

Memorandum

To: Board of Managers
From: Jonny F. Hipp, Administrator
Date: August 18, 2023
Re: Achievement of FY 2022 Performance Goals

Board Members:

Pursuant to the Employment Agreement (“Agreement”) between the Hospital District (“District”) and myself, this is to notify the Board of Managers (“Board”) that certain Performance Goals set forth in the Agreement and relating to the District’s fiscal year ended September 30, 2022 (“Fiscal Year 2022”) were achieved. In addition, this is to call the Board’s attention to the Goal Achievement Pay that is due to occur as a result of the achievements. The related information and supporting details are provided below and attached.

For your reference, I have attached a copy of the Agreement, as amended (see Exhibit #1). The Agreement’s Performance Goal Pay provisions are set forth in Paragraph 3(b) and the Performance Goals and their associated achievement pay amounts, stated as a percent of salary, are located at the end of the Agreement and identified as Attachment “A.” I have additionally attached an analysis of the Performance Goals achieved during Fiscal Year 2022 and the associated amounts of the Goal Achievement Pay to be paid (see Exhibit #2).

Concerning the above, three of the Performance Goals from those listed in Attachment ‘A’ were achieved during Fiscal Year 2022.

Prior to the disbursement of any Goal Achievement Pay, the Agreement requires that the Board receive from the Administrator relevant documentation supporting the Administrator’s achievement of the specific Performance Goals being relied upon for that year’s Goal Achievement Pay which are shown on the following page and in the attached Exhibits.

Jonny F. Hipp

Performance Goals Achieved in Fiscal Year 2022

- (1) **Goal #19:** Fulfill Regional Healthcare Partnership 4 Anchor Entity responsibilities of Texas Healthcare Transformation and Quality Improvement Program (Medicaid 1115 Waiver) for fiscal year ending September 30, 2022.
Exhibit #: 3
Documentation: August 2022 letter from State Medicaid Director (Awaiting receipt).
- (2) **Goal #21:** Achieve uneventful financial audit results and no significant management letter-related comments for fiscal year ending September 30, 2022.
Exhibits #: 4 & 5
Documentation: Fiscal Year ended September 30, 2022-related letters issued by Collier, Johnson & Woods, P.C., the Hospital District's independent auditors, and dated February 23, 2023:
 - (A) *Independent Auditor's Report (Exhibit #4); and*
 - (B) *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards (Exhibit #5).*
- (3) **Goal #22:** Negotiate revenue sharing percentage for Fiscal Year 2023.
Exhibit #: 6
Documentation: August 10, 2022 letter from CHRISTUS Spohn Health System substantiating negotiations and establishing the sharing percentage for Fiscal Year 2023.

Exhibit # 1

**NUECES COUNTY HOSPITAL DISTRICT
ADMINISTRATOR EMPLOYMENT AGREEMENT
October 1, 2018 – September 30, 2022**

This Administrator Employment Agreement (the “Agreement”) is made by and between the Board of Managers (the “Board”) of the Nueces County Hospital District, a political subdivision of the State of Texas (the “Hospital District”), and Jonny F. Hipp, the person appointed by the Board to be the Administrator who is qualified for such by training and experience (the “Administrator”). The Board and Administrator, for and in consideration of the terms and conditions hereinafter set forth in this Agreement and pursuant to Texas Health and Safety Code, §281.026 and §281.028 hereby agree as follows:

W I T N E S S E T H:

1. **Employment.** The Board, by and on behalf of the Hospital District, does hereby employ Administrator as the District’s Administrator and Chief Executive Officer, and the Administrator hereby accepts such employment. It is the intent of the parties hereto that the Administrator’s employment be governed by this Agreement and the District’s policies regarding compensation, separation from employment, and employment-at-will shall not be applicable to the Administrator. Except as stated above and in Paragraphs 3-5 below, the District’s employee policies shall be applicable to the Administrator.

2. **Duties and Performance Goals.** Subject to the Board’s policies, limitations, and reasonable direction, the Administrator shall perform those duties required by the Board, including but not limited to, supervision of the work and activities of the Hospital District and general direction of the District’s affairs. The Administrator shall perform those duties required of an administrator by Texas Health and Safety Code, Chapter 281. The Administrator shall assure the Hospital District complies with the applicable provisions of Texas Health and Safety Code, Chapters 61 and 281 and other applicable laws. The Administrator shall serve as Secretary of the Board as provided in Texas Health and Safety Code, §281.023(b). In addition, the Administrator shall endeavor to reasonably achieve the Performance Goals attached hereto and identified as Attachment “A.” The Administrator is hereby authorized to plan, organize, manage, supervise, and direct use of the District’s personnel, equipment, and other resources in the performance of his duties and achievement of the Performance Goals under this Agreement. The Administrator is encouraged to and may continue performing higher education-level teaching activities in the community and region and the Board is supportive thereof provided that those activities do not interfere with the performance of his duties under this Agreement or create a conflict of interest.

3. **Compensation.** The Administrator shall be entitled to the following payments (collectively, the “Compensation”):

(a) **Salary.** Considering the level of expertise, education, and experience required of the Administrator by the Board, the adequacy of which is hereby confirmed by the Board, and the Board’s desire to fairly compensate the Administrator for such qualities, the

Board has surveyed other similarly-situated hospital districts in the State concerning the salary and benefits paid for positions comparable with that of the Administrator. The Board, acknowledging and considering (i) the Administrator's performance in carrying out the requirements of prior employment agreements with the District; (ii) the Administrator's achievement of prior Performance Goals; (iii) the Administrator's doctoral education, collectively all of which have directly benefited and continue to benefit the taxpayers, District, community, and the region; (iv) the compensation and benefits paid and made available to administrators in similarly-situated hospital districts in the State; (v) the Board's desire that the Administrator be fairly compensated; (vi) that the greater than ever complexities of healthcare administration, quality, financing, and governmental regulations require the expertise of the Administrator; and (vii) the Board's desire to achieve consistency, stability and longevity in the Administrator's position, the Board hereby determines and agrees that the Hospital District shall pay the Administrator a salary amount of one hundred ninety-two thousand four dollars and eighty cents (\$192,004.80) per twelve-month period during the Term (the "Salary"). The Salary shall be prorated for twenty-six (26) biweekly pay periods during each twelve-month period of the Term and for any partial employment period. The Salary shall be subject to withholding taxes prescribed by applicable statutes and as additionally authorized by Administrator.

(b) **Performance Goal Pay.** The Board desires that the Hospital District maintain a leadership role in regional healthcare supplemental payment programs, achieve uneventful financial audit results, pursue needed legislation, realize non-tax revenues, and divest specified real properties. Accordingly, the Board hereby determines and agrees that on or about each February 1st during the Term, the District shall, in addition to the Salary above, pay the Administrator a lump sum amount equal to the amount(s) associated with the Administrator's reasonable achievement of Performance Goal(s) set forth in Attachment "A" (the "Goal Achievement Pay"). The Goal Achievement Pay shall be subject to withholding taxes prescribed by applicable statutes and as additionally authorized by Administrator. Prior to disbursement of any Goal Achievement Pay, the Administrator shall present to the Board relevant documentation supporting his achievement of the specific Performance Goals being relied upon for that particular year's Goal Achievement Pay.

4. **Benefits.** The Administrator shall be entitled to receive the same employee benefits, commensurate with his past service considering his original hire date, as other employees of the Hospital District (the "Common Benefits"). In addition to the Common Benefits, the Administrator shall be entitled to the following supplemental benefits during the Term (the "Supplemental Benefits"):

(a) **Automobile Allowance.** To facilitate performance of Administrator's duties and achievement of his Performance Goals under this Agreement, the Hospital District agrees to pay the Administrator an allowance of two hundred thirty-five dollars (\$235.00) per biweekly pay period during the Term for use of his personal automobile within the District's boundaries (the "Automobile Allowance"). The Automobile Allowance shall be prorated for any partial employment period.

(b) **Telephone Allowance.** To facilitate performance of Administrator's duties and achievement of his Performance Goals under this Agreement, the Hospital District agrees to pay the Administrator an allowance of fifty dollars (\$50.00) per biweekly pay period during the Term for use of his personal communications device (the "Telephone Allowance"). The Telephone Allowance shall be prorated for any partial employment period.

(c) **Retirement Contribution.** The Hospital District agrees to deposit into the District's Internal Revenue Code ("IRC"), Section 457(b) Deferred Compensation Plan (the "Deferred Compensation Plan") each calendar year for benefit of Administrator, an amount equal to the then current calendar year's annual IRC Section 457(b) contribution limit (the "Retirement Contribution"). The Retirement Contribution shall be prorated based on twenty-six (26) biweekly pay periods per calendar year and shall be further prorated for any partial employment period. All Retirement Contribution deposits shall be fully and immediately vested in the Administrator and are freely transferrable by the Administrator in the event the Administrator is no longer employed by the Hospital District, subject to the requirements of IRC Section 457(b). The Administrator shall not be restricted from depositing additional personal contributions into the Deferred Compensation Plan. In consideration of this Retirement Contribution provided by the District, the Administrator agrees he will not participate in the District's IRC, Section 403(b) Tax-Sheltered Annuity Plan.

