

ADDENDUM 1

DATE: May 8, 2019
PROJECT: HCPC Financial Assurance Validation
RFP NO: 744-R1914
OWNER: The University of Texas Health Science Center at Houston
TO: Prospective Proposers

This (31) thirty-one page Addendum forms part of and modifies Proposal Documents dated, April 18, 2019, with amendments and additions noted below.

These (9) nine questions were submitted before the deadline. The responses are in **red**.

1. In Section 6 question 6.4-is this from the proposal submission date through January 1, 2020 or from the beginning of the audit?
The delivery date are the days needed from/beginning October 17, 2019.
2. Are there typically any audit adjustments?
No.
3. What is the size of the accounting, payroll, patient revenue, and stores department is regards to number of FTE's (full time employees)?
There are 13.5 FTEs (not including the CFO).
4. Is the yearend inventory material?
No, stores and pharmacy inventories at FYE2018 were less than 2% of total assets.
5. What systems do you use for EHR, General ledger, Payroll, and patient accounting?
The following systems are utilized:
 - **EHR: Allscripts Sunrise**
 - **General Ledger: Oracle PeopleSoft**
 - **Payroll: Oracle PeopleSoft**
 - **Patient Accounting: Siemens Invision and GE Centricity**
6. Any significant or unusual transactions expected in the upcoming year?
None are expected.
7. Send me a copy of the latest financial statements to review.
It is below.

UTHealth Harris County Psychiatric Center
Statement of Revenues and Expenses
Through February 28, 2019

	FY 2019	FY 2018	Variance	
			Current to Prior	%
Operating Revenue				
Contracts	18,368,828	18,148,321	220,507	1.2%
Patient Accounts				
Gross Charges	41,861,326	38,369,881	3,491,445	
Allowances	<u>(36,935,202)</u>	<u>(33,461,288)</u>	<u>(3,473,913)</u>	
	4,926,125	4,908,593	17,532	0.4%
Medicare Pass-Through and Uncompensated Care Payment	203,916	847,630	(643,714)	-75.9%
State Appropriations	3,498,723	3,497,409	1,315	0.0%
Miscellaneous	33,070	19,872	13,198	66.4%
TOTAL OPERATING REVENUE	<u>27,030,662</u>	<u>27,421,825</u>	<u>(391,163)</u>	<u>-1.4%</u>
Operating Expenses				
Salary & Wages	18,013,697	16,974,494	1,039,203	6.1%
Payroll Related Expenses	5,338,860	5,214,897	123,963	2.4%
UT Medical Foundation	411,455	477,337	(65,882)	-13.8%
Locum Tenens and Temporary Agencies	79,168	97,864	(18,696)	
Medical Services	202,923	250,492	(47,569)	-19.0%
Equipment, Materials & Supplies	271,349	211,965	59,384	28.0%
Pharmaceuticals	273,414	275,933	(2,520)	-0.9%
Patient Meals and Nourishment	886,098	826,154	59,944	7.3%
Housekeeping and Laundry	360,769	368,014	(7,245)	-2.0%
IT Services and Support	349,818	273,195	76,622	28.0%
Professional Fees and Services	313,662	213,084	100,578	47.2%
Maintenance & Repair	460,111	432,851	27,259	6.3%
Utilities	189,374	185,378	3,996	2.2%
Communications	143,788	138,847	4,941	3.6%
Other Operating Expenses	238,053	245,724	(7,671)	-3.1%
Administrative Overhead	<u>965,556</u>	<u>1,062,042</u>	<u>(96,486)</u>	<u>-9.1%</u>
TOTAL OPERATING EXPENSES	<u>28,498,094</u>	<u>27,248,273</u>	<u>1,249,822</u>	<u>4.6%</u>
Operating Revenue Over Expenses	<u>(1,467,433)</u>	<u>173,552</u>	<u>(1,640,985)</u>	
Non-Operating Revenue				
Investment Income	93,788	72,729	21,060	29.0%
Harris County Capital Improvements Funding	-	-	-	
Gain/(Loss) Sale Capital Assets	-	-	-	
Non-Operating Expense				
Capital Equipment	23,354	-	23,354	
Transferred to/(from) Capital Improvement Funds	-	-	-	
Net Revenues Over Expenses	<u>(1,396,998)</u>	<u>246,281</u>	<u>(1,643,279)</u>	

