

Methodist Healthcare Ministries of South Texas, Inc.

Consolidated Financial Report
December 31, 2021

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Methodist Healthcare Ministries of South Texas, Inc. (MHM), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, 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 audit 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, 2021 and 2020, and the changes of its net assets and its 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 \$689,805,343 and \$642,803,752, respectively, at December 31, 2021 and 2020, and total equity in earnings totaled \$224,001,591 and \$156,949,529, respectively, for the years then ended. Those financial 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 the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about 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 the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 29, 2022

Methodist Healthcare Ministries of South Texas, Inc.

**Consolidated Statements of Financial Position
December 31, 2021 and 2020**

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 101,211,010	\$ 100,690,734
Prepaid expenses and other current assets	1,445,099	1,254,836
Total current assets	102,656,109	101,945,570
Assets limited as to use:		
Board-designated investments	812,215,058	646,970,082
Cash held at BBT Master Fund Liquidating Trust	-	194,715
Board-designated cash	10,491,282	528,113
Total board-designated portfolio	822,706,340	647,692,910
Research and Development Fund, net of adjustment to carrying value of \$880,418 (\$1,608,000 in 2020)	886,912	1,140,898
Endowment funds	245,024	239,210
Total assets limited as to use	823,838,276	649,073,018
Property, equipment and land, net	33,776,901	34,812,569
Investment in Methodist Healthcare System of San Antonio, Ltd., LLP	689,805,343	642,803,752
Total assets	\$ 1,650,076,629	\$ 1,428,634,909
Liabilities and Net Assets		
Current liabilities:		
Accounts payable, accrued expenses and other current liabilities	\$ 6,738,088	\$ 7,097,652
Grants payable	5,827,278	5,748,397
Total current liabilities	12,565,366	12,846,049
Total liabilities	12,565,366	12,846,049
Net assets:		
Without donor restrictions:		
Undesignated	1,637,411,263	1,415,688,860
With donor restrictions:		
Restricted in perpetuity	100,000	100,000
Total net assets	1,637,511,263	1,415,788,860
Total liabilities and net assets	\$ 1,650,076,629	\$ 1,428,634,909

See notes to consolidated financial statements.

Methodist Healthcare Ministries of South Texas, Inc.

Consolidated Statements of Activities
Years Ended December 31, 2021 and 2020

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support:			
Equity in earnings from Methodist Healthcare System of San Antonio, Ltd., LLP	\$ 224,001,591	\$ -	\$ 224,001,591
Net investment return	99,998,549	-	99,998,549
Other operating income	231,496	-	231,496
Total revenue, gains and other support	324,231,636	-	324,231,636
Expenses:			
Program expenses	91,940,996	-	91,940,996
Management and general expenses	10,568,237	-	10,568,237
Total expenses	102,509,233	-	102,509,233
Change in net assets	221,722,403	-	221,722,403
Net assets at beginning of year	1,415,688,860	100,000	1,415,788,860
Net assets at end of year	<u>\$ 1,637,411,263</u>	<u>\$ 100,000</u>	<u>\$ 1,637,511,263</u>

See notes to consolidated financial statements.

2020		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 156,949,529	\$ -	\$ 156,949,529
88,739,520	-	88,739,520
663,956	-	663,956
246,353,005	-	246,353,005
88,723,834	-	88,723,834
10,143,799	-	10,143,799
98,867,633	-	98,867,633
147,485,372	-	147,485,372
1,268,203,488	100,000	1,268,303,488
\$ 1,415,688,860	\$ 100,000	\$ 1,415,788,860