(d) **Employee Insurance Premiums.** The Hospital District agrees to pay up to one hundred twenty-five dollars (\$125.00) per biweekly pay period during the Term toward the employee's portion of the Hospital District's health, dental, and vision insurance premiums for the Administrator and his children or family, as he shall determine for each insurance type, and the Administrator is responsible for payment of any amounts in excess of that amount.

(e) **Expense Reimbursement.** The Hospital District shall reimburse Administrator for reasonable expenses incurred by him in the performance of his duties and achievement of his Performance Goals under this Agreement and his professional development, statutorily required training, and related activities upon written approval of the required number of Board Authorities as described below. Such expenses shall be categorized as those: (i) incurred while within Nueces County; (ii) incurred while outside of Nueces County; (iii) related to Administrator's professional development, statutorily required training, and related activities; and (iv) not covered by or in addition to categories (i)-(iii) herein.

(i) Reasonable reimbursable expenses incurred while within Nueces County shall include business meals, telephone calls, parking, dues for professional organizations, and any other reasonably incurred business-related expenses. The aggregate amount of the Administrator's professional organizations-related dues expenses shall not exceed four hundred fifty dollars (\$450.00) per Hospital District fiscal year and the Administrator is responsible for payment of any dues in excess of that amount;

(ii) Reasonable reimbursable expenses incurred while outside of Nueces County shall include automobile mileage, airfare, toll charges, overnight

accommodations, business meals, personal meals, taxicab and shuttle fares, limousine fares, bus fares, train fares, rental car, parking, office supplies, photocopying expense, overnight letters, telephone calls, facsimiles and any other reasonably incurred business-related expenses;

(iii) Reasonable reimbursable expenses for the Administrator's professional development, statutorily required training, and related activities shall include annual dues, registration and course fees, mileage, airfare, toll charges, overnight accommodations, personal meals, taxicab and shuttle fares, limousine fares, bus fares, train fares, rental car, parking and any other reasonably incurred development and training related expenses, including fees, course materials, books, publications, videos, software, and other similar and related materials. The aggregate amount of the Administrator's professional development shall not exceed five thousand dollars (\$5,000.00) per biennium and the Administrator is responsible for payment of any amounts in excess of that limit; and

(iv) Any other additional, reasonable and necessary expenses incurred in the performance of or in support of Administrator's duties and Performance Goals not otherwise identified in Paragraphs 4(e)(i) and (ii) above, or as otherwise approved by the Board Authorities as set forth herein.

For purposes of this Agreement, the term "Board Authorities" shall mean the Board's Chairman, Vice Chairman, Finance Committee Chairman, and Planning Committee Chairman. Prior to reimbursement of any of the Administrator's expenses incurred under Paragraphs 4(e)(i)-(iv) above, said expenses (including appropriate detailed receipts) shall be submitted for review by and written approval of any two (2) of the Board Authorities within fifteen (15) days of incurrence. The Board Authorities shall consider reasonableness and practicality when reviewing Administrator's expenses and approve or disapprove his submissions within five (5) working days. Following approval by the Board Authorities above, the Hospital District shall reimburse Administrator within five (5) working days.

Reimbursement of Administrator's expenses under Paragraphs 4(e)(ii) and (iii) above shall be limited as follows. The aggregate amount of the Administrator's personal meal expenses shall not exceed fifty-five dollars (\$55.00) per day (excluding tips, which should not exceed fifteen percent [15%] of the bill) and the Administrator is responsible for payment of any personal meal expenses in excess of that limit. To the extent possible, Administrator's airfare expenses should not exceed Coach fare. Administrator's automobile mileage reimbursement shall be based on actual mileage incurred and paid at the Internal Revenue Service standard mileage rate for business miles in effect at the time the mileage was incurred. The Hospital District shall not reimburse Administrator for any expenses not specifically described and permitted above, including alcoholic beverages and entertainment.

(f) **Provision of Indemnification and Cost of Defense.** To the extent allowed by law, and if the Administrator was acting within the course and scope of his employment with the Hospital District, excluding any criminal acts, the District agrees to hold harmless and indemnify Administrator from any and all demands, claims, suits, actions, legal

proceedings, and defense arising from the performance of his duties, both past and present, which are or expected to be brought against him, either in his individual capacity, or in his official capacity as agent and employee of the Board and/or Hospital District. However, in no case will any individual Board member or members be considered personally liable for indemnifying Administrator against such demands, claims, suits, actions, legal proceedings, and defense. This provision shall survive termination of this Agreement.

(g) **Payment of Performance Bond.** To assure compliance with the performance bond requirement of Texas Health and Safety Code, §281.026(d), the Hospital District agrees to arrange for and pay the cost of such bond.

5. **Term and Termination.** The Administrator's term of employment shall be for four (4) years beginning October 1, 2018 and ending September 30, 2022 (the "Term"). Except for good cause, or for other than good cause as described below, a majority vote of the entire Board may terminate this Agreement not more than ninety (90) days and not less than sixty (60) days prior to the end of the Term upon written notice of such to the Administrator.

For good cause, or for other than good cause, the Board may terminate this Agreement upon sixty (60) days written notice of such to the Administrator. For purposes of this Agreement, the phrase "for good cause" shall mean: (i) the Administrator willfully breaches or habitually neglects the duties he is required to perform under terms of this Agreement; (ii) the Administrator refuses to obey reasonable Board directives; (iii) the Administrator commits clearly dishonest acts toward the Hospital District; and (iv) the Administrator is formally charged for any crime involving moral turpitude. The phrase "for other than good cause" shall mean: (i) occurrence of circumstances that make it impossible or impracticable for the business of the District to be continued; (ii) the death of the Administrator; (iii) the loss by Administrator of his legal capacity; (iv) the continued incapacity on the part of the Administrator to perform his duties for a continuous period of ninety (90) days, unless waived by the Board; and (v) the Administrator becomes permanently disabled because of sickness, physical or mental disability, or any other reason, such that it reasonably appears that he will be unable to perform his duties under this Agreement.

The Administrator may terminate this Agreement for any reason upon sixty (60) days written notice of such to the Board's Chairman.

Upon termination of this Agreement by either the Board or the Administrator as described in this Paragraph 5, the Administrator shall be entitled to the Compensation, Goal Achievement Pay, Common Benefits, and Supplemental Benefits, as provided for in this Agreement, that were earned prior to the effective date of the termination, computed pro rata up to and including the effective date of termination.

6. **Subsequent Employment.** The Administrator's subsequent employment shall be governed as follows:

(a) **Consultant for Hospital District.** In the event this Agreement shall expire at the end of the Term or be terminated by the Administrator or the Board at any other time, the Administrator may be called upon from time to time as a consultant by the Board for a period of one hundred eighty (180) days from the date of expiration or termination of the Agreement.

(b) **Indigent Health Care Providers.** During the one hundred eighty (180)-day period following the expiration or termination of this Agreement, the Administrator shall not consult to or be employed by any entities located in Nueces County, Texas then under contract to the Hospital District to provide indigent health care. In the event the Board terminates this Agreement, or in the event any action is taken by the Board or any other body or entity to abolish, dissolve, or materially diminish the powers or duties of the Hospital District and the Administrator terminates this Agreement, there shall not be any form of subsequent employment constraint enforceable on the Administrator at any time.

(c) **Payment.** In consideration of the Hospital District's requirements in Paragraphs 6(a) and (b) above, the Board agrees the Administrator shall be paid for being a consultant to the Hospital District and his agreement not to consult to or be employed by any entities located in Nueces County, Texas then under contract to the Hospital District to provide indigent health care. As payment, the Board agrees the Administrator shall be paid at the end of the one hundred eighty (180)-day period a lump sum amount equal to the amount(s) associated with the Administrator's reasonable achievement of any previously unclaimed or unpaid Performance Goal(s) described in Paragraph 3(b) and set forth in Attachment "A," including any Performance Goal(s) achieved and documented following the expiration or termination of this Agreement. Such payment shall be made whether or not the Administrator is requested to consult with the Hospital District as described in Paragraph 6(a) above. Prior to disbursement of the payment, the Administrator shall present to the Board relevant documentation supporting his achievement of the specific Performance Goal(s) being relied upon for the payment and the Board agrees the District will provide the Administrator such documentation if needed.

7. **Severability.** If any provision contained in this Agreement is determined by a court of competent jurisdiction to be void, illegal or unenforceable, in whole or in part, then the other provisions contained herein shall remain in full force and effect as if the provision which was determined to be void, illegal, or unenforceable had not been contained herein.

8. **Amendment, Modification, and Waiver.** This Agreement may not be changed orally but only by written agreement signed by both parties. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by any party. This instrument contains the entire agreement of the Parties concerning employment and supersedes all prior and contemporaneous representations, understandings and agreements, either oral or in writing between the parties hereto with respect

to the employment of the Administrator by the Board and all such prior or contemporaneous representations, understandings and arrangements, both oral and in written, are hereby terminated upon the beginning date of this Agreement.