UTHealth Harris County Psychiatric Center
Statement of Revenues and Expenses
For Fiscal Years 2019 and 2018

	Hospital 42000 FY 2019	Hospital 42000 FY 2018	Variance	
			Current to Prior	%
Operating Revenue				
Contracts	18,368,828	18,148,321	220,507	1.2%
Patient Accounts				
Gross Charges	35,198,556	33,367,440	1,831,116	
Allowances	(30,774,919)	(28,954,809)	(1,820,110)	
	<u>4,423,638</u>	<u>4,412,631</u>	<u>11,006</u>	0.2%
Medicare Pass-Through	30,537	19,682	10,855	
Uncompensated Care Payment	173,379	827,948	(654,569)	
State Appropriations	3,498,723	3,497,409	1,315	0.0%
Miscellaneous	25,615	14,262	11,353	79.6%
TOTAL OPERATING REVENUE	<u>26,520,720</u>	<u>26,920,253</u>	<u>(399,533)</u>	-1.5%
Operating Expenses				
Salary & Wages	17,894,730	16,887,210	1,007,520	6.0%
Payroll Related Expenses	5,317,473	5,198,480	118,993	2.3%
UT Medical Foundation	411,455	477,337	(65,882)	-13.8%
Locum Tenens and Temporary Agencies	9,033	97,864	(88,831)	
Medical Services	155,113	250,279	(95,166)	-38.0%
Equipment, Materials & Supplies	247,645	195,391	52,254	26.7%
Pharmaceuticals	259,725	260,610	(885)	-0.3%
Patient Meals and Nourishment	886,098	825,346	60,752	7.4%
Housekeeping and Laundry	360,769	365,274	(4,505)	-1.2%
IT Services and Support	345,439	252,838	92,601	36.6%
Professional Fees and Services	269,919	166,845	103,074	61.8%
Maintenance & Repair	455,403	419,857	35,546	8.5%
Utilities	189,374	184,445	4,929	2.7%
Communications	131,884	138,847	(6,963)	-5.0%
Other Operating Expenses	151,211	127,458	23,753	18.6%
Administrative Overhead	965,556	1,062,042	(96,486)	-9.1%
TOTAL OPERATING EXPENSES	<u>28,050,828</u>	<u>26,910,123</u>	<u>1,140,705</u>	4.2%
Operating Revenue Over Expenses	<u>(1,530,108)</u>	<u>10,130</u>	<u>(1,540,238)</u>	-15205.4%
Non-Operating Revenue				
Investment Income	93,788	72,729	21,060	
Harris County Capital Improvements Funding	-	-	-	
Gain/(Loss) Sale Capital Assets	-	-	-	
Non-Operating Expense				
Capital Equipment	23,354	-	23,354	
Transferred to/(from) Capital Improvement Funds	-	-	-	
Net Revenues Over Expenses	<u>(1,459,674)</u>	<u>82,858</u>	<u>(1,542,532)</u>	

