

Methodist Healthcare Ministries of South Texas, Inc.

Consolidated Financial Report
December 31, 2022

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RSM US LLP

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 statement of net position as of December 31, 2022 and 2021, and the related consolidated changes in net assets 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, 2022 and 2021, and the results of their operations 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, 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 \$749,959,520 and \$689,805,343, respectively, at December 31, 2022 and 2021, and total equity in earnings totaled \$275,154,177 and \$224,001,591, 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 MHM, 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
October 16, 2023

Methodist Healthcare Ministries of South Texas, Inc.

**Consolidated Statements of Financial Position
December 31, 2022 and 2021**

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 199,664,832	\$ 101,211,010
Prepaid expenses and other current assets	1,429,653	1,445,099
Total current assets	201,094,485	102,656,109
Assets limited as to use:		
Board-designated investments	727,015,847	812,215,058
Board-designated cash	225,480	10,491,282
Total board-designated portfolio	727,241,327	822,706,340
Research and Development Fund, net of adjustment to carrying value of \$880,418 (\$880,418 in 2021)	665,530	886,912
Endowment funds	217,148	245,024
Total assets limited as to use	728,124,005	823,838,276
Property, equipment and land, net	43,113,753	33,776,901
Investment in Methodist Healthcare System of San Antonio, Ltd., LLP	749,959,520	689,805,343
Total assets	\$ 1,722,291,763	\$ 1,650,076,629
Liabilities and Net Assets		
Current liabilities:		
Accounts payable, accrued expenses and other current liabilities	\$ 6,856,189	\$ 6,738,088
Grants payable	6,116,860	5,827,278
Total current liabilities	12,973,049	12,565,366
Total liabilities	12,973,049	12,565,366
Net assets:		
Without donor restrictions:		
Undesignated	1,709,218,714	1,637,411,263
With donor restrictions:		
Restricted in perpetuity	100,000	100,000
Total net assets	1,709,318,714	1,637,511,263
Total liabilities and net assets	\$ 1,722,291,763	\$ 1,650,076,629

See notes to consolidated financial statements.

Methodist Healthcare Ministries of South Texas, Inc.

**Consolidated Statements of Activities
Years Ended December 31, 2022 and 2021**

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:			
Equity in earnings from Methodist Healthcare System of San Antonio, Ltd., LLP	\$ 275,154,177	\$ -	\$ 275,154,177
Net investment return	(95,502,334)	-	(95,502,334)
Other operating income	4,182,467	-	4,182,467
Total revenue, gains and other support	183,834,310	-	183,834,310
Expenses:			
Program expenses	101,009,471	-	101,009,471
Management and general expenses	11,017,388	-	11,017,388
Total expenses	112,026,859	-	112,026,859
Change in net assets	71,807,451	-	71,807,451
Net assets at beginning of year	1,637,411,263	100,000	1,637,511,263
Net assets at end of year	\$ 1,709,218,714	\$ 100,000	\$ 1,709,318,714

See notes to consolidated financial statements.

2021		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 224,001,591	\$ -	\$ 224,001,591
99,998,549	-	99,998,549
231,496	-	231,496
324,231,636	-	324,231,636
91,940,996	-	91,940,996
10,568,237	-	10,568,237
102,509,233	-	102,509,233
221,722,403	-	221,722,403
1,415,688,860	100,000	1,415,788,860
\$ 1,637,411,263	\$ 100,000	\$ 1,637,511,263

Methodist Healthcare Ministries of South Texas, Inc.

**Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021**

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 71,807,451	\$ 221,722,403
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,953,157	2,139,018
Loss (gain) on disposal of equipment	(2,079,335)	18,340
Realized (gain) on investments	(24,342,858)	(48,550,482)
Unrealized (gain) loss on investments	126,699,020	(44,484,122)
Reserve on Research and Development Fund assets	221,382	253,986
Earnings from investment in Methodist Healthcare System of San Antonio, Ltd., LLP	(275,154,177)	(224,001,591)
Distributions from investment in Methodist Healthcare System of San Antonio, Ltd., LLP	215,000,000	177,000,000
Changes in:		
Prepaid expenses and other current assets	15,446	(190,263)
Accounts payable, accrued expenses and other current liabilities	118,101	(359,564)
Grants payable	289,582	78,881
Net cash provided by operating activities	114,527,769	83,626,606
Cash flows from investing activities:		
Purchases of property and equipment	(14,062,787)	(1,121,690)
Proceeds from sale of property and equipment	4,852,113	-
Purchase of investments from operating cash	-	(75,000,000)
Purchases of investments	(377,035,079)	(206,079,539)
Proceeds from sales/maturities of investments	359,906,004	208,863,353
Net cash used in investing activities	(26,339,749)	(73,337,876)
Net increase in cash and cash equivalents	88,188,020	10,288,730
Cash and cash equivalents		
Beginning of year	111,702,292	101,413,562
End of year	\$ 199,890,312	\$ 111,702,292
Cash and cash equivalents	\$ 199,664,832	\$ 101,211,010
Board-designated cash	225,480	10,491,282
	\$ 199,890,312	\$ 111,702,292
Supplemental disclosure of cash flow information:		
Cash paid for income tax	\$ 115,916	\$ 119,579

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 Non-Profit 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. The consolidated financial statements of MHM include the accounts of MHM and WPCC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Mission statement: Serving Humanity to Honor God.

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

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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 \$101,009,471 and \$91,940,996 in 2022 and 2021, respectively, for program expenses for operating programs and grants, and \$9,210,674 and \$1,121,690 in 2022 and 2021, 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:

	Years Ended December 31	
	2022	2021
Medical and dental services:		
Operating programs:		
Wesley Health & Wellness Center; Dixon Health & Wellness Center and School-Based Health Centers	\$ 31,853,929	\$ 30,105,682
Health and wellness programs:		
Operating programs:		
Wesley Nurse Program	11,259,563	10,620,850
Parenting Programs	1,654,541	1,378,600
Family Wellness Programs	1,179,515	1,172,378
Behavioral Health Services	5,731,559	5,338,152
Health Education/Nutrition	2,272,740	1,837,952
Total operating programs	53,951,847	50,453,614
Policy and Strategy Department	2,554,133	3,786,218
Organizational Excellence & Organizational Learning	2,286,006	1,171,099
Community Investments Department	1,458,954	1,565,492
Church Connections & Spiritual Care	495,556	426,605
Communities of Solutions	725,855	-
Strategic Opportunity Funds	6,420,564	2,151,616
Grants to external partners	33,116,556	32,386,352
Total program expenses	<u>\$ 101,009,471</u>	<u>\$ 91,940,996</u>
Capital expenditures for programs	<u>\$ 9,210,674</u>	<u>\$ 1,121,690</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 and 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.

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 or Board-imposed 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 or Board stipulation or by law. Expirations of temporary restrictions on net assets (e.g., the donor or Board 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 probably 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, 2022 and 2021.

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) the Entity 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. The Entity 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 non-public 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, 2022 and 2021.

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 2,082 hours and 192 hours at December 31, 2022 and 2021, 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 September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*, an amendment for Not-for-Profit's (NFP's) that receive contributed nonfinancial assets. The amendment requires NFP's to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. NFP's must disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets. ASU 2020-07 is effective for MHM beginning on January 1, 2022. MHM has adopted ASU 2020-07 for the year ended December 31, 2022, with no material impact.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Recent accounting pronouncements: In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, an amendment to ASU No. 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 No. 2023-01, *Leases (Topic 842): Common Control Arrangements*. Since the issuance of ASU No. 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. If an entity adopts the amendments in an interim period, it must adopt them as of the beginning of the fiscal year that includes that interim period. MHM is in the process of evaluating the effect of the amendment.

In March 2023, the FASB issued ASU No. 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method a consensus of the Emerging Issues Task Force*. The FASB is issuing this ASU to allow reporting entities to consistently account for equity investments made primarily for the purpose of receiving income tax credits and other income tax benefits. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted for all entities in any interim period. If an entity adopts the amendments in an interim period, it shall adopt them as of the beginning of the fiscal year that includes that interim period. 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 October 16, 2023, the date the 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.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements and Disclosures (Continued)

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.