Methodist Healthcare Ministries of South Texas, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 221,722,403	\$ 147,485,372
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,139,018	2,117,916
Loss (gain) on disposal of equipment	18,340	267,173
Realized gain on investments	(48,550,482)	(21,503,067)
Unrealized gain on investments	(44,484,122)	(63,059,002)
Reserve on Research and Development Fund assets	253,986	(41,122)
Earnings from investment in Methodist Healthcare System of San Antonio, Ltd., LLP	(224,001,591)	(156,949,529)
Distributions from investment in Methodist Healthcare System of San Antonio, Ltd., LLP	177,000,000	175,000,000
Changes in:		
Prepaid expenses and other current assets	(190,263)	(142,042)
Accounts payable, accrued expenses and other current liabilities	(359,564)	194,616
Grants payable	78,881	(961,905)
Net cash provided by operating activities	83,626,606	82,408,410
Cash flows from investing activities:		
Purchases of property and equipment	(1,121,690)	(692,193)
Purchase of investments from operating cash	(75,000,000)	-
Purchases of investments	(206,079,539)	(404,436,299)
Proceeds from sales/maturities of investments	208,863,353	400,555,533
Net cash used in investing activities	(73,337,876)	(4,572,959)
Net increase in cash and cash equivalents (unrestricted and restricted)	10,288,730	77,835,451
Cash and cash equivalents (unrestricted and restricted)		
Beginning of year	101,413,562	23,578,111
End of year	<u>\$ 111,702,292</u>	<u>\$ 101,413,562</u>
Cash and cash equivalents	\$ 101,211,010	\$ 100,690,734
Cash held at BBT Master Fund Liquidating Trust	-	194,715
Board-designated cash	10,491,282	528,113
	<u>\$ 111,702,292</u>	<u>\$ 101,413,562</u>
Supplemental disclosure of cash flow information:		
Cash paid for income tax	<u>\$ 119,579</u>	<u>\$ 25,000</u>

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 \$91,940,996 and \$88,723,834 in 2021 and 2020, respectively, for program expenses for operating programs and grants, and \$1,121,690 and \$692,193 in 2021 and 2020, 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	
	2021	2020
Medical and dental services:		
Operating programs:		
Wesley Health & Wellness Center; Dixon Health & Wellness Center and School-Based Health Centers	\$ 30,105,682	\$ 27,968,366
Health and wellness programs:		
Operating programs:		
Wesley Nurse Program	10,620,850	11,051,985
Parenting Programs	1,378,600	1,298,494
Family Wellness Programs	1,172,378	1,972,405
Behavioral Health Services	5,338,152	5,007,677
Health Education/Nutrition	1,837,952	1,551,670
Total operating programs	50,453,614	48,850,597
Policy and Strategy Department	3,786,218	4,025,727
Organizational Excellence	1,171,099	-
Community Investments Department	1,565,492	1,282,678
Church Connections & Spiritual Care	426,605	382,386
Si Texas (Social Innovation Fund Grant)	-	31,370
Strategic Opportunity Funds	2,151,616	4,770,747
Grants to external partners	32,386,352	29,380,329
Total program expenses	\$ 91,940,996	\$ 88,723,834
Capital expenditures for programs	\$ 1,121,690	\$ 692,193

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 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 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 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 noninterest-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.

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, 2021 and 2020.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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.

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 192 hours and 570 hours at December 31, 2021 and 2020, 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.

Reclassification: Certain reclassifications have been made in the prior year's consolidated financial statements to conform to the current year's presentation.

Adopted accounting pronouncements: During the year ended December 31, 2019, MHM adopted the FASB Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified-retrospective method of transition applied to contracts that were not complete as of December 31, 2019. This ASU replaced existing revenue recognition guidance, including industry-specific guidance, and requires revenue to be recognized in an amount that reflects the consideration the entity expects to be entitled in an exchange of goods or services.

The adoption of this ASU resulted in changes to presentation and disclosure of revenue, primarily related to the provision for bad debts. There was no adjustment required to the opening balance of net assets for the adoption of this ASU. Comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods.

MHM reports patient fee revenue at the amount that reflects the consideration to which MHM expects to be entitled to in exchange for providing patient care. Revenue is recognized as performance obligations are satisfied.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Performance obligations are determined based on the nature of the services provided by MHM. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. MHM believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. MHM measures the performance obligation during the time of the patient visit.

As MHM's performance obligations relate to contracts with a duration of less than one year, MHM has elected to apply the optional exemption provided in ASC Topic 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

MHM determines the transaction price based on standard charges for goods and services provided to patients reduced by a sliding-fee discount provided to uninsured patients in accordance with MHM's policy. In addition to the sliding-fee discount, MHM records a charity care adjustment to patient service charges. The charity care adjustment represents the difference between amounts billed to patients after applying the sliding-fee discounts and the amounts expected to be collected based on MHM's collection history.

In September 2020, the FASB issued ASU 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's year ending December 31, 2021. MHM has adopted ASU 2020-07 as of December 31, 2021, with no material impact.

