

Methodist Healthcare Ministries of South Texas, Inc.

Consolidated Financial Report
December 31, 2023

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Independent Auditor's Report

Finance Committee of the Board of Directors
Methodist Healthcare Ministries of South Texas, Inc.

Opinion

We have audited the consolidated financial statements of Methodist Healthcare Ministries of South Texas, Inc. (MHM), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, based on our audits and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the financial position of MHM as of December 31, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Methodist Healthcare System of San Antonio, Ltd., LLP (MHS), a partnership and, as discussed in Note 1 to the financial statements, an investment, which is accounted for using the equity method of accounting and, as discussed, whose investment totaled \$879.1 million and \$750.0 million, respectively, at December 31, 2023 and 2022, and total equity in earnings totaled \$251.1 million and \$275.2 million respectively, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion for 2023 and 2022, insofar as it relates to the amounts included for MHS, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MHM and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 these 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 MHM's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of 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 auditor's 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 GAAS 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 GAAS, 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 MHM'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 MHM'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.

RSM US LLP

San Antonio, Texas
September 20, 2024

Methodist Healthcare Ministries of South Texas, Inc.

Consolidated Statements of Financial Position

December 31, 2023 and 2022

(In Thousands)

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 197,094	\$ 199,665
Prepaid expenses and other current assets	1,765	1,429
Total current assets	198,859	201,094
Assets limited as to use:		
Board-designated investments	837,639	727,016
Board-designated cash	236	225
Total board-designated portfolio	837,875	727,241
Research and Development Fund, net of adjustment to carrying value of \$880 (\$880 in 2022)	612	666
Endowment funds	228	217
Total assets limited as to use	838,715	728,124
Property, equipment and land, net	43,930	43,114
Investment in Methodist Healthcare System of San Antonio, Ltd., LLP	879,094	749,960
Total assets	\$ 1,960,598	\$ 1,722,292
Liabilities and Net Assets		
Current liabilities:		
Accounts payable, accrued expenses and other current liabilities	\$ 7,423	\$ 6,856
Grants payable	10,446	6,117
Total current liabilities	17,869	12,973
Total liabilities	17,869	12,973
Commitments and contingencies (Note 11)		
Net assets:		
Without donor restrictions:	1,942,629	1,709,219
With donor restrictions:		
Restricted in perpetuity	100	100
Total net assets	1,942,729	1,709,319
Total liabilities and net assets	\$ 1,960,598	\$ 1,722,292

See notes to consolidated financial statements.

Methodist Healthcare Ministries of South Texas, Inc.

Consolidated Statements of Activities
Years Ended December 31, 2023 and 2022

(In Thousands)

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:			
Equity in earnings from Methodist Healthcare System of San Antonio, Ltd., LLP	\$ 251,134	\$ -	\$ 251,134
Net investment return	110,634	-	110,634
Other operating income	11,457	-	11,457
Total revenue, gains and other support	373,225	-	373,225
Expenses:			
Program expenses	126,610	-	126,610
Management and general expenses	13,205	-	13,205
Total expenses	139,815	-	139,815
Change in net assets	233,410	-	233,410
Net assets, beginning of year	1,709,219	100	1,709,319
Net assets, end of year	<u>\$ 1,942,629</u>	<u>\$ 100</u>	<u>\$ 1,942,729</u>

See notes to consolidated financial statements.

2022

Without Donor Restrictions	With Donor Restrictions	Total
\$ 275,154	\$ -	\$ 275,154
(95,502)	-	(95,502)
4,182	-	4,182
183,834	-	183,834
101,009	-	101,009
11,017	-	11,017
112,026	-	112,026
71,808	-	71,808
1,637,411	100	1,637,511
\$ 1,709,219	\$ 100	\$ 1,709,319

Methodist Healthcare Ministries of South Texas, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

(In Thousands)

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 233,410	\$ 71,808
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,957	1,953
Loss (gain) on disposal of equipment	3	(2,079)
Realized (gain) on investments	(23,870)	(24,343)
Unrealized (gain) loss on investments	(78,642)	126,699
Reserve on Research and Development Fund assets	54	221
Earnings from investment in Methodist Healthcare System of San Antonio, Ltd., LLP	(251,134)	(275,154)
Distributions from investment in Methodist Healthcare System of San Antonio, Ltd., LLP	122,000	215,000
Changes in:		
Prepaid expenses and other current assets	(336)	15
Accounts payable, accrued expenses and other current liabilities	567	118
Grants payable	4,329	290
Net cash provided by operating activities	8,338	114,528
Cash flows from investing activities:		
Purchases of property and equipment	(2,776)	(14,063)
Proceeds from sale of property and equipment	-	4,852
Purchases of investments	(186,954)	(377,035)
Proceeds from sales/maturities of investments	178,832	359,906
Net cash used in investing activities	(10,898)	(26,340)
Net (decrease) increase in cash and cash equivalents	(2,560)	88,188
Cash and cash equivalents:		
Beginning	199,890	111,702
Ending	\$ 197,330	\$ 199,890
Cash and cash equivalents	\$ 197,094	\$ 199,665
Board-designated cash	236	225
	\$ 197,330	\$ 199,890
Supplemental disclosure of cash flow information:		
Cash paid for income tax	\$ 97	\$ 116

See notes to consolidated financial statements.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies

Organization: Methodist Healthcare Ministries of South Texas, Inc. (MHM), a faith-based, tax-exempt nonprofit corporation incorporated under the laws of the state of Texas, was originally chartered in 1955 by the Rio Texas Conference (the Conference), formerly known as the Southwest Texas Conference of The United Methodist Church. The members of the Board of Directors (the Board) are approved annually by the Conference, and represent a variety of community leaders, including a number of local United Methodist Church officials. At all times, at least 60% of the Board must be members of The United Methodist Church. MHM was formerly known as Southwest Texas Methodist Hospital (the Hospital), a hospital operated for charitable, scientific, educational and religious purposes.

On January 11, 1995, MHM entered into a partnership agreement with Columbia/HCA Healthcare Corporation of Central Texas (HCA-Central), an indirect wholly owned subsidiary of HCA Inc. (HCA Inc. was acquired effective November 17, 2006, by Hercules Holding II, LLC), to form a Texas limited partnership, Methodist Healthcare System of San Antonio, Ltd., LLP (the Partnership), to provide healthcare services to San Antonio and the surrounding areas. The Partnership filed a certificate to add the designation of limited liability partnership effective June 5, 2003. HCA Inc. is a holding company whose affiliates own and operate hospitals and related healthcare entities. The Partnership is structured with two general partners, MHM and HCA-Central, each with a 20% general partnership interest. The two general partners also hold limited partnership interests, with MHM holding 30% and HCA-Central and other wholly owned subsidiaries of HCA Inc. holding a combined 30%. Each partner, in exchange for its partnership interest, contributed substantially all its hospital-related assets and liabilities located in the San Antonio area. All distributions shall be in proportion to each partner's sharing percentage. Under the partnership agreement, as amended, the partners' sharing percentages for allocation of partnership income or loss were 20% to each general partner and 30% to each limited partner. As a nonprofit corporation, MHM has the responsibility to ensure quality care is available to everyone at Methodist Healthcare System facilities, including those without financial means to pay for hospital services, in accordance with its eligibility policy for charity care.