9. **Governing Law and Venue.** Unless specifically provided otherwise, the parties intend that the laws of the State of Texas should govern the validity of the Agreement, the construction of its terms, and the interpretation of the rights and duties of the parties hereto. Venue for all matters arising from this Agreement or other related matters subject to the provisions herein relating to binding arbitration shall be in Nueces County, Texas.

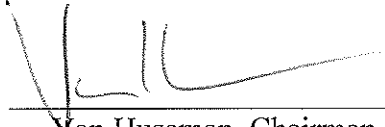
10. **Attachments, Schedules, and Exhibits.** Attachments, schedules, and exhibits mean the attached documents setting out certain particulars of this Agreement and any replacement documents thereof. All attachments, schedules, and exhibits referred to in this Agreement are incorporated herein by reference and are hereby made part of this Agreement.

11. **Binding Arbitration.** In lieu of litigation, the parties agree that any dispute between them arising from this Agreement shall be submitted to binding arbitration. The parties shall share equally the fees and costs payable to the arbitrator. The award of the arbitrator may be entered in, and enforced through, any court of competent jurisdiction in Nueces County, Texas. Any action to enforce or vacate the obligation to arbitrate or to enforce or vacate an arbitrator's award shall be governed by state law. Unless agreed to in writing between the parties, there shall be no other court action.

IN WITNESS WHEREOF, the parties have hereunto undertaken this Agreement and executed it as of the 14th day of September 2018.

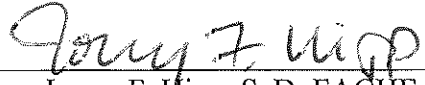
**NUECES COUNTY HOSPITAL DISTRICT
BOARD OF MANAGERS**
("Board" and "Hospital District")

By: _____

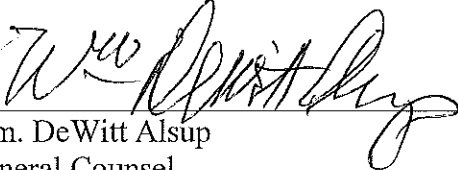

Van Huseman, Chairman
Board of Managers

JONNY F. HIPPI
("Administrator")

By: _____


Jonny F. Hipp, ScD, FACHE

APPROVED AS TO FORM:



Wm. DeWitt Alsup
General Counsel

Attachment "A"

PERFORMANCE GOALS		
Goal	Description	Goal Achievement Pay as Percent of Salary
Fiscal Year 2018		
1	Fulfill Regional Healthcare Partnership 4 Anchor Entity responsibilities of Texas Healthcare Transformation and Quality Improvement Program (Medicaid 1115 Waiver) for fiscal year ending September 30, 2018.	5%
2	Fulfill Nueces Service Delivery Area Liaison responsibilities of Uniform Hospital Rate Increase Program for fiscal year ending September 30, 2018.	5%
3	Achieve uneventful financial audit results and no significant management letter-related comments for fiscal year ending September 30, 2018.	7.5%
4	Negotiate revenue sharing percentage for Fiscal Year 2019.	7.5%
Fiscal Year 2019		
5	Fulfill Regional Healthcare Partnership 4 Anchor Entity responsibilities of Texas Healthcare Transformation and Quality Improvement Program (Medicaid 1115 Waiver) for fiscal year ending September 30, 2019.	5%
6	Fulfill Nueces Service Delivery Area Liaison responsibilities of Uniform Hospital Rate Increase Program for fiscal year ending September 30, 2019.	5%
7	Achieve uneventful financial audit results and no significant management letter-related comments for fiscal year ending September 30, 2019.	7.5%
8	Negotiate revenue sharing percentage for Fiscal Year 2020.	7.5%
9	Pursue goals for 86 th Texas Legislative Session.	5%
Fiscal Year 2020		
10	Fulfill Regional Healthcare Partnership 4 Anchor Entity responsibilities of Texas Healthcare Transformation and Quality Improvement Program (Medicaid 1115 Waiver) for fiscal year ending September 30, 2020.	5%
11	Fulfill Nueces Service Delivery Area Liaison responsibilities of Uniform Hospital Rate Increase Program for fiscal year ending September 30, 2020.	5%
12	Achieve uneventful financial audit results and no significant management letter-related comments for fiscal year ending September 30, 2020.	7.5%
13	Negotiate revenue sharing percentage for Fiscal Year 2021.	7.5%

PERFORMANCE GOALS		
Fiscal Year 2021		
14	Fulfill Regional Healthcare Partnership 4 Anchor Entity responsibilities of Texas Healthcare Transformation and Quality Improvement Program (Medicaid 1115 Waiver) for fiscal year ending September 30, 2021.	5%
15	Fulfill Nueces Service Delivery Area Liaison responsibilities of Uniform Hospital Rate Increase Program for fiscal year ending September 30, 2021.	5%
16	Achieve uneventful financial audit results and no significant management letter-related comments for fiscal year ending September 30, 2021.	7.5%
17	Negotiate revenue sharing percentage for Fiscal Year 2022.	7.5%
18	Pursue goals for 87 th Texas Legislative Session.	5%
Fiscal Year 2022		
19	Fulfill Regional Healthcare Partnership 4 Anchor Entity responsibilities of Texas Healthcare Transformation and Quality Improvement Program (Medicaid 1115 Waiver) for fiscal year ending September 30, 2022.	5%
20	Fulfill Nueces Service Delivery Area Liaison responsibilities of Uniform Hospital Rate Increase Program for fiscal year ending September 30, 2022.	5%
21	Achieve uneventful financial audit results and no significant management letter-related comments for fiscal year ending September 30, 2022.	7.5%
22	Negotiate revenue sharing percentage for Fiscal Year 2023.	7.5%
During Any Fiscal Year		
23	Secure appraisal of Memorial Medical Center property.	4%
24	Secure appraisal of non-Memorial Medical Center properties.	4%
25	Secure platting of Memorial Medical Center property.	4%
26	Accomplish sale of Memorial Medical Center property.	8%
27	Accomplish sale of non-Memorial Medical Center properties.	8%

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Administrator Employment Agreement Oct 2018 - Sept 2022 (1.3).doc

NUECES COUNTY HOSPITAL DISTRICT
ADMINISTRATOR EMPLOYMENT AGREEMENT
OCTOBER 1, 2018 – SEPTEMBER 30, 2022

Exhibit # 2

**NUECES COUNTY HOSPITAL DISTRICT
 ADMINISTRATOR'S EMPLOYMENT AGREEMENT ANALYSIS
 FOR THE FISCAL YEAR ENDED 09/30/2022
 DUE AFTER FEBRUARY 1, 2023**

Goal	Description	% Salary	Amount
19	Fulfill Regional Healthcare Partnership 4 Anchor Entity responsibilities of Texas Healthcare Transformation and Quality Improvement Program (Medicaid 1115 Waiver) for fiscal year ending September 30, 2022	5.0%	\$11,280.28
20	Fulfill Nueces Service Delivery Area Liaison responsibilities of Uniform Hospital Rate Increase Program for fiscal year ending September 30, 2022	5.0%	\$0.00
21	Achieve uneventful financial audit results and no significant management letter-related comments for fiscal year ending September 30, 2022	7.5%	\$16,920.42
22	Negotiate sufficient sharing percentage for Fiscal Year 2023	7.5%	\$16,920.42
Total			\$45,121.13




 Administrator, Jonny Hipp

01/01/23

 Date

Compiled By:



 Donna Littlefield

01/01/23

 Date

Reviewed by:



 Belinda Chism

1/2/23

 Date

Exhibit # 3

Awaiting Receipt

Exhibit # 4

NUECES COUNTY HOSPITAL DISTRICT

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2022

NUECES COUNTY HOSPITAL DISTRICT
AUDITED FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2022

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INDEPENDENT AUDITOR'S REPORT

February 23, 2023

The Board of Managers of the
Nueces County Hospital District
Corpus Christi, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Nueces County Hospital District, a component unit of Nueces County, Texas, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Nueces County Hospital District as of September 30, 2022, and the respective changes in financial position and budgetary comparisons for the general fund, indigent care fund and tobacco settlement fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

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 the Nueces County Hospital District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 opinions. 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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Nueces County Hospital District'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 Nueces County Hospital District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 16 be presented to supplement the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Governmental Auditing Standards*, we have also issued our report dated February 23, 2023 on our consideration of the Nueces County Hospital District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nueces County Hospital District's internal control over financial reporting and compliance.

Collier, Johnson & Woods

**Nueces County Hospital District
Management's Discussion and Analysis
For Fiscal Year Ended September 30, 2022**

This Management's Discussion and Analysis ("MD&A") of the Nueces County Hospital District ("District"), a political subdivision of the State of Texas and component unit of Nueces County, Texas ("County"), is intended to provide an overview of the District's financial position and results of operation for year ended September 30, 2022 ("Fiscal Year 2022"). Since the focus of the MD&A is on the above fiscal period's operations, activities, and currently known facts, it should be read in conjunction with the District's related financial statements and accompanying notes to best understand the District's financial position.

The MD&A is one of the elements of the reporting model required by the Government Accounting Standards Board ("GASB"). As part of the MD&A, presentation of certain comparative information between the current fiscal year and the prior fiscal year is required to assist in financial analysis.