Recent accounting pronouncements: In February 2016, FASB issued ASU 2016-02, *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective-interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months, regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective for MHM beginning in fiscal year 2022, with early adoption permitted. MHM is in the process of evaluating the effect the updated standard will have on its consolidated financial statements.

In December 2019, FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, was issued to remove certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify U.S. GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The standard is effective for MHM beginning in fiscal year 2022. MHM is in the process of evaluating the effect of the updated standard.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606)* and *Leases (Topic 842)*, which provides a limited deferral of the effective dates of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU 2016-02, *Leases (Topic 842)*, including amendments issued after the issuance of the original update. The deferral is to provide immediate, near-term relief for certain entities for whom these updates are either currently effective or imminently effective in response to the adverse effect of the Coronavirus Disease 2019 (COVID-19) pandemic. MHM adopted ASU 2014-09 for the year ended December 31, 2019. The effective date for ASU 2016-02 noted above reflects the amended due date.

In July 2021, the FASB issued ASU 2021-05, *Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments*, an amendment to ASU 2016-02, *Leases (Topic 842)*. The amendments in this update affect lessors with lease contracts that: 1) have variable lease payments that do not depend on a reference index or a rate and 2) would have resulted in the recognition of selling a loss at lease commencement if classified as sales-type or direct financing. The amendment is effective for MHM beginning in fiscal years after December 15, 2021. MHM is in the process of evaluating the effect of the amendment.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, an amendment to ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The FASB issued the update to improve the accounting for acquired revenue contracts with customers in a business combinations 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.

Subsequent events: MHM has evaluated subsequent events for potential recognition and/or disclosure through September 29, 2022, 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. 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.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements and Disclosures (Continued)

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, 2021 and 2020, and by level within the fair value measurement hierarchy:

	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	-	-	-
	<u>\$ 812,460,082</u>	<u>\$ 259,648,347</u>	<u>\$ -</u>	<u>\$ 19,850,944</u>	<u>\$ 532,960,791</u>
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.

As of December 31, 2021, the BBT Master Fund Liquidating Trust had been fully distrusted and had a remaining value of \$0 (\$194,715 in 2020) on behalf of MHM. There is no pending litigation remaining associated with those funds.

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, 2020				
	Total	Level 1	Level 2	Level 3	Investments Valued at NAV
Managed accounts:					
Equity	\$ 214,110,846	\$ 214,110,846	\$ -	\$ -	\$ -
Fixed income	43,670,001	40,650,827	-	3,019,174	-
Total managed accounts	257,780,847	254,761,673	-	3,019,174	-
Mutual funds	227,319,031	-	-	-	227,319,031
Alternative investments:					
Balyasny Atlas Global Investments, Ltd.	26,883,371	-	-	-	26,883,371
Evanston Weatherlow Offshore Fund I, Ltd.	61,960,041	-	-	-	61,960,041
Evanston Credit Opportunities	12,500,000	-	-	-	12,500,000
ACL Alternative Fund	23,240,460	-	-	-	23,240,460
Chatham Asset High Yield Offshore Fund, Ltd.	29,639,918	-	-	-	29,639,918
SEI Core Property Fund LP	1,264,293	-	-	-	1,264,293
SEI Energy Debt Fund LP	1,387,295	-	-	-	1,387,295
SEI Structured Credit Fund LP	1,297,890	-	-	-	1,297,890
SEI Special Situations Fund LP	3,070,846	-	-	-	3,070,846
SEI Global Private Assets IV Fund LP	592,482	-	-	-	592,482
SEI Global Private Assets V Fund LP	33,608	-	-	-	33,608
Total alternative investments	161,870,204	-	-	-	161,870,204
Total board-designated investments	646,970,082	254,761,673	-	3,019,174	389,189,235
Roy Campbell, III Endowment Fund	139,210	139,210	-	-	-
Endowment Fund	100,000	100,000	-	-	-
Total endowment funds	239,210	239,210	-	-	-
	\$ 647,209,292	\$ 255,000,883	\$ -	\$ 3,019,174	\$ 389,189,235
Percent of investment portfolio	100.0%	39.4%	0.0%	0.5%	60.1%

MHM's participation in alternative investments is through a corporation or limited partnership structure. For Balyasny Atlas Global Investments, Ltd., Evanston Weatherlow Offshore Fund I, Ltd., Evanston Credit Opportunities, Alternative Fund SAC Limited, 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.

