



Travis County Healthcare District dba Central Health

**Financial Statements and
Supplemental Information
as of and for the Year Ended
September 30, 2025 and
Independent Auditors' Report**

MAXWELL LOCKE & RITTER LLP | Accounting & Advisory

AUSTIN 401 Congress Avenue, Suite 2000, Austin, TX 78701

ROUND ROCK 411 West Main Street, Suite 300, Round Rock, TX 78664

MLRPC.COM

Travis County Healthcare District dba Central Health

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Independent Auditors' Report

To the Board of Managers of
Travis County Healthcare District dba Central Health:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the Travis County Healthcare District (dba and hereinafter referred to as "Central Health"), as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise Central Health's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Central Health, as of September 30, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Central Health's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Central Health's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2026 on our consideration of Central Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Central Health's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Central Health's internal control over financial reporting and compliance.

Maxwell Locke & Ritter LLP

Austin, Texas
February 28, 2026

Travis County Healthcare District dba Central Health

Management's Discussion and Analysis Year Ended September 30, 2025

This section of the Travis County Healthcare District's (dba and hereinafter referred to as "Central Health") financial report presents background information and management's analysis of Central Health's financial results for the fiscal year ended September 30, 2025. Please read this section in conjunction with Central Health's financial statements, which begin on page 13.

Background and Formation

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

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

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

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

Central Health may levy taxes to finance health care services and the levy of tax shall not exceed 25 cents on each \$100 of assessed valuation of property taxable by Central Health. The fiscal year 2025 tax levy for Central Health was \$0.107969 per \$100 valuation of assessed property.

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

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

In May of 2017, Seton transitioned operations from the Downtown Campus to Dell Seton Medical Center at The University of Texas (“DSMC-UT”), a new 211-bed teaching hospital and Level 1 trauma center. Built, owned and operated by Seton. DSMC-UT serves as the safety net hospital in Travis County and can accommodate more patients than UMCB and serves as the primary teaching hospital for Dell Medical School at The University of Texas at Austin.

With the transition of hospital operations, Central Health has entered into agreements within the 14.3 acre Central Health Downtown Campus to provide long-term funding for the mission of Central Health. Effective October 1, 2024, Seton provided notice of termination of the lease of the Clinical Education Center (CEC) and renewed the lease of the adjoining parking garage that accesses DSMC-UT. Central Health has renovated a portion of the CEC to serve as a 50-bed respite center and limited clinical services in addition to the relocation of administrative personnel from its Cesar Chavez building. In 2018, a portion of the Central Health Downtown Campus was leased to the 2033 LP. Under the agreement, the 2033 LP leased approximately 2.8 acres of the 14.3 acre Downtown Campus. In October 2018, the 2033 LP assigned the lease to the 2033 Higher Education Development Foundation, a Texas nonprofit corporation.

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

Fiscal Year 2025 Operational Highlights

- Central Health's net position increased \$77.7 million, a 9% increase compared to prior year net position.
- During the year, Central Health's total operating revenues were \$15.4 million and operating expenses were \$343.9 million. Nonoperating revenues, comprised primarily of property tax revenue, were \$406.2 million, net of nonoperating expenses.
- In order to responsibly manage financial resources, Central Health maintains reserve funds for financial security and operational stability in consideration of the risks it faces. The Emergency Reserve is maintained for unanticipated emergencies and is maintained at approximately 15% of eligible budgeted expenses set annually through adoption of the budget. In addition, Central Health maintains a Contingency Reserve to serve as a funding source for one-time expenditures or for ongoing expenditures when needed for cyclical or temporary structural deficits. Central Health also maintains a Capital Reserve to fund capital assets or projects funded through the issuance of debt, grants, or operating transfers.
- In August 2023, the Central Health Board of Managers adopted a seven year Strategic Plan, a roadmap for building a high-functioning, comprehensive safety-net healthcare system in Travis County. The Plan was adopted following an 18-month planning process that included community input, clinical and data analysis, and benchmarking against national peers. Over the next seven years, Central Health expects to invest up to \$700 million to implement the Plan.
- Central Health's Del Valle Health and Wellness Center, opened in the Spring of 2025. Central Health has contracted with CommUnityCare to provide primary care, including pediatrics and women's health, behavioral health, dental and pharmacy services.
- In July 2025, Central Health opened a medical respite center and clinic in the Continuing Education Center located in the Downtown Campus, which was previously leased to Seton. This center includes 50 beds, three day rooms, a serenity room, a dining area and tranquility garden. The clinic serves both respite and other Central Health patients.
- Construction continued throughout FY 2025 on the former Sears building located within Hancock Center. Central Health plans to open a multi-specialty clinic for a significant number of specialty areas, in addition to primary care, dental, and other ancillary services. In addition, an administrative headquarters will be constructed on the second level to co-locate certain administrative functions for Central Health, CommUnityCare, and Sendero Health Plans. It will also serve as the site for the relocation of the David Powell Clinic and the Hancock CommUnityCare Clinic.

- Central Health purchased land in Colony Park in 2022, located within the City of Austin’s master planned development in Eastern Travis County, to construct a 32,000 square foot facility that will bring vital health services and community space to Northeast Austin. Groundbreaking is expected in 2026, with doors opening to patients in Spring 2027.
- Through its partner, CommUnityCare, provided health care services to 147,018 unique patients during FY 2025.
- In 2025 Central Health continued to provide funding for a premium assistance program for high risk patients enrolled in Sendero Health Plans that served approximately 922 members.
- Central Health served as the administrator of the Local Provider Participation Fund that assessed and collected mandatory payments from hospitals in Travis County. Central Health collected \$335.1 million in mandatory payments and made intergovernmental transfers within eligible supplemental funding programs of \$329.1 million during the fiscal year.
- In January 2023, Central Health filed a lawsuit against Ascension Texas, formerly known as Seton Healthcare Family, for failing to meet its contractual obligation to provide healthcare services for Travis County residents with low income. On May 2, 2023, Ascension sent Central Health a Funding Deadlock and Governance Deadlock notice. This additional dispute was not resolved through mediation. On April 2, 2025, both parties agreed to an Agreed Motion to Abate for a period of 150 days from April 2, 2025, to August 30, 2025. On September 9, 2025, both parties executed a Court-approved Order to Extend Abatement agreement until March 31, 2026.

Financial Statements

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

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

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

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

Statement of Net Position

The following table summarizes Central Health's assets, liabilities and net position as of September 30, 2025 and 2024:

TABLE 1
Condensed Statement of Net Position

	<u>2025</u>	<u>2024</u>	<u>% Fluctuation</u>
Current assets	\$ 615,940,085	\$ 616,539,077	<(1%)
Noncurrent assets	544,076,237	533,952,162	2%
Capital assets	<u>248,744,808</u>	<u>180,741,742</u>	38%
Total assets	<u>1,408,761,130</u>	<u>1,331,232,981</u>	6%
Current liabilities	69,501,450	61,212,943	14%
Noncurrent liabilities	<u>207,855,604</u>	<u>212,444,004</u>	(2%)
Total liabilities	<u>277,357,054</u>	<u>273,656,947</u>	1%
Deferred inflows of resources	<u>224,199,695</u>	<u>228,071,187</u>	(2%)
Net position:			
Net investment in capital assets	127,032,703	84,621,972	50%
Restricted for capital outlay	79,857,386	43,502,791	84%
Restricted for opioid remediation efforts	2,919,365	4,664,833	(37%)
Restricted in escrow	200,000	-	100%
Unrestricted	<u>697,194,927</u>	<u>696,715,251</u>	<1%
Total net position	<u>\$ 907,204,381</u>	<u>\$ 829,504,847</u>	9%

As shown in Table 1, net position was \$907.2 million as of September 30, 2025 and \$829.5 million as of September 30, 2024. The increase in net position is a result of an increase in tax revenue of \$28.9 million and an increase in gain on disposal of capital assets of \$21.3 million.

