-term collections	(1,335,431)	-	-	(1,335,431)
Total, net	$ 1,885,295	5,525,414	5,281,718	12,692,427
Amounts not scheduled for collection during the subsequent year	$ -	4,000,000	-	4,000,000

As of September 30, 2022, due from component units consists of short-term operational cash-clearing amounts (with the exception of CommUnityCare) that includes a Sendero balance of $725,542 in intercompany receivables, a CCC balance of $75,977 in intercompany receivables, and a CommUnityCare balance of $4,723,895, which includes $4,000,000 in noncurrent assets. As of September 30, 2022, the other receivable balance is comprised of $4,049,919 in interest receivable on leases, $615,930 accrued interest on investments, $494,020 in miscellaneous receivables, and $121,849 in health insurance claims receivable.

5. Sendero Surplus Debenture

Effective April 22,2020, Central Health amended and restated the previously issued surplus debenture to Sendero, in the amount of $8,000,000, with an additional amount of $9,083,000 for a total of $17,083,000. During the year ended September 30, 2019, Central Health issued an additional surplus debenture to Sendero in the amount of $20,000,000. The par value and carrying value of the debenture is $37,083,000 with interest accruing at 1.00%. Interest will not be a legal or financial statement liability of Sendero or a claim on the assets of Sendero unless the following are satisfied: (i) as of the payment date, the amount of accrued and unpaid interest must equal or exceed the debenture's scheduled payment and (ii) Sendero's surplus that is in excess of the debenture's surplus floor must equal or exceed the debenture's scheduled payment. The surplus floor is defined as the greater of: (i) $1,500,000 or (ii) 500% of risk-based capital for three consecutive years. Subject to the requirements of Chapter 427 of the Texas Insurance Code and terms of the debenture, principal is to be paid in annual installments on September 30th of each year, commencing on December 1, 2019 with the last payment being on September 1, 2045.

Principal will not be a legal or financial statement liability for Sendero or a claim on its assets unless the following are satisfied: (i) as of the payment date, the amount of unpaid principal must equal or exceed the debenture's scheduled payment; (ii) Sendero's surplus that is in excess of the debenture's surplus floor must equal or exceed the debenture's scheduled payment; (iii) immediately after the scheduled payment, Sendero will continue to have surplus equal to or in excess of the required minimum required by law; and (iv) Sendero's Board of Directors shall have authorized the scheduled payment.

In the event of the voluntary or involuntary liquidation of Sendero, the debenture is intended to become a fully matured due and payable liability of Sendero but subordinated to claims and rights of policyholders and policy beneficiaries of Sendero. Additionally, in the event of liquidation, any payment of interest or principal will be made in accordance with Chapter 443 of the Texas Insurance Code.

No interest or principal payments have been received or accrued for since the effective date of the debenture due to Sendero's not meeting the requirements stated above.

6. Capital Assets

Central Health's capital assets are comprised of the following as of September 30, 2022:

	Beginning Balance (as restated)	Additions	Retirements/ Transfers	Ending Balance
Capital assets not being depreciated and amortized:				
Land	$ 26,302,223	70,000	-	26,372,223
Capital projects in progress	9,259,026	8,164,338	(399,264)	17,024,100
Total capital assets not being depreciated and amortized	35,561,249	8,234,338	(399,264)	43,396,323
Capital assets being depreciated and amortized:				
Building and improvements	56,495,972	101,469	98,978	56,696,419
Equipment and furniture	17,692,503	12,827	249,576	17,954,906
Right to use leased assets - land	42,921,307	-	-	42,921,307
Right to use leased assets - buildings	524,253	-	-	524,253
Total capital assets being depreciated and amortized	117,634,035	114,296	348,554	118,096,885
Less accumulated depreciation and amortization for:				
Building and improvements	(16,536,419)	(1,942,775)	25,706	(18,453,488)
Equipment and furniture	(8,127,920)	(3,660,036)	24,894	(11,763,062)
Right to use leased assets - land	-	(587,963)	-	(587,963)
Right to use leased assets - buildings	-	(123,354)	-	(123,354)
Total accumulated depreciation and amortization	(24,664,339)	(6,314,128)	50,600	(30,927,867)
Total capital assets being depreciated and amortized	92,969,696	(6,199,832)	399,154	87,169,018
Capital assets, net	$128,530,945	2,034,506	(110)	130,565,341