Financial Highlights

The District's net position decreased \$3.9 million or 3.6% compared to the prior year net position. The net position of the District on September 30, 2022 and 2021 was \$106.4 million and \$110.3 million, respectively. Cash and cash equivalents, restricted cash, and investments amounted to \$121.8 million and \$121.7 million which represent 92.4% of total assets for September 30, 2022 and 92.8% for 2021, respectively.

In Fiscal Year 2022, the District's General Fund Balance decreased \$2.7 million or 6.1% compared to the prior year balance. At fiscal year ended September 30, 2022, the District's General Fund balance was \$41.9 million compared to \$44.6 million in 2021.

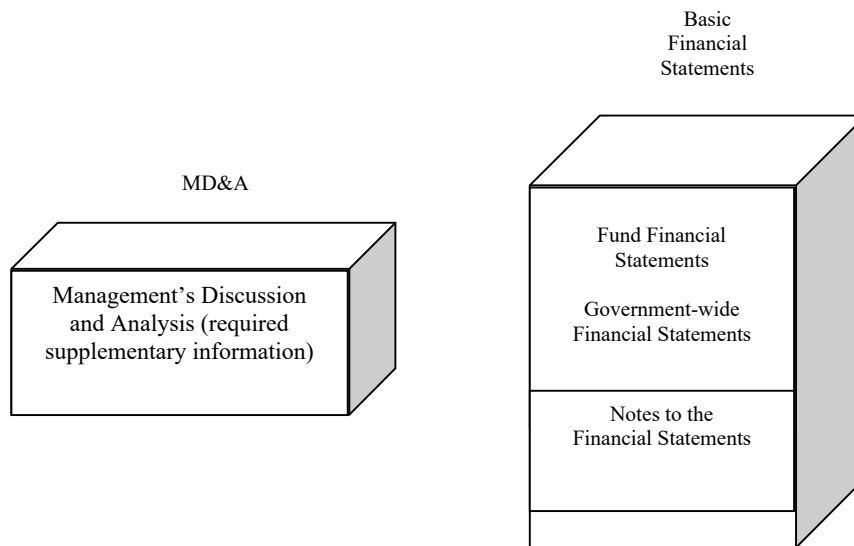
In Fiscal Year 2022, the District's total revenues increased \$3.0 million or 6.3% compared to the prior year. 23.4% of the District's total revenues were from non-tax sources. The District's total expenses decreased \$11.5 million or 17.5% compared to the prior year.

In Fiscal Year 2022, the District continued to make voluntary intergovernmental transfers for several Medicaid-related supplemental payment, waiver, and Medicaid managed care provider payment initiative programs sponsored by the State ("Medicaid Payment Programs"). These transferred funds enabled both local and regional healthcare providers, who provide indigent healthcare consistent with the District's primary mission, to draw additional Medicaid funds. In addition, the District continued its state-authorized Local Provider Participation Fund Program ("LPPF") to sustain these payments to the State. The intergovernmental transfers provided funding to maximize the total available resources to providers' waiver program projects in Nueces County and in the region.

In Fiscal Year 2022, the District's Board of Managers committed \$8.5 million of the District's fiscal year-end General Fund balance cash to funding the Medicaid Payment Programs-related intergovernmental transfers that are expected to be requested sometime during the District's subsequent fiscal year. Please refer to Note 11 on intergovernmental transfers and Note 12 on committed fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following graphic is provided to facilitate the reader's understanding of the format of the Basic Financial Statements and their individual components:



The District's Annual Financial Report consists of the MD&A, the basic financial statements and accompanying notes, with the primary focus being on the District as a whole. As a special purpose entity with only one governmental program, GASB allows the District to combine its government-wide and fund financial statements and that is done so here. The Statement of Net Position and the Statement of Activities are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status. The fund financial statements report the District's operations in more detail by providing information as to how services are financed in the short-term, as well as the remaining available resources for future spending. Additionally, the fund financial statements focus on major funds that, for the District, include the General Fund and the Indigent Care Fund, rather than fund types. The Fiduciary Fund statements provide financial information for those activities in which the District acts solely as the trustee or agent for the benefit of others. The accompanying notes provide essential information that is not disclosed on the face of the financial statements. Consequently, the notes form an integral part of the District's basic financial statements.

The District has two kinds of funds:

- 1.) **Government Funds** - The accounting for most of the District's services is included in the governmental funds. The General Fund and Special Revenue Fund are governmental funds that use the modified accrual accounting method which focuses on how cash and other financial assets that can readily be converted to cash and the balance at year-end that are available for future spending. Furthermore, under this basis of accounting, changes in net spendable assets are normally recognized only to the extent that they are expected to have a near-term impact, while inflows are recognized only if they are available to liquidate liabilities of the current period. Similarly, future outflows are typically recognized only if they represent a depletion of current financial resources.
- 2.) **Fiduciary Funds** - These funds are used to report activity and other resources held purely in a custodial capacity. The resources accounted for in these funds are excludable from the government-wide financial statements or columns because these funds are not available to finance the District's operations. Consequently, the District is responsible for ensuring that these resources are used only for their intended purpose. The District has an irrevocable trust originally used for self-insured health claims of the then employees of the District's former hospital, Memorial Medical Center. The fund may be used to subsidize the District's current employees with their health insurance premiums and other Board-approved allowable Trust benefits.

Notes to the Financial Statements

The notes provide disclosures and additional information that are essential to a full understanding of the financial information presented in the government-wide and fund financial statements.

GOVERNMENT WIDE-FINANCIAL ANALYSIS

Statement of Net Position (Government-Wide)

The District's total Net Position was \$106.4 million and \$110.3 million as of September 30, 2022 and 2021, respectively, a decrease of \$3.9 million or 3.6%. Total assets increased \$516 thousand or 0.4% compared to September 30, 2021. The District's total liabilities increased \$4.4 million or 21.3% compared to September 30, 2021.

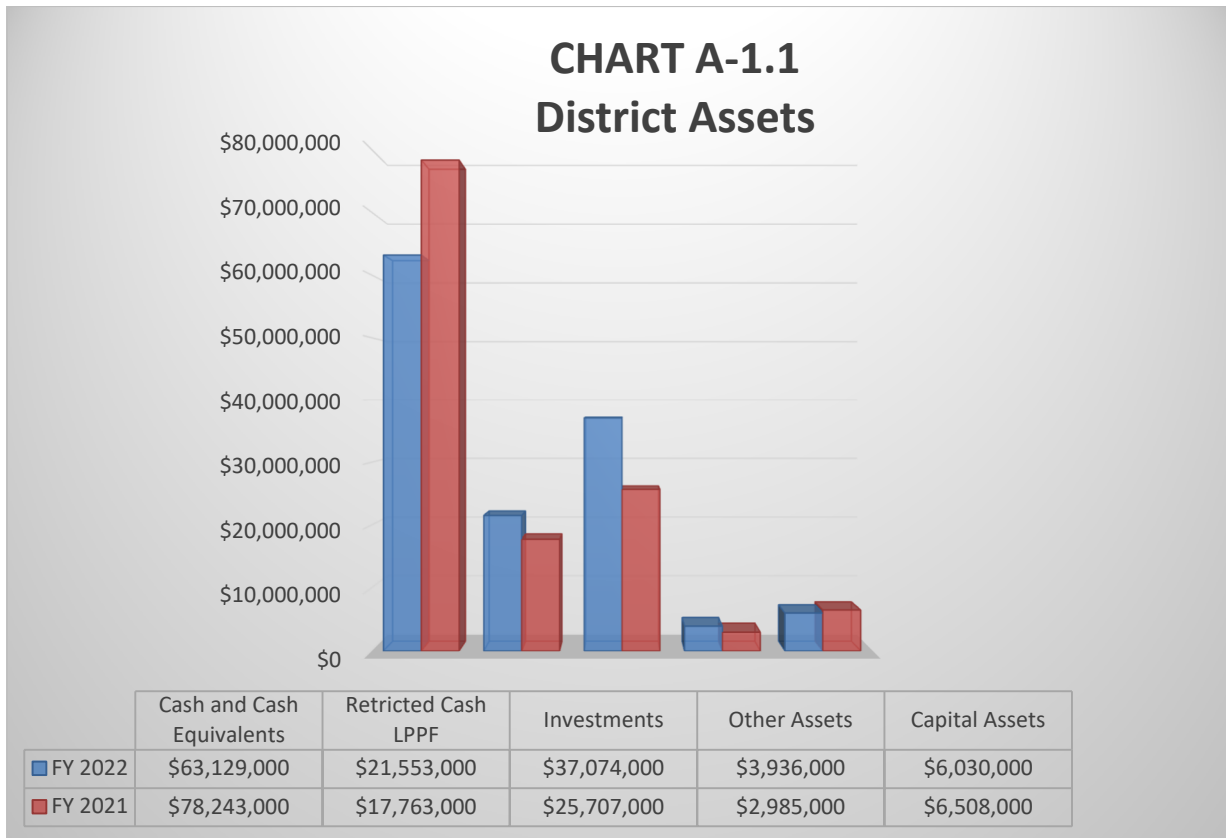
TABLE A-1
Nueces County Hospital District Net Position
September 30, 2022 and 2021
(In Thousands)