Statement of Revenues, Expenses, and Changes in Net Position

The following table summarizes Central Health's revenues, expenses, and changes in net position during the years ended September 30, 2025 and 2024:

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

	2025	2024	% Fluctuation
Operating revenues:			
Lease revenue	\$ 12,966,615	\$ 17,057,617	(24%)
Ground sublease revenue	2,392,045	2,356,885	1%
Grant revenue	84,120	-	100%
Total operating revenues	<u>15,442,780</u>	<u>19,414,502</u>	(20%)
Operating expenses:			
Health care delivery	267,990,212	199,697,169	34%
UT affiliation	35,000,000	35,000,000	0%
Administration	29,938,659	22,078,920	36%
Depreciation and amortization	10,981,672	10,165,960	8%
Total operating expenses	<u>343,910,543</u>	<u>266,942,049</u>	29%
Operating loss	(328,467,763)	(247,527,547)	33%
Nonoperating revenues, net:			
Net ad valorem tax revenue	341,040,674	312,161,403	9%
Investment income	38,129,195	44,394,284	(14%)
Net tobacco settlement revenue	6,817,278	5,194,413	31%
Opioid settlement revenue	1,108,668	4,664,833	(76%)
Interest expense	(8,424,651)	(8,719,908)	(3%)
Gain (loss) on disposal of capital assets	21,244,723	(92,435)	(23,083%)
Other revenue, net	6,251,410	112,771	5,443%
Total nonoperating revenues, net	<u>406,167,297</u>	<u>357,715,361</u>	14%
Change in net position	77,699,534	110,187,814	(29%)
Total net position - beginning of year	<u>829,504,847</u>	<u>719,317,033</u>	15%
Total net position - end of year	<u>\$ 907,204,381</u>	<u>\$ 829,504,847</u>	9%

Central Health's operating revenues were \$15.4 million for the year ended September 30, 2025, comprised primarily of \$13.0 million in lease revenue and \$2.4 million in ground sublease revenue. Central Health's operating loss was \$328.5 million for the year ended September 30, 2025. Central Health receives property tax revenues to subsidize the cost of services provided to qualified uninsured patients. Although the costs incurred to provide these services are reflected above as operating expenses, the property tax revenues levied to subsidize those costs are required to be reported as nonoperating revenues.

Nonoperating revenues, net were \$406.2 million for the year ended September 30, 2025, comprised mainly of net property taxes of \$341.0 million, investment income of \$38.1 million, gain on disposal of capital assets of \$21.2 million, and tobacco settlement revenue of \$6.8 million.

Capital Assets

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

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

During the years ended September 30, 2020 and September 30, 2019, Central Health acquired two parcels of land in eastern Travis County to build new clinic facilities to serve the Central Health covered patient population. The Hornsby Bend Health and Wellness Center was completed and began offering services in the fall of 2023. The second clinic, Del Valle Health and Wellness Clinic opened in Spring 2025.

In August 2021, Central Health acquired land and buildings (formerly the Sears building and existing CommUnityCare clinic site located in Hancock Center) located along the IH 35 corridor to expand healthcare services and consolidate administrative operations that are currently maintained at multiple leased sites. Groundbreaking of the construction was held in December 2024. The relocation of the David Powell Clinic and Hancock CommUnityCare Hancock clinic is set to be completed in Spring 2026, with the remaining facility anticipated to be completed by the end of 2026.

In April 2023, Central Health acquired land and buildings located on Cameron Road for \$14.4 million. The site, currently called Cameron Center, is the location that Central Health plans to build a permanent respite facility for people experiencing homelessness. The three-building complex at U.S. 183 and Cameron Road in northeast Austin will also include a high-risk medical clinic as well as substance use treatment.

All conveyed and donated assets were recorded at fair market value at the date of receipt based on independent third-party appraisals (if applicable). The following table summarizes Central Health's capital assets at September 30, 2025 and 2024.

TABLE 3
Capital Assets

	2025	2024
Land	\$ 28,421,314	\$ 28,846,314
Capital projects in progress	85,587,928	29,532,645
Buildings and improvements	104,033,857	89,228,483
Equipment and furniture	23,057,620	20,449,974
Right to use leased assets	47,485,755	47,379,838
Subscription-based IT assets	17,781,274	12,513,675
Subtotal	306,367,748	227,950,929
Less accumulated depreciation and amortization	(57,622,940)	(47,209,187)
Total capital assets, net	\$ 248,744,808	\$ 180,741,742

Additional information regarding Central Health's capital assets can be found in Note 6 of the notes to the financial statements.

Long-Term Debt

TABLE 4
Long-Term Debt

	2025	2024
Bonds payable	\$ 1,250,000	\$ 2,485,000
Certificates of obligation	156,420,000	163,220,000
Bond premium	2,401,231	2,536,685
Total long-term debt	\$ 160,071,231	\$ 168,241,685

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

On September 21, 2021, Central Health issued \$62,755,000 of Certificates of Obligation, Taxable Series 2021 (Limited Tax) and \$13,630,000 of Certificates of Obligation, Series 2021 (Limited Tax) for the construction, acquisition, improvement, renovation and equipping of buildings and land to be used as a site for the management and administration of District services and the delivery and provision of clinical and medical services.

On August 8, 2023, Central Health issued \$8,385,000 of Certificates of Obligation, Series 2023A (Limited Tax) for renovations to the Rosewood Zaragoza multispecialty clinic and \$90,965,000 of Certificates of Obligation, Taxable Series 2023B (Limited Tax) for the purchase and renovation of the Cameron Center buildings. Additional information regarding Central Health's long-term debt can be found in Note 7 of the notes to the financial statements.

Economic Conditions and Plan for Fiscal Year 2026

In planning for fiscal year 2026, there are a number of factors Central Health will need to consider, including the following:

- The expiration of enhanced premium tax credits under the Affordable Care Act may increase the number of uninsured or underinsured Travis County residents, driving higher demand for Central Health supported services and straining clinic access and appointment availability.
- Ongoing challenges in the availability of specialty and primary care healthcare providers, has required Central Health to engage external services to support recruitment and hiring, which also affects access to care. Central Health will continue collaborating with CommUnityCare, Sendero, Ascension and the Dell Medical School at The University of Texas at Austin and other community partners to ensure the provision of quality health services for residents of Travis County.
- Federal funding cuts have reduced resources for local nonprofit partners, increasing funding pressure on the overall local and regional systems of care. Central Health is pursuing integration initiatives with CommUnityCare and Sendero to support cost efficiency and improve the patient experience by reducing duplicative services and improving coordination across entities.
- Funding requirements of HMO risk-based capital reserves and financial capacity for Sendero (a community-based health plan and a component unit of Central Health), including continued funding for an expanded premium assistance program for low income Travis County residents. Actual payments will be based on risk-based capital requirement levels as determined by the Texas Department of Insurance.
- The Central Health Board of Managers adopted a total tax rate of \$0.118023 per \$100 valuation of real and personal property for fiscal year 2025 that balances affordability and sustainability of current and future healthcare services.