With the creation of Central Health, the City of Austin conveyed ownership of assets associated with the Central Health Downtown Campus (formerly the Brackenridge/Children's Hospital until 2007 and University Medical Center Brackenridge until 2017) and medical equipment used in the health care clinics to Central Health. Travis County conveyed medical equipment used in the health care clinics to Central Health. The City of Austin also donated an office building to Central Health. The conveyed and donated assets were recorded at fair value at the date of receipt.

With the granting of the Federally Qualified Healthcare Center status to Central Health and CommUnityCare jointly on March 1, 2009, ownership of certain assets formerly owned by the City of Austin were deeded from the City of Austin to Central Health in fiscal year 2009.

In 2017, construction of the Dell Seton Medical Center at UT was completed and hospital operations were moved from Brackenridge Hospital located on the Downtown Brackenridge Campus to the new facility. Seton is leasing the existing hospital parking garage and Clinical Education Building (formerly the Children's Hospital) located on the campus. In 2018, the 2033 Higher Education Development Foundation ("2033") and Central Health agreed to a long-term ground lease of two parcels within the Downtown Campus. 2033 has substantially completed construction of a new 17-story office building on the site formerly known as Block 164.

Demolition of the remaining hospital buildings was completed during the year ended September 30, 2021. These assets had a book value of $79.9 million, which was written-off and a loss of $52.2 million was recorded on the disposal of the assets during the year ended September 30, 2021. The remaining demolition work was completed in fiscal year 2022.

Construction of two new clinic facilities, the Hornsby Bend Health and Wellness Center and Del Valle Health and Wellness Center has begun, with completion anticipated in FY 2023. Central Health has entered into a contract to purchase an additional tract of land from the City of Austin in the Colony Park area that will further expand clinic access in eastern Travis County.

7. Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended September 30, 2022:

	Beginning Balance (as restated)	Additions	Retirements	Ending Balance
Certificates of obligation	$ 76,385,000	-	(3,160,000)	73,225,000
General obligation bonds	6,105,000	-	(1,190,000)	4,915,000
Premium on bonds	2,124,606	-	(109,428)	2,015,178
Total debt payable	84,614,606	-	(4,459,428)	80,155,178
Leases payable	43,445,560	-	(189,590)	43,255,970
Total	$ 128,060,166	-	(4,649,018)	123,411,148

Bonded debt consists of the following at September 30, 2022:

Series	Date of Issue	Amount of Original Issue	Matures Through	Interest Rate	Outstanding at 9-30-22	Due Within One Year
2020	5-5-2020	$ 7,285,000	2026	1.26%	$ 4,915,000	$ 1,205,000
2021	9-21-2021	13,630,000	2041	2.00% - 5.00%	13,170,000	455,000
2021	9-21-2021	62,755,000	2041	1.05% - 2.65%	60,055,000	2,685,000
Total		$ 83,670,000			$ 78,140,000	$ 4,345,000

The True Interest Cost Rate for the Certificates of Obligation Series 2021 (Limited Tax) $13,630,000 and Taxable Series 2021 (Limited Tax) $62,755,000 was 1.8% and 2.1%, respectively.