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.

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, 2022 and 2021, and by level within the fair value measurement hierarchy:

	Fair Value Measurement at December 31, 2022				Investments Valued at NAV
	Total	Level 1	Level 2	Level 3	
Managed accounts:					
Equity	\$ 192,454,263	\$ 192,454,263	\$ -	\$ -	\$ -
Fixed income	30,575,741	27,459,214	-	3,116,527	-
Total managed accounts	223,030,004	219,913,477	-	3,116,527	-
Mutual funds	263,145,567	-	-	-	263,145,567
Alternative investments:					
Balyasny Atlas Enhanced Fund, Ltd.	40,313,520	-	-	-	40,313,520
Evanston Weatherlow Offshore Fund I, Ltd.	59,881,904	-	-	-	59,881,904
Evanston Credit Opportunities	13,559,039	-	-	-	13,559,039
ACL Alternative Fund	19,810,518	-	-	-	19,810,518
Chatham Asset High Yield Offshore Fund, Ltd.	36,934,730	-	-	-	36,934,730
Huizenga Venture Investments II LLC	3,072,254	-	-	3,072,254	-
Huizenga Venture Investments III LLC	189,575	-	-	189,575	-
DWS RREEF America REIT II	21,613,640	-	-	-	21,613,640
Portfolio Advisors Secondary Fund IV LP	18,716,030	-	-	18,716,030	-
SEI Core Property Fund LP	7,037,136	-	-	-	7,037,136
SEI Energy Debt Fund LP	522,452	-	-	-	522,452
SEI Structured Credit Fund LP	5,759,976	-	-	-	5,759,976
SEI Special Situations Fund LP	11,832,424	-	-	-	11,832,424
SEI Global Private Assets IV Fund LP	1,261,185	-	-	-	1,261,185
SEI Global Private Assets V Fund LP	335,893	-	-	-	335,893
Total alternative investments	240,840,276	-	-	21,977,859	218,862,417
Total board-designated investments	727,015,847	219,913,477	-	25,094,386	482,007,984
Roy Campbell, III Endowment Fund	117,148	117,148	-	-	-
Endowment Fund	100,000	100,000	-	-	-
Total endowment funds	217,148	217,148	-	-	-
	\$ 727,232,995	\$ 220,130,625	\$ -	\$ 25,094,386	\$ 482,007,984
Percent of investment portfolio	100.0%	30.3%	0.0%	3.5%	66.3%

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, 2021				
	Total	Level 1	Level 2	Level 3	Investments Valued at NAV
Managed accounts:					
Equity	\$ 223,953,401	\$ 223,953,401	\$ -	\$ -	\$ -
Fixed income	38,511,637	35,449,922	-	3,061,715	-
Total managed accounts	262,465,038	259,403,323	-	3,061,715	-
Mutual funds	324,370,578	-	-	-	324,370,578
Alternative investments:					
Balyasny Atlas Global Investments, Ltd.	36,666,312	-	-	-	36,666,312
Evanston Weatherlow Offshore Fund I, Ltd.	65,594,702	-	-	-	65,594,702
Evanston Credit Opportunities	14,552,391	-	-	-	14,552,391
ACL Alternative Fund	25,170,313	-	-	-	25,170,313
Chatham Asset High Yield Offshore Fund, Ltd.	33,628,030	-	-	-	33,628,030
Huizenga Venture Investments II LLC	2,196,894	-	-	2,196,894	-
DWS RREEF America REIT II	5,531,786	-	-	-	5,531,786
Portfolio Advisors Secondary Fund IV LP	14,592,335	-	-	14,592,335	-
SEI Core Property Fund LP	6,348,799	-	-	-	6,348,799
SEI Energy Debt Fund LP	1,875,922	-	-	-	1,875,922
SEI Structured Credit Fund LP	5,948,696	-	-	-	5,948,696
SEI Special Situations Fund LP	11,853,353	-	-	-	11,853,353
SEI Global Private Assets IV Fund LP	1,220,206	-	-	-	1,220,206
SEI Global Private Assets V Fund LP	199,703	-	-	-	199,703
Total alternative investments	225,379,442	-	-	16,789,229	208,590,213
Total board-designated investments	812,215,058	259,403,323	-	19,850,944	532,960,791
Roy Campbell, III Endowment Fund	145,024	145,024	-	-	-
Endowment Fund	100,000	100,000	-	-	-
Total endowment funds	245,024	245,024	-	-	-
	\$ 812,460,082	\$ 259,648,347	\$ -	\$ 19,850,944	\$ 532,960,791
Percent of investment portfolio	100.0%	32.0%	0.0%	2.4%	65.6%

