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

Consolidated Financial Statements as of and for the Years Ended August 31, 2021 and 2020, and Independent Auditors' Report

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The University of Texas M.D. Anderson Cancer Center and subsidiaries (the "Center") as of and for the years ended August 31, 2021 and 2020, and the related notes to the consolidated financial statements, which collectively comprise the Center's consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the Center as of August 31, 2021 and 2020, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the consolidated financial statements of the Center are intended to present the financial position, the changes in financial position, and cash flows of the University of Texas System attributable to the Center. They do not purport to, and do not, present fairly the financial position of the University of Texas System as of August 31, 2021 and 2020, the changes in its financial position, or cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of the Center's Proportionate Share of the Total OPEB Liability, the Schedule of the Center's Proportionate Share of the Net Pension Liability, and the Schedule of the Center's Contributions for the Teachers Retirement System Pension Plan on pages 52–53 be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 8, 2021, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center'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 the Center's internal control over financial reporting and compliance.

Deloitte & Touche LLP

December 8, 2021

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

CONSOLIDATED BALANCE SHEETS
AS OF AUGUST 31, 2021 AND 2020
(In thousands)

	2021	2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 729,090	$ 314,834
Patient accounts receivable—net of bad debt allowances of $85,071 and $122,372 in 2021 and 2020, respectively	438,155	330,723
Estimated third-party payor settlements	83,215	52,156
Inventories and other current assets	311,878	211,861
Grants receivable	165,041	178,703
Restricted:		
Cash and cash equivalents	369,151	383,968
Contributions receivable—net—current portion	5,753	6,550
Due from UT System	4,591	5,045
Total current assets—net	2,106,874	1,483,840
NONCURRENT ASSETS:		
Restricted assets:		
Investments held by UTIMCO	979,295	763,812
T. Boone Pickens Fund	859,258	677,532
Contributions receivable—net—noncurrent	4,126	5,859
Assets held for others	667,328	565,511
Due from UT System—noncurrent	12,023	12,378
Total restricted assets—net	2,522,030	2,025,092
Capital assets:		
Land	243,835	223,703
Buildings and other improvements	4,579,466	4,537,133
Equipment	1,891,726	1,906,514
Nondepreciable collections	2,158	2,158
Construction in progress	185,471	107,366
Total capital assets	6,902,656	6,776,874
Less accumulated depreciation	(4,282,904)	(4,044,224)
Capital assets—net	2,619,752	2,732,650
Other noncurrent assets:		
Investments held by UTIMCO	7,919,612	6,358,812
Joint ventures and other noncurrent assets	65,131	71,288
Total other noncurrent assets	7,984,743	6,430,100
Total noncurrent assets	13,126,525	11,187,842
Total assets	15,233,399	12,671,682
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows—asset retirement obligations	520	1,039
Deferred outflows—Proton Therapy Center acquisition	13,690	14,058
Deferred outflows—pension related	586,231	629,959
Deferred outflows—other postemployment benefits related	525,789	164,550
Total deferred outflows of resources	1,126,230	809,606
TOTAL ASSETS AND DEFERRED OUTFLOWS	$16,359,629	$13,481,288

(Continued)

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

CONSOLIDATED BALANCE SHEETS
AS OF AUGUST 31, 2021 AND 2020
(In thousands)

	2021	2020
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 477,723	$ 498,890
Unearned revenue	274,914	264,035
Estimated third-party payor settlements	42,301	10,000
Compensated absences—current	180,029	179,483
Other postemployment benefit liability—current	57,728	50,622
Other current liabilities	121,559	34,405
Due to UT System	30,381	31,569
Total current liabilities	1,184,635	1,069,004
NONCURRENT LIABILITIES:		
Compensated absences—noncurrent	63,952	55,376
Assets due to others	667,328	565,511
Net pension liability	1,528,701	1,423,273
Other postemployment benefit liability—noncurrent	3,422,196	2,803,191
Asset retirement obligation	8,583	16,632
Other	854	2,968
Total noncurrent liabilities	5,691,614	4,866,951
Total liabilities	6,876,249	5,935,955
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows—pension related	236,493	299,093
Deferred inflows—other postemployment benefit related	477,449	576,151
Deferred inflows—split interest	1,570	4,514
Total deferred inflows of resources	715,512	879,758
Total liabilities and deferred inflows	7,591,761	6,815,713
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET POSITION:		
Investment in capital assets	2,619,752	2,732,650
Restricted:		
Nonexpendable	1,026,359	1,006,113
Expendable	1,148,489	805,370
Unrestricted	3,973,268	2,121,442
Total net position	8,767,868	6,665,575
TOTAL LIABILITIES AND NET POSITION	$16,359,629	$13,481,288

See notes to consolidated financial statements.

(Concluded)

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

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020
(In thousands)

	2021	2020
OPERATING REVENUES:		
Net patient service revenue	$ 4,302,383	$ 3,952,076
Net professional fees	409,757	395,299
Grants and contracts revenue	506,671	489,247
Net sales and services of educational activities	2,964	3,940
Auxiliary revenue	23,141	33,096
Other	149,775	130,109
Total operating revenues	5,394,691	5,003,767
OPERATING EXPENSES:		
Salaries and benefits	2,786,941	2,711,488
Pension expense	202,270	239,101
Other postemployment benefit expense	208,855	142,187
Medical supplies and drugs	1,199,406	1,118,295
Travel	1,419	12,218
Professional and contractual services	485,768	458,856
Utilities	63,745	58,691
Repairs and maintenance	120,952	115,908
Rentals and leases	57,095	50,585
Depreciation and amortization	365,324	368,523
Other	52,317	58,385
Total operating expenses	5,544,092	5,334,237
OPERATING LOSS	(149,401)	(330,470)
NONOPERATING REVENUES:		
State appropriations	119,994	218,244
Gift contributions for operations	114,614	130,895
Net investment income	1,836,569	806,391
Other—net	237,783	36,502
Total nonoperating revenues	2,308,960	1,192,032
INCOME BEFORE CAPITAL CONTRIBUTIONS, ADDITIONS TO PERMANENT ENDOWMENTS, AND TRANSFERS	2,159,559	861,562
CAPITAL CONTRIBUTIONS	(8)	209
ADDITIONS TO PERMANENT ENDOWMENTS	13,440	12,713
TRANSFERS FROM UT SYSTEM	116,907	156,901
TRANSFERS TO UT SYSTEM	(187,606)	(145,860)
INCREASE IN NET POSITION	2,102,292	885,525
NET POSITION—Beginning of year	6,665,575	5,780,050
NET POSITION—End of year	$ 8,767,867	$ 6,665,575

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020
(In thousands)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Proceeds from third-party payors and patients	$ 4,604,708	$ 4,455,592
Proceeds from grants and contracts	491,960	454,545
Proceeds from auxiliary enterprise charges	22,965	33,251
Proceeds from other revenues and expenses	260,256	58,926
Payments to employees	(2,928,121)	(2,824,601)
Payments to suppliers	(2,097,485)	(1,876,842)
Net cash provided by operating activities	354,283	300,871
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from state appropriations	120,625	217,613
Operating gifts	117,063	129,036
Private gifts for endowment and annuity life purposes	13,440	12,713
Other nonoperating transfers from UT System	16,120	81,449
Other nonoperating transfers to UT System	(2,486)	(5,657)
Proceeds from other sources	237,895	36,550
Net cash provided by noncapital financing activities	502,657	471,704
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of capital assets	(253,680)	(228,961)
Nonmandatory capital-related transfers from UT System	43,859	27,661
Mandatory transfers to UT System for capital-related debt	(127,358)	(99,751)
Proceeds from sales of capital assets	6,409	2,828
(Payments of) proceeds from capital grants and gifts	(8)	159
Net cash used in capital and related financing activities	(330,778)	(298,064)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(589,722)	(1,199,173)
Sales of investments—PRS Trust	93,395	166,790
Purchases of investments—PRS Trust	(46,290)	(102,098)
Interest and dividends	415,894	436,019
Net cash used in investing activities	(126,723)	(698,462)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	399,439	(223,951)
CASH AND CASH EQUIVALENTS—Beginning of year	698,802	922,753
CASH AND CASH EQUIVALENTS—End of year	$ 1,098,241	$ 698,802

(Continued)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020
(In thousands)

	2021	2020
SUPPLEMENTAL DISCLOSURES—Noncash investing activity:		
Unrealized gain on investments	$ 1,419,991	$ 372,017
Capital asset acquisitions in accounts payable and accrued expenses	$ 20,069	$ 18,964
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (149,401)	$ (330,470)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	365,324	368,523
Changes in assets and liabilities:		
Receivables—net	(114,837)	99,222
Inventories and other assets	(107,318)	(13,740)
Accounts payable and accrued expenses	10,362	8,142
Due to UT System	(1,188)	5,918
Unearned revenue	10,961	(26,521)
Compensated absences	9,122	35,892
Asset retirement obligations	(7,530)	950
Pension-related obligations, deferred inflows, and deferred outflows	86,557	121,358
Other postemployment benefits-related obligations, deferred inflows, and deferred outflows	166,169	100,440
Other liabilities	86,062	(68,843)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 354,283	$ 300,871

See notes to consolidated financial statements.