As of September 30, 2022, the debt service requirements of indebtedness to maturity are as follows:

Year Ended September 30,	Principal	Interest	Total
2023	$ 4,345,000	1,651,744	5,996,744
2024	4,445,000	1,558,810	6,003,810
2025	4,530,000	1,463,461	5,993,461
2026	4,630,000	1,365,606	5,995,606
2027	3,450,000	1,286,907	4,736,907
2028-2032	18,305,000	5,395,569	23,700,569
2033-2037	20,390,000	3,299,341	23,689,341
2038-2041	18,045,000	910,501	18,955,501
Total	$ 78,140,000	16,931,939	95,071,939

The General obligation bonds are secured by and payable from the proceeds of a limited ad valorem tax levied against taxable property within Central Health. Central Health maintains a Aa2 Rating by Moody’s.

During the year ended September 30, 2020, the Central Health Board approved a line of credit for furniture, fixtures, and equipment in the amount of $10 million. The credit line is secured by a lien to the personal property or software subscription financed. Fixed rates are established at the time of the draw request at variable interest rates above the existing Interest Rate Swap Rate, as defined. As of September 30, 2022, Central Health has not drawn on the line of credit.

8. Leases

Central Health has implemented GASB Statement No. 87, which specifies the required reporting of leases within the financial statements. This new standard supersedes GASB Statements No. 13 and No. 62 and eliminates the distinction between operating and capital leases. GASB Statement No. 87 requires all leases (for both lessee and lessor) to be classified as finance leases, which are similar to the previous designation of capital leases. The required adoption date is for fiscal years beginning subsequent to June 15, 2021.

Under GASB Statement No. 87, finance leases will be reported as liabilities and assets on the statement of financial position, Lease payments will have a portion that reduces the lease liability and a portion that flows through the statement of activities as interest expense. A corresponding lease asset will also be reported in the statement of financial position and will be amortized over the lease term or useful life, whichever is shorter.

Under GASB Statement No. 87, the lessee will record a lease liability and related lease asset, the lessor will record a lease receivable and related deferred inflow of resources. Both the lease liability and lease receivable are calculated as the present value of the remaining lease payments expected to be paid or received over the term of the lease. Generally, both the lease asset and deferred inflow of resources will be equal to the lease liability or lease receivable with a few exceptions, such as prepaid or deferred lease payments.

Lessee

On October 15, 2014, Central Health approved a ground lease (the "ground lease") with UT to lease a parcel of UT land for the site of the new teaching hospital (the "site"). Effective October 17, 2014, the site was approved for sublease to Seton (the "sublease") to construct and operate the teaching hospital affiliated with the Dell Medical School at UT. The term of the ground lease is for 60 years with two 10 year renewals and established an initial annual base rent amount of $877,621 due in monthly installments. The sublease has the same term and payment amount as the ground lease and offsets any impact to total net position. The property must be used for hospital operations and to fulfill Central Health's requirement of maintaining a safety net hospital for low income or uninsured residents of Travis County.

The base rent amount will be adjusted annually by an amount proportional to the percentage increase in the CPI-U during the preceding year; however, the annual increase shall not be less than one percent (1%). Every 15th year of the ground lease, an appraisal shall be performed to determine the fair market value and the base rent amount shall be adjusted accordingly.

An initial lease liability was recorded in the amount of $42,921,307. As of September 30, 2022, the value of the lease liability is $42,841,106. The lease has an implicit interest rate of 3.83%, which was the incremental borrowing rate for Central Health. The value of the right to use asset as of September 30, 2022 is $42,333,344 with accumulated amortization of $587,963.

On October 1, 2020, Central Health entered into a lease as a lessee for the use of the Eligibility and Call Center Offices. The term of the lease is for 36 months with a renewal period through December 31, 2025 and establishes an initial monthly base rent amount of $10,072. The base rent amount will be adjusted annually at an expected rate increase of 3.7%.

An initial lease liability was recorded in the amount of $524,253. As of September 30, 2022, the value of the lease liability is $414,864. The lease has an interest rate of 3.83%, which was the incremental borrowing rate for Central Health. The value of the right to use asset as of September 30, 2022 is $400,899 with accumulated amortization of $123,354.