Since MHM owns 50% of the Partnership and appoints 50% of the Partnership's Board of Governors, including the chair, the investment in the Partnership is accounted for using the equity method of accounting. Under the equity method of accounting, the Partnership's accounts are not reflected within MHM's consolidated statements of financial position and consolidated statements of activities; however, MHM's share of the earnings or losses of the Partnership is reflected in the caption equity in earnings from Methodist Healthcare System of San Antonio, Ltd., LLP in the consolidated statements of activities.

On April 10, 1996, Wesley Primary Care Clinic (WPCC) was originally incorporated as a not-for-profit corporation under the Texas Nonprofit Corporation Act. WPCC is currently certified as a not-for-profit health organization under Chapter 177 of the Texas Medical Board Rules and Regulations and Section 162.001(b) of the Texas Occupation Code. MHM is the sole member of WPCC, which was created for the purpose of hiring physicians and dentists to provide medical and dental services at MHM's clinics.

WPCC has responsibility for all medical and dental practice issues, including salaries and benefits for physicians and dentists. All other activities and expenses of WPCC are managed by MHM and are reflected as direct program expenses of MHM.

On October 13, 2023, MHM Real Co, LLC was incorporated as a for profit company with the State of Texas. MHM has 100% ownership. MHM Real Co, LLC business purpose is related to real estate development.

The consolidated financial statements of MHM include the accounts of MHM, WPCC and MHM Real Co, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Mission statement: Serving Humanity to Honor God.

Vision statement: To be the leader for improving wellness of the least served.

Charity program spending: MHM is committed to nurturing the health and well-being of the whole individual—physically, mentally and spiritually. It is also committed to the concept of empowering others—existing agencies, programs and people—by providing resources, so specific needs of the local communities are identified and met. Strict policies of review, selection and oversight in resource allocation are maintained by the Board and staff of MHM to ensure the greatest results are achieved and existing services are not duplicated but enhanced.

MHM incurred \$126.6 million and \$101.0 million in 2023 and 2022, respectively, for program expenses for operating programs and grants, and \$2.8 million and \$9.2 million in 2023 and 2022, respectively, for all capital expenditures and related to programs to improve individual and family health in South Texas for the least served.

The following is a summary of program expenses for operating programs and grants:

<i>(In Thousands)</i>	Years Ended December 31	
	2023	2022
Medical and dental services:		
Operating programs:		
Wesley Health & Wellness Center:		
Dixon Health & Wellness Center and		
School-Based Health Centers	\$ 34,697	\$ 31,854
Health and wellness programs:		
Operating programs:		
Wesley Nurse Program	12,670	11,260
Parenting Programs	1,830	1,654
Family Wellness Programs	1,433	1,180
Behavioral Health Services	6,351	5,731
Health Education/Nutrition	2,543	2,273
Total operating programs	<u>59,524</u>	<u>53,952</u>
Policy and Strategy Department	3,749	2,554
Organizational Excellence & Organizational Learning	3,121	2,286
Community Investments Department	2,050	1,459
Church Connections & Spiritual Care	750	495
Communities of Solutions	4,192	726
Strategic Opportunity Funds	9,633	6,420
Grants to external partners	43,591	33,117
Total program expenses	<u>\$ 126,610</u>	<u>\$ 101,009</u>
Capital expenditures for programs	<u>\$ 2,776</u>	<u>\$ 9,211</u>

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Brief descriptions of the operating programs funded by MHM include the following:

Medical and dental services: MHM owns and operates the Wesley Health & Wellness Center (WHWC), the Dixon Health & Wellness Center (DHWC) and School-Based Health Centers. Both WHWC and DHWC clinics provide holistic, multidisciplinary programs for families, adults and children. Services include a primary care medical clinic and general and specialty dentistry, as well as patient education and behavioral health services, including counseling, case management and emergency assistance. The clinics address the needs of people who cannot afford health insurance. Services are provided on a sliding scale fee based upon ability to pay, household income and family size.

Primary medical, dental and counseling services are provided by MHM through School-Based Health Centers to school-age children and their siblings up to age 21 who live in the Schertz-Cibolo-Universal City Independent School District and Marion Independent School District, where such services are not readily available. The sites currently are at Krueger Elementary in Marion, Texas and Schertz Elementary in Schertz, Texas.

Health and wellness programs: The Wesley Nurse Program (WNP) spans more than 80 sites throughout South Texas and is MHM's largest geographic outreach program. The professional practice of the Wesley Nurse is not limited to the physical dimension of medical needs; rather, it includes a mind, body and spirit holistic approach. A key component Wesley Nurses undertake in their communities is providing health education, health promotion and facilitation of resources. Wesley Nurses assist individuals and communities in achieving improved health and wellness through self-empowerment and access to healthcare resource information.

Community health workers work closely with the WNP to help MHM do community outreach to least served communities, and link people to resources available in the community.

Parenting programs include Parents as Teachers' and the Peer Parenting program—parent education programs designed to help parents understand their children's individual needs and development, as well as their own roles and responsibilities as a parent. We also stress the importance of education and school readiness so children can succeed. MHM is a licensed network affiliate of the Parents as Teachers' program, with services targeted for children ages zero through five, by conducting personal home visits, hosting monthly socialization, and learning events. MHM offers the Peer Parenting programs for young parents, growing families and parents of children with special needs. These support groups take place weekly in various locations throughout San Antonio and are conducted in both English and Spanish.

Family wellness programs are available for youth, adults and seniors to promote health and wellness through social interaction, building family unity, exercise and education. Recreation and enrichment activities include exercise classes, summer camp and after school opportunities, crafting groups for socialization, clinic auxiliary group, support groups and a community justice program.

Behavioral health services have been extended into the Coastal Bend Area, Kerrville, Rio Grande Valley and Laredo through Community Based Counseling programs. Counseling is provided by licensed professional counselors and licensed clinical social workers.

Health education and nutrition is a vital component of MHM. The primary focus is to provide educational support through MHM clinics by offering health education programs to clinic patients on an individual and group basis, and to the general community.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Get Families in Training (FIT) is an afterschool and summer program in rural areas of our service region. The program is committed to promoting health in children and their families through physical activity and health education.