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., SEI Core Property Fund LP, SEI Energy Debt Fund LP, SEI Structured Credit Fund LP, SEI Special Situations Fund LP and SEI Global Private Assets IV Fund LP, and SEI Global Private Assets V Fund LLP, 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, DWS RREEF America REIT II, and Portfolio Advisors Secondary Fund IV 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.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements and Disclosures (Continued)

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 fund is a 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:

	Redemption Frequency	Redemption Notice Period	Fair Value at December 31	
			2022	2021
Debt	Quarterly or Semiannual or None*	45-95 days, None*	\$ 43,217,158	\$ 56,005,040
Fund of funds	Three-Year	65-95 days	93,907,581	77,448,055
Multi-strategy hedge funds	Quarterly	65 days	40,313,520	36,666,312
Managed futures	Daily	Same day	19,810,518	25,170,313
Private assets	None*	None*	-	1,419,908
Real estate	Quarterly	45-95 days	21,613,640	11,880,585
Total			<u>\$ 218,862,417</u>	<u>\$ 208,590,213</u>

* 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.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements and Disclosures (Continued)

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, 2022.

Abbey Capital's Alternative Fund SAC Limited offers daily liquidity. Redemptions will be processed the same day as long as instructions are received by Abbey 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, 2022, 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 95-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 2019, MHM agreed to extend the hard lock-up period until April 1, 2022, as requested by the Fund. 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.

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, 2021, all of MHM's investment in this fund were no longer subject to the hard lock-up period.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements and Disclosures (Continued)

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, 2022, \$4,197,714, or 72.9%, of MHM's investment in the fund was still subject to the hard-lock up. That lock-up was scheduled to expire on March 31, 2023.

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, 2022.

The following table summarizes the valuation techniques and significant unobservable inputs used for MHM's assets that are categorized within Level 3 of the fair value hierarchy:

Financial Instrument Type	Fair Value	Valuation Techniques	Unobservable Input	Range of Inputs
Assets:				
Texas Methodist Loan Fund	\$ 117,148	Account value derived from stated rate of return of fund offering	Discount for historical performance of individual loans in fund	No discount applied*

* As of July 1, 2022, no loss of principal has been incurred on the default of any loan originated within the TMF loan portfolio dating back to 1938.

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 \$5,000,000. 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, 2022 and 2021, the Board has limited the amount of this investment to the current committed amount of \$4,100,000 and \$4,100,000, respectively.

As of December 31, 2022, 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.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 3. Research and Development Fund (Continued)

As of December 31, 2022 and 2021, the total committed capital for these partnerships and direct investments was \$4,100,000 and \$4,100,000, respectively. As of December 31, 2022, \$4,091,122 of that had been called (\$4,091,122 in 2021). 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.

As of December 31, 2022, MHM's R&D Fund reserve account held four positions for a total of \$880,418 (\$880,418 in 2021) in the R&D Fund due to going concern issues. Those positions were the \$500,001 invested directly in Innovative Trauma Care, Inc., \$300,000 invested directly in Invictus Medical, as well as \$20,577 in Targeted Technology Fund I, LP portfolio companies, and \$59,840 in Targeted Technology Fund II portfolio companies.

During 2022, MHM wrote off a total of \$56,317 in its R&D Fund that consisted of \$13,062 in InCube Ventures II, LP, \$21,213 in Targeted Technology Fund I, LP, and \$22,041 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.

One of the portfolio companies in the InCube Ventures II, LP fund had a distribution event which resulted in returned capital of \$165,065.

