

Methodist Healthcare Ministries of South Texas, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2024

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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) and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2024 and 2023, 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, 2024 and 2023, 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 \$999.8 million and \$879.1 million, respectively, at December 31, 2024 and 2023, and total equity in earnings totaled \$248.3 million and \$251.1 million, respectively, for the years then ended. 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 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 25, 2025

Methodist Healthcare Ministries of South Texas, Inc.

Consolidated Statements of Financial Position

December 31, 2024 and 2023

(In Thousands)

	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 168,348	\$ 197,094
Prepaid expenses and other current assets	2,103	1,765
Total current assets	170,451	198,859
Assets limited as to use:		
Board-designated investments	943,486	837,639
Board-designated cash	595	236
Total board-designated portfolio	944,081	837,875
Research and Development Fund, net of adjustment to carrying value of \$880 (\$880 in 2023)	127	612
Endowment funds	232	228
Total assets limited as to use	944,440	838,715
Property, equipment and land, net	45,178	43,930
Right-of-use assets—operating lease asset	60	-
Right-of-use assets—finance lease asset	793	-
Investment in Methodist Healthcare System of San Antonio, Ltd., LLP	999,849	879,094
Total noncurrent assets	1,990,320	1,761,739
Total assets	\$ 2,160,771	\$ 1,960,598
Liabilities and Net Assets		
Current liabilities:		
Accounts payable, accrued expenses and other current liabilities	\$ 10,439	\$ 7,423
Grants payable	9,264	10,446
Operating lease liabilities	35	-
Finance lease liabilities	172	-
Total current liabilities	19,910	17,869
Noncurrent liabilities:		
Operating lease liabilities	25	-
Finance lease liabilities	631	-
Total noncurrent liabilities	656	-
Total liabilities	20,566	17,869
Commitments and contingencies (Note 12)		
Net assets:		
Without donor restrictions:	2,140,105	1,942,629
With donor restrictions:		
Restricted in perpetuity	100	100
Total net assets	2,140,205	1,942,729
Total liabilities and net assets	\$ 2,160,771	\$ 1,960,598

See notes to consolidated financial statements.

Methodist Healthcare Ministries of South Texas, Inc.

Consolidated Statements of Activities
Years Ended December 31, 2024 and 2023
(In Thousands)

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:						
Equity in earnings from Methodist Healthcare System of San Antonio, Ltd., LLP	\$ 248,255	\$ -	\$ 248,255	\$ 251,134	\$ -	\$ 251,134
Net investment return	106,206	-	106,206	110,634	-	110,634
Other operating income	8,828	-	8,828	11,457	-	11,457
Total revenue, gains and other support	363,289	-	363,289	373,225	-	373,225
Expenses:						
Program expenses	150,383	-	150,383	126,610	-	126,610
Management and general expenses	15,430	-	15,430	13,205	-	13,205
Total expenses	165,813	-	165,813	139,815	-	139,815
Change in net assets	197,476	-	197,476	233,410	-	233,410
Net assets, beginning of year	1,942,629	100	1,942,729	1,709,219	100	1,709,319
Net assets, end of year	<u>\$ 2,140,105</u>	<u>\$ 100</u>	<u>\$ 2,140,205</u>	<u>\$ 1,942,629</u>	<u>\$ 100</u>	<u>\$ 1,942,729</u>

See notes to consolidated financial statements.

Methodist Healthcare Ministries of South Texas, Inc.