(Concluded)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

- M. D. Anderson Physicians Network (MDAPN), 7007 Bertner Avenue, Suite 10.3212, Houston, TX 77030, is governed by a four-member board appointed by the Center. MDAPN transfers programs representative of the Center's mission to the broad community. MDAPN is blended rather than discretely presented because it is organized as a not-for-profit corporation and the Center is the sole corporate member. MDAPN's fiscal year end is August 31.

- M. D. Anderson Services Corporation (MDASC), 7007 Bertner Avenue, Suite 10.3212, Houston, TX 77030, is governed by a seven-member board appointed by the president of the Center and the System Board of Regents. MDASC serves as an instrument of the Center in its efforts to achieve its mission beyond the Center's main campus. MDASC is blended rather than discretely presented because it is organized as a not-for-profit corporation and the Center is the sole corporate member. MDASC's fiscal year end is August 31.

Blended financial information is available upon request. Condensed financial statement information related to the Center's blended component units as of and for the year ended August 31, 2021, is as follows (in thousands):

Condensed Balance Sheet	M. D. Anderson Physicians Network	M. D. Anderson Services Corporation	Total
Current assets	$ 65,735	$ 79,866	$ 145,601
Noncurrent assets	205,949	889,851	1,095,800
Total assets	271,684	969,717	1,241,401
Current liabilities	24,464	102,652	127,116
Noncurrent liabilities	191	123,130	123,321
Total liabilities	24,655	225,782	250,437
Investment in capital assets	1,017	10	1,027
Restricted nonexpendable	-	50,000	50,000
Restricted expendable	-	655,372	655,372
Unrestricted	246,011	38,553	284,564
Total net position	$247,028	$743,935	$ 990,963
Condensed Statement of Revenues, Expenses, and Changes in Net Position			
Operating revenues	$ 58,229	$ 2,252	$ 60,481
Operating expenses	(26,385)	(1,522)	(27,907)
Operating income	31,844	730	32,574
Nonoperating revenues	21,203	217,045	238,248
Income	53,047	217,775	270,822
Change in net position	53,047	217,775	270,822
Net position—August 31, 2020	193,981	526,160	720,141
Net position—August 31, 2021	$247,028	$743,935	$ 990,963
Condensed Statement of Cash Flows			
Net cash provided by (used in):			
Operating activities	$ 32,557	$ 2,879	$ 35,436
Capital and related financing activities	(256)	(50,006)	(50,262)
Investing activities	(52,316)	29,231	(23,085)
Net decrease in cash and cash equivalents	(20,015)	(17,896)	(37,911)
Cash and cash equivalents—August 31, 2020	76,674	96,560	173,234
Cash and cash equivalents—August 31, 2021	$ 56,659	$ 78,664	$ 135,323

Blended financial information is available upon request. Condensed financial statement information related to the Center's blended component units as of and for the year ended August 31, 2020, is as follows (in thousands):

Condensed Balance Sheet	M. D. Anderson Physicians Network	M. D. Anderson Services Corporation	Total
Current assets	$ 82,927	$ 99,434	$ 182,361
Noncurrent assets	132,531	702,783	835,314
Total assets	215,458	802,217	1,017,675
Current liabilities	21,478	121,822	143,300
Noncurrent liabilities	-	154,234	154,234
Total liabilities	21,478	276,056	297,534
Investment in capital assets	1,118	6	1,124
Restricted nonexpendable	-	50,000	50,000
Restricted expendable	-	443,301	443,301
Unrestricted	192,863	32,853	225,716
Total net position	$193,981	$526,160	$ 720,141
Condensed Statement of Revenues, Expenses, and Changes in Net Position			
Operating revenues	$ 54,366	$ 3,871	$ 58,237
Operating expenses	(26,929)	(2,446)	(29,375)
Operating income	27,437	1,425	28,862
Nonoperating revenues	10,687	62,541	73,228
Income before other changes in net position	38,124	63,966	102,090
Change in net position	38,124	63,966	102,090
Net position—August 31, 2019	155,857	462,194	618,051
Net position—August 31, 2020	$193,981	$526,160	$ 720,141
Condensed Statement of Cash Flows			
Net cash provided by (used in):			
Operating activities	$ 50,080	$ 63,412	$ 113,492
Noncapital financing activities	-	(30,082)	(30,082)
Investing activities	(24,615)	(32,252)	(56,867)
Net increase in cash and cash equivalents	25,465	1,078	26,543
Cash and cash equivalents—August 31, 2019	51,209	95,482	146,691
Cash and cash equivalents—August 31, 2020	$ 76,674	$ 96,560	$ 173,234

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

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

COVID-19—In January 2020, the World Health Organization declared the novel coronavirus (COVID-19) a Public Health Emergency of International Concern. On March 13, 2020, the Governor of the State of Texas declared a state of emergency. On March 19, 2020, the Governor signed Executive Orders to mitigate the spread of COVID-19 in Texas that closed all nonessential businesses and services statewide, canceled or postponed all nonessential gatherings of individuals, and emphasized social distancing practices in business and personal life. The orders resulted in work-from-home policies, travel restrictions, online education and closure of student residential buildings, and cancellation of events. In addition, the restrictions required rescheduling of elective or noncritical surgical and procedural cases along with nonurgent and routine provider appointments, as well as redeployment of resources to address the novel coronavirus needs. This resulted in reduced hospital and faculty practice patient care revenues and operating cash flows. To alleviate the economic impact, Congress passed several acts that provide economic grants to offset additional expenses and forgone revenue which were reported as Nonexchange Sponsored Programs. In mid-April 2020, consistent with the guidance from regulatory agencies, the Center resumed surgical and professional services that were postponed in March and early April 2020. The outbreak of COVID-19 caused domestic and global disruption in operations for institutions of higher education and health care organizations and negatively impacted the financial markets and the value of the Center’s investments. Other adverse consequences of COVID-19 or any other similar outbreaks in the future may include, but are not limited to, decline in enrollment, decline in demand for housing, decline in demand for Center programs that involve travel or that have international connections, and declines in patient service revenues. The Center continues to carefully monitor developments and the directives of federal, state, and local officials to determine what additional precautions and procedures may need to be implemented by the Center. While the COVID-19 outbreak has adversely impacted the Center’s fiscal year 2020 and 2021 results, the Center cannot at this time accurately predict the full extent to which the COVID-19 outbreak will affect the Center’s future finances and operations. The Center received $122,106,000 and $83,500,000 in Provider Relief Funds (PRF) in fiscal year 2021 and 2020, respectively. The Center received $99,600,000 in CARES Act Coronavirus Relief Funds (CRF) via the Office of the Governor to be used for payroll costs for employees of the institutions that were responding directly to the COVID-19 pandemic in fiscal year 2021. The CRF was not an increased allocation to the institution, but rather an offset to an equal reduction to our state appropriations. Both the PRF and CRF are classified as other nonoperating revenues.

GASB Statements Implemented in Fiscal Year 2021

The requirements of GASB Statement No. 92, *Omnibus 2020,* are effective in 2021. This statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. The application of the statement had no effect on the Center's net position or changes in net position.

The requirements of GASB Statement No. 93, *Replacement of Interbank Offered Rates*, except for paragraphs 11b, 13, and 14 are effective in 2021. This statement preserves consistency and comparability of reporting hedging derivative instruments and leases after agreements are amended to replace the London Interbank Offered Rate (LIBOR). The application of this portion of the statement had no effect on the Center's net position or changes in net position.

GASB Statements Implemented in Fiscal Year 2020

GASB Statement No. 84, *Fiduciary Activities*, effective 2020, established criteria for identifying fiduciary activities which should be reported in a fiduciary fund in the financial statements. While GASB Statement No. 95 allowed for an extension of one year to implement the statement, the State Comptroller's Office decided to implement GASB Statement No. 84 in 2020.

As a result of this implementation, activities previously reported by the System within business-type activities as internal agency-like funds were analyzed to determine if those activities qualified for fiduciary fund reporting. All activities not requiring fiduciary fund reporting were moved to other funds within System's business-type activities, and financial reporting for those activities was adjusted. Activities requiring fiduciary fund reporting were moved out of System's internal agency-like funds into fiduciary funds, and therefore, those activities are now reported within separate fiduciary fund financial statements. All of System's fiduciary funds are reported as custodial funds. Almost all of the System's custodial funds relate to the portion of System's investment funds held for external organizations and are reported as custodial funds-external investment pool. All other custodial funds are reported as custodial funds-other and include activities such as student organizations and funds held for associations.

Paragraphs 4 and 5 of GASB Statement No. 97, Certain Component Unit Criteria, and *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans: an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32,* are effective in 2020. This statement clarifies that, for defined contribution pension plans, defined contribution Other Postemployment Benefits (OPEB) plans, or other employee benefit plans, primary governments that perform the duties that a governing board typically performs in the absence of a governing board is not the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable. This statement also limits the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74. This additional guidance further solidifies the conclusion that the Center does not have any pension or OPEB related fiduciary funds or component units.

GASB Statement No. 90, *Majority Equity Interests*, effective 2020, improved the consistency and comparability of reporting majority equity interests in a legally separate organization and improved the relevance of consolidated financial statement information for certain component units. While GASB Statement No. 95 allowed for an extension of one year to implement the statement, the State Comptroller's Office decided to implement GASB Statement No. 90 in 2020. The implementation of Statement 90 had no effect on the Center's net position or changes in net position for the year ended August 31, 2020.

