Texas Health Resources

Consolidated Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1400
2323 Ross Avenue
Dallas, TX 75201-2721

Independent Auditors' Report

The Board of Trustees,
Texas Health Resources:

We have audited the accompanying consolidated financial statements of Texas Health Resources and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

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. 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 financial position of Texas Health Resources and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2 to the consolidated financial statements, in 2019, Texas Health Resources adopted new accounting guidance, ASC Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

KPMG LLP

Dallas, Texas
April 28, 2020

TEXAS HEALTH RESOURCES
CONSOLIDATED BALANCE SHEETS
December 31, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 619,977	$ 442,765
Short-term investments	7,805	7,275
Patient accounts receivable	564,292	559,813
Other receivables, net	153,089	123,616
Assets limited as to use	439,682	471,438
Other current assets	142,526	143,597
Total current assets	1,927,371	1,748,504
Assets limited as to use	5,341,342	4,377,750
Property and equipment, net	2,269,513	2,108,400
Investments in unconsolidated affiliates	532,817	425,271
Goodwill and intangible assets, net	137,794	142,836
Operating lease assets	151,754	—
Long-term fund unrestricted	67,631	49,878
Other assets, net	70,387	46,855
Total assets	$ 10,498,609	$ 8,899,494
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	$ 345,060	$ 350,104
Accounts payable	277,123	233,169
Estimated third-party payor settlements	16,699	24,381
Accrued salaries, wages, and employee benefits	235,712	219,557
Current portion of operating lease liabilities	38,548	—
Other accrued liabilities	303,898	302,694
Total current liabilities	1,217,040	1,129,905
Long-term debt, net of current portion	1,658,313	1,585,890
Operating lease liabilities, net of current portion	117,705	—
Other noncurrent liabilities	58,768	48,341
Total liabilities	3,051,826	2,764,136
Net assets:		
Net assets of Texas Health Resources		
Without donor restrictions	7,025,899	5,848,915
With donor restrictions	184,592	166,509
Total net assets of Texas Health Resources	7,210,491	6,015,424
Non-controlling ownership interest in equity of consolidated affiliates	236,292	119,934
Total net assets	7,446,783	6,135,358
Total liabilities and net assets	$ 10,498,609	$ 8,899,494

See accompanying notes to the consolidated financial statements.

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Operating revenue:		
Patient service revenue	$ 4,627,386	$ 4,551,739
Equity in earnings of unconsolidated affiliates	102,983	68,771
Other operating revenue	157,530	180,367
Total operating revenue	4,887,899	4,800,877
Operating expenses:		
Salaries, wages, and employee benefits	2,479,529	2,455,968
Supplies	780,784	780,940
Depreciation and amortization	238,054	238,575
Interest expense	91,642	92,116
Other operating expenses	974,065	921,338
Total operating expenses	4,564,074	4,488,937
Operating income	323,825	311,940
Nonoperating gains (losses), net:		
Net realized investment income and gains	315,519	299,731
Net change in unrealized gains (losses) on investments	636,005	(514,264)
Equity in earnings (losses) of unconsolidated affiliates, nonoperating	5,279	(2,413)
Loss on extinguishment of long-term debt	(11,780)	—
Other, net	(6,031)	(8,063)
Total nonoperating gains (losses), net	938,992	(225,009)
Revenue and gains in excess of expenses and losses before income taxes	1,262,817	86,931
Less: Income tax expense	5,690	5,123
Revenue and gains in excess of expenses and losses	1,257,127	81,808
Less: Revenue and gains in excess of expenses and losses attributable to non-controlling interest	86,091	86,033
Revenue and gains in excess of (less than) expenses and losses from continuing operations attributable to Texas Health Resources	1,171,036	(4,225)

(Continued)

See accompanying notes to the consolidated financial statements.

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Other changes in net assets without donor restrictions:		
Net unrealized gains (losses) on investments, other than trading securities	$ 3,726	$ (5,909)
Net assets released from restrictions used for purchase of property and equipment	5,511	6,658
Change in fair value of interest rate swap agreements	(106)	48
Other changes, net	(3,183)	(1,125)
Increase (decrease) in net assets without donor restrictions	1,176,984	(4,553)
Changes in net assets with donor restrictions:		
Contributions received for purchase of property and equipment	6,174	12,465
Contributions received for operations	6,880	8,461
Net realized investment income and gains	5,407	5,530
Net change in unrealized (losses) gains on investments	13,107	(12,040)
Change in value of split-interest agreements	584	(584)
Net assets released from restrictions	(14,069)	(18,519)
Increase (decrease) in net assets with donor restrictions	18,083	(4,687)
Increase (decrease) in net assets of Texas Health Resources	1,195,067	(9,240)
Net assets of Texas Health Resources, beginning of year	6,015,424	6,024,664
Net assets of Texas Health Resources, end of year	$ 7,210,491	$ 6,015,424

See accompanying notes to the consolidated financial statements.

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Cash flows from operating activities:		
Increase (decrease) in net assets of Texas Health Resources	$ 1,195,067	$ (9,240)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities, excluding the net effects of acquisitions:		
Loss on extinguishment of long-term debt	11,780	—
Net unrealized (gains) losses on investments	(670,591)	532,213
Net realized gains on investments	(214,546)	(214,622)
Change in value of split-interest agreement	(584)	584
Provision for bad debts	436	2,612
Restricted contributions received for purchase of property and equipment	(6,174)	(12,465)
Depreciation and amortization	238,054	238,575
Amortization of bond premiums/discounts and debt issuance costs	(2,690)	(2,603)
Net losses on impairment and disposal of property and equipment	1,235	1,810
Equity in earnings of unconsolidated affiliates	(102,983)	(68,771)
Distributions from unconsolidated affiliates	93,349	74,210
Equity in (earnings) losses of unconsolidated affiliates, nonoperating	(5,279)	2,413
Change in fair value of interest rate swap agreements	106	(48)
Revenue and gains in excess of expenses and losses attributable to non-controlling interest	86,091	86,033
Change in operating assets and liabilities:		
Patient accounts receivable	(4,479)	(27,218)
Other receivables, net	(29,909)	(15,410)
Other assets, net	(25,487)	(6,848)
Accounts payable	43,954	(4,835)
Estimated third-party payor settlements	(7,682)	(8,894)
Accrued salaries, wages, and employee benefits	16,155	(19,832)
Other accrued liabilities	(4,605)	62,386
Operating lease assets and liabilities, net	525	—
Other noncurrent liabilities	17,563	1,086
Net cash provided by operating activities	629,306	611,136

(Continued)

See accompanying notes to the consolidated financial statements.

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Cash flows from investing activities:		
Purchases of property and equipment, net	$ (390,173)	$ (351,289)
Proceeds from disposal of property and equipment	4,030	1,946
Cash used to acquire physician practices and other consolidated affiliates	(1,769)	(3,084)
Investment in unconsolidated affiliates, net	(92,633)	(63,206)
Purchases of short-term investments and assets limited as to use, net	(64,398)	(97,027)
Net cash used in investing activities	(544,943)	(512,660)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	234,113	2,916
Debt issuance costs	(2,393)	—
Principal payments on capital lease obligations	(1,163)	(650)
Principal payments on long-term debt	(16,687)	(19,340)
Redemption of long-term debt	(157,550)	—
Contributions from non-controlling interest holders	124,434	3,215
Distributions to non-controlling interest holders	(94,079)	(89,485)
Proceeds from restricted contributions received for purchase of property and equipment	6,174	12,465
Net cash provided by (used in) financing activities	92,849	(90,879)
Net increase in cash and cash equivalents and restricted cash	177,212	7,597
Cash and cash equivalents, beginning of year	442,765	435,168
Cash and cash equivalents, end of year	$ 619,977	$ 442,765
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 100,822	$ 95,136
Cash paid for income taxes	$ 5,928	$ 4,600
Property and equipment acquired through finance lease obligations	$ 7,778	$ 3,466

See accompanying notes to the consolidated financial statements.

1. Organization

Texas Health Resources (THR), a Texas non-profit corporation, operates through its controlled affiliates a health care system with services and facilities throughout north central Texas. THR is organized and operated for the benefit of its tax-exempt controlled affiliates and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended (the Code), as an organization described in Section 501(c)(3). THR's wholly-controlled facilities include 14 acute care hospital locations, a 10-bed long-term care hospital, and a rehabilitation center. The following table provides the locations of THR's wholly-controlled tax-exempt member hospitals (the Tax-Exempt Hospitals) as of December 31, 2019. The Tax-Exempt Hospitals have been recognized as exempt from federal income taxes under the Code as organizations described in Section 501(c)(3).

Tax-Exempt Hospital	**Location (Texas)**
Texas Health Arlington Memorial Hospital	Arlington
Texas Health Harris Methodist Hospital Alliance	Fort Worth
Texas Health Harris Methodist Hospital Azle	Azle
Texas Health Harris Methodist Hospital Cleburne	Cleburne
Texas Health Harris Methodist Hospital Fort Worth	Fort Worth
Texas Health Harris Methodist Hospital Hurst-Euless-Bedford	Bedford
Texas Health Harris Methodist Hospital Southwest Fort Worth	Fort Worth
Texas Health Harris Methodist Hospital Stephenville	Stephenville
Texas Health Hospital Clearfork[1]	Fort Worth
Texas Health Presbyterian Hospital Allen	Allen
Texas Health Presbyterian Hospital Dallas	Dallas
Texas Health Presbyterian Hospital Denton	Denton
Texas Health Presbyterian Hospital Kaufman	Kaufman
Texas Health Presbyterian Hospital Plano	Plano
Texas Health Specialty Hospital Fort Worth (10-bed long-term care hospital)	Fort Worth

[1] *Texas Health Hospital Clearfork is a separate hospital location serving as a licensed department of Texas Health Harris Methodist Hospital Southwest Fort Worth.*

THR is the sole member or sole shareholder of certain other wholly-controlled affiliates engaged in health care related activities in support of its mission, including Texas Health Physicians Group (THPG), a Texas non-profit organization certified by the Texas Medical Board pursuant to Section 162.001(b) of the Texas Occupations Code that currently consists of approximately 1,015 employed physicians and advanced practice providers in 219 locations throughout north central Texas, and Texas Health Recovery and Wellness Center (THRW), a rehabilitation center located in Mansfield, Texas. THPG and THRW have been recognized as exempt from federal income taxes under the Code as organizations described in Section 501(c)(3).

1. **Organization**, continued

THR and some of its controlled affiliates participate in joint ventures with physicians and non-physicians to operate hospitals and other health related ventures. The following table provides the location of the joint venture hospitals along with THR's ownership interest in those hospitals as of December 31, 2019 and 2018:

Hospital	Location (Texas)	2019 Ownership Interest	2018 Ownership Interest
Consolidated:			
AMH Cath Labs, L.L.C. (d/b/a Texas Health Heart & Vascular Hospital Arlington)	Arlington	54.0%	54.0%
Flower Mound Hospital Partners, L.L.C. (d/b/a Texas Health Presbyterian Hospital Flower Mound)	Flower Mound	53.7%	53.5%
Physicians Medical Center, L.L.C. (d/b/a Texas Health Center for Diagnostics & Surgery Plano)	Plano	53.7%	53.6%
Rockwall Regional Hospital, L.L.C. (d/b/a Texas Health Presbyterian Hospital Rockwall)	Rockwall	61.3%	62.0%
Southlake Specialty Hospital, L.L.C. (d/b/a Texas Health Harris Methodist Hospital Southlake)	Southlake	54.0%	54.2%
Texas Health Hospital Frisco	Frisco	51.0%	51.0%
Texas Institute for Surgery, L.L.P. (d/b/a Texas Institute for Surgery at Texas Health Presbyterian Hospital Dallas)	Dallas	50.0%	50.0%
Unconsolidated:			
Texas Health Huguley, Inc. (d/b/a Texas Health Huguley Hospital Fort Worth South)	Fort Worth	51.0%	51.0%
Texas Health Huguley, Inc. (d/b/a Texas Health Hospital Mansfield)[1]	Mansfield	51.0%	—
Texas Rehabilitation Hospital of Arlington, L.L.C.	Arlington	30.0%	30.0%
Texas Rehabilitation Hospital of Fort Worth, L.L.C.	Fort Worth	30.0%	30.0%
USMD Hospital of Arlington, L.P.	Arlington	51.0%	51.0%
USMD Hospital of Fort Worth, L.P.	Fort Worth	51.0%	51.0%

[1] *Estimated to open in 2020*

In addition to the hospitals listed above, there are numerous other non-hospital health related joint ventures included in THR's accompanying consolidated financial statements, including outpatient imaging, ambulatory surgery centers, commercial health plan and a clinically integrated network. THR does not control the governing bodies of the unconsolidated affiliates.