Consolidated Statements of Cash Flows Years Ended December 31, 2024 and 2023 (In Thousands)

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 197,476	\$ 233,410
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	2,009	1,957
Amortization of finance lease right-of-use asset	87	-
Loss on disposal of equipment	52	3
Net unrealized and realized gain on investments	(96,184)	(102,512)
Reserve on Research and Development Fund assets	485	54
Earnings from investment in Methodist Healthcare System of San Antonio, Ltd., LLP	(248,255)	(251,134)
Distributions from investment in Methodist Healthcare System of San Antonio, Ltd., LLP	127,500	122,000
Changes in:		
Prepaid expenses and other current assets	(338)	(336)
Right-of-use assets—operating	(60)	-
Accounts payable, accrued expenses and other current liabilities	3,016	567
Grants payable	(1,182)	4,329
Operating lease liabilities	60	-
Net cash (used in) provided by operating activities	(15,334)	8,338
Cash flows from investing activities:		
Purchases of property and equipment	(3,309)	(2,776)
Purchases of investments	(293,094)	(186,954)
Proceeds from sales/maturities of investments	283,447	178,832
Net cash used in investing activities	(12,956)	(10,898)
Cash flows from financing activities:		
Payments on financing lease liabilities	(97)	-
Net cash used in financing activities	(97)	-
Net decrease in cash and cash equivalents	(28,387)	(2,560)
Cash and cash equivalents:		
Beginning	197,330	199,890
Ending	\$ 168,943	\$ 197,330
Cash and cash equivalents	\$ 168,348	\$ 197,094
Board-designated cash	595	236
	\$ 168,943	\$ 197,330
Supplemental disclosures of cash flow information:		
Cash paid for income tax	\$ 210	\$ 97
Capitalization of operating lease right-of-use assets	\$ 68	\$ -
Capitalization of operating lease liabilities	\$ 68	\$ -
Capitalization of finance lease right-of-use assets	\$ 880	\$ -
Capitalization of finance lease liabilities	\$ 900	\$ -
Operating cash outflow-payments on operating leases	\$ 32	\$ -
Operating cash outflow-payments on finance leases	\$ 97	\$ -

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 September 23, 2023, MHM established MHM Real Co, LLC, a wholly owned subsidiary incorporated in the state of Texas, to operate as a functionally related business. 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 \$150.4 million and \$126.6 million in 2024 and 2023, respectively, for program expenses for operating programs and grants, and \$3.4 million and \$2.8 million in 2024 and 2023, 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:

(In Thousands)

	Years Ended December 31	
	2024	2023
Medical and dental services:		
Operating programs:		
Wesley Health & Wellness Center:		
Dixon Health & Wellness Center and		
School-Based Health Centers	\$ 39,485	\$ 34,697
Health and wellness programs:		
Operating programs:		
Wesley Nurse Program	14,345	12,670
Parenting Programs	2,065	1,830
Family Wellness Programs	1,615	1,433
Behavioral Health Services	7,006	6,351
Health Education/Nutrition	2,912	2,543
Total operating programs	67,428	59,524
Policy and Strategy Department	5,832	3,749
Organizational Excellence & Organizational Learning	3,669	3,121
Community Investments Department	2,596	2,050
Church Connections & Spiritual Care	967	750
Communities of Solutions & Community Councils	9,369	4,192
Strategic Opportunity Funds	6,503	9,633
Grants to external partners	54,019	43,591
Total program expenses	\$ 150,383	\$ 126,610
Capital expenditures for programs	\$ 3,396	\$ 2,776

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 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. The site at Krueger Elementary closed in May of 2024.

Community health workers work closely with the WNP to help MHM do community outreach to the 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. In 2024, the Peer Parenting Program expanded to provide services in Webb, Zapata and Jim Hogg counties.

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, educational classes for adults and a variety of events to support the local clinic community.

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 collaboration 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. Expiration 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 out 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 as 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, 2024 and 2023.

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 statements of activities.

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. 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.

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, 2024 and 2023.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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 1,632 hours and 888 hours at December 31, 2024 and 2023, 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.

Adopted accounting pronouncements: In October 2021, the FASB issued Accounting Standards Update (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 has adopted ASU 2021-08 for the year ended December 31, 2024, with no material impact.

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 has adopted ASU 2023-01 for the year ended December 31, 2024, with no material impact.