Future minimum lease payments as of September 30, 2022, were as follows:

Year Ended September 30,	Principal	Interest	Total
2023	$ 116,632	1,056,553	1,173,185
2024	126,092	1,074,861	1,200,953
2025	136,102	1,093,301	1,229,403
2026	36,038	1,113,263	1,149,301
2027	-	1,137,519	1,137,519
2028-2094	42,841,106	131,405,464	174,246,570
Total	$ 43,255,970	136,880,961	180,136,931

Lessor

Effective June 1, 2013, Central Health and Seton entered into a lease for certain facilities located on the Downtown Campus, in addition to a ground sublease at the site of the Dell Seton Teaching Hospital that is lease from UT.

As noted above, Central entered into the sublease with Seton to construct and operate the teaching hospital affiliated with the Dell Medical School at UT. The terms of the sublease are the same as the ground lease which offsets any impact to total net position. The property must be used for hospital operations and to fulfill Central Health's requirement of maintaining a safety net hospital for low income or uninsured residents of Travis County. An initial lease receivable was recorded in the amount of $42,921,307. As of September 30, 2022, the value of the lease receivable is $42,841,106. The value of the deferred inflows of resources as of September 30, 2022 was $42,333,344.

With the opening of the new teaching hospital, Seton and Central Health negotiated a new lease for the Downtown Campus parking garage, Clinical Education Center ("CEC") building, and the CEC parking garage. The new lease was executed in December 2017 with an initial term of May 22, 2017 through September 30, 2024, with renewal options for seven additional terms each for 120 months thereafter for the Downtown Campus parking garage. The agreement reflects the relocation of hospital services previously provided at Brackenridge Hospital and the opening of the new Teaching Hospital located in close proximity. An initial lease receivable for the Downtown Campus parking garage, CEC building, and the CEC parking garage was recorded in the amount of $140,470,491. As of September 30, 2022, the value of the lease receivable is $134,947,715. The value of the deferred inflows of resources as of September 30, 2022 was $132,735,490.

In August 2018, Central Health entered into a lease with a local limited partnership named the 2033 LP, established for the benefit of UT and Dell Medical School at UT, to lease approximately 2.8 acres on the Central Health Downtown Campus. The term of the lease is 99 years and requires annual payments. In October 2018, 2033 LP assigned the lease to the 2033 Higher Education Development Foundation, a Texas nonprofit District. An initial lease receivable for a portion of the Central Health Downtown Campus was recorded in the amount of $67,026,666. As of September 30, 2022, the value of the lease receivable is $66,071,956. The value of the deferred inflows of resources as of September 30, 2022 was $66,330,285.

In August 2021, Central Health acquired land and buildings (formerly the Sears building and existing CommUnityCare clinic site) located in Hancock Center. Central Health intends to provide healthcare services and consolidate administrative operations into a single owned property from existing multiple locations. As part of the transaction transferring ownership of the Leased Premises, Central Health received an assignment of its lease of the CommUnityCare clinic building located on the premises. The lease ends on December 31, 2026. An initial lease receivable for the Hancock CommUnityCare clinic was recorded in the amount of $827,543. As of September 30, 2022, the value of the lease receivable is $686,084. The value of the deferred inflows of resources as of September 30, 2022 was $669,916.

The following is a summary of the Central Health's lease revenue for the year ended September 30, 2022:

Lease revenue:	
Building	$ 7,974,154
Land	1,284,344
Total lease revenue	9,258,498
Interest revenue	9,525,041
Total	$ 18,783,539

Future lease revenue as of September 30, 2022, was as follows:

Year Ended September 30,	Principal	Interest	Total
2023	$ 5,512,033	6,609,075	12,121,108
2024	5,729,943	6,447,451	12,177,394
2025	164,664	6,460,807	6,625,471
2026	174,136	6,593,056	6,767,192
2027	44,962	6,729,689	6,774,651
2028-2117	232,921,123	682,148,091	915,069,214
Total	$ 244,546,861	714,988,169	959,535,030

9. Central Health/Seton Master and Ancillary Agreements

Effective June 1, 2013, Central Health and Seton entered into a Master Agreement and ancillary agreements including: a lease for the Downtown Campus and an Omnibus Services Agreement. Through the Master Agreement, Central Health and Seton formed the CCC, a 501(c)(3) District that was created to provide a framework for participating in the Texas Healthcare and Quality Improvement Program, a statewide Medicaid 1115 waiver program. The CCC is a performing provider that carries out the Delivery System Reform Incentive Payment ("DSRIP") program through the Medicaid 1115 waiver.