Assets:	<u>2022</u>	<u>2021</u>	<u>2022-2021</u> <u>Variance</u>
Cash and Cash Equivalents	\$ 63,129	\$ 78,243	\$ (15,114)
Cash Restricted for Local Provider Participation Fund	21,553	17,763	3,790
Investments	37,074	25,707	11,367
Other Assets	3,936	2,985	951
Capital Assets (Net of Accumulated Depreciation)	<u>6,030</u>	<u>6,508</u>	<u>(478)</u>
Total Assets	<u>131,722</u>	<u>131,206</u>	<u>516</u>
Liabilities:			
Accounts Payable	3,434	2,808	626
Accrued Payroll and Related Liabilities	256	246	10
Long-Term Liabilities:			
Accrued Paid Time Off	66	53	13
Due to Local Provider Participation Fund	<u>21,553</u>	<u>17,763</u>	<u>3,790</u>
Total Liabilities	<u>25,309</u>	<u>20,870</u>	<u>4,439</u>
Net Position:			
Net Investment in Capital Assets	6,030	6,508	(478)
Unrestricted	<u>100,383</u>	<u>103,828</u>	<u>(3,445)</u>
Total Net Position	<u>\$ 106,413</u>	<u>\$ 110,336</u>	<u>\$ (3,923)</u>

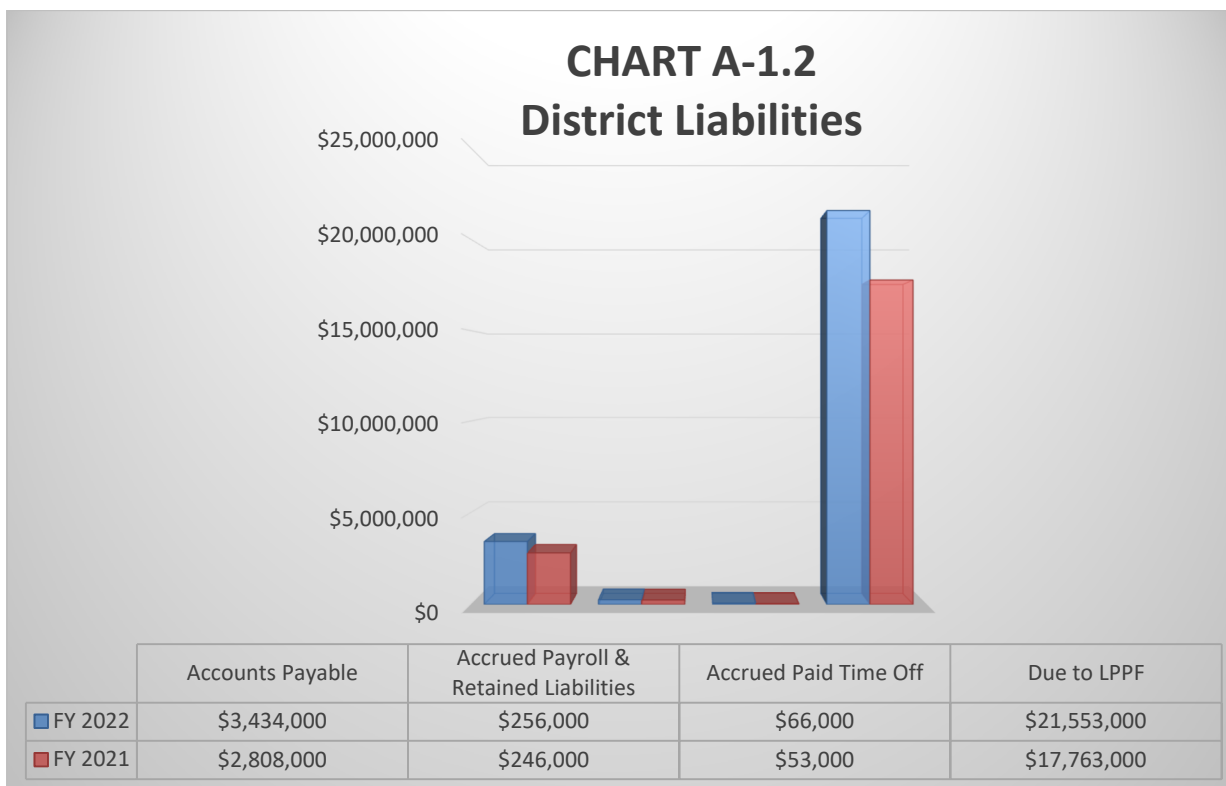
Financial Analysis

In Fiscal Year 2022, cash and cash equivalents and investments combined remained relatively the same compared to the prior year. Other Assets increased \$951 thousand or 31.9% primarily from an increase in property taxes receivable. The \$478 thousand or 7.4% decrease in Capital Assets (Net of Accumulated Depreciation) mainly relates to the write-off of the Memorial Medical Center building and related assets, due to the start of the building's demolition prior to the end of the fiscal year. Accounts Payable and Related Liabilities increased \$4.4 million or 21.3% due to annual fluctuations in payments of accrued liabilities.

Please refer to Table A-1 above for details of Chart A-1.1 below relating to the District's Assets.



Please refer to Table A-1 above for details of Chart A-1.2 below relating to the District's Liabilities.

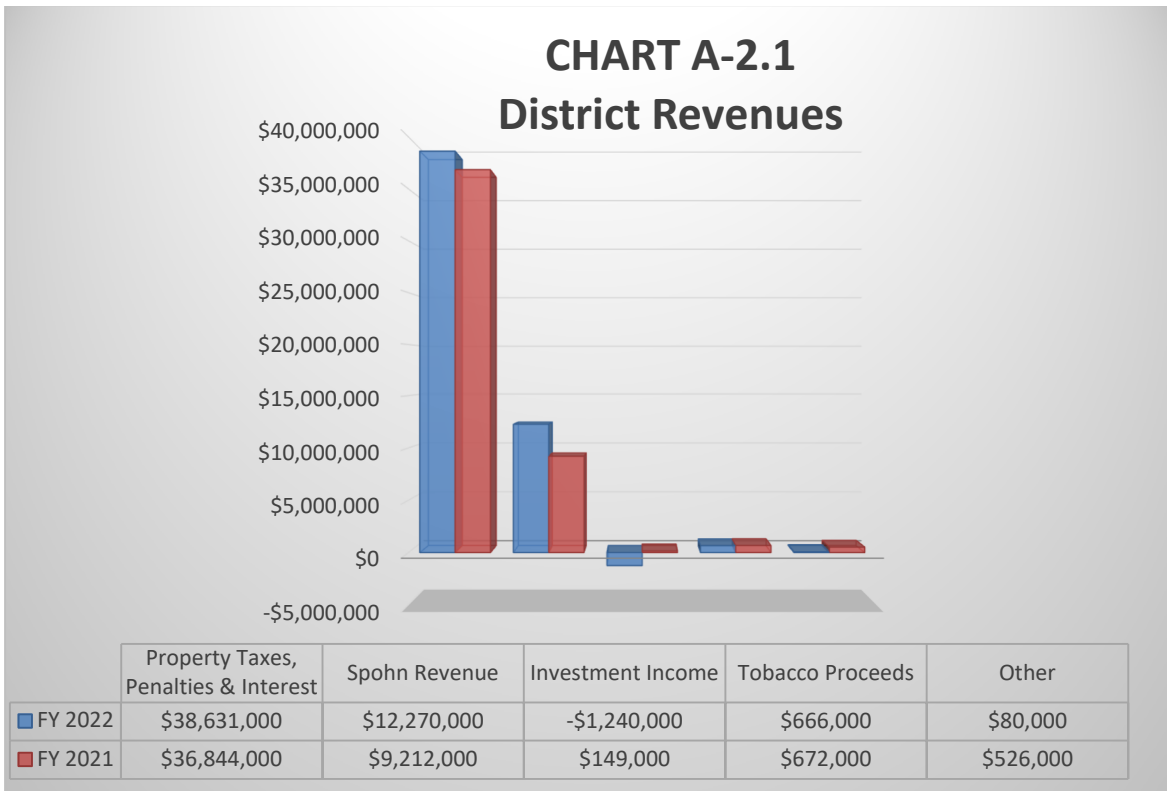


Statement of Activities (Government-Wide)