GASB Statement No. 95, *Postponement of the Effective dates of Certain Authoritative Guidance*, effective 2020, provides temporary relief to governments in light of the COVID-19 pandemic by delaying the implementation dates of many standards by one year. GASB Statement No. 95 had no effect on the Center's consolidated financial statements.

Paragraphs 4, 5, 11, and 13 of GASB Statement No. 92, *Omnibus 2020*, are effective in 2020. This statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues identified during implementation of certain GASB Statements. Other than the portions of this statement implemented in 2020, the remainder of Statement 92 was implemented in 2021. The portions implemented of Statement 92 had no effect on the Center's consolidated financial statements for the year ended August 31, 2020.

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

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

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

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

Restricted:

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

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

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

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

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

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

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

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

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

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

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

All real estate holdings by endowments are recorded at fair value. As of August 31, 2021 and 2020, the Center had real estate holdings approximating $1,245,000 and $1,066,000, respectively.

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

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

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

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

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

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

Capital Assets—Capital assets are recorded at cost at the date of acquisition or estimated fair value at the date of donation in the case of gifts. The Center follows the state's capitalization policy and capitalizes amounts with a cost equal to or greater than $5,000 for equipment items and $100,000 for buildings, building improvements, and improvements other than buildings, with an estimated useful life of greater than one year. Renovations to buildings and land improvements that increase the value by at least 25% or extend the useful life by at least 25% of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Outlays for construction in progress are capitalized as incurred.

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

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

Uncompensated Care and Charity Care—The Center provides uncompensated care to patients who meet certain criteria. Uncompensated care includes the unreimbursed costs for the uninsured and the underinsured, as well as the unreimbursed costs from government-sponsored health programs. Generally, to calculate uncompensated care, charges are converted to costs and providers recognize appropriate patient-specific funding and lump-sum funding available to offset costs. Hospital charges are converted to cost by the application of the Medicare cost-to-charge ratio, as calculated in the most recent Medicare cost report. Since a standard cost report does not exist for physician charges, a proxy cost-to-charge ratio was developed through a process involving all Texas public academic medical centers and the State Auditor's Office. Uncompensated care costs amounted to $314,074,000 and $254,144,000 for the years ended August 31, 2021 and 2020, respectively.

GASB requires health-related institutions to report the cost of providing "charity care." The American Institute of Certified Public Accountants defines charity care as care for which hospitals never expected to be reimbursed. Charity care occurs when a patient applies to the hospital for financial assistance, and the hospital waives all or part of its charges, consistent with its internal charity care policy. The cost of charity care is calculated using the uncompensated care calculation methodology discussed above. Charity care costs amounted to $50,276,000 and $46,660,000 for the years ended August 31, 2021 and 2020, respectively.

Use of Estimates—The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Licenses of Intellectual Property—For the year ended August 31, 2020, the Center received payments for a perpetual, exclusive license to certain intellectual property. The Center recognized $156,718,000 classified as net investment income representing the amounts received, net of payments to third-party contributors and distributions to creators of elements of the intellectual property. The Center also recognized $53,136,000 of other nonoperating expenses for payments to third-party grantors associated with the intellectual property. As of August 31, 2020, $57,726,000 was recognized as an estimated liability for amounts still owed to third-party grantors, creators, and contributors. For the year ended August 31, 2021, the payments to third-party grantors associated with the intellectual property were less than the amount accrued for in the previous year resulting in $9,600,000 in net investment income.

2. NET PATIENT SERVICE REVENUE AND NET PROFESSIONAL FEES

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

Medicare—Inpatient acute care services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology that is limited by a facility-specific amount per discharge. The final reimbursement also includes a calculation of an incentive or relief payment determined through a comparison of the facility's current-year cost to the facility-specific cost per discharge. Certain outpatient services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Effective August 1, 2000, the Medicare program implemented a prospective payment system for outpatient services. However, since the Center is designated as a cancer hospital, the Medicare program provides for a "hold harmless" payment that is equal to the difference between the prospectively determined amounts and the current-year adjusted cost (i.e., the current-year adjusted cost is determined through application of a payment-to-cost ratio, which is derived from a previous Medicare cost report, to the current-year actual cost). The Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Center and audits thereof by the Medicare fiscal intermediary. The Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through August 31, 2018.

Medicaid—Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement methodology. Certain outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Center and audits thereof by the Medicaid fiscal intermediary. The Center's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through August 31, 2018.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by $45,032,000 and $15,759,000 in 2021 and 2020, respectively, due to changes in estimates resulting from the addition of allowances or removal of allowances previously estimated that are no longer necessary as a result of final settlements; years that are no longer subject to audits, reviews, or investigations; revision of allowance estimates recorded in prior years relating to expected retroactive adjustments; and revisions based on updated information from the fiscal intermediary.

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

The Center recognized contractual and bad debt expense of $5,925,781,000 and $5,311,740,000 in 2021 and 2020, respectively, which is included as a deduction to derive net patient service revenue and net professional fees in the consolidated statements of revenues, expenses, and changes in net position.

3. DEPOSITS AND INVESTMENTS

Deposits of Cash in Bank—The carrying amount of deposits was $20,690,000 and $16,802,000 as of August 31, 2021 and 2020, respectively, as presented below (in thousands):

	2021	**2020**
Cash and cash equivalents	$1,098,241	$698,802
Less:		
Cash in state treasury	2,315	4,868
Cash equivalent investments in money market funds (STF)	1,075,119	677,004
Other	117	128
Total	$ 20,690	$ 16,802

As of August 31, 2021 and 2020, the total bank balance was $30,855,000 and $26,258,000, respectively.

In addition, the Center has also invested in UTIMCO's short-term fund (STF); these funds are invested in money market funds. At August 31, 2021 and 2020, the Center had $1,075,119,000 and $677,004,000, respectively, invested in the STF; these amounts are included in cash and cash equivalents.

Deposit Risks:

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

As of August 31, 2021 and 2020, there were no bank balances exposed to custodial risk as uninsured and uncollateralized deposits.

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

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

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

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

Level 3—Unobservable inputs

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

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

The Center also reports current assets of the Physicians Referral Service Supplemental (SRP)/Retirement Benefit Plan (RBP) (see Note 12) as Assets Held for Others.

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

	Fair Value Hierarchy		
	2021	**Level 1**	**NAV**
Exchange traded and equity mutual funds (domestic and international)	$ 453,576	$ 453,576	$ -
Fixed-income money market and bond mutual funds	161,650	161,650	-
Other commingled funds (hedge funds and real estate)	52,102	-	52,102
Total	$ 667,328	$ 615,226	$ 52,102

		Fair Value Hierarchy	
	2020	**Level 1**	**NAV**
Exchange traded and equity mutual funds (domestic and international)	$ 398,283	$ 398,283	$ -
Fixed-income money market and bond mutual funds	124,145	124,145	-
Other commingled funds (hedge funds and real estate)	43,083	-	43,083
Total	$ 565,511	$ 522,428	$ 43,083

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

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

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

Other Investments Held by UT System—The Center also has other investments held by UT System for the purpose of endowment, annuity, and life income funds. These separately invested assets totaled $4,669,000 and $360,670,000 at August 31, 2021 and 2020, respectively. These holdings are primarily invested in publicly listed money market funds categorized as Level 1 in the fair value hierarchy.

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

- As of August 31, 2021 and 2020, investments held by UTIMCO in its ITF on behalf of the Center were $3,864,623,000 and $3,800,844,000, respectively. The ITF includes investments in fixed-income and equity securities in both domestic and international markets. In addition to traditional exchange-traded equity and fixed-income securities, the portfolio includes marketable alternative investments, hedge funds, and various other specialized public market investments. The Center's investments in the ITF are redeemable monthly. Redemption requests from the ITF should be initiated on or before the last business day of the month. ITF transactions will be effective on the first business day of the following month; however, proceeds from ITF redemptions may take up to five business days depending upon the liquidity available in the ITF. For ITF transactions greater than $25 million, at least three business days' notice is required.

- The Center holds investments in UTIMCO's LTF and PHF, which are invested in a combination of government and nongovernment securities, which include various fixed-income, and equity-type securities as well as alternative investments, such as hedge funds, private equity funds, and specialized public market investments. The

Center's T. Boone Pickens Fund is invested primarily in LTF (see Note 18—T. Boone The Pickens Contribution). The Center's total investments in the LTF and PHF as of August 31, 2021 and 2020, were $5,856,393,000 and $3,590,762,000, respectively. The LTF investments are redeemable quarterly. If the withdrawal is greater than $25 million, advance notice of 60 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than $25 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 5% of the LTF's NAV, the UT System Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the time frame to liquidate illiquid investments and the best interests of all LTF unit holders. The PHF investments are nonredeemable by the Center.

- As of August 31, 2021, Tech Stocks of $25,418,000 are categorized as Level 1 and $5,410,000 are categorized as Level 3. As of August 31, 2020, Tech Stocks of $20,673,000 are categorized as Level 1 and $24,751,000 are categorized as Level 3.