The Omnibus Services Agreement ("Omnibus Agreement") specifies the services to be provided by Seton including but not limited to, Seton's charity care program as described in Annex A of the Omnibus Agreement, the Medical Access Program ("MAP") Healthcare Services as described in Annex C of the Omnibus Agreement, and other applicable charity care programs, as well as the funding mechanism for the provision of Seton healthcare services and the shared decision making of Central Health and Seton over the MAP program. Pursuant to Section 5.5 of the Omnibus Agreement, the intention of the Omnibus Agreement is to memorialize the current arrangement between the parties regarding the scope, availability and current value of Covered Healthcare Services currently provided by Seton to Covered Beneficiaries. Under the Master Agreement, Seton must meet the safety-net services obligation and provide this baseline level of service for the initial 25 year term of the agreement. Upon termination of the Master Agreement, Seton must continue to provide the same level of inpatient and outpatient services to the Covered Population that it served during the last full calendar year prior to termination for a period of five years, with an option for Central Health to purchase an additional five years.

On September 3, 2020, Central Health sent a Notice of Breach to Seton that specified material breaches of the Agreements have occurred. The Notice of Breach specifies deficiencies in certain obligations required of Seton during the term of the existing Agreements between the parties.

In October 2020, both members entered into a Standstill Agreement that paused the actions related to the impending Funding Deadlock asserted by Seton and Notice of Breach asserted by Central Health and resulted in informal mediation process to discuss possible amendments to the Master Agreement and Omnibus Agreement.

At the end of April 2022, Central Health informed Seton that it would not be renewing the Standstill Agreement and that it would be invoking the dispute-resolution process set forth in Section 7 of the Master Agreement. On May 10, 2022, Seton sent a notice of material breach by Central Health of certain obligations under the Master Agreement and Omnibus Agreement. Central Health has notified Seton it disagrees it is in of the alleged breach of the applicable agreements. Seton also invoked the dispute-resolution process set forth in Section 7 of the Master Agreement. Although both parties have been actively engaged in the dispute-resolution process, there is no assurance the dispute-resolution process will be successful.

10. Appraisal District and Ad Valorem Taxes

The Texas Legislature in 1979 adopted a comprehensive Property Tax Code (the "Code") which established a county-wide appraisal district and an appraisal review board in each county in the State. The Appraisal District is responsible for the recording and appraisal of all property in Central Health. Under the Code, Central Health sets the tax rates on property with the approval of the Travis County Commissioner's Court. The Travis County Tax Assessor-Collector provides tax collection services. The Appraisal District is required under the Code to assess property at 100% of its appraised value. Further, real property must be reappraised at least every three years. Under certain circumstances, taxpayers and taxing units, including Central Health, may challenge orders of the Appraisal District's review board through various appeals and, if necessary, legal action.

Property taxes are levied as of October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes and penalties and interest that are ultimately imposed.

The Central Health October 2021 tax levy was $265,885,611. Central Health levied taxes based on the January 1, 2021 assessed values at a tax rate of $0.111814 per $100 of assessed valuation for fiscal year 2022.

11. Interlocal Agreement with the City of Austin

Effective March 1, 2009, Central Health entered into an agreement with the City of Austin under which Central Health will reimburse the City of Austin for emergency medical transport services provided to Central Health's MAP enrollees. The services are currently included in the budget of the CCC.