**UTHealth Harris County Psychiatric Center
Statement of Revenues and Expenses
For Fiscal Years 2019 and 2018**

	MSRDP 33076 FY 2019	MSRDP 33076 FY 2018	Variance	
			Current to Prior	%
Operating Revenue				
Patient Accounts				
Gross Charges	6,662,770	5,002,441	1,660,329	
Allowances	(6,160,283)	(4,506,479)	(1,653,804)	
	<u>502,487</u>	<u>495,962</u>	6,525	1.3%
Uncompensated Care Payment	-	-	-	
Miscellaneous	7,455	5,610	1,845	
TOTAL OPERATING REVENUE	<u>509,942</u>	<u>501,572</u>	8,370	
Operating Expenses				
Salary & Wages	118,967	87,284	31,683	
Payroll Related Expenses	21,387	16,417	4,970	
Locum Tenens and Temporary Agencies	70,135	-	70,135	
Medical Services	47,810	213	47,597	
Pharmaceuticals	13,688	15,324	(1,635)	
Patient Meals and Nourishment	-	809	(809)	
Housekeeping and Laundry	-	2,740	(2,740)	
IT Services and Support	4,379	20,358	(15,979)	
Professional Fees & Services	43,743	46,239	(2,496)	
Travel	31,071	14,297	16,774	
Equipment, Materials & Supplies	23,704	16,574	7,130	
Maintenance & Repair	4,707	12,994	(8,287)	
Utilities	-	933		
Printing & Reproductions	-	-	-	
Membership Dues and Registration Fees	13,169	21,667	(8,499)	
Official Functions	12,449	23,608	(11,159)	
Communications	11,904	-	11,904	
Other Operating Expenses	30,153	58,694	(28,541)	
TOTAL OPERATING EXPENSES	<u>447,266</u>	<u>338,149</u>	109,117	
Non-Operating Expense				
Capital Equipment		-	-	
Net Revenues Over Expenses	<u>62,676</u>	<u>163,423</u>	<u>(100,747)</u>	

**UTHealth Harris County Psychiatric Center
Statement of Fund Balance
For Fiscal Year 2019**

	Hospital 42000	MSRDP 33076
Adjusted Fund Balance at September 1, 2013	8,543,992	468,674
Net Revenue over Expenses FY2014	2,200,708	144,913
DSHS Funding for HVAC Work	1,680,000	
Transferred to Capital Improvements Fund	(3,880,708)	
Fund Balance at August 31, 2014	8,543,992	613,587
Net Revenue over Expenses FY2015	(474,233)	51,370
Fund Balance at August 31, 2015	8,069,759	664,957
Net Revenue over Expenses FY2016	1,044,313	8,535
Employee Bonuses Reimbursed by UTHealth	474,816	
Harris County Funding for Capital Improvements	481,025	
Transferred to Capital Funds	(1,525,921)	
Fund Balance at August 31, 2016	8,543,992	673,492
Net Revenue over Expense FY2017	837,595	43
Harris County Funding for Capital Improvements	3,318,975	
Transferred to Capital Funds	(4,156,570)	
Fund Balance at August 31, 2017	8,543,992	673,535
Net Revenue over Expense FY2018	56,020	368
Transferred to Capital Funds	(56,020)	
Fund Balance at August 31, 2018	8,543,992	673,903

UTHealth Harris County Psychiatric Center
 Plant Fund Expenditures, Encumbrances, and Expected Future Cost of Current Projects
 As of February 28, 2019

Project Number	Fund	Description	Expenditures as of 08.31.2018	FY 2019 Expenditures	Total Expenditures	Open Encumbrances	Total Obligations	Total Estimated Project Cost	Expected Future Cost	Category
HDM16-4	26707	HCPC Unit 2E Renovation	760,980	16,926	777,906	4,997	782,903	809,274	26,371	Current
HDM16-9	26725	HCPC Allscripts Sunrise 17.3 Upgrade	224,636	35,687	260,324	86,077	346,400	430,000	83,600	Current
MISPHARM	26739	HCPC Pharmacy Software	30,888	46,670	77,558	22,613	100,170	100,170	0	Current
			1,016,504	99,283	1,115,787	113,687	1,229,473	1,339,444	109,971	

8. Provide the 2018 financial statements including the notes.
Please see below.

**Harris County Psychiatric Center
(An Operating Unit of The University of Texas
Health Science Center at Houston)**

Independent Auditor's Report and Combined Financial Statements

August 31, 2018 and 2017



Harris County Psychiatric Center
(An Operating Unit of The University of Texas
Health Science Center at Houston)