Recent accounting pronouncements: Recent accounting pronouncements made by the Financial Accounting Standards Board in 2024 through April 2025 are not applicable to MHM.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Prior year reclass: Certain prior year amounts have been reclassified for consistency with the current year presentation. The reclassification had no effect on the previously reported net assets or change in net assets.

Subsequent events: MHM has evaluated subsequent events for potential recognition and/or disclosure through September 25, 2025, the date the consolidated financial statements were available to be issued.

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, 2024 and 2023, and by level within the fair value measurement hierarchy:

Fair Value Measurement at December 31, 2024 (In Thousands)					
	Total	Level 1	Level 2	Level 3	Investments Valued at NAV
Managed accounts:					
Equity	\$ 290,712	\$ 290,712	\$ -	\$ -	\$ -
Fixed income	33,147	29,781	-	3,366	-
Total managed accounts	323,859	320,493	-	3,366	-
Mutual funds	340,050	-	-	-	340,050
Alternative investments:					
Balyasny Atlas Enhanced Fund, Ltd.	46,688	-	-	-	46,688
Evanston Weatherlow Offshore Fund I, Ltd.	74,497	-	-	-	74,497
Evanston Credit Opportunities	16,319	-	-	-	16,319
ACL Alternative Fund	22,497	-	-	-	22,497
Chatham Asset High Yield Offshore Fund, Ltd.	42,364	-	-	-	42,364
Huizenga Venture Investments II LLC	5,453	-	-	5,453	-
Huizenga Venture Investments III LLC	1,320	-	-	1,320	-
Huizenga Venture Investments IV LLC	518	-	-	518	-
DWS RREEF America REIT II	18,209	-	-	-	18,209
Portfolio Advisors Secondary Fund IV LP	20,043	-	-	-	20,043
SEI Core Property Fund LP	6,331	-	-	-	6,331
SEI Energy Debt Fund LP	138	-	-	-	138
SEI Structured Credit Fund LP	8,302	-	-	-	8,302
SEI Special Situations Fund LP	15,153	-	-	-	15,153
SEI Global Private Assets IV Fund LP	1,165	-	-	-	1,165
SEI Global Private Assets V Fund LP	580	-	-	-	580
Total alternative investments	279,577	-	-	7,291	272,286
Total board-designated investments	943,486	320,493	-	10,657	612,336
Roy Campbell, III Endowment Fund	132	132	-	-	-
Endowment Fund	100	100	-	-	-
Total endowment funds	232	232	-	-	-
	\$ 943,718	\$ 320,725	\$ -	\$ 10,657	\$ 612,336
Percent of investment portfolio	100.0%	34.0%	0.0%	1.1%	64.9%

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, 2023 (In Thousands)					
	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	-	-	5,446	244,693
Total board-designated investments	837,639	280,608	-	8,680	548,351
Roy Campbell, III Endowment Fund	128	128	-	-	-
Endowment Fund	100	100	-	-	-
Total endowment funds	228	228	-	-	-
	\$ 837,867	\$ 280,836	\$ -	\$ 8,680	\$ 548,351
Percent of investment portfolio	100.0%	33.5%	0.0%	1.0%	65.4%

The table below sets forth a summary of changes in fair value of the Foundation's Level 3 assets:

Fair Value at December 31, 2023	\$ 8,680
Transfer in/(out)	1,268
Change in fair value	709
Fair value at December 31, 2024	<u>\$ 10,657</u>

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements and Disclosures (Continued)

Financial Instrument Type	Fair Value at December 31		Valuation Techniques	Unobservable Input	Range of Inputs
	2024	2023			
Assets:					
TMF Impact Certificates	\$ 3,366	\$ 3,234	Account value derived from stated rate of return of fund offering	Discount for historical performance of individual loans in fund	No discount applied*
Huizenga Venture Investments II LLC	5,453	4,545	Capital account balance based on NAVs reported by underlying fund managers	Valuation methods used by underlying managers such as market comparables discounted cash flow models, recent transactions	No discount applied
Huizenga Venture Investments III LLC	1,320	901	Capital account balance based on NAVs reported by underlying fund managers	Valuation methods used by underlying managers such as market comparables discounted cash flow models, recent transactions	No discount applied
Huizenga Venture Invesments IV LLC	518	-	Capital account balance based on NAVs reported by underlying fund managers	Valuation methods used by underlying managers such as market comparables discounted cash flow models, recent transactions	No discount applied
Total	\$ 10,657	\$ 8,680			