Central Health also entered into several leases of mixed-use facilities from the City of Austin for primary care (clinic) sites that, pursuant to State law, did not convey to Central Health. The mixed-use facility leases may remain in place until February 28, 2034, if not terminated earlier by either party. Rental expense to Central Health is comprised only of the operating and maintenance expense for each facility.

12. Interlocal Agreements with Travis County

Central Health entered into an Interlocal agreement with Travis County in which Travis County provides legal, investment and other services for Central Health along with the tax collection services discussed in Note 10. Central Health also entered into several leases of mixed-use facilities from Travis County for primary care (clinic) sites that, pursuant to State law, did not transfer to Central Health. The mixed-use facility leases are in effect until September 30, 2029, if not terminated earlier by either party. There is minimal expense to Central Health. CommUnityCare is responsible for the clinics and the associated operating and maintenance expense for each facility.

13. Agreement with CommUnityCare

Effective March 1, 2009, Central Health and CommUnityCare were approved by the Health Resources and Services Administration (HRSA) as co-applicants under a public entity model. Under the approved Agreement, Central Health holds the Federally Qualified Health Center (FQHC) designation, while CommUnityCare employs physicians and manages the operations of the clinics. Central Health also owns assets utilized by CommUnityCare under an equipment and facilities agreement. Central Health has a contractual agreement with CommUnityCare to provide clinical services to qualifying Travis County residents under the Medical Access Program (MAP) and MAP Basic programs. During the year ended September 30, 2022, CommUnityCare provided services in the amount of $56.5 million.

Central Health and CommUnityCare also operate under a space allocation agreement for certain facilities where CommUnityCare agrees to be solely responsible for the day-to-day operations of clinic space and other healthcare related activities with financial support from Central Health.

14. The University of Texas Affiliation Agreement

On July 10, 2014, Central Health, the CCC, and UT entered into an affiliation agreement under which UT will assist Central Health and the CCC in the support of the Integrated Delivery System including:

- Serving low-income communities by training residents in community based settings;
- Developing appropriate levels of clinical services at community clinics;
- Promoting effective and efficient medical practice by training professionals to work together in multi-disciplinary teams;
- Providing medical care and clinical services with a focus on preventative health care and factors that impact health outcomes and utilizing data to educate physicians and patients on methods to achieve better health outcomes and reduce disparities; and
- Providing women's health services.

Pursuant to the affiliation agreement, the CCC funds may only be used by UT to fund Permitted Investments consistent with the mission of Central Health. Permitted Investments are defined as the continuing investment in programs, projects, operations and providers that furthers the missions of the CCC and Central Health, benefits UT and complies with all Laws that apply to each party, and shall include, but not be limited to:

- The enhancement of medical services for residents of Travis County;
- Directly or indirectly increasing health care resources available to provide services to Travis County residents;
- The discovery and development of new procedures, treatments, drugs, and medical devices that will augment the medical options available to Travis County residents;
- Development and operation of collaborative and integrated health care for Travis County residents; and
- Direct operating support to UT to be used for:
    - The development, accreditation, and ongoing operation of the Dell Medical School and its administrative infrastructure;
    - Recruitment, retention and work of Dell Medical School faculty, residents, medical students, researchers, administrators, staff and other clinicians;
    - Related activities and functions as described in the affiliation agreement.

The CCC paid UT annual Permitted Investment Payments in the amount of $35 million each year from 2014 to 2022. Central Health guarantees these payments, to the extent it is permitted to do so by the Constitution and the Laws of the State of Texas. The initial term of the affiliation agreement is 25 years from the effective date, with an automatic renewal for a successive 25 year term.

15. Legislation Changes

During fiscal year 2019, a Local Provider Participation Fund (the "LPPF") in Travis County was created by the Texas Legislature. Central Health acts as the administrator of the LPPF by assessment and collection of mandatory payments from inpatient hospital facilities in Travis County. These payments are to be used to fund the local share of certain supplemental hospital funding programs and Central Health holds these funds in a fiduciary capacity.