THR and its tax-exempt controlled affiliates receive support from the Texas Health Resources Foundation (Foundation). The Foundation operates as a non-private foundation exempt from federal income taxes under Section 501(a) of the Code as an organization described in Section 501(c)(3), and THR is the sole corporate member.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of THR, the Foundation, and THR's wholly-controlled affiliates and consolidated joint ventures (collectively, the System). All significant intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash, money market funds, and governmental or other securities with original maturities of three months or less at the time of purchase, excluding amounts limited as to use by board designation or other arrangements which consist of cash equivalents and are included within investments of the System. THR's cash management system provides for daily investment of available balances and the funding of outstanding checks when presented for payment. Outstanding but unpresented checks totaling $43,799,000 and $23,021,000 at December 31, 2019 and 2018, respectively, have been included in accounts payable on the accompanying consolidated balance sheets. Upon presentation for payment, these checks are funded through available cash or cash equivalent balances. The change in outstanding but unpresented checks is included in cash used in operating activities on the accompanying consolidated statements of cash flows.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value on the consolidated balance sheets. Realized investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in revenue and gains in excess of (less than) expenses and losses unless the income or loss is restricted by donor or law. Investments in mineral interests, which have limited marketability, are stated at fair value, as estimated based on a multiple of annual revenues. Investments in real estate are stated at fair value, as estimated by private valuations. Investments in private equity funds are stated at fair value, if readily determinable, or at net asset value as a practical expedient to fair value if the fair value is not readily determinable, as estimated by the general partner of the private fund and reviewed by management. Unrealized gains and losses on investments are excluded from revenue and gains in excess of (less than) expenses and losses unless the investments are trading securities. Management reviews individual securities to determine whether a decline in fair value below the amortized cost basis is other than temporary. If the decline in fair value is judged to be other than temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is included in realized investment gains or losses in the consolidated statements of operations and changes in net assets. To determine whether a decline is other than temporary, management considers whether it has the ability and intent to hold the investment until a market price recovery, which may be maturity, and whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary.

The System invests in various securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonable to assume that changes in the values of investment securities will occur in the near term and that such changes could be material to the accompanying consolidated financial statements.

2. Summary of Significant Accounting Policies, continued

Split-Interest Agreements

The System has received as contributions various types of split-interest agreements, including charitable gift annuities, charitable remainder unitrusts and perpetual trusts held by a third party. Under charitable gift annuity arrangements for which the System is the trustee of the assets, the System records the assets at fair value and the liabilities to the beneficiaries at the present value of the estimated future payments to be distributed by the System to such beneficiaries. The amount of the contribution is the difference between the asset and the liability and is recorded as unrestricted revenue, unless otherwise restricted by the donor. Subsequent changes to the annuity liability are recorded as changes in value of split-interest agreements in the appropriate net asset class. As of December 31, 2019 and 2018, assets of $17,227,000 and $15,168,000, respectively, were recorded in assets limited as to use and liabilities of $830,000 and $868,000, respectively, were recorded in other accrued liabilities on the consolidated balance sheets.

Under charitable remainder unitrust arrangements for which the System is the trustee of the assets, the System records the present value of the residual interest in the trust as donor-restricted contributions in the period in which the trust is established. The assets held in trust are recorded at fair value when received, and the liabilities to the beneficiaries are recorded at the present value of the estimated future payments to be distributed by the System to such beneficiaries. The amount of the contribution is the difference between the asset and the liability and is recorded as support with donor restrictions. Subsequent changes in fair value for charitable remainder unitrusts are recorded as changes in value of split-interest agreements in the appropriate net asset class.

Under perpetual trusts held by a third-party arrangement, the System records contribution revenue and an asset when it is notified of the trust's existence. The fair value of the contribution is measured at the present value of the estimated future cash receipts from the trust's assets, and that value may generally be measured by the fair value of the assets contributed to the trust, unless facts and circumstances indicate that the fair value of the assets contributed to the trust differs from the present value of the expected future cash flows. Distributions from the trust are reported as investment income in the appropriate net asset class. Adjustments to the amount reported as an asset, based on periodic review, are recognized as net unrealized gains or losses on investments in net assets with donor restrictions.

Under the charitable gift annuity arrangements and charitable remainder unitrust arrangements for which the System is not the trustee of the assets, the System records a receivable and contribution revenue at the present value of the estimated future distributions expected to be received by the System over the expected term of the agreement. However, if an unrelated third-party has variance power to redirect the benefits to another organization or if the System's rights to the benefits are conditional, the System does not recognize its potential for future distributions from the asset held by the trustee.

The discount rates and actuarial assumptions used in calculating present values have been based on IRS guidelines and actuarial tables. For agreements in which the System is the trustee, the discount rates used are commensurate with the risks involved at the time the contributions are initially recognized and are not subsequently revised. For agreements in which the System is not the trustee, under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-30, *Not-for-Profit Entities Split-Interest Agreements*, and the guidance as provided in the *AICPA Audit and Accounting Guide*, *Not-for-Profit Organizations*, net expected cash flows are revalued to fair value at each year-end using a current risk-free rate of return, which ranged from 1.69% to 2.25% and 2.51% to 3.02% for the years ended December 31, 2019 and 2018, respectively.

2. Summary of Significant Accounting Policies, continued

Accounts Receivable and Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. Healthcare services promised in the contract with a patient represent a bundle of goods and (or) services that is distinct and accounted for as a single performance obligation. The transaction price for the bundled goods and (or) services provided is estimated by reducing the total standard charges by variable price concessions, including contractual adjustments based on the terms provided by (in the case of Medicare and Medicaid) or negotiated with (in the case of managed care and commercial insurance companies) third-party payors, the System discount policies, and other implicit price concessions based on historical collections experience for uninsured and under-insured patients who do not qualify for financial assistance. A portfolio approach by major payor categories and types of service is used to estimate the historical collections experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Portfolio collection estimates are updated at least quarterly based on actual collections experience. The System believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used.

Under THR's financial assistance policy, the Tax-Exempt Hospitals, THRW, and THPG provide care to patients without charge or at amounts less than their established rates if the patient meets certain established criteria. The consolidated joint venture hospitals and healthcare entities have similar financial assistance policies or have adopted the THR financial assistance policy. As the System does not pursue collection of amounts determined to qualify as financial assistance, those amounts are not reported as patient service revenue or patient accounts receivable.

Revenue related to providing care to patients is recognized as the performance obligation is satisfied over the period of time the patient is receiving treatment, as the patient is simultaneously receiving and consuming the benefits provided by the System. The performance obligation is generally satisfied over an average period of less than five days for inpatient services and one day for outpatient services. Generally, patients and third-party payors are billed within days after the services are performed and (or) the patient is discharged. The transaction price related to unsatisfied or partially unsatisfied performance obligations at the end of the reporting period primarily relate to inpatient acute care services for patients who remain admitted at that time (in-house patients). As of December 31, 2019 and 2018, contract assets of $33,617,000 and $38,520,000, respectively, were recorded in patient accounts receivable on the consolidated balance sheets.

Patient accounts receivable is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance company has paid the amounts covered by the applicable agreement, but patient responsibility amounts remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients based upon management's assessment of historical write-offs and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Patient accounts are monitored and, if necessary, past due accounts are placed with collection agencies in accordance with guidelines established by management. Accounts are written off when all reasonable internal and external collection efforts have been performed. Estimated implicit price concessions of $437,785,000 and $379,437,000 were recorded as reductions to patient accounts receivable at December 31, 2019 and 2018, respectively, on the consolidated balance sheets.

Assets Limited as to Use

The System maintains certain assets that are limited as to use under board designation, indenture agreements, donor restriction, and other provisions. Amounts required to fund current liabilities of the System have been classified as current assets on the consolidated balance sheets.

2. Summary of Significant Accounting Policies, continued

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under finance lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated statements of operations and changes in net assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from revenue and gains in excess of (less than) expenses and losses unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Goodwill and Intangible Assets

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized. The System reviews goodwill annually, or more frequently if circumstances warrant a more timely review, to determine if there has been an impairment. FASB ASC Topic 350, *Intangibles—Goodwill and Other* (ASC 350), provides an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount or that indefinite-lived assets are impaired. If, after assessing the totality of events and circumstances, an entity determines it is more likely than not that the fair value of the reporting unit is less than its carrying amount or that the indefinite-lived intangible asset is impaired, then the entity is required to perform the two-step goodwill impairment test described in ASC 350 or determine the fair value of the indefinite-lived intangible asset and perform a quantitative impairment test by comparing the fair value with the carrying amount. However, if an entity concludes otherwise, no further action is required. One of the System's consolidated for-profit joint ventures elected to amortize goodwill effective Janaury 1, 2015. All others are accounted for as an asset with an indefinite useful life and are subject to the annual goodwill impairment review. For the years ended December 31, 2019 and 2018, the System prepared a qualitative assessment of goodwill and indefinite-lived intangible assets impairment for all reporting units that have assigned goodwill and indefinite-lived intangible assets. No impairment was identified for the years ended December 31, 2019 and 2018.

A summary of goodwill activity for the years ended December 31, 2019 and 2018 is presented below (dollars in thousands):

	2019	2018
Balance at beginning of year	$ 137,569	$ 141,571
Amortization of goodwill - consolidated joint venture	(4,002)	(4,002)
Balance at end of year	$ 133,567	$ 137,569

2. Summary of Significant Accounting Policies, continued

Leases

Effective January 1, 2019, the System adopted the new lease standard provisions of Accounting Standards Update 2016-02, Leases (Topic 842) ("ASU 842"). Due to the adoption of ASU 842, the unamortized balances of lease acquisition costs and lease incentives were reclassified as a component of the respective operating lease right-of-use assets.

It is determined if a contract is a lease, or contains a lease, at inception or upon modification of a contract. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control over the use of the identified asset means the lessee has both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset. Lease classification as operating or finance is determined at the lease commencement date.

Lease right-of-use assets and liabilities are recognized based on the present value of future minimum lease payments over the expected lease term on the lease commencement date. When the implicit lease rate is not determinable, the System uses a risk-free discount rate derived from Treasury Nominal Coupon (TNC) Treasury Yield Curve Spot Rates based on the information available at the lease commencement date, in determining the present value of future minimum lease payments. The expected lease terms include options to extend or terminate the lease when it is reasonably certain the System will exercise such options. Lease expense for minimum lease payments is recognized on a straight-line basis over the expected lease terms.

Certain of the System's lease arrangements may have lease and non-lease components. The System accounts for the lease and non-lease components as a single lease component for all classes of underlying assets. Leases with an expected lease term of 12 months or less are not recorded on the consolidated balance sheet and the related lease expense is recognized on a straight-line basis over the expected lease term.

Impairment or Disposal of Long-Lived Assets

When events or changes in circumstances indicate that the carrying amount of long-lived assets, including property and equipment, or other long-lived assets, may not be recoverable, an evaluation of the recoverability of currently recorded costs is performed. When an evaluation is performed, the estimated value of undiscounted future net cash flows associated with the assets is compared to the assets' carrying value to determine if a write-down to fair value is required.

If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Long-lived assets to be disposed of are reflected at the lower of either their carrying amounts or their fair value less costs to sell or close. In such circumstances, estimates of fair value are based on independent appraisals, established market prices for comparable assets, or internal calculations of estimated discounted future cash flows. There were no impairment adjustments recorded for long-lived assets during the years ended December 31, 2019 or 2018.

2. Summary of Significant Accounting Policies, continued

Physician Income Guarantees

Consistent with its policy on physician relocation and recruitment, THR hospitals provide income guarantee agreements to certain non-employed physicians who agree to relocate to its communities to fill a need in the hospital's service area and commit to remain in practice there. Under such agreements, THR hospitals are required to make payments to the physicians in excess of the amounts they earn in their practice up to the amount of the income guarantee. The income guarantee periods are typically 12 months, but are occasionally negotiated for longer periods of time if obstacles to the physician's startup are anticipated. Such payments plus interest are recoverable from the physicians if they do not fulfill their obligation to practice full-time in the community and maintain active privileges at the recruiting hospital for typically three years subsequent to the guarantee period. At December 31, 2019, the maximum potential amount of future payments under these guarantees was $5,122,000.

At December 31, 2019 and 2018, THR had a liability of $2,285,000 and $2,575,000, respectively, for the fair value of guarantees entered into, with a corresponding asset recorded in other current assets on the consolidated balance sheets, which will be amortized over the commitment period.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to THR and its tax-exempt controlled affiliates are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor-restricted net assets are reclassified as net assets without donor restrictions and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restrictions and other operating revenue.

Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by THR and its tax-exempt controlled affiliates have been limited by donors to a specific time period or purpose. Net assets with donor restrictions that are perpetual in nature have been restricted by donors to be maintained by THR and its tax-exempt controlled affiliates in perpetuity.

Revenue and Gains in Excess of (Less Than) Expenses and Losses

The consolidated statements of operations and changes in net assets include revenue and gains in excess of (less than) expenses and losses. Changes in net assets without donor restrictions excluded from revenue and gains in excess of (less than) expenses and losses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and other items required by GAAP to be reported separately.

Self-Insurance

Under THR's self-insurance programs, claims are reflected as liabilities based upon actuarial estimation, including both reported and incurred but not reported claims, taking into consideration the severity of the incidents and the expected timing of claim payments.

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements – Adopted

For the annual period ending December 31, 2019, THR early adopted ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework–Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminated and (or) modified certain disclosures about recurring and nonrecurring fair value measurements for nonpublic entities.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which significantly modifies the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. While the new standard retains most of the principles of the existing lessor model, it aligns many of those principles with the FASB's new revenue guidance (ASU 2014-09). Under ASU 2016-02, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which allows lessees and lessors to recognize and measure leases at the beginning of the period of adoption without modifying the comparative period financial statements. THR adopted the new lease guidance for interim and annual periods beginning January 1, 2019, on a prospective basis, forgoing comparative reporting using the modified retrospective adoption method, which allowed THR to continue to apply the legacy lease guidance under ASC 840, in the comparative periods presented in the year of adoption. Management evaluated the impact of the provisions of ASU 2016-02, as amended by ASU 2018-01, ASU 2018-11, ASU 2018-20, and ASU 2019-01, and elected to utilize certain practical expedients permitted under the transition guidance, which allowed THR to carryforward historical lease classification, not separate lease and non-lease components for all classes of underlying assets in which it is the lessee, not reassess initial direct costs for existing leases, and make accounting policy elections to utilize a risk-free discount rate and not to account for leases with an initial term of 12 months or less on the balance sheet. Adoption of the lease guidance by THR initially resulted in the recording of operating lease assets of $172,824,000 and operating lease liabilities of $176,808,000 on THR's balance sheet as of January 1, 2019, with differences between amounts recorded for operating lease assets and liabilities due to the reclassification of certain deferred lease costs.

Effective January 1, 2019, THR adopted FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves current guidance about whether a transfer of assets is a contribution or an exchange transaction and requires entities to determine whether a contribution is conditional based on clarified indicators. The adoption of ASU 2018-08 did not impact the consolidated financial statements.

Effective January 1, 2019, THR adopted the FASB issued ASU 2016-01, *Financial Instruments–Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, as well as ASU 2018-13, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,* which makes targeted improvements to the measurement and disclosure of financial assets and financial liabilities, especially equity investments and other financial instruments, liabilities resulting from instrument-specific credit risk, and valuation allowances for deferred tax assets. The adoption of this guidance did not have a material impact on the consolidated financial statements.

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements – Adopted, continued

Effective January 1, 2019, THR adopted the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which applies to all entities that are required to present a statement of cash flows under Topic 230. ASU 2016-15 addresses the presentation and classification of cash flows related to (i) debt prepayment or debt extinguishment costs, (ii) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (iii) contingent consideration payments made after a business combination, (iv) proceeds from the settlement of insurance claims, (v) proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies), (vi) distributions received from equity method investees, (vii) beneficial interests in securitization transactions, and (viii) sepJarately identifiable cash flows and application of the predominance principle. The amendments in ASU 2016-05 should be applied using a retrospective transition method to each period presented, unless it is impracticable. The adoption of this guidance did not have a material impact on the statement of cash flows.

Effective January 1, 2019, THR adopted the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash and cash equivalents, which will now include restricted cash and restricted cash equivalents in the beginning and ending balances on the statement of cash flows. The adoption of ASU 2016-18 did not result in a change to the beginning and ending balances of cash and cash equivalents reported on the statement of cash flows.

Reclassifications

Certain reclassifications were made to the 2018 financial statements to conform to the 2019 presentation. The accompanying statements of operations reflect reclassifications within operating expenses for presentation purposes for the year ended December 31, 2018. The reclassifications had no effect on net income or members' capital as previously reported.

3. Patient Service Revenue

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

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, outpatient services, and certain capital and medical education costs related to Medicare beneficiaries are paid based on a combination of prospective and cost reimbursement methodologies or fee schedule. The hospitals are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospitals and audits thereof by the Medicare fiscal intermediary.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospectively determined system similar to Medicare. Most outpatient services are reimbursed by the Medicaid program under a cost reimbursement methodology or fee schedule. The hospitals are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospitals and audits thereof by the Medicaid fiscal intermediary.

3. Patient Service Revenue, continued

Managed Care and Other Commercial. The System has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these arrangements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. Items such as high cost drugs and implants are sometimes paid as an add-on to prospectively determined rates. All of these payment methods can occur independently or in combination for different commercial agreements.

Private Pay. The Tax-Exempt Hospitals and THRW provide self-pay price concessions to uninsured patients. The pricing is calculated by applying a discount to charges for services received. The price concession was 45% in 2019 and 2018. The consolidated and unconsolidated joint venture hospitals and THPG also provide similar discounted pricing to uninsured patients.

Medicare and Medicaid cost report settlements are estimated in the period services are provided to the program beneficiaries. These estimates are revised as needed until final settlement of the cost report. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Patient service revenue increased approximately $11,043,000 and $12,643,000 in 2019 and 2018, respectively, due to reassessment of settlement issues and other changes in estimates related to final settlements.

The System recognizes patient service revenue associated with a bundle of goods and (or) services provided to patients over the period of time the patient is receiving treatment or as the performance obligation is satisfied. Based on historical experience, a significant portion of the System's uninsured patients will be unable or unwilling to pay for the services provided; thus, the System records a significant uninsured price concession and (or) provides financial assistance related to uninsured patients in the period the services are provided. For uninsured patients that do not qualify for financial assistance, the System recognizes revenue using the "expected value" method for the bundle of goods and (or) services provided.

Patient service revenue, net of all price concessions, disaggregated by major payor sources, are as follows (dollars in thousands):

	2019	2018
Medicare	$ 786,758	$ 802,081
Medicare managed care	635,366	590,186
Medicaid	136,751	140,532
Medicaid managed care	181,869	180,338
Managed care and other commercial	2,830,043	2,811,863
Private pay	56,599	26,739
	$ 4,627,386	$ 4,551,739

The estimated percentage of patient service revenue, net of all price concessions for both years ended December 31, 2019 and 2018, disaggregated by major service line, is as follows:

Inpatient	48%
Outpatient	39
Physician	10
Other	3
	100%

4. Section 1115 Waiver

In late 2011, the Texas Health and Human Services Commission (HHSC) implemented a five-year demonstration program, the Texas Healthcare Transformation and Quality Improvement Program: Section 1115 Waiver Program (Waiver Program), which was approved by the Centers for Medicare & Medicaid Services (CMS). The Waiver Program provides for two pools of supplemental Medicaid funding: an uncompensated care (UC) pool and a delivery system reform incentive payment (DSRIP) pool. Both the UC and DSRIP programs have been extended through September 30, 2022 and September 30, 2021, respectively. THR (through certain wholly controlled tax-exempt and joint venture hospitals) participates in both the UC pool and DSRIP pool in Tarrant, Dallas, Collin, and Johnson counties.

The UC pool of the Waiver Program helps eligible hospitals and certain other providers offset a portion of their unreimbursed costs for services already provided to Medicaid patients and uninsured persons. During 2019 and 2018, THR, on behalf of its participating hospitals, recorded UC pool supplemental Medicaid revenue of $121,386,000 and $113,077,000, respectively, included in patient service revenue in the accompanying consolidated statements of operations and changes in net assets. At December 31, 2019 and 2018, THR had a receivable of $29,625,000 and $23,353,000, respectively, related to the UC pool recorded in other receivables, net on the consolidated balance sheets.

The DSRIP pool of the Waiver Program provides funding distributed as incentive payments to be earned by facilities for initiating and performing projects that benefit the community and help redesign the overall healthcare delivery system to improve access, quality, and efficiency. Hospitals receive funding for reaching predetermined, CMS-approved metrics for each project. In year one of the program, facilities that chose to participate received incentive payments for submitting acceptable project plans that would span the five years of the initially-approved Waiver Program. For years two through six of the program, providers continued to receive DSRIP pool funding by meeting the project metrics and reporting achievement to HHSC. Beginning in year seven of the program, providers earned payments by meeting entity level metrics chosen from a menu of standardized metrics. THR recorded DSRIP revenue of $29,916,000 and $35,523,000 for the years ended December 31, 2019 and 2018, respectively, included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets. At December 31, 2019 and 2018, THR had a receivable of $20,677,000 and $22,718,000, respectively, related to the DSRIP pool recorded in other receivables, net on the accompanying consolidated balance sheets. CMS and HHSC have purview over project achievement and initiate regular audits to ensure DSRIP project metrics are met in accordance with the requirements set forth by the agencies.

During the course of the Waiver Program, CMS has reviewed funding arrangements in certain geographic areas of the State of Texas to ensure the Waiver Program is in compliance with the provider-related donation prohibitions in federal law. On June 9, 2015, CMS acknowledged in writing in response to an HHSC inquiry that the longstanding public-private collaborative funding model arrangements in Texas could continue without risk of disallowance of federal financial participation matching funds, provided that HHSC worked with CMS to redesign certain components of Waiver Program financing as identified by CMS prior to September 2017. However, in September 2016, CMS proceeded to disallow federal financing participation matching funds for the fourth quarter of 2015 in the Dallas and Tarrant markets, as noted below.

4. Section 1115 Waiver, continued

During the disallowed time period, funding for THR's participation in the Waiver Program resulted from public-private collaborations including several private hospitals and the Tarrant County Hospital District (TCHD) d/b/a JPS Health Network (JPS) and Dallas County Hospital District (DCHD) d/b/a Parkland Health & Hospital System (Parkland). These affiliations were documented pursuant to HHSC Waiver Program requirements. Under the affiliation with JPS (the Tarrant Affiliation) and with Parkland (the Dallas Affiliation), the respective governmental entity provided intergovernmental transfers to HHSC as the state share, which were then matched by federal funds. It was at all times within the sole discretion of JPS and Parkland to make, or not make, intergovernmental transfers to HHSC as the state share. In a letter to HHSC dated September 1, 2016, CMS disallowed federal matching funds totaling $26,845,000 for the quarter ended December 31, 2015, of which $7,306,000 is THR's disallowed federal match portion. CMS alleged that the private hospitals participating in these affiliations failed to comply with the federal provider-related donation requirements. In September 2017, the participating private hospitals terminated the services arrangement challenged by CMS in the disallowance as non-compliant with federal law. HHSC sought reconsideration of CMS' disallowance and subsequently appealed to the Department of Health and Human Services' Departmental Appeals Board (DAB). The private hospital systems impacted by the disallowance, including THR, participated in the DAB administrative litigation as intervenors. In August 2018, the DAB ruled in favor of CMS. THR and the other participating private hospitals repaid the disallowed funds in September 2018, as requested by HHSC, to be refunded if the private hospitals would ultimately prevail in the litigation. HHSC and the intervenor private hospitals sought DAB reconsideration in October 2018. In October 2019, the DAB declined to reconsider its decision. On December 2, 2019, HHSC appealed the unfavorable DAB ruling to U.S. District Court for the Northern District of Texas, Dallas Division. Several private hospital systems, including THR, again filed a motion to intervene in the matter, which the federal district court granted on March 3, 2020. If the federal district court upholds the DAB's unfavorable decision and the federal government and the State do not settle the dispute, all Waiver Program payments made to THR using this funding mechanism could be at risk. It is too early to predict the ultimate outcome of the litigation or its possible financial impact; however, management believes THR is adequately reserved and does not anticipate a material financial impact. Total payments received by THR using this funding mechanism from inception of the program in 2011 through December 31, 2019 were $554,552,000.