Contacting Central Health Financial Management

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

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

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

Travis County Healthcare District dba Central Health

Statements of Net Position September 30, 2025

	Primary Government	Component Units		
	Business-type Activities	CommUnityCare	Sendero (December 31, 2024)	Community Care Collaborative
Assets				
Current assets:				
Cash and cash equivalents	\$ 6,410,577	\$ 12,062,288	\$ 21,107,381	\$ 75
Cash restricted in escrow	200,000	-	-	-
Cash restricted for Local Provider Participation Fund (Note 16)	25,519	-	-	-
Short-term investments	548,227,316	13,247,101	3,470,922	-
Ad valorem taxes receivable, net of allowance for uncollectible taxes of \$5,766,003	3,434,873	-	-	-
Accounts receivable, net of allowance for doubtful amounts of \$12,785,017	-	13,919,871	5,302,666	-
Reinsurance recoverables	-	-	884,907	-
Grants receivable	-	1,662,482	-	-
Lease receivable	165,123	-	-	-
Other receivables	56,567,692	-	55,526,649	83,962
Inventory	-	711,158	-	-
Prepaid expenses and other assets	908,985	1,510,743	780,232	-
Total current assets	615,940,085	43,113,643	87,072,757	84,037
Noncurrent assets:				
Investments restricted for capital acquisition	79,857,386	-	-	-
Investments restricted for Local Provider Participation Fund (Note 16)	8,675,691	-	-	-
Investments restricted for facilities	91,090,475	-	-	-
Investments restricted for Opioid Abatement Fund	2,919,365	-	-	-
Long-term receivables	4,000,000	-	-	-
Investment in Sendero	83,000,000	-	-	-
Sendero surplus debenture	37,083,000	-	-	-
Lease receivable	237,450,320	-	-	-
Goodwill	-	17,849,487	-	-
Capital assets:				
Land	28,421,314	-	-	-
Right to use leased assets - land	42,921,307	-	-	-
Capital projects in progress	85,587,928	-	-	-
Buildings and improvements	104,033,857	7,641,825	-	-
Right to use leased assets - buildings	4,564,448	-	637,344	-
Equipment and furniture	23,057,620	5,420,695	38,215	-
Subscription-based IT assets	17,781,274	-	-	-
Less accumulated depreciation and amortization	(57,622,940)	(3,169,307)	(528,366)	-
Total capital assets, net	248,744,808	18,540,950	147,193	-
Total noncurrent assets	792,821,045	36,390,437	147,193	-
Total assets	1,408,761,130	79,504,080	87,219,950	84,037
Liabilities and Deferred Inflows of Resources				
Current liabilities:				
Accounts payable	17,940,762	5,815,783	1,334,863	-
Unpaid losses, loss adjustment expenses and risk adjustment payable	-	-	14,013,203	-
Claims payable	-	-	1,179,489	-
Medical loss ratio rebate	-	-	975,436	-
Salaries and benefits payable	13,100,719	11,172,461	-	-
Accrued interest	3,306,122	-	-	-
Other accrued liabilities	21,505,661	568,401	4,715,538	82,500
Bonds and certificates of obligations payable	8,320,000	-	-	-
Premium tax payable	-	-	1,029,675	-
Lease payable	1,203,519	2,395,903	153,467	-
Subscription-based IT payable	4,124,667	-	-	-
Unearned revenue	-	367,880	2,527,196	-
Surplus debenture	-	-	37,083,000	-
Due to Central Health	-	1,261,947	30,833,826	-
Total current liabilities	69,501,450	21,582,375	93,845,693	82,500
Noncurrent liabilities:				
Bonds and certificates of obligations payable	151,751,231	-	-	-
Due to Local Provider Participation Fund (Note 16)	8,701,210	-	-	-
Lease payable	42,865,096	6,391,819	-	-
Subscription-based IT payable	4,538,067	-	-	-
Due to Central Health	-	4,000,000	-	-
Total noncurrent liabilities	207,855,604	10,391,819	-	-
Total liabilities	277,357,054	31,974,194	93,845,693	82,500
Deferred inflows of resources-				
Leases	224,199,695	-	-	-
Total liabilities and deferred inflows of resources	501,556,749	31,974,194	93,845,693	82,500
Net position				
Net investment in capital assets	127,032,703	-	-	-
Restricted for capital acquisition and facilities	79,857,386	-	-	-
Restricted for opioid remediation efforts	2,919,365	-	-	-
Restricted for HMO	-	-	83,000,000	-
Restricted in escrow	200,000	-	-	-
Unrestricted	697,194,927	47,529,886	(89,625,743)	1,537
Total net position	\$ 907,204,381	\$ 47,529,886	\$ (6,625,743)	\$ 1,537

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

Travis County Healthcare District dba Central Health

Statements of Revenues, Expenses, and Changes in Net Position Year Ended September 30, 2025

	Primary	Component Units		
	Government		Sendero	Community Care
	Business-type	CommUnityCare	(December 31, 2024)	Collaborative
	Activities			
Operating revenues:				
Lease revenue	\$ 12,966,615	\$ -	\$ -	\$ -
Ground sublease revenue	2,392,045	-	-	-
Net patient service revenue	-	210,940,288	-	-
Premium revenue, net	-	-	145,825,466	-
Grant revenue	84,120	14,223,962	-	-
Foundation grant revenue	-	2,349,873	-	-
Revenue received from Central Health	-	21,752,781	-	-
Revenue received from Seton Affiliation	-	266,490	-	-
Total operating revenues	15,442,780	249,533,394	145,825,466	-
Operating expenses:				
Health care delivery	267,990,212	-	-	-
Program services	-	214,401,019	-	-
Medical expenses, net of reinsurance	-	-	115,764,767	-
Supporting services	-	37,630,212	-	-
Administration	29,938,659	-	11,612,089	-
Salaries and benefits	-	-	4,323,601	-
Outsourced services	-	-	4,527,987	-
UT Affiliation	35,000,000	-	-	-
Depreciation and amortization	10,981,672	-	-	-
Total operating expenses	343,910,543	252,031,231	136,228,444	-
Operating income (loss)	(328,467,763)	(2,497,837)	9,597,022	-
Nonoperating revenues (expenses):				
Ad valorem tax revenue	344,514,330	-	-	-
Tax assessment and collection expense	(3,473,656)	-	-	-
Tobacco settlement revenue, net	6,817,278	-	-	-
Opioid settlement revenue	1,108,668	-	-	-
Investment income	38,129,195	-	-	-
Interest expense	(8,424,651)	-	-	-
Gain on sale of capital assets	21,244,723	-	-	-
Other revenue, net	6,251,410	896,632	23,067	-
Total nonoperating revenues, net	406,167,297	896,632	23,067	-
Change in net position	77,699,534	(1,601,205)	9,620,089	-
Total net position - beginning of year	829,504,847	49,131,091	(16,245,832)	1,537
Total net position - end of year	\$ 907,204,381	\$ 47,529,886	\$ (6,625,743)	\$ 1,537