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

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

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

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

Three new alternative investment managers were added in 2021. Those included the Huizenga Venture Investments II LLC fund, which is a fund of fund manager in the venture capital space, the DWS RREEF America REIT II fund, which is a portfolio of domestic commercial real estate properties in the industrial, retail, office and multifamily sectors, and Portfolio Advisors Secondary Fund IV LP, which is a portfolio of private equity LP interests purchased in the secondary market as well as a few direct private equity co-investments.

The following table represents the redemption frequency and redemption notice period for alternative investments held by MHM:

	Redemption Frequency*	Redemption Notice Period	Fair Value at December 31	
			2021	2020
Debt	Quarterly or Semiannual	45-95 days	\$ 56,005,040	\$ 44,825,102
	Semiannual or Rolling			
Fund of funds	Three-Year	65-95 days	77,448,055	65,030,887
Multi-strategy hedge funds	Quarterly	65 days	36,666,312	26,883,371
Managed futures	Daily	Same day	25,170,313	23,240,460
Private assets	None*	None*	1,419,908	626,091
Real estate	Quarterly	45-95 days	11,880,585	1,264,293
Total			<u>\$ 208,590,213</u>	<u>\$ 161,870,204</u>

* MHM must remain invested throughout the life of the fund

Balyasny Atlas Global Investments, 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. Note that on January 1, 2022, the entire position in Balyasny Atlas Global Investments, Ltd. was sold and moved to Balyasny Enhanced Fund, Ltd.

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 Evanston Weatherlow Offshore Fund I, Ltd. operates under a three-year rolling hard-lock period. There is a 65-day notification period required prior to the end of each three-year hard-lock period. Positions of Evanston held by MHM that reach the end of the three-year hard-lock period have been extended for another three years.

The Evanston Credit Opportunities Fund operates under a two-year initial hard-lock period, thereafter, offering quarterly redemptions with a 95-day notification period.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements and Disclosures (Continued)

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, 2021, 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 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.

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, 2021, \$4,323,311, or 36.5%, of MHM's investment in the fund was still subject to the hard-lock up.

The Huizenga Venture Investments II LLC fund 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.

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, 2021.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 2. Fair Value Measurements and Disclosures (Continued)

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	\$ 3,061,715	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, 2020, the Texas Methodist Foundation (TMF) has foreclosed on six loans within its portfolio. In each case, the assets of TMF's undesignated endowment were utilized to purchase the defaulted loans, thereby removing the risk of loss from the Texas Methodist Loan Fund. TMF generally intends, but is not obligated, to continue such practice. TMF's prior practice of repurchasing troubled loans has given greater security of investment return at par with the principal value of each investment. As of July 1, 2020, no investor in the Texas Methodist Loan Fund has suffered a loss of principal or interest on its investment.

The changes in investments measured at fair value for which MHM has used Level 3 inputs to determine fair value are as follows:

Fair value at January 1, 2021	\$ 3,019,174
Interest earned	42,541
Fair value at December 31, 2021	<u>\$ 3,061,715</u>

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 is to be put to work overtime as suitable opportunities present themselves. As of December 31, 2021 and 2020, 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, 2020, 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, 2021 and 2020, the total committed capital for these partnerships and direct investments was \$4,100,000 and \$4,100,000, respectively. As of December 31, 2021, \$4,091,122 of that had been called (\$4,091,122 in 2020). 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, 2021, MHM's R&D Fund reserve account held four positions for a total of \$880,418 (\$1,608,000 in 2020) 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 2021, MHM wrote off a total of \$893,164 in its R&D Fund that consisted of a \$500,000 write off of its direct investment in Azaya Therapeutics (the full amount had previously been moved to the reserve account), \$149,674 in InCube Ventures II, LP (none had previously been moved to the reserve account), \$75,308 in Targeted Technology Fund I, LP (all but \$15,909 had previously been moved to the reserved account) and \$168,164 in Targeted Technology Fund II, LP (the full amount had previously been moved to the reserve account).