August 31, 2018 and 2017

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Independent Auditor's Report

Governing Body
Harris County Psychiatric Center (An Operating
Unit of The University of Texas Health Science
Center at Houston)
Houston, Texas

We have audited the accompanying combined statements of revenues and expenses and changes in net position of Harris County Psychiatric Center, an operating unit of The University of Texas Health Science Center at Houston, for the years ended August 31, 2018 and 2017, and the related notes to these combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the revenues, expenses and changes in net position of Harris County Psychiatric Center, an operating unit of The University of Texas Health Science Center at Houston, for the years ended August 31, 2018 and 2017, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the combined financial statements of Harris County Psychiatric Center, an operating unit of The University of Texas Health Science Center at Houston, are intended to present the revenues, expenses and changes in net position for only the portion of the activities of The University of Texas Health Science Center at Houston that are attributable to the transactions of Operating Fund 42000, Practice Plan Fund 33076 and Plant Funds for Capital Improvement Projects of Harris County Psychiatric Center. They do not purport to, and do not present fairly, the revenues, expenses and changes in net position of The University of Texas Health Science Center at Houston for the years ended August 31, 2018 and 2017, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

BKD, LLP

Houston, Texas
December 19, 2018

Harris County Psychiatric Center
(An Operating Unit of The University of Texas
Health Science Center at Houston)
Combined Statements of Revenues and Expenses
Years Ended August 31, 2018 and 2017

	Fund 42000		Fund 33076		Combined	
	2018	2017	2018	2017	2018	2017
Operating Revenues						
Net patient service revenue	\$ 10,086,886	\$ 7,473,717	\$ 971,080	\$ 1,278,075	\$ 11,057,966	\$ 8,751,792
Contractual revenue	36,758,431	38,124,273	-	-	36,758,431	38,124,273
State appropriations	7,075,407	7,471,839	-	-	7,075,407	7,471,839
Other revenue	48,979	32,578	13,110	13,720	62,089	46,298
Total operating revenues	53,969,703	53,102,407	984,190	1,291,795	54,953,893	54,394,202
Operating Expenses						
Salaries and wages	33,908,535	33,404,849	171,036	164,973	34,079,571	33,569,822
Employee benefits	10,415,506	10,366,711	34,064	41,573	10,449,570	10,408,284
Purchased services and professional fees	2,341,682	1,626,371	234,702	144,052	2,576,384	1,770,423
Overhead allocation	2,124,085	2,404,594	-	-	2,124,085	2,404,594
Supplies and other	5,341,466	4,736,891	544,021	941,155	5,885,487	5,678,046
Total operating expenses	54,131,274	52,539,416	983,823	1,291,753	55,115,097	53,831,169
Operating Income (Loss)	(161,571)	562,991	367	42	(161,204)	563,033
Nonoperating Revenues						
Investment income	217,590	274,605	-	-	217,590	274,605
Excess of Revenues Over Expenses Before Capital Appropriation	56,019	837,596	367	42	56,386	837,638
Capital Appropriation - Harris County, Texas	-	3,318,975	-	-	-	3,318,975
Excess of Revenues Over Expenses Before Capital Transfers	\$ 56,019	\$ 4,156,571	\$ 367	\$ 42	\$ 56,386	\$ 4,156,613

Harris County Psychiatric Center
(An Operating Unit of The University of Texas
Health Science Center at Houston)

Combined Statements of Changes in Net Position
Years Ended August 31, 2018 and 2017