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

Travis County Healthcare District dba Central Health

Statement of Cash Flows Year Ended September 30, 2025

Cash flows from operating activities:	
Cash received for leases	\$ 8,921,016
Cash payments for health care delivery	(323,595,163)
Cash payments to administrative employees	(16,358,630)
Cash payments for goods and services	(5,623,040)
Net cash used in operating activities	<u>(336,655,817)</u>
Cash flows from noncapital financing activities:	
Ad valorem taxes received	344,140,635
Payments for tax assessment and collection	(3,473,656)
Tobacco settlement received, net	6,817,278
Opiod settlement revenue	1,108,668
Other nonoperating expenses paid, net	6,251,410
Cash received for Local Provider Participation Fund	335,087,911
Cash payments on behalf of Local Provider Participation Fund	(329,101,507)
Receipts from Affiliates, net	3,810,886
Net cash provided by noncapital financing activities	<u>364,641,625</u>
Cash flows from investing activities:	
Receipts of interest income	37,079,190
Net proceeds from sales and purchases of investment pools	79,353,003
Purchase of investment securities	(399,713,080)
Proceeds from maturities of investment securities	324,209,551
Purchase of capital assets	(74,538,352)
Proceeds from sale of capital assets	21,999,999
Payments on lease obligations	(1,458,585)
Payments on subscription based IT obligations	(4,897,894)
Principal payments on bonds	(8,170,454)
Interest paid on certificates of obligation and bonds and lease obligations	(7,796,724)
Net cash used in investing activities	<u>(33,933,346)</u>
Net decrease in cash and cash equivalents	(5,947,538)
Cash, cash equivalents and restricted cash, beginning of year	<u>12,583,634</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 6,636,096</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (328,467,763)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization expense	10,981,672
Changes in operating assets and liabilities that provided (used) cash:	
Lease receivables	218,640
Other receivables	(23,473,863)
Prepaid expenses and other assets	1,545,942
Accounts payable	(265,610)
Salaries and benefits payable	4,225,992
Other accrued liabilities	2,450,665
Deferred inflows of resources - leases	(3,871,492)
Net cash used in operating activities	<u>\$ (336,655,817)</u>
Non-cash investing activities-	
Right to use leased assets and lease liability	<u>\$ 5,201,662</u>

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

Travis County Healthcare District dba Central Health

Notes to Financial Statements Year Ended September 30, 2025

1. Organization and Mission

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

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

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

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

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

Central Health provides patient care to the safety net population of Travis County primarily through its network of hospital, specialty, primary care and post-acute providers, including Central Texas Community Health Centers, Inc. (doing business as and herein after referred to as “CommUnityCare”), its contractual relationship with Ascension Texas (“Seton”), and on a limited basis through the Community Care Collaborative (the “CCC”), which is a 501(c)(3) District formed on October 4, 2012, pursuant to the Master Agreement between Central Health and Seton. The CCC is a separate legal entity with the Central Health Board appointing a majority of its governing board, although it has certain approval requirements for material and reserved items. Due to certain powers reserved to Seton in the Master Agreement, Central Health cannot impose its will on the CCC. The CCC does not meet any of the GASB criteria for blended reporting and, therefore, is presented as a discrete component unit in these financial statements. See Note 10 for further information about the CCC and the Master Agreement with Seton.

As the co-applicant governing board, CommUnityCare is a separately incorporated 501(c)(3), but Central Health and CommUnityCare are joint holders of the Federally Qualified Health Center status that allows clinics operated by CommUnityCare to receive an enhanced level of Medicaid reimbursement and to participate in the Federal 340B program for reduced-cost prescription medicines. In addition, CommUnityCare’s economic resources are primarily for the benefit of Central Health’s constituents, Central Health has the ability to access a majority of the economic resources of CommUnityCare, and those resources are significant to Central Health. Accordingly, CommUnityCare is presented in this report as a discrete component unit of Central Health.

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

2. Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

Depreciation and amortization are recorded on the straight-line method over the estimated useful lives of the assets. Estimated useful lives for buildings and improvements are 20 to 50 years and equipment and furniture are 3 to 20 years. Estimated useful lives for land right-of-use assets is 73 years and buildings right-of-use assets are 30 to 39 months. Estimated useful lives for subscription-based IT assets are 24 to 73 months.

Compensated Absences - Central Health maintains a paid-time-off plan for absences from work for illness or vacation. Under the plan, the cost of all compensated absences is accrued at the time the benefits are earned. At the time of termination, unused paid-time-off benefits may be paid up to a maximum of 240 hours for administrative staff, 280 hours for provider staff, and 450 hours for executive staff.

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

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

Leases - Central Health is a lessee for noncancellable leases of land and buildings. Central Health recognizes a lease liability and an intangible right-to-use lease asset in the financial statements. Central Health recognizes lease liabilities with an initial, individual value of \$5,000 or more.

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

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

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

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

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

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

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

Subscription-Based Information Technology Arrangements - Central Health recognizes subscription-based information technology arrangement (“SBITA”) liabilities with an initial, individual value of \$250,000 or more and a contract term longer than twelve months.

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

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

Central Health monitors changes in circumstances that would require a remeasurement of its subscription and will remeasure the SBITA asset and SBITA liability if certain changes occur that are expected to significantly affect the amount of the SBITA liability.

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

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

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

Tobacco Settlement Revenue - Tobacco settlement revenue is the result of a settlement between various counties and hospital districts in Texas and the tobacco industry for tobacco-related health care cost. Central Health recognized \$6,817,278 associated with the settlement during the calendar year ended December 31, 2024. Settlement revenues for fiscal year 2025 are based on the investment earnings and the proportionate amount of eligible expenses to the entire pool of eligible expenses of the tobacco settlement fund as administered by the Comptroller’s Office of the State of Texas. Central Health is unable to estimate the continuance or level of future distributions.

During the year ended September 30, 2025, Central Health recognized its tobacco settlement revenue net of amounts distributed to Seton and to Travis County, which were \$1,041,213 and \$564,810, respectively, and are able to participate through a joint expense eligibility submission process through Central Health. Such amounts represent their respective share of total eligible local healthcare expenses claimed for the year ended September 30, 2025.

Opioid Settlement Revenue - Opioid settlement revenue is the result of settlements involving the State of Texas and various companies that had roles in contributing to the opioid crisis and opioid-related health care cost. The Texas Opioid Abatement Fund Council (“O AFC”) was formed to ensure that amounts recovered as a result of these settlements is allocated to put an end to the opioid crisis in Texas. O AFC provides a portion of the recovered amounts to healthcare entities such as Central Health, which are restricted for the purpose of remediating the opioid crisis, including the treatment and coordination of care, prevention and public safety, recovery support services, and workforce development and training. Central Health recognized \$1,108,668 associated with the settlement during the year ended September 30, 2025, all of which remained restricted for opioid remediation efforts as of September 30, 2025.

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

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

Central Health complies with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Deferred inflows of resources as of September 30, 2025 consisted of amounts related to leases.