Grants to external partners: Beginning in 1996, MHM has partnered with other community health centers and providers with similar missions through grants. This collaborative effort allows MHM to provide healthcare services at a lower cost through partnering with existing organizations in the underserved areas of San Antonio and South Texas. All grants to partners are funded based on the demonstrated performance of the specific grant objectives. Grantees must spend the funds awarded for the intended purpose of the grant, and report outcomes to MHM, which are reviewed by MHM staff and Board members.

Community capacity building is another important component of the organization fulfilling its mission. The Prosperemos Juntos | Thriving Together (PJTT) program is a capacity-building opportunity for communities in south and central Texas to substantially accelerate their equity journey. The goal of this collaborative is to equip coalitions with skills and resources to strategically advance health equity.

Basis of accounting: The accompanying consolidated financial statements have been prepared on the accrual basis of accounting applicable to not-for-profit organizations in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Support and revenue are reported as an increase in net assets without donor restrictions unless use of the related assets is limited by donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (e.g., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

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

Basis of presentation: In accordance with the Not-for-Profit Entities topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), MHM reports information regarding its financial position and activities according to two classes of net assets: without and with donor restrictions.

Under these provisions, net assets and revenue, expenses, gains and losses are classified as without and with donor restrictions based on the following criteria:

Without donor restrictions: Net assets not subject to donor-imposed restrictions.

With donor restrictions: Net assets subject to irrevocable donor restrictions or restrictions requiring that assets be maintained in perpetuity, usually for the purpose of generating investment income to fund annual operations or to be used for a charitable purpose, or net assets that are subject to donor restrictions contingent upon specific performance of a future event or passage of time before MHM may spend the funds.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Cash and cash equivalents: Highly liquid securities with maturities of three months or less are reported as cash equivalents, excluding amounts whose use is limited by Board designation. MHM routinely invests its surplus operating funds in vehicles such as interest-earning and non-interest-earning bank accounts, money market funds and other short-term investments. The carrying amount reported in the consolidated statements of financial position approximates the fair value of all short-term cash positions.

Investments: Managed accounts and mutual funds are reported at fair value based on readily available quoted market prices. Private, alternative investments such as hedge funds, are carried at fair value based on net asset values (NAVs) or capital account balances disclosed in the respective audited consolidated financial statements. The estimated fair value of securities for which there are no quoted market prices can be based on other methods, such as the pricing of similar types of securities, broker quotes and price modeling. These pricing inputs typically apply to assets held by hedge funds in which MHM invests and the pricing of those assets, and the fund overall is performed by the manager and its administrator and reported in the financial statements of the manager. Unrealized gains and losses in investments are included in the consolidated statements of activities.

MHM has an investment policy that is reviewed and updated biannually that sets guidelines and constraints to ensure the portfolio is appropriately diversified.

Assets limited as to use: Assets limited as to use consisting of cash, money market funds, mutual funds, endowments, and debt and equity positions are carried at fair value. The Research and Development Fund is carried at cost. Investments in partnerships are recorded based on MHM's share of the partnership's underlying value of portfolio securities, as reported to MHM by the related investment managers. Gains and losses and investment income/losses are reported as net assets without or with donor restrictions, as appropriate. Any changes in the NAV of these assets are reflected as unrealized gains or losses.

Property, equipment and land: Property and equipment acquisitions are recorded at cost. Depreciation is calculated on the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the lease term. MHM follows the practice of capitalizing all capital equipment with a unit cost of \$5,000 or greater and has a probable useful life of two or more years. Building and leasehold improvements include all renovations made to an existing building structure.

The estimated life used in computing depreciation and amortization is as follows:

Buildings	30 years
Building improvements	10-15 years
Leasehold improvements	3-5 years
Major moveable equipment/office furnishings	3-15 years

Impairment of long-lived assets: MHM reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects and the effects of obsolescence, demand, competition and other economic factors. MHM did not recognize an impairment loss during the years ended December 31, 2023 and 2022.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Leases: In February 2016, the FASB issued ASC Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statements of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the statement of activities. MHM adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, MHM has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with MHM's historical accounting treatment under ASC Topic 840, Leases.

MHM elected the package of practical expedients under the transition guidance within Topic 842, in which MHM does not reassess: (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. MHM has not elected to adopt the hindsight practical expedient and, therefore, will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

MHM determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) MHM obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. MHM also considers whether its service arrangements include the right to control the use of an asset.

MHM made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, MHM made an accounting policy election available to nonpublic companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

MHM has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate, vehicle and equipment asset classes. The non-lease components typically represent additional services transferred to MHM, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Adoption of Topic 842 did not result in the recording of additional ROU assets and lease liabilities related to MHM's operating leases as the total amount of leases identified was immaterial to MHM's financial statements. The adoption of the new lease standard did not materially impact consolidated net earnings or consolidated cash flows and did not result in a cumulative-effect adjustment to the opening balance of retained earnings.

Contributions: All contributions (recorded in other operating income in the consolidated statements of activities) are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes, are reported as support with donor restrictions that increases that net asset class. However, if a restriction is fulfilled in the same time period in which the contribution is received, MHM reports the support as income without donor restrictions.

Unconditional promises to give are recorded in the financial statements when there is sufficient evidence in the form of verifiable documentation that a promise is made and received. Conditional promises to give are not recognized until the conditions on which they depend on are met. No conditional promises to give have been received for the years ended December 31, 2023 and 2022.

In-kind support and donated personal services of volunteers: In-kind support is recorded as revenue and expense in the accompanying consolidated statements of activities only if the contribution meets the requirements of Not-for-Profit Entities of the ASC. In accordance with the ASC, for contributed services to be recognized as revenue, services must be those that would normally be paid for, the same as those normally provided by the donor, and clearly measurable. Volunteers at WHWC donate their time to support the various programs. Donated volunteer hours for which no value has been assigned (since they did not meet the criteria under the ASC) totaled 888 hours and 2,082 hours at December 31, 2023 and 2022, respectively.

MHM receives rental space for a nominal amount for the medical and dental operating sites at the Marion and Schertz-Cibolo-Universal City Independent School Districts. No amounts have been recognized for this rental space in the consolidated statements of activities due to the insignificant amount of the donation.

Functional allocation of costs: The costs of providing the program and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, costs are allocated to the programs and management and general expenses based on actual use or estimated use if actual use is not readily determinable.