On March 1, 2018, THR began participation in the Uniform Hospital Rate Increase Program (UHRIP). UHRIP is designed to offset a portion of unreimbursed Medicaid costs through managed care payments made to providers to enhance care coordination and access to care for Medicaid managed care patients. Funding from non-state governmental entities are used to support capitation payment increases for the Dallas and Tarrant service delivery areas (SDA) and other SDAs in the state that choose to participate in the program. Under UHRIP, managed care organization (MCO) within the SDAs is contractually required by the State to increase hospital payment rates by a specified percentage for all of its public and private contracted hospitals. The increased payments from MCOs to hospitals for inpatient and outpatient services are based on the utilization and delivery of those services by the hospitals to the Medicaid managed care members enrolled with that MCO. Payments are made according to a letter of agreement between the hospitals and the MCOs, which contains payment terms that are substantially similar to the regular MCO claims payment processes and deadlines. In addition, the UHRIP program has a Quality Incentive Fund component to incentivize providers to improve the quality of patient care and contain costs. THR recorded UHRIP revenue of $47,963,000 and $42,262,000, respectively, for the years ended December 31, 2019 and 2018, included in patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

4. Section 1115 Waiver, continued

In May and June 2017, respectively, the 85th Texas Legislature enacted legislation to authorize DCHD and TCHD to each establish and administer a local health care provider participation program (LPPF). The purpose of the LPPF is to generate local revenue by requiring a mandatory payment from nonpublic hospitals, including THR, that can be used to fund certain intergovernmental transfers for securing reimbursement in Medicaid supplemental payment programs, including UC and UHRIP. By the terms of the respective LPPF enabling statutes, the fee on nonpublic hospitals cannot exceed 6% of net patient revenue. The providers' mandatory payment must be consistent with CMS regulations regarding provider taxes, which require the fee must be broad-based and uniform, and prohibit a harmless guarantee from the sponsoring governmental entity. Upon collection of the mandatory payments, funds held by DCHC and TCHD are considered restricted and included as assets limited as to use until funds are used for their intended purpose, to fund the state share of Medicaid supplemental payments to eligible entities. In a letter to HHSC dated December 20, 2018, CMS opined the mandatory payment fee met the broad-based and uniformity requirements and did not constitute a hold harmless arrangement. This legislation was extended for 6 additional years in the 2019 86th Texas Legislative session.

In October 2017, THR, Baylor Scott and White, HCA Healthcare (formerly Healthcare Corporation of America), Methodist Health System, Children's Health System, and Cook Children's Medical Center formed the Dallas Safety Net Service Corporation (DSNSC) and (or) the Tarrant Safety Net Service Corporation (TSNSC). The DSNSC and TSNSC are organized to operate as charitable organizations exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Code. The purpose of DSNSC and TSNSC is to operate exclusively for the benefit of, to perform the function of, or to carry out the exempt purposes of hospitals that are located within Dallas and Tarrant counties, respectively, by promoting high-quality and cost-effective healthcare services to low-income individuals and encouraging community benefit program participation of hospitals. This includes the provision of grants from time to time to Dallas and Tarrant hospitals supporting the provision of cost-effective healthcare services to low-income individuals.

As of December 31, 2019 and 2018, $97,595,000 and $104,903,000, respectively, was recorded in assets limited as to use on the accompanying consolidated balance sheets related to payments of the LPPF mandatory payment, and $58,788,000 and $84,792,000, respectively, were recorded in other accrued liabilities on the accompanying consolidated balance sheets related to accrued LPPF mandatory payments. Additionally, THR recorded expenses related to both the UC and UHRIP programs of $75,436,000 and $83,804,000 for the years ended December 31, 2019 and 2018, respectively, included in other operating expenses in the consolidated statements of operations and changes in net assets.

5. Financial Assistance and Community Benefit

In accordance with its mission, the System commits substantial resources to sponsor a broad range of services for the indigent as well as the broader community. Community benefit provided to the indigent includes the cost of providing services to persons who cannot afford health care due to inadequate resources and (or) to financial assistance qualifying persons who are underinsured. This category of community benefit, in accordance with Texas law, includes the unreimbursed costs of traditional financial assistance as well as the estimated unreimbursed costs of care provided to beneficiaries of Medicaid and other indigent public programs. The System also benefits the communities it serves by providing facilities for the education and training of health care professionals and by participating in research activities that offer the potential of improving health care, as well as unreimbursed costs of care provided to Medicare beneficiaries.

The System promotes access to health care services by providing support for indigent care clinics, promoting community health education and wellness programs, supporting other local community based non-profit organizations through charitable donations, and sponsoring a variety of health-related support groups and programs. These activities are classified as community benefit under Texas law.

The System provides care to patients who meet criteria established under its financial assistance policy without charge or at amounts less than established rates. As the System does not pursue collection of amounts determined to qualify as financial assistance, they are not reported as patient service revenue. When the System does not have the information required to properly determine financial status, the amounts owed by these individuals are classified as a price concession. The System estimates costs associated with financial assistance of $336,874,000 and $324,013,000 for the years ended December 31, 2019 and 2018, respectively, applying the ratio of cost to gross charges. The System receives certain funds to offset or subsidize financial assistance provided from gifts or grants restricted for financial or indigent care. The amount of such funds recognized in operations from such sources totaled $608,000 and $502,000 for the years ended December 31, 2019 and 2018, respectively.

6. Investments

Short-Term Investments

The composition of short-term investments at December 31, 2019 and 2018 is set forth in the following table (dollars in thousands):

	2019	2018
Cash equivalents	$ 816	$ 299
U.S. government securities	480	1,191
Fixed income securities	6,402	5,703
Equity securities	107	82
	$ 7,805	$ 7,275

6. Investments, continued

Assets Limited as to Use

Assets limited as to use that are required for obligations classified as current liabilities are included in current assets in the consolidated balance sheet. The composition of assets limited as to use at December 31, 2019 and 2018 is set forth in the following table (dollars in thousands):

	2019	2018
Internally designated:		
Cash equivalents	$ 143,449	$ 112,779
Fixed income securities	1,870,730	1,722,051
Equity securities	3,382,635	2,646,245
Mutual funds	6,390	5,494
Other alternative investments	44,018	21,600
Donor-restricted special purpose and endowment funds:		
Cash equivalents	993	1,608
Fixed income securities	46,753	45,764
Equity securities	101,211	85,696
Mineral interests	1,851	2,357
Real estate	18	18
Beneficial interest in perpetual trust, held in charitable remainder unitrusts, and held in charitable gift annuities:		
Cash equivalents	703	498
Fixed income securities	1,119	1,055
Equity securities	14,058	12,125
Mineral interests	476	615
Real estate	872	876
Other provisions:		
Cash equivalents	3,864	28,199
Fixed income securities	37,543	30,434
Equity securities	8,801	9,734
	5,665,484	4,727,148
Less: Assets limited as to use required for current liabilities	(439,682)	(471,438)
	$ 5,225,802	$ 4,255,710

Excluded from the above table are funds held for use related to LPPF mandatory payments (see footnote 4) of $97,595,000 and $104,903,000 at December 31, 2019 and 2018, respectively, and promises to give of $17,945,000 and $17,137,000 at December 31, 2019 and 2018, respectively. Both the funds held for use related to LPPF mandatory payments and the promises to give are included in assets limited as to use on the accompanying consolidated balance sheets.

THR and its wholly-controlled affiliates participate in a pooled, long-term investment fund administered by THR. Amounts internally designated represent THR and its wholly-controlled affiliates' pro rata share of the fund. These funds exist to provide liquidity for the System, to support its capital program, and to backstop short-term reserves as a buffer against interruption of business operations due to catastrophic events. The fund's asset allocation is a reflection of THR's investment objectives as stated in its investment policy statement. Prior to July 16, 2012, the fixed income securities in the pool, which are primarily U.S. government obligations, were designated as other-than-trading securities while the equity securities were designated as trading. As a result of modifications to THR's investment policy statement effective July 16, 2012, all purchases of fixed income securities in the pool after this date are designated as trading securities.

6. Investments, continued

Assets Limited as to Use, *continued*

Management evaluates THR and its wholly-controlled affiliates' fixed income securities purchased prior to July 16, 2012 to determine whether any are deemed to be other-than-temporarily impaired due to credit worthiness of the bond issuers. There were no securities deemed to be other-than-temporarily impaired at December 31, 2019 or 2018.

The fair value and gross unrealized losses on THR and its wholly-controlled affiliates' fixed income securities that were purchased prior to July 16, 2012 and have been in a continuous unrealized loss position for twelve months or greater were $3,210,000 and $5,000 at December 31, 2019 and $34,523,000 and $436,000 at December 31, 2018. Because THR has the ability and intent to hold these investments until a market price recovery, which may be maturity, these investments are not considered other-than-temporarily impaired.

Investment Income

Net realized investment income and gains in the consolidated statements of operations and changes in net assets, is comprised of the following for the years ended December 31, 2019 and 2018 (dollars in thousands):

	2019	2018
Interest and dividends	$ 106,380	$ 90,639
Realized gains, net	214,546	214,622
Total net realized investment income and gains	320,926	305,261
Less: Net realized investment income and gains related to donor restricted funds	(5,407)	(5,530)
Net realized investment income and gains, other than amount related to donor restricted funds	$ 315,519	$ 299,731

7. Liquidity and Availability

The System's financial assets available for general expenditures within one year of December 31, 2019 and 2018 are as follows (dollars in thousands):

	2019	2018
Cash and cash equivalents	$ 619,977	$ 442,765
Short-term investments	7,805	7,275
Patient accounts receivable	564,292	559,813
Other receivables, net	153,089	123,616
Assets limited as to use - board-designated	5,403,204	4,486,569
Other current assets	142,526	143,597
	$ 6,890,893	$ 5,763,635

7. Liquidity and Availability, continued

The System board-designated assets limited as to use are internally designated for future capital expenditures, operating reserves and debt service reserves, but could be made available, if necessary, for general expenditures within the next year. Accordingly, these assets have been included in the above table. The System has other assets limited as to use for donor-restricted purposes, debt service, professional and general liability captive insurance program, and other restricted purposes of $333,802,000 and $341,019,000 at December 31, 2019 and 2018, respectively, that are not available for general expenditures within the next year and are not reflected in the amounts above. Additionally, the System has certain board-designated assets limited as to use with time horizons greater than one year of $44,018,000 and $21,600,000 at December 31, 2019 and 2018, respectively, that are not reflected in the amounts above. See footnote 6 for the composition of assets limited as to use.

As part of the System's liquidity management plan, cash balances in excess of daily requirements are invested in short-term investments. Additionally, the System maintains $150 million in lines of credit, as discussed in more detail in footnote 9. At December 31, 2019 and 2018, $150 million remained available on the System's lines of credit; however, the available lines of credit are not reflected in the amounts above. See footnote 22 for a related subsequent event.

8. Property and Equipment

A summary of property and equipment at December 31, 2019 and 2018 is as follows (dollars in thousands):

	2019	2018
Land	$ 175,944	$ 171,806
Buildings and improvements	2,608,952	2,383,382
Fixed equipment	620,783	579,000
Major movable equipment	1,266,810	1,174,519
Building and equipment under capital lease obligations	10,812	3,538
	4,683,301	4,312,245
Less: Accumulated depreciation and amortization	(2,617,306)	(2,467,884)
	2,065,995	1,844,361
Construction and renovation in progress	203,518	264,039
Property and equipment, net	$ 2,269,513	$ 2,108,400

Depreciation and amortization expense related to property and equipment for the years ended December 31, 2019 and 2018 was $231,579,000 and $232,333,000, respectively. Included in the above table is the cost, $442,751,000 and $423,579,000, and accumulated depreciation, $247,472,000 and $228,560,000, of property and equipment held out for lease at December 31, 2019 and 2018, respectively.

The System has several construction projects in progress, which include renovation and modernization of existing facilities and construction of new facilities. Total remaining estimated costs of these projects is $754,104,000, of which the System has outstanding commitments of $234,570,000 at December 31, 2019. Total interest capitalized during the years ended December 31, 2019 and 2018 was $7,135,000 and $2,868,000, respectively.