Recently Issued Accounting Pronouncement - In May 2024, the GASB issued GASB Statement No. 103, *Financial Reporting Model Improvements*, effective for fiscal years beginning after June 15, 2025. The objective of GASB Statement No. 103 is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing an entity's accountability. GASB Statement No. 103 impacts the following areas: (1) Management's discussion and analysis - information is limited to topics discussed in five sections which include a) overview of the financial statements, b) financial summary, c) detailed analysis, d) significant capital asset and long-term financial activity, and e) currently known facts, decisions, or conditions. Information included in the detailed analysis should explain why balances and results of operations changed; (2) Unusual or infrequent items - these items are limited to transactions that are either unusual in nature or infrequent in occurrence and are displayed as the last presented flow of resources prior the net change in resource flows; (3) Proprietary funds - the statement of revenues, expenses, and changes in net position is now required to separately report noncapital subsidies and present a subtotal for operating income (loss) and noncapital subsidies before reporting nonoperating revenues and expenses. It also defines what constitutes a subsidy; (4) Major component unit information - each major component unit is required to be presented separately in the statement of net position and statement of activities unless it reduces the readability of the statements; (5) Budgetary comparison information - this is now required to be presented as required supplemental information and also must present variances between original and final budget amounts and variances between final budget and actual amounts. Management is evaluating the effects that the full implementation of GASB Statement No. 103 will have on its financial statements for the year ending September 30, 2026.

3. Deposits and Short-Term Investments

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

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

However, for the year ended September 30, 2025 collateral was maintained through a letter of credit from the FHLB, which in the case of default by JPMorgan Chase will act as agent for Central Health. During fiscal year 2025, collateral coverage was more than the 105% of bank balances, except for on one day during the year, occurring on October 11, 2024. The collateral balances were increased immediately the next business day to the required amount of collateral. As of September 30, 2025, Central Health’s bank balances in excess of federal depository insurance were fully collateralized.

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

Central Health is authorized to purchase, sell, and invest its funds and funds under its control in accordance with the Texas Public Funds Investment Act, Government Code Chapter 2256 and its subsequent amendments. During the fiscal period, investments consisted of U.S. government agencies securities, municipal bonds, commercial paper, and participation in three external local government investment pools (TexPool, TexSTAR and Texas Range). The carrying amount of investments as of September 30, 2025, is displayed on the statement of net position as short-term and restricted investments.

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

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

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

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

As of September 30, 2025, Central Health had the following investments:

Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pools	\$ 318,490,488	1
Government agencies	375,532,205	1,048
Municipal bonds	36,747,540	669
Total fair value	\$ 730,770,233	
Portfolio weighted average maturity		572

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

Credit Risk - State law limits investment in municipal bonds to an A rating or its equivalent by a nationally recognized investment rating firm. Central Health’s investment policy requires at least an A rating by a nationally recognized investment firm. For commercial paper, state law limits investments to a rating not less than A-1 by Standard & Poor’s or P-1 by at least two nationally recognized credit rating agencies. Central Health’s investment policy limits commercial paper to a rating not less than A-1 by Standard & Poor’s and P-1 by Moody’s Investors Service.

For investments in government agencies, Central Health’s investment policy requires at least an A rating by a nationally recognized investment firm. Central Health’s investments in government agencies carry the implicit guarantee of the U.S. government. Central Health’s investment policy requires that certificates of deposits be either federally insured or collateralized.

Investments at September 30, 2025	Standard & Poor’s or Moody’s Rating
Local government investment pools	AAAm
Government agencies	AA+
Municipal bonds	AAA, AA+, AA, AA-, A+, Aa2, A1

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

	Percentage of Portfolio	Portfolio Limit
Investments at September 30, 2025:		
Local government investment pools	44%	80%
Government agencies	51%	75%
Municipal bonds	5%	20%

Information regarding investments in any one issuer that represents five percent or more of Central Health’s total investments must be disclosed under GASB Statement No. 40, excluding investments issued or explicitly guaranteed by the U.S. government. As of September 30, 2025, Central Health’s investments which require disclosure are as follows:

	Fair Value	Percentage of Portfolio
Investments at September 30, 2025:		
Federal Home Loan Bank	\$ 148,226,839	20%
Federal Farm Credit Banks	\$ 104,112,463	14%
Federal National Mortgage Association	\$ 68,619,997	9%
Federal Agricultural Mortgage Corporation	\$ 42,541,875	6%

4. Disaggregation of Receivable Balances

Central Health's receivables, (including taxes receivable, risk adjustment receivables, other receivables, long-term receivables and the applicable allowances), are comprised of the following as of September 30, 2025:

	Taxes	Due from Component Units	Other	Total
Total	\$ 9,200,876	43,025,852	17,829,494	70,056,222
Less:				
Allowance for uncollectibles	(1,576,624)	-	(287,654)	(1,864,278)
Allowance for long-term collections	(4,189,379)	-	-	(4,189,379)
Total, net	<u>\$ 3,434,873</u>	<u>43,025,852</u>	<u>17,541,840</u>	<u>64,002,565</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ -</u>	<u>4,000,000</u>	<u>-</u>	<u>4,000,000</u>

As of September 30, 2025, due from component units consists of short-term operational cash-clearing amounts that includes a Sendero balance of \$1,137,646 in intercompany receivables, a CommUnityCare balance of \$5,261,947, which includes \$4,000,000 in noncurrent assets, and \$36,626,259 in claims financing receivable related to the Central Health Premium Assistance Program ("CHAP") advances to Sendero. As of September 30, 2025, the other receivable balance is comprised of \$12,942,269 in interest receivable on leases, \$4,133,615 accrued interest on investments, \$304,043 in miscellaneous receivables, \$152,286 in medical premiums receivable, and \$9,627 in net patient receivable.

5. Sendero Surplus Debenture

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

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

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

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

6. Capital Assets

Central Health's capital assets are comprised of the following as of September 30, 2025:

	Beginning Balance <u>(as restated)</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated and amortized:				
Land	\$ 28,846,314	-	(425,000)	28,421,314
Capital projects in progress	<u>29,532,645</u>	<u>73,847,974</u>	<u>(17,792,691)</u>	<u>85,587,928</u>
Total capital assets not being depreciated and amortized	58,378,959	73,847,974	(18,217,691)	114,009,242
Capital assets being depreciated and amortized:				
Building and improvements	89,228,483	-	14,805,374	104,033,857
Equipment and furniture	20,449,974	656,770	1,950,876	23,057,620
Right to use leased assets - land	42,921,307	-	-	42,921,307
Right to use leased assets - buildings	4,458,531	105,917	-	4,564,448
Subscription based IT assets	<u>12,513,675</u>	<u>5,267,599</u>	<u>-</u>	<u>17,781,274</u>
Total capital assets being depreciated and amortized	169,571,970	6,030,286	16,756,250	192,358,506
Less accumulated depreciation and amortization for:				
Building and improvements	(23,028,067)	(3,119,286)	-	(26,147,353)
Equipment and furniture	(17,137,089)	(1,247,617)	-	(18,384,706)
Right to use leased assets - land	(1,763,889)	(587,963)	-	(2,351,852)
Right to use leased assets - buildings	(2,004,667)	(1,421,869)	-	(3,426,536)
Subscription based IT assets	<u>(3,275,475)</u>	<u>(4,037,018)</u>	<u>-</u>	<u>(7,312,493)</u>
Total accumulated depreciation and amortization	<u>(47,209,187)</u>	<u>(10,413,753)</u>	<u>-</u>	<u>(57,622,940)</u>
Total capital assets being depreciated and amortized	<u>122,362,783</u>	<u>(4,409,553)</u>	<u>16,756,250</u>	<u>134,735,566</u>
Capital assets, net	<u>\$ 180,741,742</u>	<u>69,464,507</u>	<u>(1,036,441)</u>	<u>248,744,808</u>