Equity and fixed income investments in separately 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, Huizenga Ventures Investments IV LLC, Portfolio Advisors Secondary Fund IV LP, SEI Global Private Assets IV Fund LP and SEI Global Private Assets V Fund LP are reported on a capital account basis.

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 multiple strategies, including Long/Short Equity, Event Driven, Macro and Relative Value. 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 special situations private debt strategy that seeks to find mispriced securities due to market inefficiencies on either the long or short side.

The Huizenga Venture Investments II LLC, Huizenga Venture Investments III LLC, and Huizenga Ventures Investments IV LLC funds are fund of funds 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.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements and Disclosures (Continued)

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 are comprised of collateralized debt obligations and other structured credit investments.

One new alternative investment manager was added in 2024, the Huizenga Venture Investments IV LLC fund.

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	Uncalled Capital	Fair Value at December 31	
				2024	2023
	Quarterly/Semiannual or None*	45-95 days, None*	\$ -	\$ 50,804	\$ 47,158
Debt					
Fund of funds	Quarterly/Semiannual	65-105 days	-	134,088	119,666
Multi-strategy hedge funds	Quarterly	65 days	-	46,688	41,299
Managed futures	Daily	Same day	-	22,497	18,285
Real estate	Quarterly	45-95 days	-	18,209	18,285
Total			\$ -	\$ 272,286	\$ 244,693

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

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. MHM has positions in a total of five tranches in the Evanston Weatherlow Offshore Fund I, Ltd., with each tranche having its own three-year lock up period. In 2025, a total of \$27,079 will have its three-year lock up period expire and will likely be renewed. 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, 2024.

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, 2024, MHM did not have any of its positions with Chatham Asset High Yield Offshore Fund, Ltd. subject to the one-year soft lock-up period.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements and Disclosures (Continued)

Huizenga Venture Investments II LLC, Huizenga Venture Investments III LLC, and Huizenga Venture Investments IV LLC funds do not offer redemptions and 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: (i) 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, which is currently ongoing as of December 31, 2024.

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.

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, 2024, 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, 2024, MHM had no positions in the fund subject to the lock-up period.

MHM has several uncalled capital commitments that total \$8.75 million across its private asset fund investments classified as Level 3 investments. These commitments are anticipated to be called over the next several years.

Due to the volatility of financial markets, 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, 2024.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

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, 2024 and 2023, 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, 2024, 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 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, 2024 and 2023, the total committed capital for these partnerships and direct investments was \$4.1 million. As of December 31, 2024, \$4.1 million of that had been called (\$4.1 million in 2023). Each of the funds has 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.

As of December 31, 2024, MHM's R&D Fund reserve account held four positions for a total of \$880,000 (\$880,000 in 2023) in the R&D Fund due to going concern issues. Those positions were the \$500,000 invested directly in Innovative Trauma Care, Inc., \$300,000 invested directly in Invictus Medical, as well as \$20,000 in Targeted Technology Fund I, LP portfolio companies, and \$60,000 in Targeted Technology Fund II portfolio companies.