Concentrations of credit risk: MHM may maintain all or a portion of its cash balances in bank deposit accounts that, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation up to a maximum of \$250,000 per bank. To date, MHM has not experienced any losses in such accounts.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Adopted accounting pronouncements: In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The Board is issuing the amendments in this update to enhance the transparency and decision usefulness of income tax disclosures. Investors, lenders, creditors, and other allocators of capital indicated that the existing income tax disclosures should be enhanced to provide information to better assess how an entity's operations and related tax risks and tax planning and operational opportunities affect its tax rate and prospects for future cash flows. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2024. For entities other than public business entities, the amendments are effective for annual periods beginning after December 15, 2025. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. MHM has adopted ASU 2020-07 for the year ended December 31, 2023, with no material impact.

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets. The amended guidance replaces the current incurred loss impairment methodology of recognizing credit losses when a loss is probable, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to assess credit limit estimates. The amended guidance is effective for MHM on January 1, 2023. The impact of the adoption is not considered material to the consolidated financial statements and primarily resulted in enhanced disclosures only. MHM has adopted ASU 2016-13 for the year ended December 31, 2023, with no material impact.

Recent accounting pronouncements: In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, an amendment to ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The FASB issued the update to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to the following: (1) recognition of an acquired contract liability and (2) payment terms and their effect on subsequent revenue recognized by the acquirer. The amendment is effective for MHM beginning in fiscal years after December 15, 2023. MHM is in the process of evaluating the effect of the amendment.

In March 2023, the FASB issued ASU 2023-01, *Leases (Topic 842): Common Control Arrangements*. Since the issuance of ASU 2016-02, *Leases (Topic 842)*, the FASB has prioritized monitoring and assisting stakeholders with the implementation of Topic 842 through its Post-Implementation Review (PIR) process. PIR activities include, but are not limited to, responding to technical accounting inquiries and proactively seeking feedback on issues arising from applying Topic 842. The amendments in this update respond to private company stakeholders' concerns about applying Topic 842 to related-party arrangements between entities under common control. The amendments in this update for both Issue 1 and Issue 2 are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been made available for issuance. MHM is in the process of evaluating the effect of the amendment.

Subsequent events: MHM has evaluated subsequent events for potential recognition and/or disclosure through September 20, 2024, the date the financial statements were available to be issued.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements and Disclosures

The accounting guidance for fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in its principal market, or in the absence of a principal market, the most advantageous market for the investment. MHM accounts for its investments at fair value. MHM has elected to report the fair value of certain NAV instruments, primarily those included in alternative investments and mutual funds, using the practical expedient. The practical expedient allows for the use of NAV, either as reported by the investee fund or as adjusted by MHM based on various factors to be used to determine fair value under certain conditions. The fair value of the investment is based on a combination of audited financial statements of the investees, and monthly or quarterly statements received from the investees.

In accordance with the guidance, MHM has categorized its investments, based on the priority of the inputs to the valuation technique, which gives the highest priority to quoted prices in active markets and the lowest priority to unobservable inputs, into a three-level fair value hierarchy. These levels are as follows:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs are observable, other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Inputs are unobservable, supported by little or no market activity and significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

For the Level 3 assets held by MHM, reliance is on manager reporting of the asset valuation with due diligence work conducted by MHM to understand the valuation process being used and its appropriateness.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth on the following pages.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements and Disclosures (Continued)

The following table represents assets measured at fair value on a recurring basis as reported in the consolidated statements of financial position as of December 31, 2023 and 2022, and by level within the fair value measurement hierarchy:

	Fair Value Measurement at December 31, 2023				
	<i>(In Thousands)</i>				
	Total	Level 1	Level 2	Level 3	Investments Valued at NAV
Managed accounts:					
Equity	\$ 251,691	\$ 251,691	\$ -	\$ -	\$ -
Fixed income	32,151	28,917	-	3,234	-
Total managed accounts	283,842	280,608	-	3,234	-
Mutual funds	303,658	-	-	-	303,658
Alternative investments:					
Balyasny Atlas Enhanced Fund, Ltd.	41,299	-	-	-	41,299
Evanston Weatherlow Offshore Fund I, Ltd.	64,558	-	-	-	64,558
Evanston Credit Opportunities	14,627	-	-	-	14,627
ACL Alternative Fund	18,285	-	-	-	18,285
Chatham Asset High Yield Offshore Fund, Ltd.	39,956	-	-	-	39,956
Huizenga Venture Investments II LLC	4,545	-	-	4,545	-
Huizenga Venture Investments III LLC	901	-	-	901	-
DWS RREEF America REIT II	18,285	-	-	-	18,285
Portfolio Advisors Secondary Fund IV LP	19,433	-	-	19,433	-
SEI Core Property Fund LP	6,386	-	-	-	6,386
SEI Energy Debt Fund LP	232	-	-	-	232
SEI Structured Credit Fund LP	6,970	-	-	-	6,970
SEI Special Situations Fund LP	12,995	-	-	-	12,995
SEI Global Private Assets IV Fund LP	1,214	-	-	-	1,214
SEI Global Private Assets V Fund LP	453	-	-	-	453
Total alternative investments	250,139	-	-	24,879	225,260
Total board-designated investments	837,639	280,608	-	28,113	528,918
Roy Campbell, III Endowment Fund	128	128	-	-	-
Endowment Fund	100	100	-	-	-
Total endowment funds	228	228	-	-	-
	\$ 837,867	\$ 280,836	\$ -	\$ 28,113	\$ 528,918
Percent of investment portfolio	100.0%	33.5%	0.0%	3.4%	63.1%

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements and Disclosures (Continued)

Fair Value Measurement at December 31, 2022 (In Thousands)					
	Total	Level 1	Level 2	Level 3	Investments Valued at NAV
Managed accounts:					
Equity	\$ 192,454	\$ 192,454	\$ -	\$ -	\$ -
Fixed income	30,576	27,459	-	3,117	-
Total managed accounts	223,030	219,913	-	3,117	-
Mutual funds	263,146	-	-	-	263,146
Alternative investments:					
Balyasny Atlas Enhanced Fund, Ltd.	40,313	-	-	-	40,313
Evanston Weatherlow Offshore Fund I, Ltd.	59,882	-	-	-	59,882
Evanston Credit Opportunities	13,559	-	-	-	13,559
ACL Alternative Fund	19,810	-	-	-	19,810
Chatham Asset High Yield Offshore Fund, Ltd.	36,935	-	-	-	36,935
Huizenga Venture Investments II LLC	3,072	-	-	3,072	-
Huizenga Venture Investments III LLC	190	-	-	190	-
DWS RREEF America REIT II	21,614	-	-	-	21,614
Portfolio Advisors Secondary Fund IV LP	18,716	-	-	18,716	-
SEI Core Property Fund LP	7,037	-	-	-	7,037
SEI Energy Debt Fund LP	523	-	-	-	523
SEI Structured Credit Fund LP	5,760	-	-	-	5,760
SEI Special Situations Fund LP	11,832	-	-	-	11,832
SEI Global Private Assets IV Fund LP	1,261	-	-	-	1,261
SEI Global Private Assets V Fund LP	336	-	-	-	336
Total alternative investments	240,840	-	-	21,978	218,862
Total board-designated investments	727,016	219,913	-	25,095	482,008
Roy Campbell, III Endowment Fund	117	117	-	-	-
Endowment Fund	100	100	-	-	-
Total endowment funds	217	217	-	-	-
	\$ 727,233	\$ 220,130	\$ -	\$ 25,095	\$ 482,008
Percent of investment portfolio	100.0%	30.2%	0.0%	3.5%	66.3%

Investments in managed accounts have prices in actively traded markets that are easily quoted. Mutual funds offer daily liquidity and provide daily NAV updates.