9. Long-Term Debt

A summary of long-term debt at December 31, 2019 and 2018 is as follows (dollars in thousands):

	2019	2018
System Revenue Bonds (Texas Health Resources), Series 2019 (Taxable), fixed interest rate of 3.37%, due through 2051	$ 200,000	$ —
System Revenue Bonds (Texas Health Resources), Series 2017A and 2017B, variable interest rates, due through 2051, (interest rates ranged from 1.55% to 1.69% and 1.67% to 1.73% at December 31, 2019 and 2018, respectively	133,470	133,470
System Revenue Bonds (Texas Health Resources), Series 2016A fixed interest rates of 2.25% to 5.00%, due through 2047	631,105	631,105
System Revenue Bonds (Texas Health Resources), Series 2015 (Taxable), fixed interest rate of 4.33%, due through 2055	300,000	300,000
System Revenue Bonds (Texas Health Resources), Series 2015A fixed interest rates of 4.25% and 5.00%, due through 2052	60,000	60,000
System Tax-Exempt Loan (Texas Health Resources), The Northern Trust Company Private Loan, variable interest rates, due through 2033, (interest rate was 1.64% and 2.07% at December 31, 2019 and 2018, respectively)	67,500	67,500
System Tax-Exempt Loan (Texas Health Resources), UMB Bank, N.A. Private Loan, variable interest rates, due through 2035, (interest rate was 1.78% and 2.21% at December 31, 2019 and 2018, respectively)	66,090	66,475
System Revenue Bonds (Texas Health Resources), Series 2012A (Taxable), fixed interest rate of 4.366%, due through 2047	100,000	100,000
System Revenue Bonds (Texas Health Resources), Series 2012B, variable interest rates, due through 2047 (interest rates were 1.52% and 1.66% at December 31, 2019 and 2018, respectively)	50,000	50,000
System Revenue Bonds (Texas Health Resources), Series 2010, fixed interest rate of 5.00%, due through 2040	—	157,550
System Revenue Bonds (Texas Health Resources), Series 2008A, 2008B, and 2008C, variable interest rates, due through 2033, (interest rates ranged from 1.52% to 1.72% at December 31, 2019, and 1.66% to 1.79% at December 31, 2018)	149,180	149,180
Term and Revolving Loans (Rockwall Regional Hospital, L.L.C.), fixed and variable interest rates, due through 2029, (interest rates at 2.7% and ranging from 2.63% to 4.13% at December 31, 2019 and 2018, respectively)	42,576	29,646
Term and Revolving Loans (Flower Mound Hospital Partners, L.L.C.), fixed and variable interest rates, due through 2022, (interest rates ranging from 3.18% to 3.99% and 3.06% to 3.81% at December 31, 2019 and 2018, respectively)	65,508	71,672
Term and Revolving Loans (AMH Cath Labs, L.L.C.), variable interest rates, due through 2021, (interest rates ranging from 2.21% to 2.96% and 3.15% to 3.55% at December 31, 2019 and 2018, respectively)	14,955	16,492
Term Loan (Health Imaging Partners, LLC), fixed interest rate of 3.87%, due through 2020	—	3,689
Notes Payable (Health Imaging Partners, LLC), varying rates of interest, due through 2025, (interest rates ranging from 4.54% to 5.71% and 3.60% to 5.71% at December 31, 2019 and 2018, respectively)	8,929	5,224

9. Long-Term Debt, continued

	2019	2018
Finance Lease Obligations, collateralized by leased equipment, varying rates of interest ranging from 0.01% to 2.95%, and at an imputed interest range rate of 0.00% to 5.00% at December 31, 2019 and 2018	9,574	2,960
Other loans and notes payable, fixed and variable interest rates, due through 2032 (interest rates ranging from 2.01% to 5.00% at December 31, 2019 and 2018, respectively)	48,236	35,669
	1,947,123	1,880,632
Add:		
Unamortized original issue premium/discount, net	68,262	66,689
Less:		
Costs of issuance	(12,012)	(11,327)
Current portion of long-term debt	(345,060)	(350,104)
Long-term debt, net of current portion	$ 1,658,313	$ 1,585,890

THR issued Series 2019 Taxable Revenue bonds (Series 2019 Bonds) in the amount of $200,000,000 (official statement dated September 11, 2019). The proceeds of the Series 2019 Bonds were used (a) to refund the Tarrant County Cultural Education Facilities Finance Corporation Texas Health Resources System Revenue Bonds, Series 2010 (the Series 2010 Refunded Bonds); (b) for other eligible corporate purposes; and (c) to pay certain costs incurred in connection with the issuance of the Series 2019 Bonds.

THR issued variable rate demand bonds, Series 2017A (Series 2017A Bonds) and 2017B (Series 2017B Bonds) bonds (collectively, the Series 2017 Bonds) through the Tarrant County Cultural Education Facilities Finance Corporation (official statement dated October 11, 2017) in the amount of $133,470,000. The proceeds of the Series 2017 Bonds were used to (a) refund the Tarrant County Cultural Education Facilities Finance Corporation Texas Health Resources System Refunding Revenue Bonds, Series 2007B, (b) finance and (or) refinance the costs of acquisition, construction, renovation, remodeling and (or) equipping of capital improvements, and (c) pay certain expenses incurred in connection with the issuance of the Series 2017 Bonds. The Series 2017 Bonds are tax-exempt variable rate demand bonds, and are as such subject to periodic tender and remarketing provisions. The interest rates at which the bonds are remarketed are determined in accordance with the remarketing agreement applicable to the Series 2017 Bonds. Liquidity for payment of the Series 2017 Bonds tendered for purchase and not remarketed is provided by THR under a self-liquidity program. As a result, THR has classified the Series 2017 Bonds as a current liability in the current portion of long-term debt. Actual scheduled principal repayment dates range from 2048 – 2051.

THR issued Series 2016A bonds (Series 2016A Bonds) through Tarrant County Cultural Education Facilities Finance Corporation (official statement dated October 5, 2016) in the amount of $631,105,000. The proceeds of the Series 2016A Bonds were used to (a) refund a portion of the Tarrant County Cultural Education Facilities Finance Corporation Texas Health Resources System Refunding Revenue Bonds, Series 2007A, (b) finance and (or) reimburse certain capital projects of THR, and (c) pay costs of issuance of the Series 2016A Bonds.

THR issued Series 2015 Taxable (Series 2015 Taxable Bonds) and 2015A (Series 2015A Bonds) bonds (collectively, the Series 2015 Bonds) through Tarrant County Cultural Education Facilities Finance Corporation (official statements dated April 28 and May 6, 2015) in the amounts of $300,000,000 and $60,000,000, respectively. The proceeds of the Series 2015 Bonds were used (a) to finance and (or) reimburse certain capital projects of THR, (b) to pay costs of issuance of the Series 2015 Bonds, and (c) for other eligible corporate purposes.

9. Long-Term Debt, continued

Effective July 31, 2015, THR refinanced tax-exempt advancing term loan agreements (Bank Loans) with Kansas City Financial Corporation, an affiliate of UMB Bank, N.A. (UMB) and The Northern Trust Company (Northern). The UMB bank loan was issued for $67,375,000 with a final maturity date of September 1, 2035, and an optional tender date of July 31, 2030. The Northern bank loan was issued for $67,500,000 with a final maturity date of December 1, 2033, and a mandatory tender date of July 31, 2025. The Bank Loans bear interest at variable rates calculated as a percentage of LIBOR plus a spread. The refinanced notes were effective November 2010 with Bank of America, N.A. and Compass Mortgage Corporation in the aggregate principal amount of $135,000,000. The proceeds of these Bank Loans were used to (a) pay costs of acquiring, constructing, renovating, remodeling and (or) equipping capital improvements for certain THR tax-exempt health facilities and (b) pay certain costs incurred in connection with the issuance of the Bank Loans.

THR issued variable rate demand bonds, Series 2012A (Series 2012A Bonds) and 2012B (Series 2012B Bonds) bonds (collectively, the Series 2012 Bonds) through the Tarrant County Cultural Education Facilities Finance Corporation (official statements dated September 27, 2012) in the amounts of $100,000,000 and $50,000,000, respectively. The proceeds of the Series 2012 Bonds were used to (a) finance and reimburse THR for the costs of the acquisition, construction, renovation, remodeling and (or) equipping of capital improvements and (b) pay certain costs incurred in connection with the issuance of the Series 2012 Bonds. The Series 2012B Bonds are tax-exempt variable rate demand bonds, and are as such subject to periodic tender and remarketing provisions. The interest rates at which the bonds are remarketed are determined in accordance with the remarketing agreement applicable to the Series 2012B Bonds. Liquidity for payment of the Series 2012B Bonds tendered for purchase and not remarketed is provided by THR under a self-liquidity program. As a result, THR has classified the Series 2012B Bonds as a current liability in the current portion of long-term debt. Actual scheduled principal repayment dates range from 2041 – 2047.

In December 2012, THR entered into credit agreements with Wells Fargo Bank, N.A. (Wells Fargo) and U.S. Bank N.A. for lines of credit of $75,000,000 each bearing interest at a variable rate calculated as a percentage of LIBOR plus a spread. In December 2017, the U.S. Bank agreement was amended to extend the term date to December 31, 2020. In December 2019, the Wells Fargo agreement was amended to extend the term date to March 31, 2020. At December 31, 2019 and 2018, there were no outstanding balances. See footnote 22 for a related subsequent event.

THR issued Series 2010 bonds (the Series 2010 Bonds) through the Tarrant County Cultural Education Facilities Finance Corporation (official statement dated November 11, 2010) in the amount of $157,550,000. The proceeds of the Series 2010 Bonds were used to (a) refund the Tarrant County Cultural Education Facilities Finance Corporation Texas Health Resources System Revenue Bonds, Series 2008D, 2008F, and 2008G; and (b) pay certain costs incurred in connection with the issuance of the Series 2010 Bonds and the provisions for payment of the refunded Series 2008D, 2008F, and 2008G Bonds. As previously discussed, THR legally defeased all of the outstanding Series 2010 Bonds in September 2019 with proceeds from the issuance of the Series 2019 Bonds, whereby $166,044,000 of the proceeds of the Series 2019 Bonds were irrevocably deposited in trust for the benefit of the holders of the refunded Series 2010 Bonds which were deemed paid and no longer outstanding under the bond indenture.

9. Long-Term Debt, continued

THR issued variable rate demand bonds, Series 2008A-G bonds (the Series 2008 Bonds) through the Tarrant County Cultural Education Facilities Finance Corporation (official statement dated October 27, 2008) in the amount of $366,120,000. The proceeds of the Series 2008 Bonds were used to (a) refund the Tarrant County Health Facilities Development Corporation Texas Health Resources System Revenue Bonds, Series 2003 (the Series 2003 Bonds) and the Plano Health Facilities Development Corporation Unit Priced Demand Adjustable Revenue Bonds (Children's and Presbyterian Healthcare Center of North Texas Project) Series 1989 (the Series 1989 Bonds), (b) finance or refinance the purchase, development, construction, reconstruction, renovation, rehabilitation, and (or) equipping of certain THR tax-exempt health facilities, and (c) pay certain costs incurred in connection with the issuance of the Series 2008 Bonds and the provisions for payment of the refunded Series 2003 and Series 1989 Bonds. As previously discussed, THR defeased all of the outstanding Series 2008D, 2008F, and 2008G Bonds in the aggregate principal amount of $153,925,000 in November 2010, with proceeds from the issuance of the Series 2010 Bonds. In addition, THR redeemed all of the outstanding Series 2008E Bonds on November 22, 2010 at a purchase price equal to the principal amount of $36,140,000 thereof plus interest accrued thereon to the redemption date. THR used available cash to redeem the Series 2008E Bonds. In May 2015, THR remarketed the Series 2008C Bonds, converting them from a daily to a weekly rate and converting the liquidity provision from a Standby Bond Purchase Agreement (SBPA) to self-liquidity. On October 17, 2017, THR used available cash to redeem a portion of the outstanding Series 2008A, 2008B, and 2008C Bonds in the aggregate principal amount of $26,875,000 plus interest accrued through the redemption date.

The Series 2008 Bonds are subject to periodic tender and remarketing provisions. The interest rates at which the bonds are remarketed are determined in accordance with the remarketing agreement applicable to each series of the Series 2008 Bonds. Liquidity for payment of the outstanding Series 2008 Bonds tendered for purchase and not remarketed is provided by THR under a self-liquidity program. As a result, THR has classified these series as current liabilities in the current portion of long-term debt. Actual scheduled principal repayment dates range from 2027 – 2033.

Concurrent with the issuance of the Series 1997 Bonds and amended in connection with the issuance of the Series 2008, Series 2012, Series 2015 Bonds, Series 2016A Bonds, and Series 2017 Bonds, THR entered into the Second Amended and Restated Master Trust Indenture (the Master Indenture). Among other requirements, THR granted a security interest in (a) certain of its revenue (as defined in the Master Indenture) and accounts receivable of the grantor, (b) all money and investments held or required to be held for the credit of the funds and accounts established by or under the Master Indenture, and (c) any and all property that may, from time to time, be subjected to the lien and security interest of the Master Indenture.

On March 31, 2016, Rockwall entered into a credit agreement with JPMorgan Chase Bank N.A. (Chase) (the 2016 Rockwall Agreement). The 2016 Rockwall Agreement provides Rockwall with a term loan of $36,302,000, comprised of a fixed rate term loan of $25,550,000 bearing interest at 3.52% and a variable rate term loan of $10,752,000 bearing interest at one-, two-, three-, or six-month LIBOR plus 1.75%. On July 31, 2019, Rockwall amended and restated the 2016 Rockwall Agreement with Chase (the 2019 Rockwall Agreement). The 2019 Agreement provides Rockwall with a term loan commitment of $119,500,000, bearing a fixed interest rate of 2.70% with a maturity date of July 31, 2029. The 2019 Rockwall Agreement requires quarterly principal payments of $1,195,000 beginning September 30, 2022 through June 30, 2029. The 2019 Agreement amended and restated the $5,000,000 Revolving Credit Commitment with a commitment fee of 0.20% bearing a variable interest rate of LIBOR plus 1.30%. The amount outstanding on the term loan at December 31, 2019 and 2018 was $42,576,000 and $29,646,000, respectively. There was no outstanding balance on the Revolving Loan Commitment at December 31, 2019 and 2018.