The following table reflects commitments outstanding and capital calls funded as of December 31, 2022 and 2021, and during the years then ended:

	Agreement Date	Total Commitment	Carrying Amount December 31, 2021	2022 Called Capital	2022 Write-Offs	Impairments Moved to Reserve	Returned Capital and Other Adjustments	Carrying Amount December 31, 2022
Venture capital funds:								
InCube Ventures II, LP	September 2010	\$ -	\$ 533,648	\$ -	\$ (13,062)	\$ -	\$ (165,065)	\$ 355,521
Targeted Technology Fund I, L	February 2010	-	147,035	-	(21,213)	-	-	125,822
Targeted Technology Fund II,	August 2013	-	206,229	-	(22,041)	-	-	184,188
		\$ -	\$ 886,912	\$ -	\$ (56,316)	\$ -	\$ (165,065)	\$ 665,531

	Agreement Date	Total Commitment	Carrying Amount December 31, 2020	2021 Called Capital	2021 Write-Offs	Impairments Moved to Reserve	Returned Capital and Other Adjustments	Carrying Amount December 31, 2021
Venture capital funds:								
InCube Ventures II, LP	September 2010	\$ 1,000,000	\$ 771,725	\$ -	\$ (149,674)	\$ -	\$ (88,403)	\$ 533,648
Targeted Technology Fund I, L	February 2010	500,000	162,944	-	(15,909)	-	-	147,035
Targeted Technology Fund II,	August 2013	500,000	206,229	-	-	-	-	206,229
		\$ 2,000,000	\$ 1,140,898	\$ -	\$ (165,583)	\$ -	\$ (88,403)	\$ 886,912

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

During 2022 and 2021, \$215,000,000 and \$177,000,000, 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 \$15,000,000.

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

	December 31	
	2022	2021
Investment in the Partnership at beginning of year	\$ 689,805,343	\$ 642,803,752
Earnings from the Partnership	275,154,177	224,001,591
Distributions from the Partnership	(215,000,000)	(177,000,000)
Investment in the Partnership at end of year	<u>\$ 749,959,520</u>	<u>\$ 689,805,343</u>

A summary of the Partnership's assets, liabilities, partners' capital and results of operations as of and for the years ended December 31, 2022 and 2021, is as follows:

	2022	2021
Total assets	<u>\$ 2,094,054,000</u>	<u>\$ 1,945,701,000</u>
Total liabilities	\$ 413,382,000	\$ 410,168,000
Partners' capital	1,624,834,000	1,504,526,000
Noncontrolling interest	55,838,000	31,007,000
Total equity	<u>1,680,672,000</u>	<u>1,535,533,000</u>
Total liabilities and partners' capital	<u>\$ 2,094,054,000</u>	<u>\$ 1,945,701,000</u>
Total revenues	\$ 3,031,456,000	\$ 2,746,875,000
Total expenses	2,469,017,000	2,288,628,000
	<u>\$ 562,439,000</u>	<u>\$ 458,247,000</u>

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:

	December 31	
	2022	2021
Partners' capital at December 31	\$ 815,960,520	\$ 755,806,343
Less excess working capital payments by HCA Inc.	(13,714,000)	(13,714,000)
Less parity payment by HCA Inc.	(74,750,000)	(74,750,000)
Plus equity reclassified to intercompany debt with HCA Inc.	22,463,000	22,463,000
Investment in the Partnership	<u>\$ 749,959,520</u>	<u>\$ 689,805,343</u>

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 \$818,200,000 and \$785,500,000 in 2022 and 2021, respectively. Charity cost (calculated based on the overall cost-to-charge ratio) was \$90,800,000 and \$96,300,000 in 2022 and 2021, respectively. Charity cost as a percentage of net patient revenue was 3.1% and 3.6% in 2022 and 2021, respectively.

Note 5. Classification of Expenses

In the below analysis, the costs of maintenance and depreciation have been allocated across all functional expense categories to reflect the full cost of those activities. Expenses for the maintenance and depreciation of fixed assets are allocated based on square footage.