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

Investment Risks:

Credit Risk—Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a NRSRO. The Center's investment policy limits investments in US domestic bonds and non-dollar-denominated bond investments to those that are rated investment grade Baa3 or better by Moody's Investor Services, BBB or better by Standard & Poor's Corporation, or an equivalent rating by a NRSRO at the time of acquisition. This requirement does not apply to investment managers that are authorized by the terms of an investment advisory agreement to invest in below investment-grade bonds. The Center's credit quality distribution for investments with credit risk exposure as of August 31, 2021 and 2020, is as follows: (in thousands)

	2021					
	Moody's		**Standard and Poor's**		**FITCH**	
Investment Type	**Fair Value**	**Rating**	**Fair Value**	**Rating**	**Fair Value**	**Rating**
Fixed-income money market and bond mutual fund	20,832	AAA	20,832	AAA	20,832	AAAA
	$140,826	Unrated	$140,826	Unrated	$140,826	Unrated
	$161,658		$161,658		$161,658	

	2020					
	Moody's		**Standard and Poor's**		**FITCH**	
Investment Type	**Fair Value**	**Rating**	**Fair Value**	**Rating**	**Fair Value**	**Rating**
Fixed-income money market and bond mutual fund	$ 11,362	AAA	$ 11,362	AAA	$ 11,362	AAA
	112,783	Unrated	112,783	Unrated	112,783	Unrated
	$124,145		$124,145		$124,145	

Custodial Credit Risk—The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Center will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the Center's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2021 and 2020, the Center does not have any investments that are exposed to custodial credit risk.

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

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

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

4. UNCONDITIONAL PROMISES TO GIVE

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

Unconditional promises to give are recorded when the gift intent is made known in writing. A receivable is established, and net position is increased by the time-discounted value of the promises. At August 31, 2021 and 2020, discount rates used ranged from 0.11% to 1.35% and 1.70% to 1.91%, respectively. Irrevocable trusts are recorded at the point of notification and are recorded as restricted expendable or restricted nonexpendable as determined by the trust instruments.

The Center estimates the year of receipt to the extent possible for unconditional promises. The anticipated present value of the contribution receivable as of August 31, 2021 and 2020, is as follows (in thousands):

	2021	**2020**
Due in one year	$ 6,827	$ 7,747
Due in two to five years	4,448	6,053
Due thereafter	644	350
Gross contributions receivable	11,919	14,150
Less present value discount of gross contributions	(813)	(1,088)
Less allowance for uncollectible contributions	(1,227)	(653)
Net contributions receivable	$ 9,879	$12,409

As of August 31, 2021 and 2020, the Center had received conditional promises to give and indications of intentions to give of approximately $56,449,000 and $19,324,000, respectively, in addition to the amounts recorded as contributions receivable. These amounts are not reflected in the accompanying consolidated financial statements.

5. ENDOWMENTS

The net position classifications in the consolidated balance sheets related to endowment funds as of August 31, 2021 and 2020, are as follows (in thousands):

Quasi-Endowments	**2021**	**2020**
Restricted—nonexpendable	$1,026,359	$1,006,113
Restricted—expendable:		
Net appreciation	707,282	351,710
Income	103,410	81,253
Funds functioning as endowments—unrestricted	57,773	45,488
Total	$1,894,824	$1,484,564

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

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

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

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

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

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

Annuity and Life Income Funds—The annuity funds consist of funds donated to an institution on the condition that the institution pays a stipulated amount of the funds to the donor or designated individual for a specified time or until the time of death of the annuitant. The life income funds consist of funds contributed to an institution subject to the requirement that the institution periodically pays the income earned on the assets, less management expenses, to designated beneficiaries. At August 31, 2021 and 2020, accounts payable to beneficiaries approximated $2,257,000 and $5,649,000, respectively.

6. CAPITAL ASSETS

The Center's capital assets as of August 31, 2021, are as follows (in thousands):

	Balance— August 31, 2020	Additions	Dispositions	Balance— August 31, 2021
Land	$ 223,703	$ 21,174	$ (1,042)	$ 243,835
Buildings and other improvements	4,537,133	42,333	-	4,579,466
Equipment	1,906,514	113,418	(128,206)	1,891,726
Nondepreciable collections	2,158	-	-	2,158
Construction in progress	107,366	127,218	(49,113)	185,471
	6,776,874	304,143	(178,361)	6,902,656
Less accumulated depreciation for:				
Buildings and other improvements	(2,669,623)	(188,721)	-	(2,858,344)
Equipment	(1,374,601)	(176,235)	126,276	(1,424,560)
Total accumulated depreciation	(4,044,224)	(364,956)	126,276	(4,282,904)
Total capital assets—net	$ 2,732,650	$ (60,813)	$ (52,085)	$ 2,619,752

The Center's capital assets as of August 31, 2020, are as follows (in thousands):

	Balance— August 31, 2019	Additions	Dispositions	Balance— August 31, 2020
Land	$ 223,703	$ -	$ -	$ 223,703
Buildings and other improvements	4,411,649	129,237	(3,753)	4,537,133
Equipment	1,869,394	136,154	(99,034)	1,906,514
Nondepreciable collections	2,147	11	-	2,158
Construction in progress	148,961	101,446	(143,041)	107,366
	6,655,854	366,848	(245,828)	6,776,874
Less accumulated depreciation for:				
Buildings and other improvements	(2,481,504)	(191,804)	3,685	(2,669,623)
Equipment	(1,294,362)	(176,306)	96,067	(1,374,601)
Total accumulated depreciation	(3,775,866)	(368,110)	99,752	(4,044,224)
Total capital assets—net	$ 2,879,988	$ (1,262)	$(146,076)	$ 2,732,650

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

The Asset Retirement Obligation for the year ended August 31, 2021, is presented below:

The Asset Retirement Obligation for the year ended August 31, 2021, is presented below:

Asset Retirement Obligation	Amount	Life
Broadscope and Irradiator	$ 4,328	12 months
Cyclotron	949	0 months
Gamma Knife	2,016	0 months
Proton Therapy	1,290	0 months
Total	$ 8,583	

The Asset Retirement Obligation for the year ended August 31, 2020, is presented below:

Asset Retirement Obligation	Amount	Life
Broadscope and Irradiator	$ 4,328	24 months
Cyclotron	8,998	0 months
Gamma Knife	2,016	0 months
Proton Therapy	1,290	0 months
Total	$16,632	

7. RISK FINANCING AND RELATED INSURANCE

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

Employee Health and Dental Insurance—The UT System Employee Benefits program provides health insurance, dental insurance, vision insurance, life insurance, accidental death and dismemberment, long-term disability, short-term disability, long-term care, and flexible spending account coverage to all benefits-eligible employees and retirees of the UT System and its 13 institutions. These insurance benefits are provided through both self-funded and fully insured arrangements. A portion of UT System's cost of providing group health and basic life insurance coverage is paid by the state as specified in the General Appropriations Act. The UT System's OEB is responsible for the overall administration of the insurance plans. OEB was established by Chapter 1601 of the Texas Insurance Code and complies with state laws and statues pertinent to employee benefits for the UT System.

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

Workers' Compensation Insurance—The University of Texas Center Workers' Compensation Insurance program provides coverage to all employees of the UT System and its 13 institutions. Under the oversight of the UT System's Office of Risk Management, the UT System self-insures and administers the program through the use of a third-party administrator. The coverage provides income and medical benefits to all employees who have sustained job-related injuries or occupational diseases. The program's statutory authority is embodied in Chapter 503 of the Texas Labor Code.

Professional Medical Liability Benefit Plan—The coverage provided under the Professional Medical Liability Benefit Plan (the "Plan") is on an occurrence basis; thus, a participant is covered by the Plan for claims and lawsuits relating to events that occurred while enrolled in the Plan, including those filed after the participant has left the System's employment or training. The Plan covers all the System staff physicians, dentists, residents, fellows, and medical and dental students who have been enrolled. Effective July 1, 2020, health care professional staff members and faculty who are licensed, certified, or registered to provide patient care have Plan coverage. The limits of liability of the Plan include an annual policy aggregate of $30 million; an annual aggregate of $1.5 million for each staff physician, resident, fellow, and health care professional ($500,000 per claim); and a $75,000 annual aggregate for each medical and dental student ($25,000 per claim). Additional coverage is available outside of Texas and for approved international activities. Liability is limited to $2 million per claim, regardless of the number of claimants or plan participants involved in an incident.

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

Comprehensive Property Protection Program—The Comprehensive Property Protection Plan (CPPP) uses a combination of interim financing and commercial insurance to provide Fire and All Other Perils (Fire and AOP) and Named Windstorm and Flood (Wind and Flood) coverage. All coverage is subject to the terms, exclusions, limits, and conditions of the insurance policies. The Fire and AOP program provides a $1.3 billion per occurrence limit for most perils, with sublimits that do apply. The System participates in a seven percent (7%) quota share of the $75 million layer excess of the $25 million layer of commercial insurance coverage. Deductibles for Fire and AOP increased in April 2021 to $10 million per occurrence with a $20 million annual aggregate limit; institutions have a $500,000 per occurrence deductible. The commercial insurance coverage for Named Windstorm and resulting perils provides a $250 million per occurrence limit with the System participating in a seven percent (7%) quota share of the $75 million layer excess of the $25 million layer. The Center purchases a dedicated $100 million policy excess of the $250 million per occurrence Named Windstorm CPPP limit. Deductibles for Wind and Flood are $50 million for the Center (locations in Texas Medical Center only), 5% of affected values in other Tier 1 counties subject to a $10 million minimum, and AOP deductibles for all other locations. Tier 1 counties include counties along the Texas coast plus parts of Harris County.