9. Long-Term Debt, continued

On February 28, 2008, Flower Mound Hospital Partners, L.L.C. entered into a Credit Agreement (the Flower Mound Agreement) with various lending institutions with Chase acting as agent for the lenders for an Advancing Term Loan Commitment of $105,000,000 and a Revolving Loan Commitment of$20,000,000, later reduced to $1,000,000. On July 18, 2014, the Flower Mound Agreement was amended to provide Additional Term Loans of $11,280,000, comprised of a $7,896,000 fixed rate term loan bearing interest at 3.46% and a $3,384,000 variable term loan bearing interest at LIBOR plus 1.43%. Amounts outstanding on the Additional Term Loans as of December 31, 2019 and 2018 were $7,332,000 and $8,084,000, respectively. On December 22, 2015, the Flower Mound Agreement was amended and restated to provide a term loan of $81,176,000, comprised of a $57,400,000 fixed rate term loan bearing interest at 3.32% and a $23,776,000 variable rate term loan bearing interest at one-, two-, three-, or six-month LIBOR plus 1.43%. Amounts outstanding on the term loans at December 31, 2019 and 2018 were $58,176,000 and $63,588,000, respectively. Outstanding balances on the RLC bear interest at LIBOR plus 0.75% and the RLC has a 0.05% commitment fee. There was no outstanding balance on the Revolving Loan Commitment at December 31, 2019 and 2018.

On December 28, 2011, AMH Cath Labs, L.L.C. (ACL) entered into three loan agreements with Bank of America, N.A., (collectively, the ACL Agreements). The ACL Agreements are secured by the THR guaranty (discussed below) as well as the revenues and substantially all the assets of ACL. The first agreement provides ACL with a ten-year floating rate Service Line Term Loan of $15,300,000 bearing interest at LIBOR plus a credit spread. The credit spread at inception of the loan was at the maximum rate of 1.30%; however, the spread can be reduced to 1.15% if ACL's Funded Debt to EBITDA ratio declines to specific agreed upon levels. The interest rate at December 31, 2019 was 2.96%, with balances outstanding of $11,016,000 and $11,628,000 as of December 31, 2019 and 2018, respectively. The second agreement provides ACL with a seven-year floating rate Equipment Term Loan of $6,400,000 bearing interest at LIBOR plus a credit spread. The credit spread at inception of the loan was at the maximum rate of 0.90%; however, the spread can be reduced to 0.75% if ACL's Funded Debt to EBITDA ratio declines to specific agreed upon levels. The original maturity date of January 1, 2019 was later extended to January 1, 2022 per the Second Amendment to the Equipment Term Loan agreement dated January 2, 2019. The interest rate at December 31, 2019 was 2.21%, with balances outstanding of $3,939,440 and $4,864,000 as of December 31, 2019 and 2018, respectively. The third agreement provides ACL with a five-year floating rate Revolving Line of Credit of $10,000,000, which was amended to reduce the amount of available funding to $2,000,000 and extend the maturity date to January 1, 2022. The Revolving Line of Credit bears interest at LIBOR plus a credit spread. The credit spread at inception of the loan was at the maximum rate of 0.90%; however, the spread can be reduced to 0.80% if ACL's Funded Debt to EBITDA ratio declines to specific agreed upon levels. The Revolving Line of Credit can be priced at daily LIBOR, one-, three-, six-, nine- or twelve-month LIBOR plus the applicable credit spread. There was no outstanding balance on the Revolving Line of Credit at December 31, 2019 and 2018.

On December 22, 2011, ACL entered into Interest Rate Swap Agreements (collectively, the ACL Swap Agreements) with Bank of America, N.A., with respect to the Service Line Term Loan and Equipment Term Loan. These swaps are intended to reduce the financial risk related to rising LIBOR interest rates by executing a cash flow hedge that will convert the floating rate exposure to a synthetic fixed rate. ACL accounts for these interest rate swap agreements as cash flow hedges in accordance with FASB ASC Topic 815, *Derivatives and Hedging*, which requires entities to recognize all derivative instruments as either assets or liabilities on the consolidated balance sheets at their respective fair values and the effective portion of the gain or loss on the derivative as changes in fair value of interest rate swap agreements in net assets without donor restrictions and reclassified into earnings in the same period or periods during which earnings are affected by the variability in cash flows of the designated hedged item. Gains or losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in revenues and gains in excess of expenses and losses.

9. Long-Term Debt, continued

ACL will discontinue hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting cash flows or the hedged item, the derivative expires or is sold, terminated, or exercised, or the derivative designation is removed, and subsequent changes in its fair value are recorded in revenues and gains in excess of expenses and losses. When it is probable that a forecasted transaction will not occur, ACL discontinues hedge accounting and recognizes immediately any gains and losses that were accumulated in other changes in net assets without donor restrictions.

While the associated swaps are outstanding, the Service Line Term Loan and the Equipment Term Loan will be priced at one-month LIBOR plus the applicable credit spread mentioned in the paragraphs above. The fixed rate on the Service Line Term Loan hedge is 2.0025%, with a start date of December 28, 2011 and ending date of January 1, 2022. The fixed rate on the Equipment Term Loan hedge is 1.6470%, with a start date of December 28, 2011 and ending date of January 1, 2019. The swap maturity was not extended in conjunction with the refinancing of the Equipment Term loan discussed above. The fair value of the interest rate swap agreements at December 31, 2019 and 2018 was ($88,253) and $144,000, respectively, and included in other noncurrent liabilities, net and other assets, net, respectively, on the accompanying consolidated balance sheets.

In December 2013, Health Imaging Partners, LLC (HIP) entered into a Senior Secured Credit Facility with KeyBank National Association (the Credit Facility). The Credit Facility provides HIP with a seven-year fixed rate Term Loan of $28,500,000 bearing interest at 3.87%. There was no outstanding balance on the Term Loan at December 31, 2019. The amount outstanding on the Term Loan at December 31, 2018 was $3,689,000.

Scheduled principal repayments on long-term debt are as follows (dollars in thousands):

Year Ending December 31,	Scheduled Principal Payments	Principal Based on Liquidity Provisions
2020	$ 12,410	$ 345,060
2021	17,493	17,493
2022	67,664	67,664
2023	9,105	9,105
2024	23,976	23,976
Thereafter	1,816,475	1,483,825
Total	$ 1,947,123	$ 1,947,123

Unamortized bond and debt issuance costs at December 31, 2019 and 2018 were $12,012,000 and $11,327,000, respectively, and are included as a component of long-term debt on the accompanying consolidated balance sheets.

The Master Indenture, Bank Loans and Credit Agreements contain various covenants which require, among other things, the maintenance of certain financial ratios and certain other restrictions. Management believes THR is in compliance with its covenants as of December 31, 2019.

10. Net Assets

Net assets with donor restrictions at December 31, 2019 and 2018 were held for the following purposes (dollars in thousands):

	2019	2018
Subject to expenditure for specific purpose:		
Patient care	$ 16,700	$ 17,589
Research and education	14,964	13,961
Capital improvements	28,996	26,270
Community outreach	5,840	5,181
Other restricted purposes	4,352	3,761
	70,852	66,762
Subject to the System spending policy and appropriation:		
Endowments, including corpus restricted in perpetuity of $61,910 and $60,859 at December 31, 2019 and 2018, respectively, which, once appropriated, is expendable to support:		
Patient care	19,411	16,287
Research and education	64,659	56,290
Capital improvements	5,521	5,213
Community outreach	4,900	4,257
Other restricted purposes	2,898	2,497
	97,389	84,544
Subject to appropriation and expenditure when a specified event occurs:		
Beneficial interest in perpetual trusts to provide proceeds when distributed by the trustee	14,020	12,208
Split-interest agreements that will provide proceeds at termination	1,840	2,578
Paid-up life insurance policy that will provide proceeds upon death of insured for capital improvements	491	417
	16,351	15,203
Total net assets with donor restrictions	$ 184,592	$ 166,509

Net assets were released from donor restrictions by incurring the following expenses for the years ended December 31, 2019 and 2018, respectively, satisfying the restricted purposes specified by donors (dollars in thousands):

	2019	2018
Patient care	$ 3,047	$ 1,738
Research and education	1,990	4,963
Capital improvements	5,511	6,658
Community outreach	1,569	4,226
Other restricted purposes	1,952	934
	$ 14,069	$ 18,519

10. Net Assets, continued

Net assets without donor restrictions at December 31, 2019 and 2018 are as follows (dollars in thousands):

	2019	2018
Undesignated	$ 6,903,692	$ 5,737,702
Quasi-endowment	73,098	62,004
Board-designated for research and education	49,109	49,209
	$ 7,025,899	$ 5,848,915

11. Endowment

The System's endowments consist of donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Based on the interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) by the Board of Trustees, the guidance in FASB ASC 958-205, *Not-for-Profit Entities Presentation of Financial Statements*, and absent explicit donor stipulations to the contrary, the System classifies the original value of gifts donated to the permanent endowment, as well as accumulations to the permanent endowment made at the direction of the donor or by policy, as net assets with donor restrictions until appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed in UPMIFA.

In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the Foundation and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the Foundation

(7) The investment policies of the Foundation

11. Endowment, continued

Changes in the System's invested endowment assets for the years ended December 31, 2019 and 2018 are as follows (dollars in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Funds
Balance at December 31, 2017	$ 65,694	$ 104,326	$ 170,020
Contributions collected	—	229	229
Interest and dividends	867	1,527	2,394
Realized and unrealized losses, net	(4,042)	(6,604)	(10,646)
Amounts appropriated for expenditure	(515)	(2,825)	(3,340)
Balance at December 31, 2018	62,004	96,653	158,657
Contributions collected	—	192	192
Interest and dividends	870	1,542	2,412
Realized and unrealized gains, net	10,643	14,362	25,005
Amounts appropriated for expenditure	(419)	(1,612)	(2,031)
Balance at December 31, 2019	$ 73,098	$ 111,137	$ 184,235

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the original value of the fund. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and were insignificant as of December 31, 2019 and 2018.

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in securities and other instruments which complement or balance one another, thereby reducing risk without significantly reducing average returns.

To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The System has spending policies that allow up to 4% of the endowment to be appropriated for expenditure unless otherwise stipulated in the donor agreement, calculated after the endowment principal has been increased by the annual Consumer Price Index. This is consistent with the System's objectives to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth.

12. Non-Controlling Interests

The System does not control and therefore does not consolidate certain investments in its joint ventures with physicians and non-physicians to operate hospitals and other health related ventures. The activity for non-controlling interests for the years ended December 31, 2019 and 2018 is summarized below (dollars in thousands):

	2019	2018
Non-controlling ownership interest in equity of consolidated affiliates, beginning of year	$ 119,934	$ 120,127
Revenue and gains in excess of expenses and losses attributable to non-controlling interest	86,091	86,033
Non-controlling interest in change in fair value of interest rate swap agreements	(88)	44
Contributions from non-controlling interest holders	124,434	3,215
Distributions to non-controlling interest holders	(94,079)	(89,485)
Non-controlling ownership interest in equity of consolidated affiliates, end of year	$ 236,292	$ 119,934

13. Retirement Plans

The System has various plans, primarily defined contribution plans, which cover eligible full-time and part-time employees of the System. System contributions, included in salaries, wages, and employee benefits in the consolidated statement of operations and changes in net assets, were $80,376,000 and $75,312,000 for the years ended December 31, 2019 and 2018, respectively.

14. Federal and State Income Taxes

The System has certain subsidiaries and operations such as joint venture interests, retail pharmacies and outside laboratory services that are taxable for federal income tax purposes. On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was signed into law. The Tax Act amends the Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Tax Act makes broad and complex changes to the Code impacting THR, including, but not limited to, (1) reducing the corporate federal tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018, (2) implementing a separate calculation for unrelated business taxable income for each trade or business, (3) eliminating tax exemption for interest related to the advance refunding of private activity bonds issued after 2017, and (4) implementing an excise tax on a portion of certain key employee compensation. All of these changes had a minimal impact to THR.