MHM's participation in alternative investments is through a corporation or limited partnership structure. For Balyasny Atlas Enhanced Fund, Ltd., Evanston Weatherlow Offshore Fund I, Ltd., Evanston Credit Opportunities, ACL Alternative Fund, Chatham Asset High Yield Offshore Fund, Ltd., DWS RREEF America REIT II, SEI Core Property Fund LP, SEI Energy Debt Fund LP, SEI Structured Credit Fund LP, SEI Special Situations Fund LP, SEI Global Private Assets IV Fund LP and SEI Global Private Assets V Fund LP, MHM owns shares of the corporation or partnership, and the value of those shares is reflected in the NAV. While these shares are not traded in an active market, the NAV of the shares is reported by the investment manager or its administrator on a monthly basis.

MHM's positions in Huizenga Ventures Investments II LLC, Huizenga Ventures Investments III LLC, and Portfolio Advisors Secondary Fund IV LP are reported on a capital account basis.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements and Disclosures (Continued)

The investment in Balyasny Atlas Enhanced Fund, Ltd. is a multi-strategy market-neutral hedge fund that is designed to have a nondirectional correlation with financial markets. Strategies used by the funds include fundamental equity long-short, macro and credit.

Evanston Weatherlow Offshore Fund I, Ltd. operates in a fund of fund structure that invests in hedge fund managers that pursue a number of different strategies, including long/short equities, macro and event driven. Evanston Credit Opportunities is also a fund of fund strategy that seeks to capitalize on attractive investment opportunities across the credit complex.

The ACL Alternative Fund is a managed futures strategy. Chatham Asset High Yield Offshore Fund, Ltd. is a hedged strategy that takes long and short positions in the high yield debt space.

The Huizenga Venture Investments II LLC and Huizenga Venture Investments III LLC funds are fund of fund manager in the venture capital space. The DWS RREEF America REIT II fund is a portfolio of domestic commercial real estate properties in the industrial, retail, office and multifamily sectors. Portfolio Advisors Secondary Fund IV LP is a portfolio of private equity LP interests purchased in the secondary market, as well as a few direct private equity co-investments.

Investments in the SEI Core Property Fund LP seek both current income and long-term capital appreciation through investing in underlying funds that acquire, manage and dispose of commercial real estate properties. Investments in the SEI Energy Debt Fund, LP seek investments in debt instruments of companies in the energy sector that have strong liquidity profiles, high asset coverage and potential upside with improving energy fundamentals. Both the SEI Global Private Assets Fund IV LP and the SEI Global Private Assets Fund V LP invest in corporate finance and venture capital funds, as well as secondary partnership and co-investment deals. The SEI Special Situations Fund LP is a fund of funds strategy that allocates across several hedge fund styles and strategies. Investments in the SEI Structured Credit Fund LP is comprised of collateralized debt obligations and other structured credit investments.

One new alternative investment manager was added in 2022. This was the Huizenga Venture Investments III LLC fund, which is a fund of fund manager in the venture capital space.

The following table represents the redemption frequency and redemption notice period for alternative investments held by MHM that are reported at NAV:

<i>(In Thousands)</i>	Redemption Frequency	Redemption Notice Period	Fair Value at December 31	
			2023	2022
Debt	Quarterly or Semiannual or None*	45-95 days, None*	\$ 47,158	\$ 43,217
Fund of funds	Three-Year	65-105 days	100,233	93,907
Multi-strategy hedge funds	Quarterly	65 days	41,299	40,314
Managed futures	Daily	Same day	18,285	19,810
Real estate	Quarterly	45-95 days	18,285	21,614
Total			<u>\$ 225,260</u>	<u>\$ 218,862</u>

* MHM must remain invested throughout the life of the fund.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements and Disclosures (Continued)

Balyasny Atlas Enhanced Fund, Ltd. offers quarterly redemptions with a 65-day notification period. There are no hard or soft lock-up periods or early redemption fees for this investment.

The Evanston Weatherlow Offshore Fund I, Ltd. operates under a three-year rolling hard-lock period. There is a 65-day notification period required prior to the end of each three-year hard-lock period.

Positions of Evanston held by MHM that reach the end of the three-year hard-lock period have been extended for another three years, with the most recent extension signed in April 2022.

The Evanston Credit Opportunities Fund operates under a two-year initial hard-lock period, thereafter, offering quarterly redemptions with a 95-day notification period. No positions in this fund held by MHM are subject to the hard lock as of December 31, 2023.

ACL Alternative Fund offers daily liquidity. Redemptions will be processed the same day as long as instructions are received by ACL prior to 11:00 am Central Standard Time. Cash from redemptions will typically be distributed to investors within five business days.

The Chatham Asset High Yield Offshore Fund, Ltd. offers quarterly redemptions with 45-day notice. There is a one-year soft lock-up period that has a 3% redemption fee for funds withdrawn in the first year of investment. As of December 31, 2023, MHM did not have any of its position with Chatham Asset High Yield Offshore Fund, Ltd. subject to the one-year soft lock-up period.

The Huizenga Venture Investments II LLC and Huizenga Venture Investments III LLC funds will continue until the calendar year in which the last underlying investment has been fully liquidated. This will vary across underlying investments but will likely take approximately 10 or more years. From there, terms can extend for up to two additional one-year periods.

The DWS RREEF America REIT II fund does not have a lock-up period, and redemption requests must be delivered to the Fund prior to or on the 15th day of the second month of every quarter in order to be effective as of the last day of any such applicable calendar quarter.

The Portfolio Advisors Secondary Fund IV LP will generally terminate upon the later to occur of: (1) December 30, 2030, or (ii) one year after the date by which all of the investments attributable to the fund have been fully liquidated and any remaining expenses have been paid, provided that the General Partner may extend the term of the fund with the proper approvals.