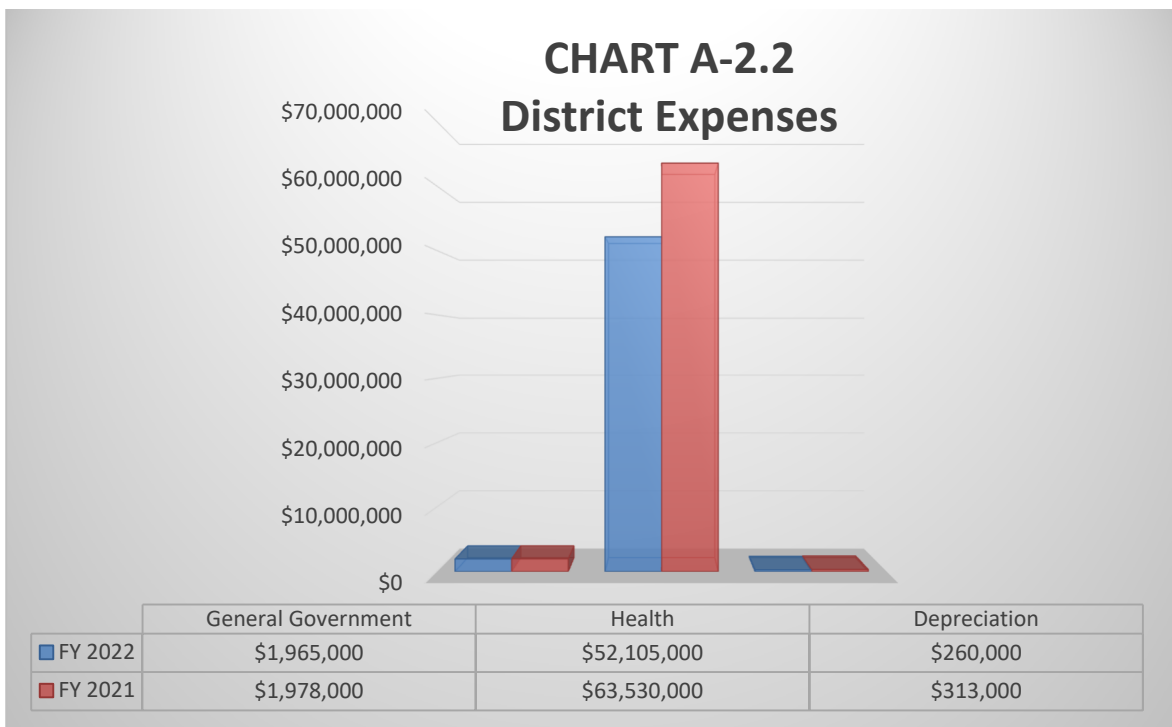
TABLE A-2
Changes in Nueces County Hospital District Net Position
September 30, 2022 and 2021
(In Thousands)

	<u>2022</u>	<u>2021</u>	<u>2022-2021</u> <u>Variance</u>
Revenues			
Property Taxes and Penalties and Interest	\$ 38,631	\$ 36,844	\$ 1,787
Spohn Corporate Membership Revenue	12,270	9,212	3,058
Investment Loss	(1,240)	149	(1,389)
Tobacco Proceeds	666	672	(6)
Other	80	526	(446)
Total Revenues	<u>50,407</u>	<u>47,403</u>	<u>3,004</u>
Expenses:			
General Government	1,965	1,978	(13)
Health	52,105	63,530	(11,425)
Depreciation	260	313	(53)
Total Expenses	<u>54,330</u>	<u>65,821</u>	<u>(11,491)</u>
Net Change in Net Position	(3,923)	(18,418)	14,495
Net Position, Beginning of Year	<u>110,336</u>	<u>128,754</u>	<u>(18,418)</u>
NET POSITION, END OF YEAR	<u>\$ 106,413</u>	<u>\$ 110,336</u>	<u>\$ (3,923)</u>

Please refer to Table A-2 above for details of Chart A-2.1 below relating to the District’s Revenues.



Please refer to Table A-2 above for details of Chart A-2.2 below relating to the District’s Expenses.



FINANCIAL ANALYSIS

Revenues

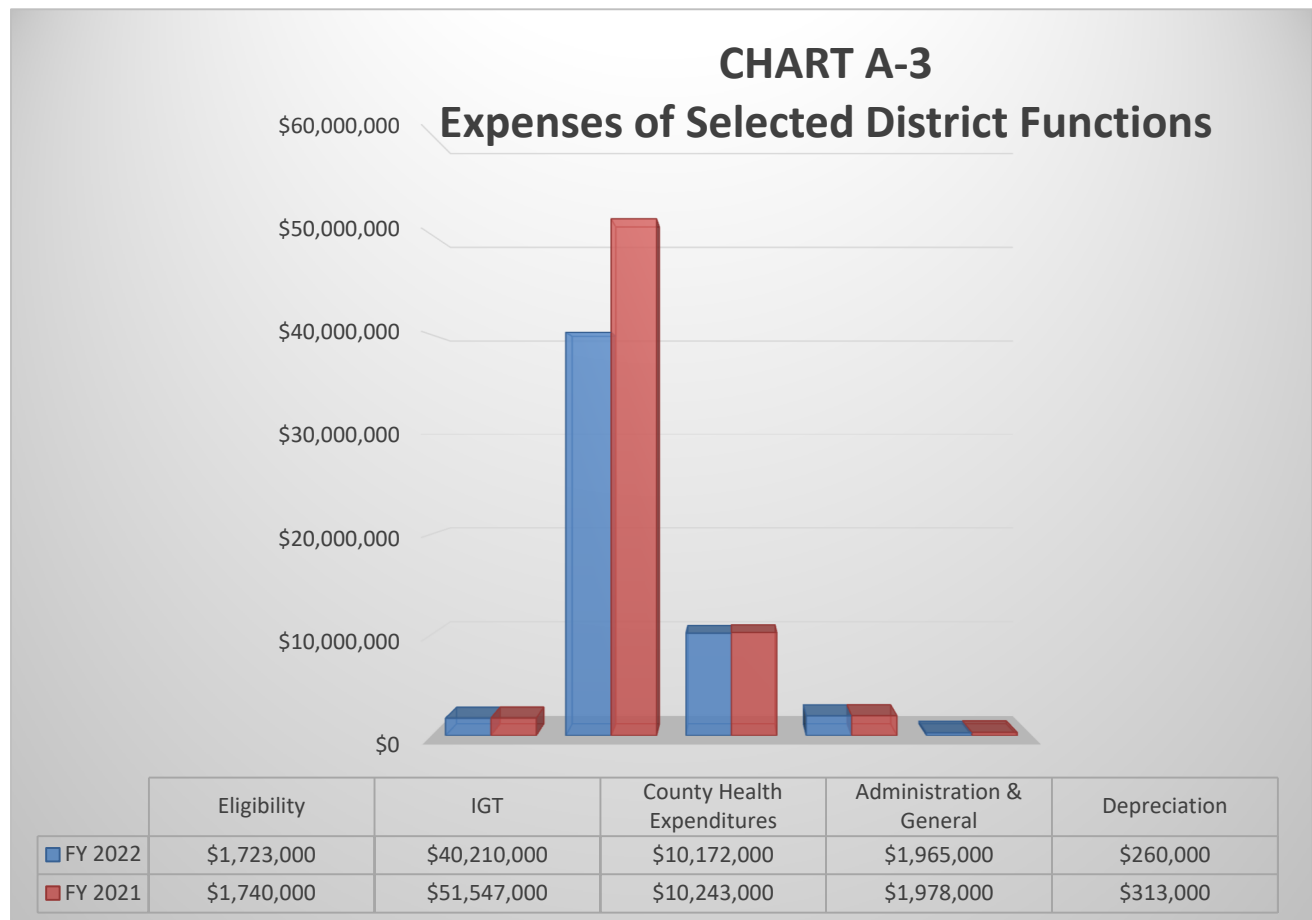
In Fiscal Year 2022, the District's total revenues increased \$3 million or 6.3% compared to the prior fiscal year. There were four principal sources of revenue for the District. The initial source of revenue is from ad valorem taxes levied on Nueces County property owners based on assessed valuations. These tax revenues increased by \$1.8 million or 4.9% and accounted for 76.6% of total revenues compared to 77.7% in the prior fiscal year. The District's tax rate during Fiscal Year 2022 decreased to \$0.111502 per \$100 valuation, which was 5% above the no-new-revenue tax rate. Property valuations increased by \$1.7 billion or 4.9%. The second source is from the Membership Agreement with Spohn which accounted for \$12.3 million and 24.3% of total revenue. This revenue increased \$3.1 million, or 33.2%, resulting from an increased net patient revenue sharing allocation percentage utilized during the fiscal year. See Note 3 for an outline of the Membership Agreement. The third source is investment income which decreased \$1.4 million or 932% due mainly to unrealized net losses in certain funds due to numerous and rapid interest rate hikes during the year. The final source is a Tobacco Settlement distribution from the State of Texas' tobacco litigation which decreased by \$6 thousand or 0.9% compared to prior fiscal year. Additional revenue proceeds decreased \$446 thousand from prior fiscal year or 84.8%. These funds largely include a reimbursement from the State for the District's assistance in operating one of the Medicaid Payment Programs in the region and the receipt of an administrative fee from the LPPF program.