	Fund 42000	Fund 33076	Plant Funds	Combined
Net Position, September 1, 2016	\$ 8,543,993	\$ 673,493	\$ 1,901,210	\$ 11,118,696
Changes in Net Position				
Excess of revenues over expenses before capital transfers	4,156,571	42	-	4,156,613
Transfers in (out)	(4,156,571)	-	4,156,571	-
Transfers out for capital expenditures	-	-	(3,862,449)	(3,862,449)
Increase in Net Position	<u>0</u>	<u>42</u>	<u>294,122</u>	<u>294,164</u>
Net Position, August 31, 2017	<u>8,543,993</u>	<u>673,535</u>	<u>2,195,332</u>	<u>11,412,860</u>
Changes in Net Position				
Excess of revenues over expenses before capital transfers	56,019	367	-	56,386
Transfers in (out)	(56,020)	-	56,020	-
Transfers out for capital expenditures	-	-	(810,887)	(810,887)
Increase (Decrease) in Net Position	<u>(1)</u>	<u>367</u>	<u>(754,867)</u>	<u>(754,501)</u>
Net Position, August 31, 2018	<u>\$ 8,543,992</u>	<u>\$ 673,902</u>	<u>\$ 1,440,465</u>	<u>\$ 10,658,359</u>

Harris County Psychiatric Center
(An Operating Unit of The University of Texas
Health Science Center at Houston)
Notes Combined to Financial Statements
August 31, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Harris County Psychiatric Center (HCPC) is an operating unit of The University of Texas Health Science Center at Houston (the University), a division of the University of Texas System (UTS). HCPC provides inpatient psychiatric care to the residents of Harris County, Texas (the County), through an operating agreement with The Harris Center for Mental Health and IDD (the Authority). Funding for these services is provided from patients, patient insurance carriers, contractual agreements with the Authority for indigent care, a contractual agreement through January 31, 2017 with the Harris County Juvenile Probation Department (the Department) and State of Texas (the State) appropriations.

HCPC follows fund accounting with respect to its funds. The combined financial statements of HCPC include only the statements of revenues and expenses and changes in net position of Operating Fund 42000 and Practice Plan Fund 33076, and statements of changes in net position of Plant Funds for Capital Improvement Projects. The purpose of these funds is as follows:

Operating Fund 42000: This fund accounts for the general operations of HCPC. Any change in net position, over an established operating reserve, is transferred to the Plant Funds for Capital Improvement Projects for use at HCPC.

Practice Plan Fund 33076: This fund accounts for patient charges for professional services and related compensation and other operational expenses.

Plant Funds for Capital Improvement Projects: Collectively comprised of the activity in Funds 26704, 26706, 26707, 26708, 26709, 26711, 26725 and 26739 for the year ended August 31, 2018, and Funds 26675, 26704, 26705, 26706, 26707, 26708, 26709, 26710 and 26711 for the year ended August 31, 2017. HCPC accumulates costs for each capital project utilizing a distinct fund number. These funds collectively account for capital improvement projects at HCPC while in process. As funds are expended, the assets or capital project in service is transferred to a separate fund, which accounts for the capital assets of the University, and the specific plant fund is closed. Once the asset is placed into service, the University accounts for the depreciation and other expenses of the capital assets.

Basis of Presentation

The accompanying combined financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

Harris County Psychiatric Center
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August 31, 2018 and 2017

The combined financial statements of HCPC have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues and expenses from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions; program-specific, government-mandated or voluntary nonexchange transactions; and state appropriations for certain employee retirement and health insurance costs. Investment income is included in nonoperating revenues.

Use of Estimates

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

Property and Equipment

Property and equipment acquisitions are recorded at the original cost. Capital projects are recorded at the original cost of construction, including capitalized project management fees from the University.

Net Patient Service Revenue

HCPC has agreements with third-party payers that provide for payments to HCPC at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known. There were no retroactive adjustments recognized for the years ended August 31, 2018 and 2017.

Contractual Revenue

HCPC has three contractual agreements in place with the Authority to provide mental health and psychiatric services to the indigent population in the County: 1) Inpatient Services for Voluntary or Civil Commitment Process, 2) Inpatient Competency Restoration Services, and 3) Mental Health Inpatient Services.

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HCPC also had a contractual agreement with the Department to provide a juvenile subacute program. The contract was terminated effective January 31, 2017.