During 2024, MHM wrote off a portfolio company (Bria Medical) in the InCube Ventures II Fund in the amount of \$31,000. Also, during 2024, MHM wrote off \$308,000 in InCube Ventures II Fund, \$115,000 in Targeted Technology Fund I, and \$31,000 in Targeted Technology Fund II related to fees paid throughout the life of the funds.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 3. Research and Development Fund (Continued)

The following table reflects commitments outstanding and capital calls funded as of December 31, 2024 and 2023, and during the years then ended:

(In Thousands)				Carrying			2024	2024	Impairments	Returned	Carrying
		Agreement	Total	Amount	2024	2024	Called	Write-	Moved to	Capital	Amount
		Date	Commitment	December 31,	Capital	Offs	Capital	Offs	Reserve	and Other	December 31,
				2023						Adjustments	2024
Venture capital funds:											
InCube Ventures II, LP	September 2010	\$	-	\$ 356	\$ -	\$ (339)	\$ -	\$ -	\$ -	\$ -	\$ 17
Targeted Technology Fund I, LP	February 2010		-	126	-	(115)	-	-	-	-	11
Targeted Technology Fund II, LP	August 2013		-	130	-	(31)	-	-	-	-	99
		\$	-	\$ 612	\$ -	\$ (485)	\$ -	\$ -	\$ -	\$ -	\$ 127

(In Thousands)				Carrying			2023	2023	Impairments	Returned	Carrying
		Agreement	Total	Amount	2023	2023	Called	Write-	Moved to	Capital	Amount
		Date	Commitment	December 31,	Capital	Offs	Capital	Offs	Reserve	and Other	December 31,
				2022						Adjustments	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

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 liquidating trusts 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 2024 and 2023, \$127.5 million and \$122 million, respectively, were distributed to each partner. The Partnership evaluates the cash position and projects future cash flows each month and proposes distributions or cash calls with the goal of maintaining cash on hand of approximately \$25 million.

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

(In Thousands)	December 31	
	2024	2023
Investment in the Partnership, beginning	\$ 879,094	\$ 749,960
Earnings from the Partnership	248,255	251,134
Distributions from the Partnership	(127,500)	(122,000)
Investment in the Partnership, ending	\$ 999,849	\$ 879,094

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 the Partnership's assets, liabilities, partners' capital and results of operations as of and for the years ended December 31, 2024 and 2023, is as follows:

<i>(In Thousands)</i>	2024	2023
Total assets	\$ 2,784,048	\$ 2,480,648
Total liabilities	\$ 577,111	\$ 546,928
Partners' capital	2,124,612	1,883,102
Noncontrolling interest	82,325	50,618
Total equity	2,206,937	1,933,720
Total liabilities and partners' capital	\$ 2,784,048	\$ 2,480,648
Total revenues	\$ 3,642,267	\$ 3,355,280
Total expenses	3,145,757	2,838,779
	\$ 496,510	\$ 516,501

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	
	2024	2023
Partners' capital at December 31	\$ 1,065,850	\$ 945,095
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	\$ 999,849	\$ 879,094

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 \$702.9 million and \$811.5 million in 2024 and 2023, respectively. Charity cost (calculated based on the overall cost-to-charge ratio) was \$76.1 million and \$90.3 million in 2024 and 2023, respectively. Charity cost as a percentage of net patient revenue was 2.1% and 2.7% in 2024 and 2023, respectively.

Methodist Healthcare Ministries of South Texas, Inc.**Notes to Consolidated Financial Statements**

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 full time employee (FTE) count for each program.

(In Thousands)

	2024		
	Program Expenses	Management and General Expenses	Total Expenses
Salaries and benefits	\$ 50,904	\$ 8,582	\$ 59,486
Supplies	5,598	237	5,835
Services	27,153	5,474	32,627
Grants	61,478	-	61,478
Depreciation and amortization	1,851	245	2,096
Interest	17	1	18
Other expenses	3,382	891	4,273
Total expenses	<u>\$ 150,383</u>	<u>\$ 15,430</u>	<u>\$ 165,813</u>

	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>

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	
	2024	2023
Cash and cash equivalents	\$ 168,943	\$ 197,330
Other receivables, net	84	20
Investments	943,845	838,479
Financial assets as of December 31	1,112,872	1,035,829
Less:		
Amounts subject to donor restrictions	100	100
Board-designated cash and investments and endowment	944,213	838,003
Other investments not available for operations	127	612
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 168,432</u>	<u>\$ 197,114</u>