TABLE A-3
Net Cost of Selected District Functions
September 30, 2022 and 2021
(In Thousands)

	<u>2022</u>	<u>2021</u>	<u>2022-2021</u> <u>Variance</u>
Eligibility	\$ 1,723	\$ 1,740	\$ (17)
Intergovernmental Transfers (IGT)	40,210	51,547	(11,337)
County Healthcare Expenditures	10,172	10,243	(71)
Administration and General	1,965	1,978	(13)
Depreciation	260	313	(53)
TOTAL	<u>\$ 54,330</u>	<u>\$ 65,821</u>	<u>\$ (11,491)</u>

Expenses

The expenses of the District’s functions in Fiscal Year 2022 decreased \$11.5 million or 17.5% compared to the prior fiscal year. The District’s health functions include intergovernmental transfers and county healthcare expenditures. The District’s largest amount of costs is voluntary intergovernmental transfers to the State for the Medicaid Payment Programs for the benefit of various regional health care providers who provide indigent healthcare. The intergovernmental transfers draw down additional Medicaid funds for regional providers under the Medicaid Payment Programs. This cost totaled \$40.2 million in Fiscal Year 2022 and represented 74% of all functional expenditures. The second largest amount of cost is \$10.2 million for county healthcare expenditures which relates to the District’s support of other healthcare services in Nueces County. The District directly or indirectly pays for non-indigent healthcare-related service costs that were paid by Nueces County in earlier years. These costs include expenses such as emergency medical services, county jail and juvenile detention center healthcare services, reimbursement of operating expenditures at the City/County Public Health Department, match, and other subsidies for the Nueces Center for Mental Health and Intellectual Disabilities and costs associated with operation of the County Jail’s infirmary. This cost decreased \$71 thousand or 0.7% in Fiscal Year 2022 compared to the prior fiscal year. County healthcare expenditure costs represented 18.7% of all the District’s net costs in Fiscal Year 2022 compared to 15.6% in the prior fiscal year. The two other costs of the District were Administrative and General and Eligibility determination costs. Collectively, these costs decreased \$30 thousand or 0.8% during Fiscal Year 2022 compared to the prior fiscal year. Major costs in this category were legal fees, consulting fees, rents, supplies, purchased services, and salaries and benefits. Administrative and General costs represented 3.6% of all net costs in Fiscal Year 2022 compared to 3.0% in the prior fiscal year. Eligibility costs represented 3.2% of all net costs in Fiscal Year 2022 compared to 2.6% in the prior fiscal year. Please refer to Table A-3 for details of Chart A-3 below relating to the District’s net cost of selected functions.



General Fund Budgetary Highlights

The District's general fund budget shows a \$209 thousand deficit during Fiscal Year 2022.

Revenues

Revenues exceeded budget by \$3.4 million. The excess is partially attributed to revenue resulting from the Membership Agreement, which surpassed budget by \$2.4 million. The surplus is due to the use of an estimate of the Membership Agreement's initial revenue sharing allocation percentage between the District and Spohn when the Fiscal Year 2022 budget was developed; due to the difficulty in projecting Spohn's net patient revenues, the District is only able to estimate the Membership Agreement-related sharing allocation. Ad valorem tax revenue combined with penalties and interest, exceeded budget by \$613 thousand. Investment income also exceeded budget by \$337 thousand. Finally, other income, including a reimbursement from the State for the District's assistance in operating one of the State's Medicaid Payment Programs in the region, recovery of certain prior fiscal year's expenses, and jail health care reimbursements from another governmental entity, surpassed budget by approximately \$54 thousand.

Expenditures

Expenditures were over budget by \$6.6 million. Of the expenditures more than budget, \$10.1 million was associated with Medicaid Payment Programs-related intergovernmental transfers by the District for the benefit of local and regional healthcare providers. This is the result of the State delaying its request for the prior year's budgeted intergovernmental transfer amount which was transferred during Fiscal Year 2022. Due to the complex nature of the calculations of intergovernmental transfers, the District is only able to approximate the timing and amounts when its budget is adopted. County Services were under budget by \$1.5 million primarily due to overestimated jail diversion program costs. Personal services were less than budget by \$386 thousand due to the increased utilization of the District's paid-time-off accrued liability and less than maximum participation of certain benefit programs. Contractual Services were under budget this year by \$1.4 million mainly due to less utilization of legal fees and consultant fees for one of the Medicaid Payment Programs. The Materials and Supplies category was under budget by \$34 thousand; and finally, the Other category which includes office lease and administrative expenditures ended under budget by approximately \$42 thousand.

CAPITAL ASSETS

The District had \$6 million in net capital assets at the end of September 30, 2022. The breakdown of the capital assets is as follows:

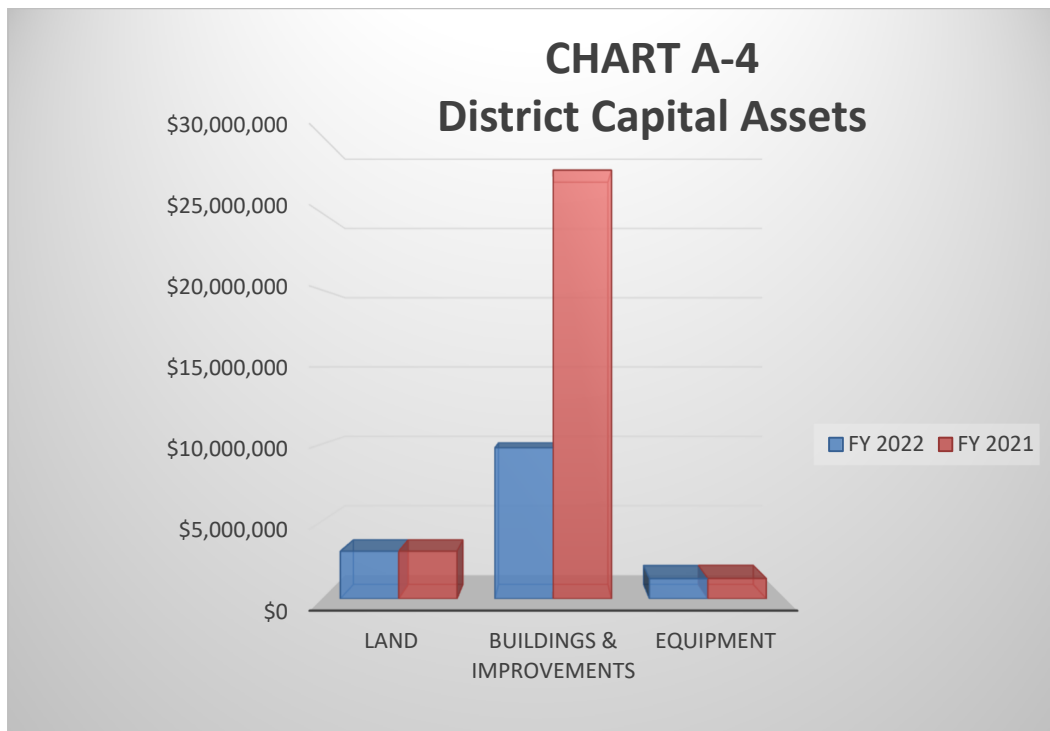
TABLE A-4
Nueces County Hospital District's Capital Assets
September 30, 2022 and 2021
(In Thousands)

	<u>2022</u>	<u>2021</u>	<u>2022-2021</u> <u>Variance</u>
Land	\$ 3,077	\$ 3,077	\$ --
Buildings and Improvements	9,769	27,760	(17,991)
Equipment	1,308	1,319	(11)
Total	<u>14,154</u>	<u>32,156</u>	<u>(18,002)</u>
Less: Accumulated Depreciation	<u>8,124</u>	<u>25,648</u>	<u>(17,524)</u>
NET CAPITAL ASSETS	<u>\$ 6,030</u>	<u>\$ 6,508</u>	<u>\$ (478)</u>

Under terms of the Membership Agreement, the District contributed the use of its former hospital Memorial Medical Center (“MMC”) buildings and equipment to Spohn; and Spohn is responsible for maintaining the buildings and equipment, and the purchase of any medical and other equipment needed during the Agreement’s term. The Membership Agreement requires that Spohn spend \$600 thousand on upkeep of the buildings and equipment in each calendar year starting in 2017 and thereafter. Please refer to Note 8 - Capital Assets of the Financial Statements for more details on capital assets.

During Fiscal Year 2022, Spohn relocated its inpatient psychiatric services and related ancillary support departments to its Shoreline facility and began its demolition of MMC, pursuant to terms of the Membership Agreement. As a result, the hospital building-related assets have been written off, totaling approximately \$18 million. Net Capital Assets shows a decrease of \$478 thousand since those assets were mostly depreciated.

Please refer to Table A-4 for details of Chart A-4 relating to the District’s Capital Assets.



Economic Factors, Next Year’s Budget, Tax Rates and Property Valuations, and Financial Planning

Economic Factors

For the forthcoming fiscal year and subsequent fiscal years, expiration of the COVID-19 public health emergency, expiration of the Medicaid waiver program, State budget pressures, and shifting policy priorities may alter funding, services, programs, or eligibility for its Medicaid program which could affect enrollments in the District’s indigent health care program. Texas has the highest healthcare uninsured rate in the nation and the County’s rate is among the highest in the State. The benefits of the Patient Protection and Affordable Care Act (P.L. 111-148) and the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152) legislation that were intended to reduce the number of healthcare uninsured persons and expand Medicaid enrollment has not yet been realized in Texas; during the forthcoming District fiscal year, these unrealized benefits may affect the number of persons enrolled in the District’s indigent health care program. Additionally, the P.L. 111-148 individual mandate to carry health insurance was repealed effective 2020; during the forthcoming District fiscal year, this action may affect the number of persons enrolled in the District’s indigent health care program. In addition, federal regulations could limit the methods States can use to finance the non-federal share of Medicaid Program Payments, jeopardizing the availability and/or continuation of indigent healthcare services in the community. Finally, expansive changes could occur to the Patient Protection and Affordable Care Act, Health Care and Education Reconciliation Act, and the Medicaid program due to changes to national health policy.