During the year ended September 30, 2022 Central Health collected $184,715,553 in mandatory payments from participating hospitals and made intergovernmental transfers of $198,752,357. As of September 30, 2022, Central Health held $22,814,275 in mandatory payments that will be used for future funding of eligible supplemental payment programs.

During the 86th Legislature, the State of Texas passed Senate Bill (SB) 1142 which provides Central Health the authority to appoint, contract for or employ physicians to provide direct medical care to patients. Central Health has established a Medical Executive Board, hired a Chief Medical Officer and completed a safety net community health needs assessment and gap analysis as part of developing an equity focused service delivery strategic plan. Initial service delivery has begun on a limited basis and infrastructure is being developed to implement the equity focused service delivery strategic plan which includes the opening a multispecialty clinic in fiscal year 2023 that will include six specialty service line options. Central Health will directly provide the services to operate the multispecialty clinic including direct hire of physicians, launching a new electronic health record system and comprehensive patient care management to fully integrate the services into the existing safety net system of care in Travis County.

16. Deferred Compensation Plan

Central Health offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. Assets and income of Central Health's plan are administered by a private Trustee under contract with Central Health and are held for the exclusive benefit of the participants and their beneficiaries. Accordingly, the plan's assets and liabilities are not recorded in Central Health's financial statements. During the year ended September 30, 2022, Central Health contributed $116,120 to the plan under Central Health's deferred compensation matching program.

17. Retirement Plan

In October 2007, Central Health began offering its employees a defined contribution 401(a) plan established in accordance with Internal Revenue Code Section 401(a). Assets and income of Central Health's plan are administered by a private Trustee under contract with Central Health and are held for the exclusive benefit of the participants and their beneficiaries. Accordingly, the plan's assets and liabilities are not recorded in Central Health's financial statements. During the year ended September 30, 2022, Central Health contributed $886,115 to the plan under Central Health's retirement program.

18. Health Care Coverage

During the year ended September 30, 2022, Central Health transitioned to a self insured plan for health insurance benefits for employees. From October 1, 2021 until February 28, 2022 employees of Central Health were covered by a health insurance plan administered by a licensed insurer. Central Health contributed a portion of the cost of family coverage, if applicable, and employees, at their option, authorized payroll withholdings to pay premiums for dependents. On March 1, 2022, Central Health continued to contribute to employee's health insurance at the same rates for all individual and family plans, however, employee and employer contributions were used to begin to establish the necessary reserves to fund claims. In addition, Central Health continued to use a licensed insurer as third party administrator to provide the same network of health coverage programs, administer claims and administer stop loss coverage for claims over a set threshold, limiting Central Health's risk for high dollar claims. On average, Central Health contributed $780 per month per employee to the plan during the entire year ended September 30, 2022. As of September 30, 2022 the incurred but not reported liability was $1,124,938 with claims payments of $2,885,376.

19. Risk Management

Central Health's risk management program includes coverage through third party insurance providers for general liability, property damage, officers' professional liability, workers compensation, cyber, and other types of insurance as appropriate. During the year ended September 30, 2022, there were no reductions in insurance coverage from coverage in the prior year that were outside of current industry standards and there have been no claims filed other than routine claims for property damage, workers compensation, and employment matters, none of which were significant.

20. Commitments and Contingencies

Central Health is obligated to provide health care assistance to eligible county residents under Chapter 61, Section 61.022 of the Texas Health and Safety Code. Generally, Central Health is obligated, at a minimum, to provide healthcare services to county residents at or below 21 percent of the federal poverty level based on the federal Office of Management and Budget poverty index or other eligibility criteria as established within Chapter 61.

Per Section 3.2 of the Affiliation Agreement between UT, Central Health, and the CCC, Central Health shall be responsible for any portion of the annual $35 million Affiliation Payment, subject to the terms of the Affiliation Agreement and to the extent the CCC is unable to fund the annual payment amount.