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

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

In 2017, construction of the Dell Seton Medical Center at UT was completed and hospital operations were moved from Brackenridge Hospital located on the Downtown Brackenridge Campus to the new facility. After the move was completed, the Brackenridge Hospital facility was demolished and the site has been prepared for future development. Seton is leasing the existing hospital parking garage adjoining Dell Seton Medical Center at UT, but has terminated the lease of the Clinical Education Center effective October 1, 2024. In 2018, The 2033 Higher Education Development Foundation (“ The 2033”) and Central Health agreed to a long-term ground lease of two parcels within the Downtown Campus. The 2033 has completed construction of a new 17-story office building on the site formerly known as Block 164.

In August 2021, Central Health acquired property and buildings (formerly Sears building and existing CommUnityCare Clinic site) located in Hancock Center. Central Health intends to provide Healthcare Services and consolidate administrative operations for Central Health, CommUnityCare, and Sendero into this facility from multiple locations throughout Travis County. The building, almost 200,000 square feet, will serve as a healthcare hub for Central Health and CommUnityCare patients, including primary care, dental, specialty, and other ancillary services. The relocation of the David Powell Clinic and the CommUnityCare Hancock Clinic is anticipated to be opened in the spring of 2026, with the remaining facility to be completed by December 2026.

Construction of two new clinic facilities, Hornsby Bend Health and Wellness Center and Del Valle Health and Wellness Center began in 2022. Hornsby Bend Health was completed in 2024 and Del Valle Health and Wellness Center was completed in FY 2025. In addition, the Rosewood Zaragoza site, leased from the City of Austin, has undergone significant renovations to serve as a multi-specialty clinic that opened in the fall of 2024.

Central Health purchased an additional tract of land from the City of Austin in the Colony Park master development and is planning to construct a primary care health and wellness center to provide needed healthcare services.

In April 2023, Central Health purchased the Cameron Center, which consists of three buildings of approximately 116,000 square feet. Significant renovations will be required over the next few years to provide planned clinical services at this site.

In September 2024 Central Health began renovations on the Clinical Education Center for clinical and administrative use. The renovations were completed in July 2025, with the opening of a 50-bed medical respite center, in addition to the completion of administrative office space.

7. Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended September 30, 2025:

	Beginning Balance	Additions	Retirements	Ending Balance
Certificates of obligation	\$ 163,220,000	-	(6,800,000)	156,420,000
General obligation bonds	2,485,000	-	(1,235,000)	1,250,000
Premium on bonds	2,536,685	-	(135,454)	2,401,231
Total debt payable	<u>168,241,685</u>	<u>-</u>	<u>(8,170,454)</u>	<u>160,071,231</u>
Leases payable	45,421,284	100,090	(1,452,759)	44,068,615
Subscription-based IT payable	8,464,882	4,367,215	(4,169,363)	8,662,734
Total	<u>\$ 222,127,851</u>	<u>4,467,305</u>	<u>(13,792,576)</u>	<u>212,802,580</u>

Bonded debt consists of the following at September 30, 2025:

Series	Date of Issue	Amount of Original Issue	Matures Through	Interest Rate	Outstanding at 9-30-25	Due Within One Year
2020	5-5-2020	\$ 7,285,000	2026	1.26%	\$ 1,250,000	\$ 1,250,000
				2.00% -		
2021	9-21-2021	13,630,000	2041	5.00%	11,735,000	530,000
2021				1.05% -		
Taxable	9-21-2021	62,755,000	2041	2.65%	51,835,000	2,850,000
2023A	8-8-2023	8,385,000	2033	5.00%	7,045,000	735,000
				4.936% -		
2023B	8-8-2023	90,965,000	2043	5.587%	85,805,000	2,955,000
Total		<u>\$ 183,020,000</u>			<u>\$ 157,670,000</u>	<u>\$ 8,320,000</u>

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

The True Interest Cost Rate for the Certificates of Obligations Series 2023 (Limited Tax) \$8,385,000 and Taxable Series 2023 (Limited Tax) \$90,965,000 was 3.157% and 5.33%, respectively.

As of September 30, 2025, the debt service requirements of indebtedness to maturity are as follows:

Year Ended September 30,	Principal	Interest	Total
2026	\$ 8,320,000	6,142,325	14,462,325
2027	7,325,000	5,875,155	13,200,155
2028	7,590,000	5,616,839	13,206,839
2029	7,870,000	5,341,886	13,211,886
2030	8,165,000	5,049,796	13,214,796
2031-2035	43,635,000	20,370,745	64,005,745
2036-2040	49,430,000	11,502,072	60,932,072
2041-2043	25,335,000	1,799,348	27,134,348
Total	\$ 157,670,000	61,698,167	219,368,167

The general obligation bonds are secured by and payable from the proceeds of a limited ad valorem tax levied against taxable property within Central Health’s taxing jurisdiction. Central Health maintains an Aa2 Rating by Moody’s and was recently rated AA+ by Kroll Bond Ratings Agency.

During the year ended September 30, 2020, the Central Health Board approved a line of credit for furniture, fixtures, and equipment in the amount of \$10 million. The credit line is secured by a lien to the personal property or software subscription financed. Fixed rates are established at the time of the draw request at variable interest rates above the existing Interest Rate Swap Rate, as defined. As of September 30, 2025, Central Health has not drawn on the line of credit.

8. Leases

Central Health complies with GASB Statement No. 87, which specifies the required reporting of leases within the financial statements.

Lessee

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

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

As of September 30, 2025, the value of the lease liability is \$42,841,107. The lease has an implicit interest rate of 3.83%, which was the incremental borrowing rate for Central Health. The value of the right to use asset as of September 30, 2025 is \$40,569,455, net of accumulated amortization of \$2,351,852.

On April 11, 2023, Central Health entered into a lease as a lessee for the use of office space on Airport Blvd. The term of the lease is for 39 months with a renewal period through December 31, 2026 and establishes an initial monthly base rent amount of \$107,291. The base rent amount will be adjusted annually at an expected rate increase of 3.0%.

An initial lease liability was recorded in the amount of \$4,044,219. As of September 30, 2025, the value of the lease liability is \$1,018,550. The lease has an interest rate of 3.76%, which was the incremental borrowing rate for Central Health. The value of the right to use asset as of September 30, 2025 is \$933,283, net of accumulated amortization of \$3,110,936.

On November 20, 2023, the company entered into a lease as a lessee for a clinic site located in Capital Plaza. The initial term of the agreement is 18 months, with two 6-month optional renewal terms. Under the agreement, Central Health will make monthly payments of \$14,583 during the initial term and any optional renewal period.

An initial lease liability was recorded in the amount of \$414,312. As of September 30, 2025, the value of the lease liability is \$114,696. The lease has an interest rate of 4.56%, which was the incremental borrowing rate for Central Health. The value of the right to use asset as of September 30, 2025 is \$110,483, net of accumulated amortization of \$303,829.