Revenue under these contractual agreements is recognized as the related services are rendered.

State Appropriations

HCPC receives appropriations from the State for certain employee retirement and health insurance costs as determined by the State legislature. These appropriations are reported as operating revenues in the accompanying combined financial statements.

Charity Care

HCPC provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

Risk Management

HCPC is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Chapter 101 of the Texas Civil Practice and Remedies Code provides HCPC indemnification by the State in an amount up to \$250,000 per claim. HCPC, as part of the University, is self-insured for a portion of its exposure to risk of these losses.

Reclassifications

Certain reclassifications have been made to the 2017 combined financial statements to conform to the 2018 combined financial statement presentation. The reclassifications had no effect on the change in net position.

Note 2: Net Patient Service Revenue

HCPC has agreements with third-party payers that provide for payments to HCPC at amounts different from its established rates. These payment arrangements include the following.

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Notes Combined to Financial Statements
August 31, 2018 and 2017

Medicare: Inpatient psychiatric services rendered to Medicare program beneficiaries are paid at prospectively determined rates under the Medicare Inpatient Psychiatric Facility Prospective Payment System. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. HCPC is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by HCPC and audits thereof by the Medicare administrative contractor.

Medicaid: Inpatient psychiatric services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates that are based on the patients' acuity. HCPC is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by HCPC and audits thereof by the Medicaid administrative contractor.

Approximately 29 percent and 25 percent of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended August 31, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: Related-party Transactions

The State and County jointly own the facility occupied by HCPC, which is leased to HCPC for \$1 per year.

Note 4: Interfund Capital Transfers

During 2018 and 2017, HCPC Operating Fund 42000 transferred \$56,020 and \$4,156,571, respectively, of its excess of revenues over expenses to the Plant Funds for Capital Improvement Projects under the terms of its operating agreement with the Authority. This interfund capital transfer is used to fund capital improvement projects at the HCPC facility. Upon expenditure of

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these funds, the Plant Funds for Capital Improvement Projects transfers any assets or construction in progress to a fund outside of the Plant Funds for Capital Improvement Projects. As a result, no depreciation expense is recorded in the Plant Funds for Capital Improvement Projects.

The following projects were funded, net of related rebates, for the years ended August 31.

Project Number	Fund	Project Description	2018	2017
HDM15-9	26675	HCPC Unit 1D Renovation	\$ -	\$ 12,515
HDM16-1	26704	HCPC Unit 1C Renovation	4,188	461,693
HDM16-2	26705	HCPC Unit 2C Renovation	-	680,341
HDM16-3	26706	HCPC Unit 2D Renovation	14,887	551,678
HDM16-4	26707	HCPC Unit 2E Renovation	481,415	271,450
HDM16-5	26708	HCPC Unit 3B Renovation	18,215	466,796
HDM16-6	26709	HCPC Unit 3C Renovation	14,887	468,161
HDM16-7	26710	HCPC Unit 3D Renovation	-	465,831
HDM16-8	26711	HCPC Unit 3E Renovation	21,771	483,984
HDM16-9	26725	HCPC Allscripts 17.3 Upgrade	224,636	-
MISPARM	26739	HCPC Pharmacy Software	30,888	-
			<u>\$ 810,887</u>	<u>\$ 3,862,449</u>

Note 5: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Concentrations

Approximately 67 percent and 68 percent of HCPC's operating revenues for the years ended August 31, 2018 and 2017, respectively, were from contractual arrangements with the Authority.

Harris County Psychiatric Center
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Note 6: Pension Plans

Teacher Retirement System (TRS)

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

All University personnel employed in a position on a half time or greater basis for at least 4½ months or more are eligible for membership in the TRS retirement plan. Members with at least five years of service have a vested right to unreduced retirement benefits at age 65 or provided they have a combination of age, plus years of service totaling 80 or more. However, members who began TRS participation on or after September 1, 2007, must be age 60 to retire and members who are not vested in TRS on August 31, 2014, must be age 62 to retire under the second option.