Primary insurance policies are purchased on certain flood and wind exposed properties to partially offset the large deductibles. These policies provide underlying limits (up to $4.4 million per building/contents for wind and $1 million maximum building/contents for flood) and are purchased through the Texas Windstorm Insurance Association (TWIA) for facilities in Tier 1 seacoast territories and the National Flood Insurance Program (NFIP) for properties located in higher-risk flood zones. The Center purchases a $25 million Named Windstorm Multi Year Single Limit (MYSL) buydown policy to reduce the $50 million Wind and Flood deductible; the Center has a 25% share of the $25 million to $50 million layer. The interim financing component of the program participates in losses resulting from physical damage that exceeds the coverage available under these primary policies and the institution's deductible. The interim financing for the Wind and Flood program is funded by annual contributions made by each institution in addition to the payment of insurance premiums.

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

Coverage applies to individual board members, employees, faculty, and other covered individuals, as well as to each of the institutions and U. T. System Administration. The limit of liability is a $15 million annual aggregate (Coverages A, B, and C combined), with an additional $5 million self-insured annual aggregate excess limit for Coverages A and B. Self-insured retentions for the Plan are subject to a $5 million annual aggregate. Coverage A applies to non-indemnifiable claims made against individuals and it has no deductible. Coverage B applies to a U. T. institution that is required to indemnify a covered individual with deductibles of $100,000 per individual and $300,000 per occurrence. Coverage C applies to a U. T. institution with a $300,000 deductible. In the event a loss involves any or all of Coverages A, B, and C, then only the single largest deductible amount will apply.

The Cyber Liability Program—The Cyber Liability Program provides coverage for claims arising from the following causes of loss: media liability, network security liability, privacy liability, regulatory liability, loss of digital assets, network asset protection, and Payment Card Industry Data Security Standard (PCI-DSS). Each claim is subject to a $2.5 million retention and annual aggregate with a $500,000 each and every claim retention once the annual aggregate has been met, except for PCI-DSS which is $500,000 per claim and annual aggregate with a $500,000 each and every claim retention once the annual aggregate has been met. Institutions have a $250,000 per claim deductible. The Center purchases a $10 million standalone policy which is primary to the Cyber Liability Program and has a $250,000 per claim deductible.

Rolling Owner Controlled Insurance Program—The Rolling Owner Controlled Insurance Program (ROCIP) was established for the centralized purchase of construction contractor insurance on various capital improvement projects. This program provides workers' compensation, employers' liability, and general liability insurance coverage for all contractors enrolled on projects participating in the program. Each coverage carries a $250,000 per occurrence deductible with a maximum $375,000 per occurrence clash deductible, if more than one coverage is triggered by the same occurrence. Deductibles are paid through the program's self-insurance fund. The self-insurance fund also pays portions of certain builder's risk deductibles applicable to water damage and delay in completion claims.

Automobile, Property & Liability Plan—The Automobile, Property & Liability Plan provides automobile liability and physical damage coverage for owned, leased, hired, and nonowned (excess liability only) vehicles, along with general liability coverage for certain scheduled exposures. All coverages are subject to a self-insured retention of $100,000 with a corridor endorsement for an additional layer of up to $50,000 per occurrence with an aggregate limit of $100,000 applicable to losses over $100,000 for liability claims and $25,000 for physical damage claims, subject to a $960,000 annual aggregate stop loss for the fiscal year 2021 policy term. Institution deductibles are $2,500 per occurrence for liability, $1,000 per vehicle for physical damage, and $5,000 per vehicle for vehicles valued over $100,000.

Incurred but not reported Self-Insurance Claims Recorded at the UT System Level—Insurance claims that were Incurred But Not Reported (IBNR) were actuarially determined for the employee's health and dental; workers' compensation; professional medical liability; directors and officers/employment practices liability and cyber liability program; rolling owner controlled; and automobile, property, and liability self-insurance plans. IBNR figures for the workers' compensation; professional medical liability; directors and officers/employment practices liability and cyber liability program; rolling owner controlled; and automobile, property, and liability self-insurance plans include liabilities for unpaid reported claims and are reported on an undiscounted basis. The IBNR liability for the property protection self-insurance plan is not actuarially determined but estimated based on unpaid reported claims. Since an annual accrual is recorded for the third quarter TWC billing, no IBNR liability is recorded for Unemployment Compensation Insurance. No settlements exceeded insurance coverage in the past three fiscal years.

Since the responsibility for processing all claims for self-funded employee health and dental benefits has been fully delegated to third parties, the IBNR claims liability for those benefits does not include a provision for unallocated loss adjustment expenses (ULAE). However, it does include a provision of 5% of the projected incurred but unpaid claims for the administrative expenses associated with processing those claims. The IBNR claims liability for the workers' compensation; professional medical liability; directors and officers/employment practices liability and cyber liability program; rolling owner controlled; and automobile, property, and liability self-insurance plans includes a related accrual for allocated loss adjustment expenses (ALAE), which are the claim-specific defense and settlement costs associated with the ultimate settlement of those claims. They do not include a provision for ULAE, which are general administrative expenses associated with claims settlement, but are not specifically attributable to individual claims.

8. DEBT SERVICES

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

At August 31, 2021 and 2020, UT System had outstanding Revenue Financing Centers commercial paper notes payable of $796,053,000 and $553,698,000, respectively. No amount of indebtedness related to these commercial paper notes has been recorded in the Center's consolidated financial statements, as the UT System is the party directly liable for these commercial paper notes. At August 31, 2021 and 2020, however, the Center's remaining unpaid share of short-term internal loans was $170,949,000 and $165,616,000, respectively.

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

At August 31, 2021 and 2020, UT System had outstanding bonds payable of $6,702,085,000 and $6,745,455,000, respectively. All bonds issued by UT System are defined as revenue bonds. As such, the revenues of all UT System consolidated entities and blended component units, including the Center, are pledged for repayment of the bonds.

No amount of indebtedness related to these bonds has been recorded in the Center's consolidated financial statements, as the UT System is the party directly liable for these bonds. At August 31, 2021 and 2020, however, the Center's remaining unpaid share of long-term internal loans was $771,369,000 and $816,640,000, respectively. Such amount is expected to be transferred to UT System as of August 31 as follows (in thousands):

Years Ending August 31	**Principal**	**Interest**	**Total**
2022	$ 47,635	$ 31,589	$ 79,224
2023	46,295	29,380	75,675
2024	48,638	27,232	75,870
2025	49,539	25,064	74,603
2026	50,898	22,841	73,739
2027–2031	180,001	87,346	267,347
2032–2036	144,869	54,031	198,900
2037–2041	133,680	28,275	161,955
2042–2046	44,096	8,662	52,758
2047–2051	25,718	1,681	27,399
Total	$771,369	$316,101	$1,087,470

Interest rates on the Center's remaining unpaid pro rata share of bond proceeds range from .01% to 5.375%. At August 31, 2021 and 2020, the Center incurred $34,771,000 and $37,866,000, respectively, of interest expense on long-term and short-term internal loans held by UT System.

9. COMPENSATED ABSENCES

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

	Balance— August 31, 2020	Additions	Reductions	Balance— August 31, 2021	Current Portion
Compensated absences	$234,859	$ 188,587	$ (179,465)	$ 243,981	$180,029

	Balance— August 31, 2019	Additions	Reductions	Balance— August 31, 2020	Current Portion
Compensated absences	$198,966	$ 205,280	$ (169,387)	$ 234,859	$179,483

10. COMMITMENTS AND CONTINGENCIES

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

Commitments for Construction—At August 31, 2021 and 2020, the remaining commitment on construction contracts for expansion and remodeling of the Center's facilities is approximately $144,739,000 and $125,817,905, respectively.

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

11. OPERATING LEASE OBLIGATIONS

The Center entered into various operating leases for buildings and equipment. Rental expenses for operating leases were $57,095,000 and $50,585,000 for the years ended August 31, 2021 and 2020, respectively. Future minimum lease rental payments under noncancelable operating leases having an initial term in excess of one year as of August 31, 2021, were as follows (in thousands):

Years Ending August 31	
2022	$ 33,045
2023	26,630
2024	19,937
2025	15,812
2026	16,302
2027–2031	66,768
2032–2036	36,775
2037–2041	22,790
Thereafter	789
Total minimum future payments	$238,848

12. EMPLOYEES' RETIREMENT PLANS

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

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

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

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Contributions by employees were 7.7% of gross earnings for 2021, 2020, and 2019. Depending upon the source of funding for the employee's compensation, the state or the Center contributes a percentage of participant salaries totaling 7.5% of annual compensation for 2021 and 2020 and 6.8% of annual compensation for 2019. The Center's actual contributions excluding the State match to TRS for the years ended August 31, 2021 and 2020, were $115,683,000 and $117,739,000, respectively.

The total pension liability is determined by an annual actuarial valuation. The tables below present the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2020 and 2019, measurement dates.