As a result of the reduction in the corporate income tax rate for THR from 34% to 21% under the Tax Act, THR revalued the net deferred tax assets at December 31, 2018, resulting in a reduction in the value of the deferred tax asset of approximately $500,000 (prior to the valuation allowance). THR accrued $934,000 and $500,000 related to the excise tax on employee compensation for the years ended December 31, 2019 and 2018, respectively, included in income tax expense in the accompanying consolidated statements of operations and changes in net assets and accounts payable on the accompanying consolidated balance sheets. Other changes resulting from the Tax Act were insignificant. The taxable activities of all includible entities have approximately $754,000 and $458,000 in net deferred tax assets, against which a 100% valuation allowance has been recorded, for the years ended December 31, 2019 and 2018, respectively. The change in the deferred tax assets as well as the change in the valuation allowance was recorded in income tax expense in the accompanying consolidated statements of operations and changes in net assets. While the System expects to generate taxable income from certain activities in the future, the valuation allowance has been recorded because the System does not believe taxable income will be incurred by the entities that generated the net deferred tax assets.

14. Federal and State Income Taxes, continued

The Texas franchise tax applies to certain of the System's consolidated for-profit and joint venture interests. Under this law, tax is calculated on a margin base and is therefore reflected in the System's statements of operations and changes in net assets as income tax expense.

Federal and state income tax expense of $5,690,000 and $5,123,000 is included in the accompanying consolidated statements of operations and changes in net assets for the years ended December 31, 2019 and 2018, respectively.

15. Concentrations of Credit Risk

Financial instruments that potentially subject the System to concentrations of credit risk consist of deposits in banks and investments in excess of the Federal Deposit Insurance Corporation, Securities Investor Protection Corporation and other privately insured limits. The System maintains cash and cash equivalents in excess of the federally insured limits at financial institutions with strong credit ratings and has not experienced any credit losses on these financial instruments.

The System grants credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The concentrations of patient receivables on a percentage basis at December 31, 2019 and 2018 are as follows:

	2019	2018
Medicare	9%	11%
Medicare managed care	15	13
Medicaid	1	1
Medicaid managed care	5	5
Managed care and other commercial	68	68
Private pay	2	2
	100%	100%

16. Leases

The System has operating and finance leases for equipment and real estate expiring at various dates through 2030. Under its real estate lease agreements, the System is responsible for most operating costs, including maintenance and repairs, insurance, and property taxes, and are subject to annual rent increases. Total rental expense, included in other operating expenses in the consolidated statements of operations and changes in net assets, was $74,064,000 and $76,510,000 for the years ended December 31, 2019 and 2018, respectively

Most of the System's lease agreements include one or more options to renew the lease term at the System's option. The recoverability of assets and depreciable life of leasehold improvements are limited by expected lease terms.

There are various financial covenants and other restrictions in the System's lease agreements. The System's lease agreements do not contain any material residual value guarantees. Management believes THR is in compliance with its covenants as of December 31, 2019.

16. Leases, continued

The following table summarizes other lease information related to the System's lease activities during the year ended December 31, 2019:

Weighted-average remaining lease term (years)	
Operating leases	5.42
Finance leases	4.51
Weighted-average discount rate	
Operating leases	2.74%
Finance leases	1.23%

Prior to adopting ASC 842, future minimum lease payments associated with operating lease liabilities recognized on the System's Balance Sheet as of December 31, 2019, are as follows:

2020	$ 38,776
2021	33,415
2022	29,288
2023	22,395
2024	17,637
Thereafter	28,104
Total	169,615
Less: Amount representing interest (present value discount)	13,362
Present value of operating lease liabilities	156,253
Less: Current portion of operating lease liabilities	38,548
Operating lease liabililties, net of current portion	$ 117,705

The System's finance lease assets are included within other assets, net and finance lease liabilities are included within long-term debt on the consolidated balance sheets. Finance leases primarily consist of equipment and tenant improvements. Future minimum lease payments associated with finance leases are included within long-term debt. See footnote 9 for futher discussion.

Future minimum lease payments as of December 31, 2018 under operating leases were as follows:

Year Ending December 31,	
2019	$ 47,074
2020	39,613
2021	34,350
2022	30,740
2023	25,124
Thereafter	58,861
	$ 235,762

The System leases office space and land at fair market value to non-THPG physicians, health care related businesses, and others under operating leases expiring at various dates through 2072. Total rental income, included in other operating revenue in the consolidated statements of operations and changes in net assets, was $39,416,000 and $34,839,000 for the years ended December 31, 2019 and 2018, respectively.

16. Leases, continued

The following is a five-year schedule, by year, of future minimum rental income payments under non-cancelable leases that have initial terms in excess of one year as of December 31, 2019 (dollars in thousands):

Year Ending December 31,	
2020	$ 31,122
2021	22,743
2022	16,932
2023	12,551
2024	7,512
Thereafter	186,163
	$ 277,023

17. Commitments and Contingencies

Management evaluates contingencies based upon available evidence. In addition, allowances for losses are provided each year for disputed items which have continuing significance. Management believes that allowances for losses have been provided to the extent necessary, and that its assessment of contingencies is reasonable. Due to the inherent uncertainties and subjectivity involved in accounting for contingencies, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. To the extent that the resolution of contingencies results in amounts which vary from management's estimates, future operating results will be charged or credited. The principal commitments and contingencies are described below.

Professional and General Liability Insurance

The System has known professional and general liability claims and incidents that may result in the assertion of claims, as well as exposure from unknown incidents that may be asserted. In connection with these risks, THR maintains a self-insurance program for the professional and general liabilities of THR and its wholly-controlled affiliates, whereby undiscounted reserves are recorded based on actuarial estimates from an independent third-party actuary. In December 2014, THR formed Grace Indemnity Company, Ltd., a wholly-owned captive insurance company, for the purpose of paying professional and general liability claims. The System also purchases insurance for professional and general liability claims in excess of THR's self-insurance retention level. The System's consolidated joint ventures each maintain separate professional and general liability insurance programs covering their risks individually. The System's established liability for professional and general liability claims was $75,725,000 and $43,267,000 at December 31, 2019 and 2018, respectively, and is recorded in other accrued liabilities and other noncurrent liabilities on the accompanying consolidated balance sheets.

Workers' Compensation Insurance

The System purchases workers' compensation insurance from commercial carriers with per claim deductibles and aggregate limits. Accrued claims include estimates for known claims and incidents incurred but not reported at December 31, 2019 and 2018, respectively. The System's established liability for workers' compensation claims was $4,523,000 and $3,630,000 at December 31, 2019 and 2018, respectively, and is recorded in other accrued liabilities on the accompanying consolidated balance sheets.

17. Commitments and Contingencies, continued

Employee Health Insurance

THR maintains a self-insurance medical plan for the employees of THR and its wholly-controlled affiliates. Accrued claims include estimates for known claims and services incurred but not reported at December 31, 2019 and 2018, respectively. The System's consolidated joint ventures each maintain separate employee health insurance programs. The System's established liability for employee health claims was $25,725,000 and $23,028,000 at December 31, 2019 and 2018, respectively, and is recorded in accrued salaries, wages, and employee benefits on the accompanying consolidated balance sheets.

Guarantees of Indebtedness

The Tax-Exempt Hospitals and ACL guaranteed $14,697,000 and $20,337,000 of patient notes purchased by banks at December 31, 2019 and 2018, respectively. The System recorded a contingent liability of $4,062,000 and $5,610,000 at December 31, 2019 and 2018, respectively, for these guarantees based on historical default rates.

In February 2013, THR entered into a limited guaranty agreement with Chase for 51% of any indebtedness outstanding between Chase and USMD Arlington. In September 2015, the limited guaranty agreement for USMD Arlington was amended in conjunction with a debt refinancing to add a maximum guaranty amount of $24,000,000. In May 2013, THR entered into a limited guaranty agreement with Southwest Bank for 51% of any indebtedness outstanding between Southwest Bank and USMD Fort Worth up to a maximum guaranty amount of $6,150,000. At December 31, 2019 and 2018, THR's share of principal on USMD Arlington's and USMD Fort Worth's outstanding indebtedness was $7,754,000 and $2,724,000, and $12,274,000 and $3,041,000, respectively. Payments are due from THR if USMD Arlington or USMD Fort Worth is unable to fulfill its obligations at the scheduled payment dates. As of December 31, 2019, it is not probable that THR will be required to make significant payments under the limited guaranty agreements. No amounts have been recorded in the accompanying consolidated financial statements for these guarantees.

Litigation

The System is a party to several legal actions arising in the ordinary course of its business. In management's opinion, the System has adequate legal defenses, insurance coverage, and (or) self-insured retention for each of these actions, and management estimates that these matters will be resolved without material adverse effect on the System's future financial position, results of operations, or cash flows.

Regulatory Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments, and compliance can be subject to future review and interpretation as well as the possible emergence of regulatory actions unknown or unasserted at this time. Management believes that the System is in substantial compliance with applicable government laws and regulations. Regulatory inquiries and voluntary reports may be made from time to time. It is management's policy to cooperate fully in resolving any such reports or inquiries.

17. Commitments and Contingencies, continued

Regulatory Compliance, *continued*

In March 2015, the System made a disclosure to the Office of Inspector General (OIG) regarding THPG billing of certain PET scan tests and nuclear stress tests that did not meet Medicare medical necessity requirements. To date, the OIG has not responded. Management does not anticipate a material financial impact due to this incident.

On July 13, 2018, the OIG initiated a Hospital Medicare Compliance Review at Texas Health Presbyterian Hospital Dallas to determine whether the hospital complied with Medicare requirements for billing certain inpatient and outpatient services on selected claims from January 1, 2016 through December 31, 2017. The OIG issued a draft report on June 11, 2019, which stated that the OIG found the hospital complied with Medicare billing requirements for 59 of the 100 inpatient and outpatient claims reviewed, and 41 claims had billing errors resulting in net overpayments of $500,000 for the audit period. The OIG extrapolated these net overpayments and estimates that the hospital received net overpayments of at least $10,597,000. In its written response provided to the OIG on July 11, 2019, THR generally disagreed with many of the findings and recommendations set forth in the draft report. THR specifically disagreed with the OIG's recommendation to refund to the Medicare contractor $10,597,000 in estimated overpayments. The amount of the proposed refund represents the extrapolation of many payments that are still in dispute. OIG issued their final report to THR on December 10, 2019. OIG disagreed with THR's response and finalized their findings as specified in their draft report. THR has begun the appeal process on denied claims and intends to exercise all of its existing appeal rights in this matter. Management believes it is too early to predict with certainty the outcome of this matter; however, management has established a reserve for the extrapolated amount and does not anticipate any further financial impact.

On August 23, 2019, THR learned that, during an upgrade to its information systems completed in July 2019, a software coding error caused patient information to be mismatched with incorrect guarantors. This misconfiguration caused incorrect patient information to be sent by certain physician/ billing companies to incorrect guarantors. On October 22, 2019, THR made all legally required notifications of the incident, including notification to the OCR, letters to the patients involved and specific media notices. On February 20, 2020, THR received a letter from the OCR with questions regarding the incident as part of its standard investigation process. THR, with assistance from outside counsel, submitted the response to the OCR on March 9, 2020. Management believes it is too early to predict the outcome of this matter; however, management does not anticipate a material financial impact.

THR's Corporate Compliance Department investigates all compliance matters reported through its compliance program. As of the date of these financial statements, there was no additional pending or, to the knowledge of System management, threatened litigation, including professional liability claims, or reported compliance issues which in the opinion of System management involves any substantial risk of material liability for the System, and where applicable, in excess of available reserves and insurance coverage. In management's opinion, the System does not expect the resolution of any known regulatory compliance matters to have a material adverse effect on the System's future financial position, results of operations, or cash flows.

18. Functional Operating Expenses

The System provides general and comprehensive health care services to residents within its geographic locations. The table below presents expenses by both nature and function for the years ended December 31, 2019 and 2018 (dollars in thousands):

	2019				
	Patient Care Services	General and Administrative	Research and Education	Fundraising	Total
Salaries, wages, and employee benefits	$ 2,098,359	$ 369,198	$ 7,645	$ 4,327	$ 2,479,529
Supplies	777,232	3,073	452	27	780,784
Depreciation and amortization	191,760	46,117	135	42	238,054
Interest expense	62,880	28,762	-	-	91,642
Other operating expenses	675,422	269,658	26,256	2,729	974,065
	$ 3,805,653	$ 716,808	$ 34,488	$ 7,125	$ 4,564,074

	2018				
	Patient Care Services	General and Administrative	Research and Education	Fundraising	Total
Salaries, wages, and employee benefits	$ 2,063,910	$ 379,712	$ 7,889	$ 4,457	$ 2,455,968
Supplies	777,775	2,830	300	35	780,940
Depreciation and amortization	194,030	44,338	155	52	238,575
Interest expense	53,293	38,823	-	-	92,116
Other operating expenses	617,854	273,123	28,552	1,809	921,338
	$ 3,706,862	$ 738,826	$ 36,896	$ 6,353	$ 4,488,937

The financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including interest and insurance (included in other operating expenses) are allocated to a function based on percentage of property and equipment basis or an appropriate exposure metric, such as percentage of payroll, percentage of insured value, percentage of revenue, and (or) loss history, depending on the type of insurance.