	2022		
	Program Expenses	Management and General Expenses	Total Expenses
Salaries and benefits	\$ 41,064,233	\$ 6,792,583	\$ 47,856,816
Supplies	4,829,507	157,044	4,986,551
Services	15,531,686	3,625,814	19,157,500
Grants	37,866,134	-	37,866,134
Depreciation and amortization	1,665,911	287,246	1,953,157
Other expenses	52,000	154,701	206,701
Total expenses	<u>\$101,009,471</u>	<u>\$ 11,017,388</u>	<u>\$112,026,859</u>
	2021		
	Program Expenses	Management and General Expenses	Total Expenses
Salaries and benefits	\$ 34,891,842	\$ 8,985,608	\$ 43,877,450
Supplies	4,618,094	367,967	4,986,061
Services	15,382,723	547,664	15,930,387
Grants	33,729,891	-	33,729,891
Depreciation and amortization	1,780,037	358,981	2,139,018
Other expenses	1,538,409	308,017	1,846,426
Total expenses	<u>\$ 91,940,996</u>	<u>\$ 10,568,237</u>	<u>\$102,509,233</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:

	December 31	
	2022	2021
Cash and cash equivalents	\$ 199,890,312	\$ 111,702,292
Other receivables, net	23,670	28,810
Investments	727,898,525	813,346,994
Financial assets as of December 31	927,812,507	925,078,096
Less:		
Amounts subject to donor restrictions	100,000	100,000
Board-designated cash and investments and quasi endowment	727,358,475	822,851,364
Other investments not available for operations	665,530	886,912
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 199,688,502</u>	<u>\$ 101,239,820</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 (\$215,000,000 and \$177,000,000 in 2022 and 2021, respectively)
- (3) Distributions from the MHM's Board-designated investments
- (4) Draws from the dedicated \$100,000,000 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:

	December 31	
	2022	2021
Land	\$ 18,707,290	\$ 5,273,810
Buildings and improvements	39,362,876	44,054,095
Office furnishings and equipment	7,215,796	7,584,803
Construction In Progress	63,532	-
	<u>65,349,494</u>	<u>56,912,708</u>
Less accumulated depreciation and amortization	22,235,741	23,135,807
Net property and equipment	<u>\$ 43,113,753</u>	<u>\$ 33,776,901</u>

Depreciation and amortization expense for the years ended December 31, 2022 and 2021, totaled \$1,953,157 and \$2,139,018, respectively.

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.

	December 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 100,000	\$ 100,000
Board-designated endowment funds	117,148	-	117,148
	<u>\$ 117,148</u>	<u>\$ 100,000</u>	<u>\$ 217,148</u>

	December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 100,000	\$ 100,000
Board-designated endowment funds	145,024	-	145,024
	<u>\$ 145,024</u>	<u>\$ 100,000</u>	<u>\$ 245,024</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:

	Year Ended December 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	\$ 145,024	\$ 100,000	245,024
Investment return:			
Investment income	-	2,314	2,314
Net appreciation	(22,876)	-	(22,876)
Amounts appropriated for expenditures	(5,000)	(2,314)	(7,314)
Endowment net assets at end of year	<u>\$ 117,148</u>	<u>\$ 100,000</u>	<u>\$ 217,148</u>

	Year Ended December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	\$ 139,210	\$ 100,000	\$ 239,210
Investment return:			
Investment income	-	2,716	2,716
Net appreciation	10,814	-	10,814
Amounts appropriated for expenditures	(5,000)	(2,716)	(7,716)
Endowment net assets at end of year	<u>\$ 145,024</u>	<u>\$ 100,000</u>	<u>\$ 245,024</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:

	December 31, 2022		
	Cost	Estimated Fair Value	Unrealized Appreciation
Equities	\$ 168,802,549	\$ 192,454,263	\$ 23,651,714
Fixed income	34,021,037	30,575,741	(3,445,296)
Mutual funds	254,581,563	263,145,567	8,564,004
Alternative investments	195,681,218	240,840,276	45,159,058
	<u>\$ 653,086,367</u>	<u>\$ 727,015,847</u>	<u>\$ 73,929,480</u>