Members are fully vested after five years of service and are entitled to any reduced benefits for which the eligibility requirements have been met prior to meeting the eligibility requirements for unreduced benefits.

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Contributions by employees are 7.7 percent of gross earnings. Depending upon the source of funding for the employee's compensation, the State or University contributes a percentage of participant salaries totaling 6.8 percent of annual compensation for 2018, 2017 and 2016. Contributions to TRS for the years ended August 31, 2018, 2017 and 2016, were \$1,911,896, \$1,905,862 and \$1,892,490, respectively, for the HCPC operating unit, which equaled the amounts of the required contributions for those years.

No liability is recorded at the HCPC operating unit level as the liability is recorded by UTS as the ultimate employer. Further information regarding actuarial assumptions and conclusions, together with audited combined financial statements, are included in the TRS annual financial report, which may be found on the TRS website at www.trs.state.tx.us.

Optional Retirement Program (ORP)

The State has also established an ORP for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS. ORP is available to certain eligible employees who hold faculty positions and other professional positions, as defined. The ORP provides for the

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purchase of annuity contracts and mutual funds. Participants are vested in the employer contributions after one year and one day of service. Depending upon the source of funding for the employee's compensation, the University may be required to make the employer contributions in lieu of the State. Since these are individual annuity contracts, the State and University have no additional or unfunded liability for this program. The employee and employer contribution rates are established by the State Legislature each biennium. The State provides an option for a local supplement on top of the State base rate. Each institution within UTS can decide to adopt and fund a local supplement each year to provide each ORP employee the maximum employer rate. The Chancellor of UTS then approves the employer rates each fiscal year. The contributions made by participants (6.65 percent of annual compensation) and the University (6.60 percent State base rate for 2018, 2017 and 2016, plus any local supplement for a maximum 8.50 percent of annual compensation) for the fiscal years ended August 31, 2018, 2017 and 2016. Contributions to ORP for the years ended August 31, 2018, 2017 and 2016, were \$440,847, \$417,222 and \$407,162, respectively, for the HCPC operating unit.

9. Was a report to management issued for 2018?

**A management report was issued as part of the audit; there were no reportable matters.
The report is below.**

Governing Body
Harris County Psychiatric Center (An Operating
Unit of The University of Texas Health Science
Center at Houston)
Houston, Texas

As part of our audit of the combined statements of revenues and expenses and changes in net position of Harris County Psychiatric Center (HCPC), an operating unit of The University of Texas Health Science Center at Houston, for the year ended August 31, 2018, we wish to communicate the following to you.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the combined financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the combined financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the combined financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the combined financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

HCPC's significant accounting policies are described in Note 1 of the audited combined financial statements.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Valuation of net patient service revenue
- Calculation of administrative overhead

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Net patient service revenue
- Interfund capital transfers

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the combined financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

- Proposed audit adjustments recorded:
 - None noted
- Proposed audit adjustments not recorded:
 - None noted

Auditor's Judgments About the Quality of HCPC's Accounting Principles

No matters are reportable.

Disagreements With Management

No matters are reportable.

Difficulties Encountered in Performing the Audit

No matters are reportable.

Other Material Communications

Listed below are material communications between management and us related to the audit:

- Management representation letter (attached)
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies.

This communication is intended solely for the information and use of management, the governing body and others within HCPC, and is not intended to be, and should not be, used by anyone other than these specified parties.