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

Summary of Actuarial Methods and Assumptions—TRS Plan	
Actuarial Valuation Date	August 31, 2018, rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Floating
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.25%
Investment Rate of Return	7.25%
Long-term Expected Rate of Return	7.25%
Municipal Bond Rate as of August 2019*	2.63%
Inflation	2.30%
Salary Increase	3.05% to 9.05% including inflation
Payroll Growth Rate	3.00%
Mortality:	
Active	90% of the RP 2014 Employee Mortality Tables for males and females with full generational mortality
Post-Retirement	2018 TRS Healthy Pensioner Mortality Tables with full generation projection using Scale U-MP
Ad Hoc Postemployment Benefit Changes	None

Notes:

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

The actuarial assumptions used in the valuation were primarily based on the result of an actuarial experience study for the three-year period ending August 31, 2017, and adopted in July 2018. The mortality rates were based on 90% of the RP 2014 Employee Mortality Tables for males and females with full generational mortality. The postretirement mortality rates were based on the 2018 TRS Healthy Pensioner Mortality Tables with full generation projection using Scale U-MP.

The actuarial assumptions used in the determination of the total pension liability as of the August 31, 2020, measurement date are the same assumptions used in the actuarial valuation as of August 31, 2019, with no changes since the prior measurement date. There have been no changes to the benefit provisions of the plan since the prior measurement date.

The discount rate of 7.25% was applied to measure the total pension liability. The discount rate was based on the expected rate of return on pension plan investments of 7.25%. The projected cash flows into and out of the pension plan assumed that active members, employers, and nonemployer contributing entity make their contributions at the statutorily required rates. It is assumed that future employer and State contributions will be 8.50% of payroll for the measurement period ending August 31, 2020, gradually increasing to 9.55% over the next several years. This includes a factor for all employer and State contributions for active and rehired retirees. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

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

The target allocation and best estimates of geometric real rates of return for each major asset class for the plan's investment portfolio as of the August 31, 2020, measurement date are presented below:

Asset Class	**Target Allocation***	**Long-Term Expected Geometric Real Rate of Return****
Global Equity		
U.S.	18.0 %	3.9 %
Non-U.S. Developed	13.0	5.1
Emerging Markets	9.0	5.6
Private Equity	14.0	6.7
Stable Value		
U.S. Treasury	16.0	(0.7)
Absolute Return	-	1.8
Stable Value Hedge Funds	5.0	1.9
Real Return		
Real Assets	15.0	4.6
Energy, Natural Resources, and Infrastructure	6.0	6.0
Commodities	-	0.8
Risk Parity		
Risk Parity	8.0	3.0
Asset Allocation Leverage Cash	2.0	(1.5)
Asset Allocation Leverage	(6.0)	(1.3)
Total	100.0 %	

*Target allocations are based on fiscal year 2020 policy model.

**Capital Market assumptions come from Aon Hewitt (as of 08/31/2020).

The target allocation and best estimates of geometric real rates of return for each major asset class for the plan's investment portfolio as of the August 31, 2019, measurement date are presented below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Global Equity		
U.S.	18.0 %	6.4 %
Non-U.S. Developed	13.0	6.3
Emerging Markets	9.0	7.3
Private Equity	14.0	8.4
Stable Value		
U.S. Treasury	16.0	3.1
Stable Value Hedge Funds	5.0	4.5
Real Return		
Real Assets	15.0	8.5
Energy, Natural Resources, and Infrastructure	6.0	7.3
Risk Parity		
Risk Parity	8.0	5.8/6.5
Asset Allocation Leverage Cash	2.0	2.5
Asset Allocation Leverage	(6.0)	2.7
Total	100.0 %	

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

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

1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$2,357,230,000	$1,528,701,000	$855,540,000

Sensitivity of Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate 2020

1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$2,187,777,000	$1,423,273,000	$803,777,000

The pension plan’s fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by TRS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Fair value is a market-based measurement, not an entity-specific measurement. TRS utilizes one or more of the following valuation techniques in order to measure fair value: the market approach, the cost approach, and the income approach. More detailed information on the plan’s investment policy, assets, and fiduciary net position may be obtained from TRS’ fiscal 2020 Comprehensive Annual Financial Report. Further information regarding actuarial assumptions and conclusions, together with audited consolidated financial statements, are included in the TRS’ annual financial report, which may be obtained from the TRS website at www.trs.state.tx.us.

At August 31, 2021 and 2020, the Center reported a liability of $1,528,701,000 and $1,423,273,000, respectively, for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of August 31, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2019 and 2018, respectively, and rolled forward to the measurement date. The Center’s proportion at August 31, 2020 and 2019, was 2.85% and 2.74%, respectively. The Center’s proportion of the collective net pension liability as of August 31, 2021 and 2020, was based on its contributions to the pension plan relative to the contributions of all the employers and nonemployer contributing entity to the plan for the period September 1, 2019, through August 31, 2020, and September 1, 2018, through August 31, 2019, respectively. At August 31, 2021 and 2020, the amount of the net pension liability related to the Center reported by the state was $505,172,000 and $598,274,000, respectively. The amount reported by the state is related to the on-behalf contributions, which are recognized as state appropriation general revenue on the Center’s consolidated financial statements in the fiscal year that the state contributed the amounts to TRS on the Center’s behalf.

For the years ended August 31, 2021 and 2020, the Center recognized pension expense of $202,270,000 and $239,101,000, respectively. At August 31, 2021 and 2020, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
	(In thousands)	
Difference between expected and actual experience	$ 2,791	$ 42,662
Changes of assumptions	354,714	150,822
Net difference between projected and actual investment return	30,947	-
Change in proportion and contribution difference	82,096	43,009
Contributions subsequent to the measurement date	115,683	-
Total	$586,231	$236,493

	2020	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
	(In thousands)	
Difference between expected and actual experience	$ 5,979	$ 49,418
Changes of assumptions	441,569	182,477
Net difference between projected and actual investment return	14,291	-
Change in proportion and contribution difference	50,381	67,198
Contributions subsequent to the measurement date	117,739	-
Total	$629,959	$299,093

The $115,683,000 and $117,739,000 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the years ended August 31, 2021 and 2020, respectively.

Amounts reported as deferred outflows and deferred inflows of resources related to pensions as of August 31, 2021, will be recognized in pension expense in the following years (in thousands):

Fiscal Years	Increase (Reduction) of Pension Expense
2022	$ 26,996
2023	87,519
2024	83,393
2025	38,089
2026	(3,991)
Thereafter	2,049
Total	$ 234,055

Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health and life insurance benefits for retired employees (OPEB), in accordance with State statutes. Many employees may become eligible for the health and life insurance benefits as a retired employee if they meet certain age and service requirements as defined by the State. Similar benefits for active employees are provided through the same self-funded plan. For the years ended August 31, 2021 and 2020, the State and retiree monthly contribution rates for the self-funded plan per full-time retired employee are shown in the following table. The retiree contributes any premium charged over and above the State contributions.

	2021		2020	
Level of Coverage	**Employer**	**Retiree**	**Employer**	**Retiree**
Retiree only	$ 628.06	$ -	$ 628.05	$ -
Retiree/spouse	957.26	270.42	957.27	270.41
Retiree/children	838.70	282.82	838.70	282.81
Retiree/family	1,169.88	532.52	1,169.89	532.51

Plan Description and Funding Policy

OPEB are provided to the Center's retirees under the UT System EGIP. The EGIP is a single-employer defined benefit OPEB plan; however, due to the State statute requiring appropriations for funding the plan, the State is reporting a proportionate share. The benefits provided are discussed in Note 8. Chapter 1551 of the Texas Insurance Code, Sections 310 and 311, require that the State contribute to the cost of each participant's insurance coverage. The funds are appropriated under the General Appropriations Act Higher Education Employees Group Insurance (HEGI) contributions. The State's proportion was 18.26% and 20.51% of the collective OPEB-related liabilities, deferred outflows and inflows, and expense based on HEGI contributions by the State to total contributions as of August 31, 2021 and 2020, respectively. The Center's proportion as of August 31, 2021 and 2020, was 19.87% and 19.64%, respectively. At August 31, 2021 and 2020, the amount of the total OEB liability related to the Center was $3,479,924,000 and

$2,853,813,000, respectively. The amount reported by the State is related to the premium-sharing contributions, which are recognized as State appropriation general revenue on the Center's consolidated financial statements in the fiscal year that the State contributed the amounts for OPEB on the Center's behalf.

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

Employees Covered by Benefit Terms

The benefits provided are discussed in Note 7. The authority under which the obligations of the plan members and the System are established and may be amended is Chapter 1601, *Texas Insurance Code*. At the respective measurement dates, the following employees of UT System were covered by the benefit terms:

		Measurement Dates December 31, 2019 and December 31, 2020
a.	Inactive employees or beneficiaries currently receiving benefit payments	30,057
b.	Inactive employees entitled to but not yet receiving benefit payments	11,681
c.	Active employees	99,474
d.	Total	141,212

Total OPEB Liability

The Center has elected to use a measurement date that is eight months in advance of the fiscal year end. The Center's proportionate share of the total OPEB liability of $3,479,924,000 includes a current portion of $57,728,000 and a noncurrent portion of $3,422,196,000, reported for the fiscal year ended August 31, 2021, was measured as of December 31, 2020, and was determined by an actuarial valuation as of December 31, 2019, and rolled forward 12 months to December 31, 2020. The Center's proportionate share of the total OPEB liability of $2,853,813,000 includes a current portion of $50,622,000 and a noncurrent portion of $2,803,192,000, reported for the fiscal year ended August 31, 2020, was measured as of December 31, 2019, and was determined by an actuarial valuation as of the same date.