On July 14, 2025, the company entered into a lease as a lessee for a clinic site located in Oakwood Arbors Medical Park. The initial term of the agreement is 18 months. Under the agreement, Central Health will make monthly payments of \$3,816 during the first twelve months and \$3,956 for the remainder of the lease.

An initial lease liability was recorded in the amount of \$105,917. As of September 30, 2025, the value of the lease liability is \$94,262. The value of the right to use asset as of September 30, 2025 is \$94,148 inclusive of accumulated amortization of \$11,769.

Future minimum lease payments as of September 30, 2025, were as follows:

Year Ended September 30,	Principal	Interest	Total
2026	\$ 1,203,519	1,131,123	2,334,642
2027	23,989	1,137,519	1,161,509
2028	-	1,162,545	1,162,545
2029	-	1,188,121	1,188,121
2030	-	1,214,260	1,214,260
2031-2055	-	40,780,011	40,780,011
2056-2080	-	70,261,880	70,261,880
2081-2094	42,841,107	16,798,647	59,639,753
Total	\$ 44,068,615	133,674,106	177,742,721

Lessor

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

As noted above, Central Health entered into the sublease with Seton to construct and operate the teaching hospital affiliated with the Dell Medical School at UT. The terms of the sublease are the same as the ground lease. The property must be used for hospital operations and to fulfill Central Health's requirement of providing safety net hospital services for low income or uninsured residents of Travis County. As of September 30, 2025, the value of the lease receivable is \$42,841,106. The value of the deferred inflows of resources as of September 30, 2025 was \$40,569,455.

With the opening of the new teaching hospital, Seton and Central Health negotiated a new lease for the Downtown Campus parking garage, Clinical Education Center ("CEC") building, and the CEC parking garage. The new lease was executed in December 2017 with an initial term of May 22, 2017 through September 30, 2024, with renewal options for seven additional terms each for 120 months thereafter for the Downtown Campus parking garage. The agreement reflects the relocation of hospital services previously provided at Brackenridge Hospital and the opening of the new Teaching Hospital located in close proximity. As of September 30, 2025, the value of the lease receivable is \$123,981,401. The value of the deferred inflows of resources as of September 30, 2025 was \$114,909,369. Central Health is in the process of renegotiating the Downtown Campus parking garage lease. The CEC building and CEC parking garage leases expired without renewal.

In August 2018, Central Health entered into a lease with a local limited partnership named The 2033 LP, established for the benefit of UT and Dell Medical School at UT, to lease approximately 2.8 acres on the Central Health Downtown Campus. The term of the lease is 99 years. In October 2018, 2033 LP assigned the lease to The 2033, a Texas nonprofit corporation. As of September 30, 2025, the value of the lease receivable is \$70,627,813. The value of the deferred inflows of resources as of September 30, 2025 was \$68,559,807.

In August 2021, Central Health acquired land and buildings (formerly the Sears building and existing CommUnityCare clinic site) located in Hancock Center. As part of the transaction transferring ownership of the Leased Premises, Central Health received an assignment of the lease of the CommUnityCare clinic building located on the premises. The lease was terminated during 2025 and as a result no deferred inflows of resources existed as of September 30, 2025.

In March 2023, Central Health acquired land and buildings known as the Cameron Center and entered into an agreement with a property management company to operate and service the property as well as manage the existing leases. The terms of the agreement are for twelve months with an additional one-year renewal period unless terminated by either party. The leasing arrangement was terminated during 2024 and no lease revenue was recognized in 2025.

In October 2024, Central Health entered into a lease with a company to lease medical office space in the CEC building. As of September 30, 2025, the value of the lease receivable is \$165,123. The value of the deferred inflows of resources as of September 30, 2025 was \$161,064.

The following is a summary of Central Health’s lease revenue for the year ended September 30, 2025:

Lease revenue:	
Building	\$ 4,425,073
Land	<u>1,412,505</u>
Total lease revenue	5,837,578
Interest revenue	<u>9,521,082</u>
Total	<u>\$ 15,358,660</u>

Future lease revenue for long-term lease agreements as of September 30, 2025, was as follows:

Year Ended September 30,	Principal	Interest	Total
2026	\$ 165,123	6,711,083	6,876,205
2027	-	6,851,948	6,851,948
2028	-	6,999,161	6,999,161
2029	-	7,149,542	7,149,542
2030	-	7,303,159	7,303,159
2031-2117	<u>237,450,320</u>	<u>684,587,947</u>	<u>922,038,268</u>
Total	<u>\$ 237,615,443</u>	<u>719,602,840</u>	<u>957,218,283</u>

9. Subscription Based Information Technology Arrangements (“SBITAs”)

Central Health complies with GASB Statement No. 96, which specifies the required reporting for SBITAs within the financial statements. As of September 30, 2025, Central Health has entered into SBITAs involving:

- Contract lifecycle management software
- Data management and data sharing
- IT service desk platform and support
- Enterprise Resource Planning (“ERP”) software product containing core accounting modules
- Private cloud and colocation hosting
- Construction management software
- Online medical learning and training software
- Cloud-based interface software and automation
- Cloud computing migration for IT environment
- Patient identity platform and support

The ending terms of the SBITAs range from February 2026 through December 2029 and payments on the SBITAs are due either monthly, annually, or biennially based on the agreements. The SBITAs are discounted at rates ranging from 3.60-4.72%, which represent the incremental borrowing rates for Central Health. The value of the SBITA asset as of September 30, 2025 is \$10,468,781, net of accumulated amortization of \$7,312,493.

Future minimum subscription payments as of September 30, 2025, were as follows:

Year Ended September 30,	Principal	Interest	Total
2026	\$ 4,124,667	321,969	4,446,636
2027	1,956,608	183,058	2,139,666
2028	1,595,484	97,446	1,692,930
2029	985,975	39,319	1,025,294
Total	<u>\$ 8,662,734</u>	<u>641,792</u>	<u>9,304,526</u>

10. Central Health/Seton Master and Ancillary Agreements

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

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

On September 3, 2020, Central Health sent a Notice of Breach to Seton, which was abated by agreement until May 1, 2022. The Notice of Breach specifies deficiencies in certain obligations required of Seton during the term of the existing Agreements between the parties.

On May 2, 2022, Seton sent a notice of dispute in response to Central Health’s Notice of Breach. On May 10, 2022, Seton sent a notice of breach to Central Health and Central Health responded with its notice of dispute. Both parties invoked the dispute-resolution process set forth in Section 7 of the Master Agreement.

On January 24, 2023, the formal mediation and dispute-resolution process ended and Central Health filed suit against Seton related to the material breaches. Seton responded by filing its own lawsuit against Central Health. On May 2, 2023, Seton sent Central Health a Funding Deadlock and Governance Deadlock notice. The parties mediated on October 19, 2023 and did not resolve the Funding Deadlock or the Governance Deadlock. On April 2, 2025, both parties agreed to an Agreed Motion to Abate for a period of 150 days from April 2, 2025, to August 30, 2025. On September 9, 2025, both parties executed a Court-approved Order to Extend Abatement agreement until March 31, 2026.