The SEI Core Property Fund LP does not have a lock-up period and offers quarterly redemptions with a 105-day notification period.

The SEI Energy Debt Fund LP has a 36-month hard lock-up period. Following the three-year lock-up period, 50% of the investment is redeemable immediately. Another 25% is released six months later, and then the remaining 25% after an additional six months. The fund has a 95-day notification period. Redemptions are semiannually per the terms detailed above. In January of 2022, the fund announced that it would be terminating and initiating an orderly winddown and distribution of funds to investors.

The SEI Global Private Assets IV Fund LP and the SEI Global Assets V Fund LP do not offer redemptions. MHM will remain invested throughout the life of the fund and receive distributions from the funds during their lifetime.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements and Disclosures (Continued)

The SEI Special Situations Fund LP has a 24-month hard lock-up period that applies to the initial investment only. Following the lock-up period, redemptions are semiannually with a 95-day notification period. As of December 31, 2023, all of MHM's investment in this fund were no longer subject to the hard lock-up period.

The SEI Structured Credit Fund LP has a 24-month hard lock-up period. Following the lock-up period, redemptions are quarterly with a 65-day notification period. As of December 31, 2023, MHM had no positions in the fund subject to the lock-up period.

Due to the volatility of the stock market, there is a reasonable possibility of changes in the fair market value, and additional gains and losses in the near term subsequent to December 31, 2023.

Note 3. Research and Development Fund

In February 2010, the Board approved the creation of the South Texas Healthcare Research and Development Fund (R&D Fund). The purpose of the R&D Fund is to boost healthcare-related research and development in MHM's service area by making strategic capital investments that focus on development of healthcare-related devices, treatments, processes and drugs. The R&D Fund investments are carried at cost and adjusted for perceived asset impairment.

The initial amount allocated to this fund by the Board was up to \$5 million. The R&D Fund operates under its own investment policy statement. The initial funding was to be put to work overtime as suitable opportunities present themselves. As of December 31, 2023 and 2022, the Board has limited the amount of this investment to the current committed amount for both years of \$4.1 million.

As of December 31, 2023, the R&D Fund had made investments as limited partners in three venture capital funds: InCube Ventures II, LP, Targeted Technology Fund I, LP and Targeted Technology Fund II, LP. Additionally, the R&D Fund had made direct investments in shares of four individual companies: BiO2 Medical, Inc., Innovative Trauma Care, Inc., Invictus Medical and ViroXis Corporation. The R&D Fund had also made direct investments in individual companies via convertible promissory notes in three companies: Azaya Therapeutics, Inc., Innovative Trauma Care, Inc. and ViroXis Corporation.

Investments in the venture capital funds are made by MHM as limited partners and the general partners of those funds are responsible for selecting and managing the investments made by the funds.

Investments in equity or debt of individual companies are held by MHM until, typically, the company is acquired or goes out of business, or the debt is repaid or converted into an equity position.

As of December 31, 2023 and 2022, the total committed capital for these partnerships and direct investments was \$4.1 million. As of December 31, 2023, \$4.1 million of that had been called (\$4.1 million in 2022). Each of the funds have confirmed that no further capital calls will be made.

MHM, at its discretion, will write-down investments in the R&D Fund, which it believes have impairments which bring into question the company's viability as a going concern. This conclusion can be reached either by a going concern opinion from the auditor of the company or by MHM itself through information gathered about the company in the course of MHM's due diligence.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 3. Research and Development Fund (Continued)

As of December 31, 2023, MHM's R&D Fund reserve account held four positions for a total of \$880K (\$880K in 2022) in the R&D Fund due to going concern issues. Those positions were the \$500K invested directly in Innovative Trauma Care, Inc., \$300K invested directly in Invictus Medical, as well as \$20K in Targeted Technology Fund I, LP portfolio companies, and \$60K in Targeted Technology Fund II portfolio companies.

During 2023, MHM had a distribution event in the Targeted Technology Fund II LLP which resulted in returned capital of \$53K. During 2022, MHM wrote off a total of \$56K in its R&D Fund that consisted of \$13K in InCube Ventures II, LP, \$21K in Targeted Technology Fund I, LP, and \$22K in Targeted Technology Fund II, LP (the full amount had previously been moved to the reserve account). None of those positions had previously been moved to the reserve account.

During 2022, one of the portfolio companies in the InCube Ventures II, LP fund had a distribution event which resulted in returned capital of \$165K.

The following table reflects commitments outstanding and capital calls funded as of December 31, 2023 and 2022, and during the years then ended:

(In Thousands)

	Agreement Date	Total Commitment	Carrying	2023	2023	Impairments	Returned	Carrying
			Amount December 31, 2022	Called Capital	Write-Offs	Moved to Reserve	Capital and Other Adjustments	Amount December 31, 2023
Venture capital funds:								
InCube Ventures II, LP	September 2010	\$ -	\$ 356	\$ -	\$ -	\$ -	\$ -	\$ 356
Targeted Technology Fund I, LP	February 2010	-	126	-	-	-	-	126
Targeted Technology Fund II, LP	August 2013	-	184	-	-	-	(54)	130
		\$ -	\$ 666	\$ -	\$ -	\$ -	\$ (54)	\$ 612

	Agreement Date	Total Commitment	Carrying	2022	2022	Impairments	Returned	Carrying
			Amount December 31, 2021	Called Capital	Write-Offs	Moved to Reserve	Capital and Other Adjustments	Amount December 31, 2022
Venture capital funds:								
InCube Ventures II, LP	September 2010	\$ -	\$ 534	\$ -	\$ (13)	\$ -	\$ (165)	\$ 356
Targeted Technology Fund I, LP	February 2010	-	147	-	(21)	-	-	126
Targeted Technology Fund II, LP	August 2013	-	206	-	(22)	-	-	184
		\$ -	\$ 887	\$ -	\$ (56)	\$ -	\$ (165)	\$ 666

Note that both Targeted Technology Fund I, LP and Targeted Technology Fund II, LP have reached the end of their 10-year term and the assets have been transferred to a trust where distributions will be made under each of the fund's original agreements.