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 (\$127.5 million and \$122 million in 2024 and 2023, 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 investment 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 consists of the following:

(In Thousands)

	December 31	
	2024	2023
Land	\$ 18,625	\$ 18,624
Buildings and improvements	43,339	39,611
Office furnishings and equipment	7,868	8,049
Construction in progress	442	1,664
	70,274	67,948
Less accumulated depreciation and amortization	(25,096)	(24,018)
Net property and equipment	\$ 45,178	\$ 43,930

Depreciation and amortization expense for each of the years ended December 31, 2024 and 2023, totaled approximately \$2 million. Construction in progress at December 31, 2024, represents exploratory costs surrounding a future project. A commitment for the project has not been made and the estimated potential cost of the project has not been determined.

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, 2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 100	\$ 100
Board-designated endowment funds	132	-	132
	\$ 132	\$ 100	\$ 232

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

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, 2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 128	\$ 100	\$ 228
Investment return:			
Investment income	-	4	4
Net appreciation	9	-	9
Amounts appropriated for expenditures	(5)	(4)	(9)
Endowment net assets, end of year	<u>\$ 132</u>	<u>\$ 100</u>	<u>\$ 232</u>

	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>

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.

Investments are composed of the following:

(In Thousands)

	December 31, 2024		
	Cost	Estimated Fair Value	Unrealized Appreciation (Depreciation)
Equities	\$ 213,682	\$ 290,712	\$ 77,030
Fixed income	43,443	33,147	(10,296)
Mutual funds	287,419	340,050	52,631
Alternative investments	213,593	279,577	65,984
	<u>\$ 758,137</u>	<u>\$ 943,486</u>	<u>\$ 185,349</u>

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 8. Assets Limited as to Use (Continued)

	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>

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

(In Thousands)

Fair value, December 31, 2022	\$ 727,016
Net contributions	(10)
Net realized gains	23,869
Interest and dividend income	10,902
Investment fees	(2,780)
Change in fair value	<u>78,642</u>
Fair value, December 31, 2023	837,639
Net contributions	(358)
Net realized gains	63,406
Interest and dividend income	13,239
Investment fees	(3,218)
Change in fair value	<u>32,778</u>
Fair value, December 31, 2023	<u>\$ 943,486</u>

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.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 9. Grants Payable (Continued)

Schedule of grants payable are as follows:

(In Thousands)	December 31	
	2024	2023
Access to Care: General	\$ 2,195	\$ 2,164
Access to Care: Mental & Behavioral Health	3,246	2,942
Digital Equity	555	255
Economic Mobility: Financial Independence	424	-
Education & Workforce Development	979	271
Food Security	336	1,035
Housing	1,187	399
Other	35	1,109
Emergency Grant	188	1,000
Strategic Opportunity Funds	119	1,271
Total awards and grants	<u>\$ 9,264</u>	<u>\$ 10,446</u>

All grants will be paid in 2025.

Note 10. Leases

MHM leases equipment and real estate from unrelated parties under operating and financing lease agreements. For the year ended December 31, 2024, these agreements had remaining weighted average terms of 1.79 years and 4.44 years for operating leases and financing leases respectively, and a weighted average discount rate of 5.95%. For the year ended December 31, 2023, leases were not significant to the consolidated financial statements.

ROU assets for operating and financing leases were as follows for the year ended December 31, 2024:

(In Thousands)	2024	2023
Operating lease costs	\$ 32	\$ -
Finance lease cost—amortization of ROU assets	87	-
Finance lease cost—interest on lease liabilities	17	-
	<u>\$ 136</u>	<u>\$ -</u>

Operating lease costs are recognized on a straight-line basis over the lease term. The components of lease expense for the years ended December 31, 2024 and 2023, are as follows:

(In Thousands)	2024	2023
ROU assets—operating leases	\$ 60	\$ -
ROU assets—financing leases	922	-
	982	-
Less accumulated depreciation and amortization	129	-
Net right-of-use assets	<u>\$ 853</u>	<u>\$ -</u>

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 10. Leases (Continued)

Total building rent expense for operating leases was approximately \$25,000 and \$0, respectively, for the years ended December 31, 2024 and 2023.