The following table reflects commitments outstanding and capital calls funded as of December 31, 2021 and 2020, and during the years then ended:

	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,	February 2010	500,000	162,944	-	(15,909)	-	-	147,035
Targeted Technology Fund II,	August 2013	500,000	206,229	-	-	-	-	206,229
		<u>\$ 2,000,000</u>	<u>\$ 1,140,898</u>	<u>\$ -</u>	<u>\$ (165,583)</u>	<u>\$ -</u>	<u>\$ (88,403)</u>	<u>\$ 886,912</u>
	Agreement Date	Total Commitment	Carrying Amount December 31, 2019	2020 Called Capital	2020 Write-Offs	Impairments Moved to Reserve	Returned Capital and Other Adjustments	Carrying Amount December 31, 2020
Venture capital funds:								
InCube Ventures II, LP	September 2010	\$ 1,000,000	\$ 730,603	\$ 41,122	\$ -	\$ -	\$ -	\$ 771,725
Targeted Technology Fund I,	February 2010	500,000	162,944	-	-	-	-	162,944
Targeted Technology Fund II,	August 2013	500,000	206,229	-	-	-	-	206,229
		<u>\$ 2,000,000</u>	<u>\$ 1,099,776</u>	<u>\$ 41,122</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,140,898</u>

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

During 2021 and 2020, \$177,000,000 and \$175,000,000, 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.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

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

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

	December 31	
	2021	2020
Investment in the Partnership at beginning of year	\$ 642,803,752	\$ 660,854,223
Earnings from the Partnership	224,001,591	156,949,529
Distributions from the Partnership	(177,000,000)	(175,000,000)
Investment in the Partnership at end of year	<u>\$ 689,805,343</u>	<u>\$ 642,803,752</u>

A summary of the Partnership's assets, liabilities, partners' capital and results of operations as of and for the years ended December 31, 2021 and 2020, is as follows:

	2021	2020
Total assets	<u>\$ 1,945,701,000</u>	<u>\$ 1,791,445,000</u>
Total liabilities	<u>\$ 410,168,000</u>	<u>\$ 354,168,000</u>
Partners' capital	1,504,526,000	1,410,524,000
Noncontrolling interest	31,007,000	26,753,000
Total equity	<u>1,535,533,000</u>	<u>1,437,277,000</u>
Total liabilities and partners' capital	<u>\$ 1,945,701,000</u>	<u>\$ 1,791,445,000</u>
Total revenues	\$ 2,746,875,000	\$ 2,314,334,000
Total expenses	2,288,628,000	1,990,971,000
	<u>\$ 458,247,000</u>	<u>\$ 323,363,000</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	
	2021	2020
Partners' capital at December 31	\$ 755,806,343	\$ 708,804,752
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>\$ 689,805,343</u>	<u>\$ 642,803,752</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 \$785,500,000 and \$756,400,000 in 2021 and 2020, respectively. Charity cost (calculated based on the overall cost-to-charge ratio) was \$96,300,000 and \$95,500,000 in 2021 and 2020, respectively. Charity cost as a percentage of net patient revenue was 3.6% and 4.2% in 2021 and 2020, 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.

	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	1,780,036	358,981	2,139,017
Other expenses	1,538,410	308,017	1,846,427
Total expenses	<u>\$ 91,940,996</u>	<u>\$ 10,568,237</u>	<u>\$ 102,509,233</u>

	2020		
	Program Expenses	Management and General Expenses	Total Expenses
Salaries and benefits	\$ 33,905,127	\$ 8,652,573	\$ 42,557,700
Supplies	4,882,026	304,485	5,186,511
Services	14,377,786	380,425	14,758,211
Grants	33,790,360	-	33,790,360
Depreciation and amortization	1,768,535	349,381	2,117,916
Other expenses	-	456,935	456,935
Total expenses	<u>\$ 88,723,834</u>	<u>\$ 10,143,799</u>	<u>\$ 98,867,633</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	
	2021	2020
Cash and cash equivalents	\$ 111,702,292	\$ 101,413,562
Other receivables, net	28,810	59,606
Investments	813,346,994	648,350,190
Financial assets as of December 31	925,078,096	749,823,358
Less:		
Amounts subject to donor restrictions	100,000	100,000
Board-designated cash and investments and quasi endowment	822,851,364	647,832,120
Other investments not available for operations	886,912	1,140,898
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 101,239,820</u>	<u>\$ 100,750,340</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 (\$177,000,000 and \$175,000,000 in 2021 and 2020, 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	
	2021	2020
Land	\$ 5,273,810	\$ 4,516,411
Buildings and improvements	43,980,714	43,733,333
Leasehold improvements	73,381	48,882
Office furnishings and equipment	7,584,803	7,769,139
	56,912,708	56,067,765
Less accumulated depreciation and amortization	23,135,807	21,255,196
Net property and equipment	<u>\$ 33,776,901</u>	<u>\$ 34,812,569</u>