Note 4. Investment in Methodist Healthcare System of San Antonio, Ltd., LLP—Equity Method

During 2023 and 2022, \$122 million and \$215 million, respectively, were distributed to each partner. The Partnership evaluates the cash position and projected future cash flows each month and proposes distributions or cash calls with the goal of maintaining cash on hand of approximately \$25 million.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 4. Investment in Methodist Healthcare System of San Antonio, Ltd., LLP—Equity Method (Continued)

A summary of MHM's earnings and distributions received from its investment in the Partnership is as follows:

<i>(In Thousands)</i>	December 31	
	2023	2022
Investment in the Partnership, beginning	\$ 749,960	\$ 689,806
Earnings from the Partnership	251,134	275,154
Distributions from the Partnership	(122,000)	(215,000)
Investment in the Partnership, ending	\$ 879,094	\$ 749,960

A summary of the Partnership's assets, liabilities, partners' capital and results of operations as of and for the years ended December 31, 2023 and 2022, is as follows:

<i>(In Thousands)</i>	2023		2022	
	Total assets	\$ 2,480,648	\$ 2,094,054	
Total liabilities	\$ 546,928	\$ 413,382		
Partners' capital	1,883,102	1,624,834		
Noncontrolling interest	50,618	55,838		
Total equity	1,933,720	1,680,672		
Total liabilities and partners' capital	\$ 2,480,648	\$ 2,094,054		
Total revenues	\$ 3,355,280	\$ 3,031,456		
Total expenses	2,838,779	2,469,017		
	\$ 516,501	\$ 562,439		

The difference between the amount of underlying equity in partners' capital and the amount at which the investment in the Partnership is carried is as follows:

<i>(In Thousands)</i>	December 31	
	2023	2022
Partners' capital at December 31	\$ 945,095	\$ 815,961
Less excess working capital payments by HCA Inc.	(13,714)	(13,714)
Less parity payment by HCA Inc.	(74,750)	(74,750)
Plus equity reclassified to intercompany debt with HCA Inc.	22,463	22,463
Investment in the Partnership	\$ 879,094	\$ 749,960

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 4. Investment in Methodist Healthcare System of San Antonio, Ltd., LLP—Equity Method (Continued)

In furtherance of MHM’s mission, the Partnership provides charity care to patients without financial means to pay for hospital services in accordance with its eligibility policy. The Partnership’s policy provides for 100% charity care for patients who have income at or below 200% of the federal poverty level. The federal poverty level is established by the federal government and is based on income and family size. In addition, a sliding scale charity discount is applied to accounts for patients whose income is greater than 200% of the federal poverty level and whose remaining account balance, after any third-party payments, exceeds a specified percentage of their income. Because the Partnership does not pursue collection of amounts determined to qualify as charity care, it does not report these amounts as revenue. The charges forgone for charity care based on established rates were \$811.5 million and \$818.2 million in 2023 and 2022, respectively. Charity cost (calculated based on the overall cost-to-charge ratio) was \$90.3 million and \$90.8 million in 2023 and 2022, respectively. Charity cost as a percentage of net patient revenue was 2.7% and 3.1% in 2023 and 2022, respectively.

Note 5. Classification of Expenses

In the below analysis, the costs of information technology systems, maintenance and depreciation have been allocated across all functional expense categories to reflect the full cost of those activities.

Expenses for information technology systems and the maintenance and depreciation of fixed assets are allocated based on FTE (full time employee) count for each program.

(In Thousands)

	2023		
	Program Expenses	Management and General Expenses	Total Expenses
Salaries and benefits	\$ 44,733	\$ 7,753	\$ 52,486
Supplies	5,275	187	5,462
Services	21,195	4,699	25,894
Grants	53,125	-	53,125
Depreciation and amortization	1,703	254	1,957
Other expenses	579	312	891
Total expenses	<u>\$ 126,610</u>	<u>\$ 13,205</u>	<u>\$ 139,815</u>
	2022		
	Program Expenses	Management and General Expenses	Total Expenses
Salaries and benefits	\$ 41,064	\$ 6,792	\$ 47,856
Supplies	4,829	157	4,986
Services	15,532	3,626	19,158
Grants	37,866	-	37,866
Depreciation and amortization	1,666	287	1,953
Other expenses	52	155	207
Total expenses	<u>\$ 101,009</u>	<u>\$ 11,017</u>	<u>\$ 112,026</u>

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 6. Financial Assets Available and Liquidity

MHM regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to maximize the return on investment of its funds not required for annual operations. The following financial assets are available to meet annual operating needs of the next year:

(In Thousands)

	December 31	
	2023	2022
Cash and cash equivalents	\$ 197,330	\$ 199,890
Other receivables, net	20	24
Investments	838,479	727,899
Financial assets as of December 31	1,035,829	927,813
Less:		
Amounts subject to donor restrictions	100	100
Board-designated cash and investments and quasi endowment	838,003	727,358
Other investments not available for operations	612	666
Financial assets available to meet cash needs for general expenditures within one year	\$ 197,114	\$ 199,689

Generally, MHM invests its excess cash in its Board-designated investments; uninvested cash is held in a Board-designated cash account. MHM relies upon multiple sources to fund current-year operations and grant payments. These sources include:

- (1) Available cash that has not been restricted or designated in its use.
- (2) Distributions from the Methodist Healthcare System (\$122 million and \$215 million in 2023 and 2022, respectively).
- (3) Distributions from the MHM's Board-designated investments.
- (4) Draws from the dedicated \$100 million line of credit.

Historically, available cash and distributions from the Methodist Healthcare System have provided sufficient liquidity to fund MHM's annual operating needs.

Note that the Board-designated investments do contain investments with lock-up provisions that would reduce the total investments that could be made available (see Note 2 for disclosures about investments).

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 7. Property, Equipment and Land

Property, equipment and land consist of the following:

(In Thousands)

	December 31	
	2023	2022
Land	\$ 18,624	\$ 18,707
Buildings and improvements	39,611	39,363
Office furnishings and equipment	8,049	7,216
Construction in progress	1,664	64
	<u>67,948</u>	<u>65,350</u>
Less accumulated depreciation and amortization	24,018	22,236
Net property and equipment	<u>\$ 43,930</u>	<u>\$ 43,114</u>

Depreciation and amortization expense for each of the years ended December 31, 2023 and 2022, totaled \$2 million.

Note 8. Assets Limited as to Use

Endowment funds: MHM's endowment consists of two individual funds established for a variety of purposes. The endowment includes both donor-restricted funds and funds designated by the Board to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including Board-designated endowments, are classified and reported based on the existence or absence of donor or Board-imposed restrictions.