	December 31, 2021		
	Cost	Estimated Fair Value	Unrealized Appreciation (Depreciation)
Equities	\$ 141,368,325	\$ 223,953,401	\$ 82,585,076
Fixed income	39,069,434	38,511,637	(557,797)
Mutual funds	254,784,406	324,370,578	69,586,172
Alternative investments	176,364,393	225,379,442	49,015,049
	<u>\$ 611,586,558</u>	<u>\$ 812,215,058</u>	<u>\$ 200,628,500</u>

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

Fair value at December 31, 2020	\$ 646,970,082
Net contributions	65,231,547
Realized gains	48,550,482
Interest and dividend income	9,529,162
Investment fees	(2,550,337)
Change in fair value	<u>44,484,122</u>
Fair value at December 31, 2021	812,215,058
Net contributions	10,265,800
Realized gains	24,342,858
Interest and dividend income	9,459,508
Investment fees	(2,568,357)
Change in fair value	<u>(126,699,020)</u>
Fair value at December 31, 2022	<u>\$ 727,015,847</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.

Schedule of grants payable are as follows:

	December 31	
	2022	2021
Access to Care: General	\$ 2,382,499	\$ 3,614,965
Access to Care: Mental & Behavioral Health	2,070,787	2,057,884
Digital Equity	78,124	-
Economic Mobility: Financial Independence	21,119	-
Education & Workforce Development	76,838	-
Food Security	18,425	-
Housing	80,598	-
Other	1,388,470	54,429
Winter Storm Grants	-	100,000
Total awards and grants	<u>\$ 6,116,860</u>	<u>\$ 5,827,278</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 \$2,208,579 and 2,179,829 at December 31, 2022 and 2021, 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 \$20,500 and \$19,500 at December 31, 2022 and 2021, 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 \$1,000,000 per claim and \$3,000,000 aggregate per year limit. An excess liability umbrella policy covering both general liability and professional liability claims is also in effect with a \$5,000,000 limit per claim.

In August 2022, MHM renewed its agreement with Frost Bank for a \$100,000,000 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 August 30, 2023. The line imposes certain minimum investment balance restrictions. There was no amount outstanding on this line of credit as of December 31, 2022 and 2021.

On January 30, 2020, the World Health Organization declared a coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and, on March 11, 2020, declared COVID-19 a pandemic. On March 4, 2020, MHM began business continuity planning for COVID-19. Due to several area city leaders and metro health departments prohibiting gatherings in excess of 500 people, MHM team members began to work from home on March 18, 2020. In-person patient visits were shifted to telehealth or drive thru visits when possible, and all other programming was put on pause or shifted to a virtual environment. MHM began purchasing additional PPE and implemented universal screening for team members who returned to work at MHM locations. The federal government passed the Families First and CARES Acts to address the impact of COVID-19 on the country. MHM received payroll tax credits as a result of both acts in 2020 and 2021. While there was potential for COVID-19 to adversely impact MHM's consolidated financial statements or operations, COVID-19 did not have any such impact as of December 31, 2021. In 2022, MHM shifted to an in-person or hybrid schedule for team members at all locations.

The continued global pandemic in 2022 has created substantial volatility in financial markets and the economy, including geographical areas in which MHM operates. While MHM has mitigated the financial impact to its business, it is unknown how long these conditions will last and what the complete financial effect will be to MHM. Accordingly, there could be further negative impact to operations, the extent to which will depend on future developments, which are highly uncertain and cannot be predicted and, as such, cannot be determined.

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.

After examination by the IRS challenging MHM's tax-exempt status, MHM entered into a closing agreement dated October 2, 2001, which reaffirms MHM's tax-exempt status under section 501(c)(3).

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 12. Income Taxes (Continued)

MHM files IRS Form 990T, Exempt Organization Business Income Tax Return, annually. Taxes paid and accrued for unrelated business income in 2022 and 2021 totaled \$115,916 and \$119,579, respectively.

MHM's policy is to record interest and penalty expense related to income taxes as interest and other expense, respectively. At December 31, 2022 and 2021, 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 \$13,400,000. MHM also sold the Med Center Clinic property to MHS for \$4,600,000 in 2022.