19. Fair Value Measurements

The System follows the provisions of FASB ASC 820, *Fair Value Measurement*, for its financial assets and liabilities that are measured and reported at fair value each reporting period. The financial assets recorded at fair value on a recurring basis primarily relate to investments, assets limited as to use, interest rate swap agreements, and contributions receivable from split-interest agreements. FASB ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

19. Fair Value Measurements, continued

In general, fair values determined by Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates, and yield curves. Fair values determined by Level 3 inputs utilize unobservable data points for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The System's assets limited as to use that are categorized as Level 3, or valued using significant unobservable inputs, primarily represent contributions receivable from split-interest agreements and funds primarily holding real estate and mineral interests. The following tables present information about the System's assets and liabilities that are measured at fair value as of December 31, 2019 and 2018, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value (dollars in thousands):

	2019			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial Assets:				
Domestic equity securities	$ 2,595,634	$ 2,595,634	$ -	$ -
International equity securities	344,738	344,738	-	-
Fixed income securities:				
U.S. Government, including agency mortgage-backed securities	1,540,493	-	1,540,493	-
Corporate bonds and other	418,557	-	418,557	-
Mutual funds (blended securities)	6,390	768	5,622	-
Texas Methodist Foundation	1,234	-	1,234	-
Real estate	890	-	-	890
Mineral interests	2,327	-	-	2,327
Contributions receivable from split-interest agreements	1,775	-	-	1,775
Other alternative investments	124	-	26	98
Total investments	$ 4,912,162	$ 2,941,140	$ 1,965,932	$ 5,090
Held for sale real estate	$ 19,178	$ -	$ 19,178	$ -
Interest rate swap agreements	$ (88)	$ -	$ (88)	$ -

	2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial Assets:				
Domestic equity securities	$ 2,023,815	$ 2,023,815	$ -	$ -
International equity securities	270,082	270,082	-	-
Fixed income securities:				
U.S. Government, including agency mortgage-backed securities	1,438,052	-	1,438,052	-
Corporate bonds and other	364,699	-	364,699	-
Mutual funds (blended securities)	5,494	639	4,855	-
Texas Methodist Foundation	1,216	-	1,216	-
Real estate	894	-	-	894
Mineral interests	2,972	-	-	2,972
Contributions receivable from split-interest agreements	1,403	-	-	1,403
Total investments	$ 4,108,627	$ 2,294,536	$ 1,808,822	$ 5,269
Held for sale real estate	$ 19,133	$ -	$ 19,133	$ -
Interest rate swap agreements	$ 144	$ -	$ 144	$ -

19. Fair Value Measurements, continued

Included in short-term investments and assets limited as to use on the accompanying consolidated balance sheets, but excluded from total investments in the above fair value tables, are $16,169,000 and $15,734,000 of pledges receivable, $2,741,000 and $2,230,000 of short-term investments not subject to fair value measurement, $610,356,000 and $481,586,000 of international equity common collective trust investments and other alternative investments that determined the fair market value of the investments using net asset value as a practical expedient, and $149,825,000 and $143,383,000 of cash equivalents recorded at cost or cost plus accrued interest at December 31, 2019 and 2018, respectively. Of the total cash equivalents excluded from the above table, $53,973,000 and $51,045,000 relates to residual cash equivalents in the allocated fixed income portfolio, and $79,418,000 and $60,740,000 relates to residual cash equivalents in the allocated equity securities portfolio at December 31, 2019 and 2018, respectively.

Transfers into Level 3 of $876,000 and out of Level 3 of $1,200,000, respectively, occurred during the year ended December 31, 2018 due to evaluation of information obtained related to the observability of market inputs and valuation methodologies used for these certain investments. There were no transfers into or out of Level 3 during the year ended December 31, 2019.

The following methods and assumptions were used by the System in estimating the fair value of its financial instruments on a recurring and non-recurring basis, as well as financial assets and liabilities stated at a measure other than fair value.

Equity Securities

Equity securities held by THR or held in trust controlled by THR are measured using quoted market prices. Equity securities held in trust not controlled by THR are measured using the net asset value of the trust based on the fair value of underlying securities, which are measured using quoted market prices.

Common Collective Trusts

Investments in common collective trusts may be accessed at any time at the net asset value as reported by the manager on a daily basis. THR's interest in these trusts contains no other rights or obligations. As such, net asset value represents fair value for these investments. Each common collective trust invests in either equity or fixed income securities. The domestic equity common collective trust is an exchange traded collective trust, thus the net asset value of the trust is based on the fair value of the underlying securities, which are measured using quoted market prices.

Fixed Income Securities

Fixed income securities are measured using quoted market prices, if available, or estimated using quoted market prices for similar assets.

Mutual Funds

Values of investments in mutual funds are based on quoted market prices for publicly traded funds and net asset values for funds that are not publicly traded. THR's interest in these funds contains no other rights or obligations. As such, net asset value represents fair value for these investments. Each fund invests in either equity or fixed income securities.

19. Fair Value Measurements, continued

Texas Methodist Foundation

The value of the investment in the Texas Methodist Foundation is based on the original investment plus accrued interest as set by the manager of the foundation.

Real Estate

Investments in real estate, including real estate held for sale, are measured by private valuations.

Mineral Interests

Investments in mineral interests are estimated based on a multiple of annual revenues.

Contributions Receivable from Split-Interest Agreements

The fair value of the contribution is measured at the present value of the estimated future cash receipts from the trust's assets.

Other Alternative Investments

Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation models involve some level of management estimation and judgement, the degree of which is dependent on the price transparency for the assets or liabilities or market, and the assets' or liabilities' complexity. The following factors may where relevant be taken into consideration in determining the fair value of such investments: the enterprise value of a portfolio company, the nature and realizable valuable of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons to publicly traded securities, and changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made and other relevant factors.

Interest Rate Swap Agreements

Current market pricing models are used to estimate fair values of interest rate swap agreements.

20. Investments in Unconsolidated Affiliates

THR and its controlled affiliates participate with other organizations, physicians, and non-physicians to provide health care related services. At December 31, 2019 and 2018, THR and its controlled affiliates own interests in Community Hospice of Texas (Hospice), a provider of hospice services; Imaging Center Partnership, L.L.P. (d/b/a Southwest Diagnostic Imaging Center) (SDIC), a provider of outpatient diagnostic imaging services; North Central Texas Services (d/b/a CareFlite) (CareFlite), a provider of helicopter, fixed wing and ground ambulance services; North Texas Health Care Laundry Cooperative Association (NTHC Laundry), a provider of laundry services; Southwestern Health Resources Network (SWHR Network), multiple legal entities consisting of a clinically integrated network of physicians, a joint operating company that clinically and financially aligns the operations of the participating hospitals, and a payor relations and quality oversight entity; Texas Health Aetna, a health plan company; Texas Health Huguley, Inc. (d/b/a Texas Health Huguley Hospital Fort Worth South and Texas Health Hospital Mansfield) (Huguley), acute care hospitals; USMD Arlington and USMD Fort Worth, short-stay hospitals; 24 ambulatory surgery centers; one endoscopy center; and other joint ventures.

20. Investments in Unconsolidated Affiliates, continued

The ownership interests, carrying values, and equity in earnings of investments in unconsolidated affiliates at December 31, 2019 and 2018 were as follows (dollars in thousands):

	Ownership Interest		Carrying Value		Equity in Earnings	
	2019	2018	2019	2018	2019	2018
Texas Health Aetna	50.0%	50.0%	$ 105,269	$ 114,248	$ (8,979)	$ (1,274)
Surgery centers	48.8% - 74.6%	51.0% - 77.6%	114,777	83,649	65,540	55,189
Huguley	51.0%	51.0%	127,012	79,296	18,128	10,398
USMD Arlington	51.0%	51.0%	38,811	35,166	3,645	6,505
SWHR Network	49.0% - 51.0%	49.0% - 51.0%	63,714	33,857	9,354	(18,899)
Endoscopy center	51.0%	51.0%	23,130	23,911	9,205	9,512
Hospice	50.0%	50.0%	24,489	21,759	2,730	(1,599)
USMD Fort Worth	51.0%	51.0%	15,702	16,418	(508)	1,045
NTHC Laundry	43.9%	43.9%	6,523	6,239	393	484
CareFlite	50.0%	50.0%	8,521	5,971	2,550	(814)
SDIC	50.0%	50.0%	1,909	1,713	2,308	2,394
Others	1.2% - 51.0%	1.2% - 51.0%	2,960	3,044	3,896	3,417
			$ 532,817	$ 425,271	$ 108,262	$ 66,358

The equity in earnings of unconsolidated affiliates providing services that the System does not provide as part of its routine services are included in nonoperating gains (losses), net in the accompanying consolidated statements of operations and changes in net assets. All others are included in operating revenue.

21. Related-Party Transactions

THR incurred expenses for purchased services from NTHC Laundry of $9,595,000 and $9,505,000 for the years ended December 31, 2019 and 2018, respectively, which is recorded in other operating expenses in the accompanying consolidated statements of operations and changes in net assets. Amounts due to NTHC Laundry, which total $2,626,000 and $1,056,000 at December 31, 2019 and 2018, respectively, are reflected in current liabilities on the accompanying consolidated balance sheets. THR recorded management services and purchased workforce revenue from SWHR Network totaling $17,232,000 and $16,837,000 for the years ended December 31, 2019 and 2018, respectively, which is recorded in other operating revenue in the accompanying consolidated statements of operations and changes in net assets. THPG recorded shared savings revenue from SWHR Network totaling $20,929,000 and $11,739,000 for the years ended December 31, 2019 and 2018, respectively, which is recorded in net patient service revenue in the accompanying consolidated statements of operations and changes in net assets. In addition, THR recorded payor relations management services expense from SWHR Network totaling $2,832,000 and $3,170,000 for the years ended December 31, 2019 and 2018, respectively, which is recorded in other operating expenses in the accompanying consolidated statements of operations and changes in net assets. Net amounts due from SWHR Network, which total $44,066,000 and $30,139,000 at December 31, 2019 and 2018, respectively, are reflected in other receivables, net and accounts payable on the accompanying consolidated balance sheets. Additionally, THR had various other immaterial transactions with certain of its unconsolidated affiliates throughout the year.

22. Subsequent Events

On March 30, 2020, THR closed on a $150,000,000 syndicated general purpose revolving line of credit with Chase as the lead bank. The revolving line of credit has a three year maturity to March 31, 2023. THR's $75,000,000 line with Wells Fargo was terminated with the close of the Chase revolving line as Wells Fargo is one of the participating banks. THR has an additional revolving line of credit with U.S. Bank for $75,000,000, which matures December 31, 2020. To support liquidity, THR drew down on both revolving lines of credit totaling $225,000,000 on April 3, 2020. The initial interest rate is 1.3625% for the Chase syndicated line and 1.56625% on the U.S. Bank line of credit.

The outbreak of a novel strain of the coronavirus disease 2019 (COVID-19) continues to grow both in the United States (U.S.) and globally. It is currently not possible to predict the effect and ultimate impact of the COVID-19 pandemic as the situation is rapidly evolving. The System is following the guidance of state and local governments and the Centers for Disease Control and Prevention (CDC). For inpatient facilities, the State of Texas initially mandated rescheduling elective surgeries and shifting inpatient diagnostic and surgical procedures to outpatient settings, when feasible; limiting visitors; and identifying additional space for patient care. Effective April 24, 2020, the State of Texas has lifted its mandate on elective procedures and provided specific limitations and guidelines to ensure hospitals can care for COVID-19 patients. It is anticipated that the limitations on elective procedures will continue until it appears that the spread of COVID-19 in the System's service area is being sufficiently managed so that health care resources can be redirected back to their usual functions. As of the date of this report, the System cannot reliably project the impact COVID-19 will have on its overall operational and financial performance. Financial markets have experienced significant volatility in the last several weeks, attributable to the potential impact of COVID-19 on U.S. and world economies. This may affect the returns on the System's investments and therefore it is possible that the System will experience lower returns than the returns reflected in its recent financial statements. The System will continue to monitor the situation and continues to develop and operationalize plans in the event a large number of the residents within the communities it serves test positive for COVID-19 and require hospitalization.

The System evaluated events subsequent to December 31, 2019 and through April 28, 2020, the date on which the financial statements were issued.