Article IV of the Omnibus Services Agreement establishes an Agreed Value of Services in consideration of Covered Healthcare Services provided by Seton. Both parties have agreed that the initial Value of Services amount is $73.6 million and beginning October 1, 2019 shall be increased annually by the annual increase of the published CPI-Medical Care index. Uncompensated Care (UC), Disproportionate Share (DSH) program, and payments from the CCC and received by Seton shall offset and reduce the Value of Services amount. In the event these amounts do not equal or exceed the annual Value of Services, Seton shall be entitled to offset amounts due and payable by Seton to Central Health or the CCC.

Central Health is involved in litigation arising in the normal course of business. After consultation with legal counsel, management does not anticipate a material impact to Central Health's future financial position or results from operations.

Central Health is actively managing its operations to maintain its cash flow and management believes that Central Health has sufficient liquidity to adequately maintain operations.

21. Medicaid 1115 Waiver

The Texas Medicaid 1115 Waiver was initially approved for a five year period ending September 30, 2016. In May 2016, CMS (Centers for Medicare and Medicaid Services) approved a temporary fifteen month extension through December 2017 at the existing annual funding levels. On December 21, 2017, HHSC and CMS reached an agreement to extend the 1115 Waiver for an additional five years ending September 30, 2022. The extension maintains DSRIP funding for the first two years and then reduces the amount of DSRIP funding over the following two years. There was not any DSRIP funding available in fiscal year 2022, the fifth and final year of the waiver. The extended program was redesigned to make payments to performing providers based on achieving selected health outcomes for a defined covered population. On July 2022, the CCC received payment for Demonstration Year 10, which ended its final reporting period as of September 30, 2021.

In August 2020, the Department of Health and Human Services Office of Inspector General (OIG) released an audit report regarding the HHSC's administration of the Texas 1115 Medicaid Waiver DSRIP program, which included the CCC, for payments claimed and paid from 2013 to 2017. As a result of the audit, OIG has recommended that Texas (1) refund $83.8 million it inappropriately received because it used IGTs derived from impermissible provider-related donations as the State share of DSRIP program payments; (2) provide its IGT entities with guidance about arrangements that may result in impermissible provider-related donations; and (3) request that its IGT entities disclose whether similar arrangements exist and provide Texas with action plans on ending the arrangements. HHSC does not concur with the first and second recommendations and has responded in writing to the OIG audit findings; additionally, both Central Health and Ascension Seton have provided responses to the audit

On January 15, 2021 HHSC announced it had received approval from Centers of Medicare and Medicaid Services (CMS) of an extension to the Texas Healthcare Transformation and Quality Improvement 1115 Demonstration Waiver for an additional ten year period. The extension did not include approval of a continuation of the DSRIP program, but instead includes implementation of new Medicaid Directed Payment Programs (DPPs), including Comprehensive Hospital Increase Reimbursement Program (CHIRP), Texas Incentives for Physician and Professional Services (TIPPS), and Rural Access to Primary and Preventative Services (RAPPS). Currently, the CCC and Central Health are not eligible to participate in any of the new programs.

It is anticipated that Central Health will transition necessary healthcare services agreements, in addition to the annual University of Texas at Austin Affiliation Agreement payment, beginning in Fiscal Year 2023 as the remaining CCC funds are spent down.

22. Subsequent Event

On January 24, 2023, Central Health terminated mediation with Ascension (as specified in Section 7 of the Master Agreement) and filed a lawsuit in Travis County District Court alleging Ascension has committed breaches it is obligated to perform under the Master Agreement and Omnibus Agreement. Central Health does not anticipate a material impact to its financial statements as a result of the lawsuit.

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

To the Board of Managers of
Travis County Healthcare District:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Travis County Healthcare District (dba and hereinafter referred to as "Central Health"), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise Central Health's basic financial statements, and have issued our report thereon dated January 25, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Central Health's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Central Health's internal control. Accordingly, we do not express an opinion on the effectiveness of Central Health's internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Health's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Maxwell Locke + Ritter LLP

Austin, Texas
January 25, 2023