(In Thousands)

	December 31, 2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 100	\$ 100
Board-designated endowment funds	128	-	128
	<u>\$ 128</u>	<u>\$ 100</u>	<u>\$ 228</u>

	December 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 100	\$ 100
Board-designated endowment funds	117	-	117
	<u>\$ 117</u>	<u>\$ 100</u>	<u>\$ 217</u>

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 8. Assets Limited as to Use (Continued)

MHM had the following changes in endowment net assets:

(In Thousands)

	Year Ended December 31, 2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 117	\$ 100	\$ 217
Investment return:			
Investment income	-	3	3
Net appreciation	16	-	16
Amounts appropriated for expenditures	(5)	(3)	(8)
Endowment net assets, end of year	<u>\$ 128</u>	<u>\$ 100</u>	<u>\$ 228</u>
	Year Ended December 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 145	\$ 100	\$ 245
Investment return:			
Investment income	-	2	2
Net appreciation	(23)	-	(23)
Amounts appropriated for expenditures	(5)	(2)	(7)
Endowment net assets, end of year	<u>\$ 117</u>	<u>\$ 100</u>	<u>\$ 217</u>

Board-designated investments: Investments that are designated by the Board for funding of future programs and potential partnership capital calls are stated at fair value based on market prices, with the exception of certain investments in partnerships that hold investments in market-neutral hedge funds. All investments stated at fair value have an inherent level of market risk.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 8. Assets Limited as to Use (Continued)

Investments are composed of the following:

(In Thousands)

	December 31, 2023		
	Cost	Estimated Fair Value	Unrealized Appreciation (Depreciation)
Equities	\$ 181,333	\$ 251,691	\$ 70,358
Fixed income	34,503	32,151	(2,352)
Mutual funds	271,190	303,658	32,468
Alternative investments	198,042	250,139	52,097
	<u>\$ 685,068</u>	<u>\$ 837,639</u>	<u>\$ 152,571</u>

	December 31, 2022		
	Cost	Estimated Fair Value	Unrealized Appreciation (Depreciation)
Equities	\$ 168,803	\$ 192,454	\$ 23,651
Fixed income	34,021	30,576	(3,445)
Mutual funds	254,582	263,146	8,564
Alternative investments	195,681	240,840	45,159
	<u>\$ 653,087</u>	<u>\$ 727,016</u>	<u>\$ 73,929</u>

A summary of activity for assets limited as to use is as follows:

(In Thousands)

Fair value, December 31, 2021	\$ 812,215
Net contributions	10,266
Realized gains	24,343
Interest and dividend income	9,459
Investment fees	(2,568)
Change in fair value	(126,699)
Fair value, December 31, 2022	<u>727,016</u>
Net contributions	(10)
Realized gains	23,869
Interest and dividend income	10,902
Investment fees	(2,780)
Change in fair value	78,642
Fair value, December 31, 2023	<u>\$ 837,639</u>

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 9. Grants Payable

MHM awards grants to organizations for various programs to improve the health of underserved individuals in the South Texas area. Grants payable are recorded in the consolidated financial statements when conditions of the grant are met by the recipient. Conditional promises to give are not recognized until the conditions on which they depend are met. Conditional promises to give, which contain both donor-imposed conditions that represent a barrier that must be overcome and a right of return, are recognized when the condition or conditions on which they depend are met.

Schedule of grants payable are as follows:

<i>(In Thousands)</i>	December 31	
	2023	2022
Access to Care: General	\$ 2,164	\$ 2,382
Access to Care: Mental & Behavioral Health	2,942	2,071
Digital Equity	255	78
Economic Mobility: Financial Independence	-	21
Education & Workforce Development	271	77
Food Security	1,035	18
Housing	399	81
Other	1,109	1,389
Emergency Grant	1,000	-
Strategic Opportunity Funds	1,271	-
Total awards and grants	<u>\$ 10,446</u>	<u>\$ 6,117</u>

Note 10. Retirement Plan

MHM has established a defined contribution plan offered through two different options, a 401(k) plan and a 403(b) plan, which cover substantially all eligible employees. All employees are eligible to participate in either plan; however, matching employer contributions are only made to the 401(k) plan. MHM matches employee contributions to the 401(k) plan up to 7% of annual salary (employees with 10 years of service are eligible for an additional 2% match), subject to Internal Revenue Service (IRS) limitations. Employer contributions to the defined contribution plan totaled \$2.5 million and \$2.2 million at December 31, 2023 and 2022, respectively. In addition to these plans, MHM also makes available a 457 deferred compensation plan for top management of MHM. Employer contributions to the 457 deferred compensation plan totaled \$22.5K and \$20.5K at December 31, 2023 and 2022, respectively.

Note 11. Commitments and Contingencies

Certain conditions may exist as of the date the consolidated financial statements are issued, which may result in a loss to MHM, but which will only be resolved when one or more future events occur or fail to occur. MHM's management and its legal counsel assess such contingent liabilities and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings, if any, that are pending against MHM or unasserted claims that may result in such proceedings, MHM's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 11. Commitments and Contingencies (Continued)

If the assessment of a contingency indicates it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in MHM's consolidated financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

MHM maintains a professional liability policy for doctors, dentists, nurse practitioners, nurses and other ancillary staff with a \$1 million per claim and \$3 million aggregate per year limit. An excess liability umbrella policy covering both general liability and professional liability claims is also in effect with a \$5 million limit per claim.

In September 2023, MHM renewed its agreement with Frost Bank for a \$100 million revolving line of credit with a variable benchmark rate of AMERIBOR Term-30+150 basis points with a benchmark floor rate of 75 basis points per annum. The maturity date for the renewal is October 31, 2024. The line imposes certain minimum investment balance restrictions. There was no amount outstanding on this line of credit as of December 31, 2023 and 2022.

In 2023, MHM committed funding to the American Cancer Society's Hope Lodge to be built in San Antonio. Conditional promises to give are not recognized until the conditions on which they depend are met. Conditional promises to give, which contain both donor-imposed conditions that represent a barrier that must be overcome and a right of return, are recognized when the condition or conditions on which they depend are met. No amounts have been recognized in the consolidated financial statements for conditional promises to give because the conditions on which they depend have not been met. Conditional promises to give totaled \$11 million and \$0 as of December 31, 2023, and 2022, respectively, and are conditional upon the achievement of specified targets and milestones, as specified in the respective grant agreements.

Note 12. Income Taxes

MHM has been determined to be exempt from federal income taxes pursuant to section 501(c)(3) of the Internal Revenue Code, as amended.

MHM files IRS Form 990T, Exempt Organization Business Income Tax Return, annually. Taxes paid and accrued for unrelated business income in 2023 and 2022 totaled \$97K and \$116K, respectively. MHM's policy is to record interest and penalty expense related to income taxes as interest and other expense, respectively. At December 31, 2023 and 2022, no interest or penalties have been or are required to be accrued.

Note 13. Related-Party Transactions

In 2022, MHM purchased 15.34 acres known as the Triangle Property located at Wurzbach Rd. and 7951 Floyd Curl from MHS for \$13.4 million. MHM also sold the Med Center Clinic property to MHS for \$4.6 million in 2022.