Actuarial Assumptions and Other Inputs

The total OPEB liability as of December 31, 2020, and December 31, 2019, was determined by an actuarial valuation as of December 31, 2019 (rolled forward 12 months for the total OPEB liability as of December 31, 2020) using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation		2.30%
Salary increases		3.05% to 9.05% (includes inflation)
Discount rate		2.12% for December 31, 2020; 2.74% for December 31, 2019
Health care cost trend rates		7.50% for CY22 decreasing 0.50% per year to 5.00% for CY27, then decreasing to 4.75% for CY28, and to an ultimate rate of 4.30% for CY29 and later years.
Mortality:	a.	Service Retirees, Survivors, and other Inactive Members: Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018.
	b.	Disability Retirees: Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 using a three-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members.
	c.	Active Members: Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014.
Discount Rate		
	a.	For fiscal year ended August 31, 2021: The discount rate used to measure the total OPEB liability as of December 31, 2020, was 2.12%. The discount rate used to determine the total OPEB liability as of December 31, 2019, was 2.74%.
	b.	For fiscal year ended August 31, 2020: The discount rate used to measure the total OPEB liability as of December 31, 2019, was 2.74%. The discount rate used to measure the total OPEB liability as of December 31, 2018, was 4.10%.
	c.	Municipal Bond Rate: 2.12% as of December 31, 2020, and 2.74% as of December 31, 2019; the source of the municipal bond rate is the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. In describing their index, the Bond Buyer notes that the bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

Many of the actuarial assumptions used in this valuation were based on the results of an actuarial experience study performed by the TRS retirement plan actuary as of August 31, 2017.

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

- The discount rate was changed as a result of requirements by GASB Statement No. 75 to utilize the yield or index rate as of the measurement date for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher.

As of the measurement date of December 31, 2020, no changes in benefit terms have occurred. Accordingly, the benefit terms used in this valuation have not been changed since the prior valuation.

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

	FY21		
	1% Decrease (1.12%)	**Discount Rate (2.12%)**	**1% Increase (3.12%)**
Total OPEB liability	$ 4,285,882,000	$ 3,479,924,000	$ 2,869,498,000

	FY20		
	1% Decrease (1.74%)	**Discount Rate (2.74%)**	**1% Increase (3.74%)**
Total OPEB liability	$3,480,638,000	$2,853,813,000	$2,374,608,000

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

	FY21		
	1% Decrease	**Healthcare Cost Trend Rates**	**1% Increase**
Total OPEB liability	$ 2,784,757,000	$ 3,479,924,000	$ 4,434,019,000

	FY20		
	1% Decrease	**Healthcare Cost Trend Rates**	**1% Increase**
Total OPEB liability	$ 2,329,887,000	$ 2,853,813,000	$ 3,560,418,000

Health Care Cost Trend Rates used for fiscal years 2021 and 2020 are shown below:

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

Changes in the System's proportionate share of the OPEB liability:

	Increase (Decrease) in Total OPEB Liability	
	For Measurement Year from 12/31/2019 to 12/31/2020	For Measurement Year from 12/31/2018 to 12/31/2019
Balance at beginning of measurement year	$ 11,548,745,880	$ 10,355,785,546
Changes for the year:		
Service cost	668,820,048	471,785,731
Interest	341,583,382	442,516,885
Differences between expected and actual experience	-	(89,235,022)
Changes of assumptions or other inputs	1,586,143,236	478,407,758
Benefit payments (employer)	(153,657,997)	(152,076,995)
Net changes	2,442,888,669	1,151,398,357
Changes in proportional share	325,809,835	41,561,977
Balance at end of measurement year	$ 14,317,444,384	$ 11,548,745,880

The Center recognized OPEB expense of $208,855,000 for the fiscal year ended August 31, 2021, and $142,187,000 for the fiscal year ended August 31, 2020.

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

	Increase (Decrease) in Total OPEB Liability	
	For Measurement Year from 12/31/2019 to 12/31/2020	For Measurement Year from 12/31/2018 to 12/31/2019
Balance at beginning of measurement year	$ 14,528,033,468	$ 13,079,603,132
Changes for the year:		
Service cost	818,273,986	593,494,649
Interest	417,913,303	556,675,173
Differences between expected and actual experience	-	(112,255,426)
Changes of assumptions or other inputs	1,940,581,406	601,824,994
Benefit payments (employer)	(187,994,278)	(191,309,054)
Net changes	2,988,774,417	1,448,430,336
Balance at end of measurement year	$ 17,516,807,885	$ 14,528,033,468

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

	As of August 31, 2021		As of August 31, 2020	
	Deferred Outflows of Resources (in thousands)	Deferred Inflows of Resources	Deferred Outflows of Resources (in thousands)	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 34,043	$ -	$ 40,773
Changes of assumptions or other inputs	433,047	363,664	104,095	435,108
Change in proportion and contribution difference	63,489	79,742	35,916	100,269
Contributions subsequent to the measurement date	29,253	-	24,539	-
Total	$ 525,789	$ 477,449	$ 164,550	$ 576,150

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

Fiscal Year Ended August 31, 2021 (in thousands)	**Amount**
2022	$ (37,353)
2023	(37,353)
2024	(37,353)
2025	(19,961)
2026	21,139
Thereafter	129,968
Total	$ 19,087

Optional Retirement Program (ORP)—The state has also established an ORP for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS. ORP is available to certain eligible employees who hold faculty positions and other professional positions, including, but not limited to, director-level and above, librarians, and coaches. The ORP provides for the purchase of annuity contracts and mutual funds. Participants are vested in the employer contributions after one year and one day of service. The contributory percentage of annual compensation by participants is 6.65% and the contributory percentage by the Center is 8.5% (6.6% state base rate plus a supplement) for the fiscal years ended August 31, 2021 and 2020. Depending upon the source of funding for the employee's compensation, the Center may be required to make the employer contributions in lieu of the state. Since these are individual annuity contracts, the state and the Center have no additional or unfunded liability for this program. The participants' contributions for the years ended August 31, 2021 and 2020, were $25,632,000 and $25,636,000, respectively. The Center's contributions for the years ended August 31, 2021 and 2020, were $32,733,000 and $32,760,000, respectively.

Physicians Referral Service Supplemental Retirement Plan (SRP)/Retirement Benefit Plan (RBP)—The Center has established, primarily for the physicians of its Physicians Referral Service, the Physicians Referral Service SRP/RBP of the Center, and has also established separate plans for certain executives (collectively, the "Retirement Plans"). The Retirement Plans are nonqualified plans described by Section 457(f) of the Internal Revenue Code of 1986 (IRC), as amended. The Retirement Plans are reported on the accrual basis of accounting. Assets of the Retirement Plans, presented as assets held for others, remain subject to the claims of the general creditors of the Center and approximate $667,328,000 and $565,511,000 at August 31, 2021 and 2020, respectively. An offsetting liability has been recorded as assets due to others representing deferred compensation payable.

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

13. EXECUTIVE MANAGEMENT INCENTIVE PLANS

The Center sponsors two incentive plans for senior-level management. The Senior Management Performance Incentive Plan provides an achievement incentive for nonfaculty senior management by using variable pay to maintain consistent treatment of comparable levels of management for market earning potential. The payout is based upon the attainment of specific and measurable goals, triggered by meeting a set institutional financial goal, and the availability of funds. At August 31, 2021 and 2020, the Center had a recorded liability related to the attainment of these goals of $12,950,000 and $0, respectively. The Center paid out $13,391,000 and $0 for the plan years August 31, 2021 and 2020, respectively. The Senior Executive and Executive Management Supplemental Benefit Program provides an annual supplemental cash benefit award to senior executives and executive management to maintain consistent treatment of comparable levels of executive management for market earning potential. Payments of these benefits are made on the first day of the following new fiscal year. For the fiscal years ended 2021 and 2020, the Center paid out $5,539,000 and $4,875,000, respectively.

14. DEFERRED COMPENSATION

The Center's employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the TEX. GOV'T. CODE ANN., Sec. 609.001. The Center administers the UTSaver Tax-Sheltered Annuity Program (TSA), created in accordance with IRC Section 403(b). All employees are eligible to participate. The UTSaver TSA is a private plan, and the deductions, purchased investments, and earnings attributed to each employee's 403(b) plan are held by vendors chosen by the employee. The vendors may be insurance companies, banks, or approved nonbank trustees such as mutual fund companies. The assets of this plan do not belong to the Center or the State. Therefore, neither the Center or the State has a liability related to this plan.

15. CONCENTRATIONS OF CREDIT RISK

The Center grants credit without collateral to its patients, most of whom are local residents of Texas and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors as of August 31, 2021 and 2020, is as follows:

	2021	2020
Medicare	34.3 %	31.6 %
Medicaid	4.0	3.7
Managed care organizations	49.0	44.4
Self-pay	5.0	5.7
Others	7.7	14.6
Total	100 %	100 %

16. NONCURRENT ASSETS—JOINT VENTURES

The Center is a participating member of P.E.T. Net Houston, LLC ("PETNet"). PETNet is a joint venture entered into by the Center and P.E.T. Net Pharmaceuticals, Inc. to lease and operate a facility located on the Center's campus to produce positron radiopharmaceuticals and isotopes. The Center's equity interest in PETNet at August 31, 2021 and 2020, was

$4,588,000 and $4,383,000, respectively, or 49%. Separate financial statements for PETNet may be obtained at Siemens Medical Solutions USA, Inc., 51 Valley Stream Parkway, Malvern, PA 19355.