11. Appraisal District and Ad Valorem Taxes

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

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

The Central Health FY 2025 tax levy was \$351,363,193. Central Health levied taxes based on January 1, 2024 assessed values at a tax rate of \$0.107969 per \$100 of assessed valuation.

12. Interlocal Agreement with the City of Austin

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

13. Interlocal Agreements with Travis County

Central Health entered into an Interlocal agreement with Travis County in which Travis County provides legal, investment and other services for Central Health along with the tax collection services discussed in Note 11. Central Health also entered into several leases of mixed-use facilities from Travis County for primary care (clinic) sites that, pursuant to State law, did not transfer to Central Health. The mixed-use facility leases are in effect until September 30, 2029, if not terminated earlier by either party. There is minimal expense to Central Health. CommUnityCare is responsible for the clinics and the associated operating and maintenance expense for each facility.

14. Agreement with CommUnityCare

Effective March 1, 2009, Central Health and CommUnityCare were approved by the Health Resources and Services Administration (HRSA) as co-applicants under a public entity model. Under the approved Agreement, Central Health holds the Federally Qualified Health Center (FQHC) designation, while CommUnityCare manages the operations of the clinics. Central Health also owns assets utilized by CommUnityCare under an equipment and facilities agreement. Central Health has a contractual agreement with CommUnityCare to provide clinical services to qualifying Travis County residents under the Medical Access Program (MAP) and MAP Basic programs. During the year ended September 30, 2025, CommUnityCare provided services in the amount of \$76 million.

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

15. The University of Texas Affiliation Agreement

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

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

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

- The enhancement of medical services for residents of Travis County;
- Directly or indirectly increasing health care resources available to provide services to Travis County residents;
- The discovery and development of new procedures, treatments, drugs, and medical devices that will augment the medical options available to Travis County residents;
- Development and operation of collaborative and integrated health care for Travis County residents; and

- Direct operating support to UT to be used for:
 - The development, accreditation, and ongoing operation of the Dell Medical School and its administrative infrastructure;
 - Recruitment, retention and work of Dell Medical School faculty, residents, medical students, researchers, administrators, staff and other clinicians; and
 - Related activities and functions as described in the affiliation agreement.

The CCC paid UT annual Permitted Investment Payments in the amount of \$35 million each year from 2014 to 2022. In FY 2023, of the \$35 million due to UT, CCC paid \$12,570,000 and Central Health paid \$22,430,000. In FY 2024 and FY 2025, CCC did not have sufficient funds to make the required annual Permitted Investment Payments, which in this event becomes the responsibility of Central Health, to the extent it is permitted to do so by the Constitution and the Laws of the State of Texas. The initial term of the affiliation agreement is 25 years from the effective date, with an automatic renewal for a successive 25 year term.

16. Legislation Changes

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

During the year ended September 30, 2025 Central Health collected \$335,087,911 in mandatory payments from participating hospitals and made intergovernmental transfers of \$329,101,507. As of September 30, 2025, Central Health held \$8,701,210 in mandatory payments that will be used for future funding of eligible supplemental payment programs.

During the 86th Legislature, the State of Texas passed Senate Bill (SB) 1142 which provides Central Health the authority to appoint, contract for or employ physicians to provide direct medical care to patients. Since then, Central Health has embarked on building a comprehensive system that delivers direct clinical care to its patients through directly employed physicians.

Central Health is currently providing direct clinical services to patients at the East Clinic, Capital Plaza, Rosewood Zaragosa, ENT Clinic, and Medical Respite Center. Additional clinical sites are being constructed at Hancock Center, Colony Park and Cameron Center, with opening dates planned in the next one to three years.

17. Deferred Compensation Plan

Central Health offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. Central Health matches one-half of the employee's contribution, up to a maximum of 2%. Assets and income of Central Health's plan are administered by a private Trustee under contract with Central Health and are held for the exclusive benefit of the participants and their beneficiaries. Accordingly, the plan's assets and liabilities are not recorded in Central Health's financial statements. During the year ended September 30, 2025, Central Health contributed \$338,622 to the plan under Central Health's deferred compensation matching program.

18. Retirement Plan

In October 2007, Central Health began offering its employees a defined contribution 401(a) plan established in accordance with Internal Revenue Code Section 401(a). After an initial 120 days of employment, a mandatory 6% is deducted pre-tax from employee earnings. Central Health matches 100% of the 6% employee deduction. Assets and income of Central Health's plan are administered by a private Trustee under contract with Central Health and are held for the exclusive benefit of the participants and their beneficiaries. Accordingly, the plan's assets and liabilities are not recorded in Central Health's financial statements. During the year ended September 30, 2025, Central Health contributed \$3,275,483 to the plan under Central Health's retirement program.

19. Health Care Coverage

Central Health manages a self insured plan for health insurance benefits for employees. Central Health contributes to employee's health insurance at the same rates for all individual and family plans, however, employee and employer contributions were used to begin to establish the necessary reserves to fund claims. In addition, Central Health uses a licensed insurer as third-party administrator to provide the same network of health coverage programs, administer claims and administer stop loss coverage for claims over a set threshold, limiting Central Health's risk for high dollar claims. On average, Central Health contributed \$814 per month per employee to the plan during the entire year ended September 30, 2025. As of September 30, 2025 the incurred but not reported liability was \$3,357,800 with claims payments of \$24,453,271. During the year ended September 30, 2025, Central Health designated \$2.0 million of unrestricted net position for the funding of the plan.

20. Risk Management

Central Health's risk management program includes coverage through third party insurance providers for general liability, property damage, officers' professional liability, workers compensation, cyber, and other types of insurance as appropriate. During the year ended September 30, 2025, there were no reductions in insurance coverage from the prior year that were outside of current industry standards and there have been no claims filed other than routine claims for property damage, workers compensation, and employment matters, none of which were significant.

21. Commitments and Contingencies

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

Per Section 3.2 of the Affiliation Agreement between UT, Central Health, and the CCC, Central Health shall be responsible for any portion of the annual \$35 million Affiliation Payment, subject to the terms of the Affiliation Agreement and to the extent the CCC is unable to fund the annual payment amount. During FY 2025, Central Health paid \$35 million of the Affiliation Payment and has budgeted the entire \$35 million Affiliation Payment in FY 2026 as the guarantor to the extent permitted by the Constitution and the Laws of the State of Texas.

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

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

Central Health continues to manage its operations to maintain positive cash flow, and management believes that Central Health has sufficient liquidity and financial resources to sustain operations and meet obligations as they become due.

23. Subsequent Events

Central Health evaluated subsequent events through February 28, 2026 (the date the financial statements were available to be issued).

In December 2025, the District issued \$248,855,000 of Series 2025 bonds maturing on March 1, 2055. The proceeds will be used to purchase, construct and renovate various properties for clinical and administrative purposes.

In November 2025, the District purchased a building for administrative offices in Promontory Point for \$14,000,000. Also, in December 2025, the District purchased a building for clinical services in Northview for \$21,075,000.

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

To the Board of Managers of
Travis County Healthcare District:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Travis County Healthcare District (dba and hereinafter referred to as "Central Health"), as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise Central Health's basic financial statements, and have issued our report thereon dated February 28, 2026.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Maxwell Locke & Ritter LLP

Austin, Texas
February 28, 2026