Depreciation and amortization expense for the years ended December 31, 2021 and 2020, totaled \$2,139,017 and \$2,117,916, 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, 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>

	December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 100,000	\$ 100,000
Board-designated endowment funds	139,210	-	139,210
	<u>\$ 139,210</u>	<u>\$ 100,000</u>	<u>\$ 239,210</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, 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>

	Year Ended December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	\$ 123,277	\$ 100,000	\$ 223,277
Investment return:			
Investment income	-	2,716	2,716
Net appreciation	20,933	-	20,933
Amounts appropriated for expenditures	(5,000)	(2,716)	(7,716)
Endowment net assets at end of year	<u>\$ 139,210</u>	<u>\$ 100,000</u>	<u>\$ 239,210</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:

	December 31, 2021		
	Cost	Estimated Fair Value	Unrealized Appreciation
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>

Methodist Healthcare Ministries of South Texas, Inc.**Notes to Consolidated Financial Statements****Note 8. Assets Limited as to Use (Continued)**

	December 31, 2020		
	Cost	Estimated Fair Value	Unrealized Appreciation (Depreciation)
Equities	\$ 145,245,927	\$ 214,110,846	\$ 68,864,919
Fixed income	42,939,943	43,670,001	730,058
Mutual funds	168,046,952	227,319,031	59,272,079
Alternative investments	134,592,882	161,870,204	27,277,322
	<u>\$ 490,825,704</u>	<u>\$ 646,970,082</u>	<u>\$ 156,144,378</u>

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

Fair value at December 31, 2019	\$ 540,130,401
Net contributions	18,412,779
Realized gains	21,503,067
Interest and dividend income	5,781,306
Investment fees	(1,916,473)
Change in fair value	<u>63,059,002</u>
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	<u>\$ 812,215,058</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 is met by the recipient.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 9. Grants Payable (Continued)

Schedule of grants payable are as follows:

	December 31	
	2021	2020
Primary and Preventive Care	\$ 2,630,672	\$ 3,255,961
Behavioral Health and Social Services	2,057,884	1,290,422
Health Professional shortage	351,141	473,076
Dental Services	605,333	567,876
Regionalization	54,429	30,636
Specialty Medical Care	27,819	27,857
COVID Relief Grant	-	102,569
Winter Storm Relief Grant	100,000	-
Total awards and grants	<u>\$ 5,827,278</u>	<u>\$ 5,748,397</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 \$2,179,829 and \$2,032,391 at December 31, 2021 and 2020, 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 \$19,500 and \$13,223 at December 31, 2021 and 2020, 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.

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.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 11. Commitments and Contingencies (Continued)

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 September 2021, 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 31, 2022. The line imposes certain minimum investment balance restrictions. There was no amount outstanding on this line of credit as of December 31, 2021 and 2020.

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 metrohealth 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 tele-health 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 will shift to an in-person or hybrid schedule for team members at all locations.

The continued global pandemic in 2021 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.

Leases: MHM leases facilities and equipment for programs and clinics under operating leases expiring at various dates through May 2024. Rental expense in 2021 and 2020, for all operating building and equipment leases totaled \$227,396 and \$139,010, respectively. Future minimum rental commitments under noncancelable operating leases (with an initial or remaining term in excess of one year) at December 31, 2021, are as follows:

Years ending December 31:

2022	\$	124,525
2023		41,905
2024		19,855
	\$	<u>186,285</u>

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.

Methodist Healthcare Ministries of South Texas, Inc.

Notes to Consolidated Financial Statements

Note 12. Income Taxes (Continued)

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).

MHM files IRS Form 990T, Exempt Organization Business Income Tax Return, annually. Taxes paid and accrued for unrelated business income in 2021 and 2020 totaled \$119,579 and \$25,000, respectively.

MHM's policy is to record interest and penalty expense related to income taxes as interest and other expense, respectively. At December 31, 2021 and 2020, no interest or penalties have been or are required to be accrued.