The Center was a participating member in the National Center for Therapeutics Manufacturing (NCTM). The Center entered into a collaboration, investment, and facility use agreement as of May 19, 2010, with Texas A&M University Center to collaborate on the design of the NCTM and on grants and proposals relating to cancer therapeutics that could be developed at the NCTM. The joint venture was dissolved in fiscal year 2020; therefore, the Center's cost-based interest in NCTM at August 31, 2021 and 2020, was $0.

17. RELATED PARTIES

Through the normal course of operations, the Center both receives funds from, and provides funds to, other state agencies in support of sponsored research programs. Funds received and provided during the year ended August 31, 2021, related to pass-through grants were approximately $53,029,000 and $6,317,000, respectively. Funds received and provided during the year ended August 31, 2020, related to pass-through grants were approximately $46,971,000 and $4,493,000, respectively.

The Center also routinely enters into transactions with UT System for the reimbursement of capital outlay and other expenses. Amounts due from UT System were approximately $16,614,000 and $17,423,000 at August 31, 2021 and 2020, respectively. Amounts due to UT System were approximately $30,381,000 and $31,569,000 at August 31, 2021 and 2020, respectively.

In addition, the Center purchased services from the Texas Medical Center Laundry Association in the amount of $4,040,000 and $3,784,000 for the years ended August 31, 2021 and 2020, respectively. The Center also purchased services from Texas Medical Center Central Heating and Cooling Services Cooperative Association (TECO) in the amount of $24,604,000 and $23,815,000 for the years ended August 31, 2021 and 2020, respectively.

18. T. BOONE PICKENS CONTRIBUTION

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

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

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

The Endowment is managed by UTIMCO. As of August 31, 2021 and 2020, the value of the Endowment was $859,258,000 and $677,532,000, respectively, and is recorded as restricted—nonexpendable.

19. UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 87, *Leases*, effective 2022, establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Limited exceptions to the single approach guidance are provided for short-term leases, defined as lasting a maximum of 12 months at inception, including any options to extend, financed purchases, leases of assets that are investments, and certain regulated leases. The Center is evaluating the effect that GASB Statement No. 87 will have on its consolidated financial statements.

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

Other than the portions of this statement implemented in 2021, the remainder of GASB Statement No. 93, *Replacement of Interbank Offered Rates*, is effective beginning 2022 or later depending on when LIBOR is no longer available. This statement preserves consistency and comparability of reporting hedging derivative instruments and leases after agreements are amended to replace LIBOR. The Center is evaluating the effect that GASB Statement No. 93 will have on its consolidated financial statements.

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

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

Other than the portion of this statement implemented in 2020, the remainder of GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,* is effective 2022. The requirements relate to the accounting and financial reporting for Section 457 plans, and for all other arrangements, clarify that for purposes of determining whether a primary government is financially accountable for a potential component unit, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform. The Center is evaluating the effect that this portion of GASB Statement No. 97 will have on its consolidated financial statements.

GASB Statement No. 98, *The Annual Comprehensive Financial Report*, effective 2022, establishes the term annual comprehensive financial report and its acronym ACFR. The implementation of GASB Statement No. 98 will have no effect on the Center's consolidated financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER

REQUIRED SUPPLEMENTARY INFORMATION
TEACHER RETIREMENT SYSTEM PENSION PLAN
AUGUST 31, 2021

Pension RSI 2021
Schedule of the Center's Proportionate Share of the Net Pension Liability
As of the August 31 Measurement Date

	2020	2019	2018	2017	2016	2015	2014
Center's proportion of the net pension liability	2.854294 %	2.737951 %	2.608580 %	2.675756 %	2.792495 %	2.268041 %	3.053255 %
Center's proportionate share of the net pension liability	$ 1,528,701	$ 1,423,273	$ 1,435,826	$ 855,563	$ 1,055,242	$ 947,491	$ 815,733
State's proportionate share of the net pension liability related the Center	505,172	598,274	395,640	288,930	300,751	271,484	316,196
Total net pension liability related the Center	$ 2,033,873	$ 2,021,547	$ 1,831,466	$ 1,144,493	$ 1,355,993	$ 1,218,975	$ 1,131,929
Center's covered payroll	$ 1,621,489	$ 1,456,501	$ 1,339,879	$ 1,328,316	$ 1,346,292	$ 1,325,743	$ 1,181,712
Center's proportionate share of the net pension liability as a percentage of its covered payroll	94.28 %	97.72 %	107.16 %	64.41 %	78.38 %	71.47 %	69.03 %
Plan fiduciary net position as a percentage of the total pension liability	75.54 %	75.24 %	73.74 %	82.17 %	78.00 %	78.43 %	83.25 %

Schedule of the Center's Contributions As of August 31	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Statutorily required contributions	$ 120,760	$ 121,612	$ 99,042	$ 91,112	$ 90,325	$ 91,548	$ 90,151
Contributions in relation to the statutorily required contributions	$ 115,683	$ 117,739	$ 95,828	$ 87,874	$ 87,695	$ 88,725	$ 86,682
Contribution deficiency	$ 5,076	$ 3,872	$ 3,214	$ 3,238	$ 2,630	$ 2,823	$ 3,469
Center's covered payroll	$ 1,610,128	$ 1,621,489	$ 1,456,501	$ 1,339,879	$ 1,328,316	$ 1,346,292	$ 1,325,743
Contributions as a percentage of covered payroll	7.18 %	7.26 %	6.58 %	6.56 %	6.60 %	6.59 %	6.53 %

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

THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS PLAN
AUGUST 31, 2021

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

	2020	**2019**	**2018**	**2017**	**2016**
Center's proportion of the total OPEB liability	19.866198 %	19.643497 %	19.385514 %	19.477785 %	20.390611 %
Center's proportionate share of the total OPEB liability	$ 3,479,924,000	$ 2,853,813,000	$ 2,535,548,000	$ 2,705,132,000	$ 2,847,741,000
State's proportionate share of the total OPEB liability related to Center	100,333,000	102,318,000	93,544,000	95,126,000	103,241,000
Total OPEB liability related to Center	$ 3,580,257,000	$ 2,956,131,000	$ 2,629,092,000	$ 2,800,258,000	$ 2,950,982,000
Center's covered payroll	$ 1,595,832,000	$ 1,509,897,000	$ 1,432,895,000	$ 1,371,722,000	$ 1,516,457,000
Center's proportionate share of the total OPEB liability as a percentage of its covered payroll	218.06 %	189.01 %	176.95 %	197.21 %	187.79 %
Plan fiduciary net position as a percentage of the total OPEB liability	- %	- %	- %	- %	- %

Only five years of information is presented due to GASB Statement No. 75 being implemented in 2018. Additional years will be displayed as they become available. The plan is operated on a pay-as-you-go basis and no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in The United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The University of Texas M.D. Anderson Cancer Center and subsidiaries (the "Center"), as of and for the year ended August 31, 2021, and the related notes to the consolidated financial statements, which collectively comprise the Center's consolidated financial statements, and have issued our report thereon dated December 8, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Deloitte & Touche LLP

December 8, 2021

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

PRIOR-YEAR SCHEDULE OF FINDINGS AND RESPONSES
AS OF AND FOR THE YEAR ENDED AUGUST 31, 2020

Finding 2020-001: Significant Deficiency in Internal Controls over Financial Reporting

Criteria: Management should review significant contracts to ensure appropriate accounting, including revenue recognition requirements, for the contracts and develop their best estimates of any associated liabilities.

Condition: As part of testing for accuracy and completeness of unearned revenue, we identified that the Center had inappropriately deferred recognition of revenue for which there were no additional performance obligations per the contract. Additionally, management had not considered whether the revenue recognized should be presented gross or net of associated expenses in the consolidated statements of revenues, expenses, and changes in net position. Lastly, management had not properly recognized liabilities for estimated amounts due to other parties as a result of this contract.

Cause: The contract is complex in nature, and during the execution of the contract, the accounting department was not privy to the negotiation of the contract to fully understand the requirements of the Center. Therefore, the accounting department had not appropriately evaluated the accounting treatment for the contract. At year-end, the Center was still in the process of fully determining the appropriate entries to record and reflect in the consolidated financial statements.

Effect: Management did not initially record the transaction in accordance with GAAP thereby misstating the consolidated financial statements.

Recommendation: Ensure controls are in place to identify complex transactions and contracts that require additional accounting considerations. Controls should include effective communication between the departments entering into complex transactions and contracts and involvement by the accounting department to assist in gaining an understanding of any associated accounting and/or financial reporting implications.

Corrective Action Update: The Center has implemented several controls and processes related to Strategic Alliance contracts, operations, and activities. This includes a dedicated accounting resource (CPA) that reviews contracts and the associated accounting related to the contractual activity. Finance, legal, compliance, and Alliance team members meet on a bimonthly basis to review activity, including new contracts to ensure proper accounting and implementation of the financial activity. The detailed operational personnel meet on a weekly basis to review activity.