Total depreciation and amortization of ROU assets for financing leases was \$87,000 and \$0, respectively, and interest expense was \$17,000 and \$0, respectively, for the years ended December 31, 2024 and 2023.

Future maturities of lease liabilities due under lease agreements are as follows for the years ended December 31:

	Operating Leases	Finance Leases
<i>(In Thousands)</i>		
2025		
2026	\$ 34	\$ 214
2027	26	214
2028	1	214
2029	-	168
Total undiscounted lease payments	-	122
Less imputed interest	61	932
Total present value of lease payments	(1)	(129)
	<u>\$ 60</u>	<u>\$ 803</u>

Note 11. Retirement Plan

MHM has established a defined contribution plan offered through a 401(k) plan, which covers substantially all eligible employees. All employees are eligible to participate in the plan, with a matching employer contribution. 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 limitations. Employer contributions to the defined contribution plan totaled \$2.6 million and \$2.5 million at December 31, 2024 and 2023, 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 \$22,000 and \$22,500 at December 31, 2024 and 2023, respectively. The related 457 plan assets and liabilities are recorded in other current assets and accrued expenses in the consolidated statements of financial position totaling approximately \$642,000 and \$507,000 at December 31, 2024 and 2023, respectively.

Note 12. Commitments and Contingencies

Certain conditions may exist as of the date the 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 12. 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 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, 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 October 2024, MHM renewed its agreement with Frost Bank for a \$100 million revolving line of credit with a variable benchmark rate of One-Month Term SOFR plus 160 basis points with a floor rate of 1%. The maturity date for the renewal is November 1, 2025. The line imposes certain minimum investment balance restrictions (\$100 million). There was no amount outstanding on this line of credit as of December 31, 2024 and 2023.

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 \$10.5 million and \$11 million as of December 31, 2024 and 2023, and are conditional upon the achievement of specified targets and milestones, as specified in the respective grant agreements. Of the conditional promises, \$500,000 and \$0 were paid as of December 31, 2024 and 2023, respectively.

In 2024, MHM Real Co entered into an initial period services proposal with Gatehouse Capital to develop a plan for the 15.34 acres known as the Triangle Property located at Wurzbach Rd. and 7951 Floyd Curl. As a result of the plan, MHM Real Co entered into a development services agreement with GHC San Antonio Development, LLC in March 2025 for a new-build hotel project on the land which will include a dual-brand hotel along with restaurant and breakfast area, pool, and fitness center. Also included is meeting space and adjacent off-site parking. Once completed, 15% of the hotel occupancy will be designated for charity allotment towards patients and their families receiving care in the South Texas Medical Center.

Note 13. Income Taxes

MHM and WPCC are recognized as exempt from federal income taxes under the Section 501(c)(3) of the Internal Revenue Code (IRC) and applicable state law. MHM and WPCC may be subject to federal and state income taxes on any net income from unrelated business activities. MHM and WPCC file a Form 990 (Return of Organization Exempt from Income Tax) annually and unrelated business income (UBI) is reported on Form 990-T, as appropriate. Taxes paid and accrued for UBI in 2024 and 2023 totaled \$210,000 and \$97,000, respectively.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 13. Income Taxes (Continued)

The wholly owned subsidiary, MHM Real Co, LLC's taxable income or loss is allocated to its member. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements.

Management has evaluated their material tax position, which includes such matters as the tax-exempt status of each entity and various positions relative to potential sources of UBI. MHM accounts for uncertainty of income taxes based on a more likely than not threshold for the recognition and derecognition of tax positions, which includes the accounting for interest and penalties relating to tax positions. As of December 31, 2024 and 2023, there were no uncertain tax benefits identified and recorded as a liability.