BKD, LLP

December 19, 2018

December 19, 2018

BKD, LLP
Certified Public Accountants
2700 Post Oak Boulevard, Suite 1500
Houston, Texas 77056

We are providing this letter in connection with your audits of the combined statements of revenues and expenses and changes in net position of Harris County Psychiatric Center, an operating unit of The University of Texas Health Science Center at Houston (HCPC), for the years ended August 31, 2018 and 2017. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:


1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated October 14, 2018, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

5. We have provided you with:
 - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
 - (b) Additional information that you have requested from us for the purpose of the audit.
 - (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - (d) All minutes of the governing body meetings held through the date of this letter.
 - (e) All significant contracts and grants.
 - (f) All peer review organizations, fiscal intermediary and third-party payer reports and information.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by HCPC procedures with respect to:
 - (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets or liabilities.
8. We have no knowledge of any known or suspected:
 - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
 - (c) Communications from regulatory agencies, governmental representatives, employees or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices or other matters that could have a material adverse effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting HCPC received in communications from employees, customers, regulators, suppliers or others.

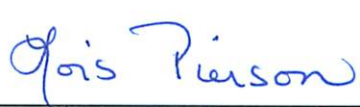
10. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; principal owners, management, and members of their immediate families, subsidiaries accounted for by the equity method; and any other party with which HCPC may deal if HCPC can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, HCPC.
11. Except as reflected in the financial statements, there are no:
 - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial records.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - (d) Events occurring subsequent to the financial statement date as of August 31, 2018 through the date of this letter requiring adjustment or disclosure in the financial statements.
 - (e) Agreements to purchase assets previously sold.
 - (f) Restrictions on cash balances or compensating balance agreements.
 - (g) Guarantees, whether written or oral, under which HCPC is contingently liable.
12. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
13. We have no reason to believe the HCPC owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.
14. We are not aware of any pending or possible litigation or claims whose effects should be considered when preparing the financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.
15. We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. There are no known circumstances that could jeopardize HCPC's participation in the Medicare or other governmental health care programs.

16. Adequate provisions and allowances have been accrued for any material losses from:
 - (a) Uncollectible receivables.
 - (b) Medicare/Medicaid and other third-party payer contractual, audit or other adjustments.
 - (c) Purchase commitments in excess of normal requirements or above prevailing market prices.
17. Except as disclosed in the financial statements, HCPC has Complied with all aspects of contractual agreements, for which noncompliance would materially affect the financial statements.
18. With respect to HCPC's possible exposure to past or future medical malpractice assertions:
 - (a) We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.
 - (b) All known incidents have been reported to the appropriate medical malpractice insurer and are appropriately considered in our malpractice liability accrual.
 - (c) There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured.
 - (d) Management does not expect any claims to exceed malpractice insurance limits.
19. With respect to any nonattest services you have provided us during the year, including drafting the financial statements and related footnotes:
 - (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
 - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - (d) We have evaluated the adequacy of the services performed and any findings that resulted.

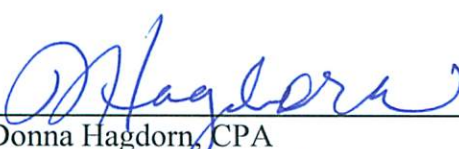
20. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the financial statements date as of August 31, 2018 which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
21. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
22. Billings to third-party payers comply in all material respects with applicable coding guidelines, laws and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.
23. With regard to cost reports filed with Medicare, Medicaid or other third parties:
 - (a) All required reports have been properly filed.
 - (b) Management is responsible for the accuracy and propriety of those reports.
 - (c) All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payers.
 - (d) The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.
 - (e) All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
 - (f) Recorded allowances for third-party settlements are necessary and are based on historical experience or new or ambiguous regulations that may be subject to differing interpretations.
24. There are no accruals for loss contingencies required at year end.
25. No pension liability is recorded at the HCPC operating unit level as the liability is recorded by the University of Texas System as the ultimate employer.
26. The following funds comprise all activity of HCPC: Operating Fund 4200, Practice Plan Fund 33076, and the Plant Funds for Capital Improvement Projects.



Jair Soares, M.D.
Chief Executive Officer



Ms. Lois Pierson, CPA
Chief Financial Officer



Ms. Donna Hagdorn, CPA
Director of Financial Operations