Next Year’s Budget, Tax Rates, and Property Valuations

Budget

For the District’s forthcoming fiscal year ending September 30, 2023 (“Fiscal Year 2023”), the District’s Board of Managers and County Commissioners Court approved a District operating budget wherein

Budget – Continued

revenues exceed expenditures by \$2.6 million. Revenues are budgeted at \$65.9 million, a 39.4% increase compared to the prior fiscal year. Expenditures are budgeted at \$63.4 million, a 33.4% increase compared to the prior fiscal year.

Tax Rates and Property Valuations

The property valuations for the District's Fiscal Year 2023 are \$40.4 billion, an increase of 14.3% from the prior year. To offset this increase, County Commissioners Court has decreased the District's tax rate for the Fiscal Year 2023 budget to \$0.098846 per \$100 valuation, which is 1.5% above the no-new-revenue tax rate. The Fiscal Year 2023 budget estimates include tax revenues of \$37.3 million, an increase of \$150 thousand or 0.4% over Fiscal Year 2022. Certain prior year local refinery related property value lawsuits are still pending and potential refunds have been prospectively applied to the tax revenue budget. The District expects tax base expansion and increases in property values to approximate recent years.

Financial Planning

The District does not receive State or federal funding for the provision of indigent health care. However, the District expects to continue receiving de minimis reimbursement annually for administering the LPPF program. The District expects that the Membership Agreement's revenue sharing allocation percentage between the District and Spohn will be inadequate to support some of the District's objectives in the forthcoming fiscal year and the District will rely on its reserves to fund operations to a greater degree than the prior year. In addition, during Fiscal Year 2023, either party has the option to terminate the Membership Agreement and the revenue resulting to the District from the Agreement could end and impact Fiscal Year 2024. Federal regulations governing certain provisions of the Membership Agreement and past State actions relating to certain Medicaid Payment Programs disallowances may potentially affect the future performance of the Agreement; it is possible that the current permitted use of a combination of tax, LPPF, and Membership Agreement-related revenues by the District to make voluntary intergovernmental transfers to the State in support of the Medicaid Payment Programs could change in the future.

CONTACTING DISTRICT MANAGEMENT

These District financial statements are designed to provide our citizens, taxpayers, elected officials, investors, creditors, and others with a general overview of the District's financial position and results of operations, to demonstrate the District's accountability for the tax and other funds it receives, and show how the District's funds are used. Questions concerning any of the information contained in these statements or requests for additional statement information can be directed to the District at:

Nueces County Hospital District
Administrative Offices
555 N. Carancahua St., Suite 950
Corpus Christi, TX 78401-0835
Telephone: (361) 808-3300
Facsimile: (361) 808-3274
https://www.nchdcc.org/about_us/contact_us.php

HISTORICAL AUDITED FINANCIAL STATEMENTS

Recent historical audited financial statements of the District are available via the Internet and can be viewed or downloaded in Portable Document Format from https://www.nchdcc.org/public_notices/finance.php

Basic Financial Statements

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET POSITION

SEPTEMBER 30, 2022

ASSETS	<u>GENERAL</u>	<u>INDIGENT CARE FUND</u>	<u>TOBACCO SETTLEMENT FUND</u>
Cash and Cash Equivalents (Note 4)	45,403,361	17,724,727	747
Cash Restricted for Local Provider Participation Fund (Note 4 and 15)	21,552,874	--	--
Investments (Note 4 and Note 5)	--	37,073,947	--
Accrued Interest	2,037	81,950	--
Taxes Receivable Net of Allowance for Uncollectible (Note 7 and 9):	3,651,320	--	--
Other Receivables	21,031	--	--
Prepaid Expenditures	179,690	--	--
Land (Note 8)	--	--	--
Other Capital Assets, net of Accumulated Depreciation (Note 8)	--	--	--
TOTAL ASSETS	<u>70,810,313</u>	<u>54,880,624</u>	<u>747</u>

Exhibit 1

GOVERNMENTAL FUNDS TOTAL	ADJUSTMENTS EXHIBIT 2	STATEMENT OF NET POSITION
63,128,835	--	63,128,835
21,552,874	--	21,552,874
37,073,947	--	37,073,947
83,987	--	83,987
3,651,320	--	3,651,320
21,031	--	21,031
179,690	--	179,690
--	3,076,926	3,076,926
--	2,953,019	2,953,019
125,691,684	6,029,945	131,721,629

(Continued)

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET POSITION

SEPTEMBER 30, 2022

LIABILITIES	<u>GENERAL</u>	<u>INDIGENT CARE FUND</u>	<u>TOBACCO SETTLEMENT FUND</u>
Accounts Payable	3,434,340	--	--
Accrued Payroll and Related Liabilities	256,070	--	--
Unearned Revenue (Note 9)	3,651,320	--	--
Long-term Liabilities-			
Accrued Paid Time Off (Note 10)	--	--	--
Due to Local Provider Participation Fund			
Fund (Note 15)	21,552,874	--	--
TOTAL LIABILITIES	28,894,604	--	--
 FUND EQUITY/NET POSITION			
Fund Balances:			
Nonspendable	179,690	--	--
Committed to: (Note 12)			
Intergovernmental Transfers	8,537,101	--	--
Indigent Care	--	54,880,624	--
Assigned to County Health Care	--	--	747
Unassigned	33,198,918	--	--
Total Fund Equity	41,915,709	54,880,624	747
 TOTAL LIABILITIES AND FUND EQUITY			
	70,810,313	54,880,624	747

Net Position:

 Net Investment in Capital Assets
 Unrestricted

TOTAL NET POSITION

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

Exhibit 1
Continued

GOVERNMENTAL FUNDS TOTAL	ADJUSTMENTS EXHIBIT 2	STATEMENT OF NET POSITION
3,434,340	--	3,434,340
256,070	--	256,070
3,651,320	(3,651,320)	--
--	65,503	65,503
21,552,874	--	21,552,874
<u>28,894,604</u>	<u>(3,585,817)</u>	<u>25,308,787</u>
179,690	(179,690)	--
8,537,101	(8,537,101)	--
54,880,624	(54,880,624)	--
747	(747)	--
33,198,918	(33,198,918)	--
<u>96,797,080</u>	<u>(96,797,080)</u>	--
<u><u>125,691,684</u></u>		
	6,029,945	6,029,945
	<u>100,382,897</u>	<u>100,382,897</u>
	<u><u>106,412,842</u></u>	<u><u>106,412,842</u></u>

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NUECES COUNTY HOSPITAL DISTRICT
(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)
EXPLANATIONS FOR ADJUSTMENTS TO RECONCILE
GOVERNMENTAL FUNDS - BALANCE SHEET TO THE STATEMENT OF NET POSITION

Total Fund Balance - Total Governmental Funds	96,797,080
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of the assets is \$14,153,705 and the accumulated depreciation is \$8,123,760 (Note 8)	6,029,945
Taxes receivable, net of allowance is not available to pay for current period expenditures and is, therefore, deferred in the governmental funds. (Note 7)	3,651,320
Long-Term liabilities, include accrued paid time off, are not due and payable in the current period and, therefore, are not reported in the funds. (Note 10)	<u>(65,503)</u>
NET POSITION	<u><u>106,412,842</u></u>

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

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES**

YEAR ENDED SEPTEMBER 30, 2022

	<u>GENERAL</u>	<u>INDIGENT CARE FUND</u>	<u>TOBACCO SETTLEMENT FUND</u>
Revenues:			
Taxes	37,418,113	--	--
Penalties and Interest - Taxes	343,600	--	--
Spohn Corporate Membership Revenue	12,270,012	--	--
Investment Income	341,147	(1,581,170)	419
Tobacco Settlement	--	--	666,491
Other (Note 8 and 15)	304,064	--	--
Total Revenue	<u>50,676,936</u>	<u>(1,581,170)</u>	<u>666,910</u>
Expenditures/Expenses:			
General Government	1,952,934	--	--
Health	52,104,790	--	--
Depreciation	--	--	--
Capital Outlay	6,701	--	--
Total Expenditures/Expenses	<u>54,064,425</u>	<u>--</u>	<u>--</u>
Excess of Revenues Over Expenditures/Expenses	(3,387,489)	(1,581,170)	666,910
Other Financing Sources (Uses):			
Transfers In (Note 13)	667,000	--	--
Transfers Out (Note 13)	--	--	(667,000)
Total Other Financing Sources (Uses)	<u>667,000</u>	<u>--</u>	<u>(667,000)</u>
Net Change in Fund Balance/Net Position	(2,720,489)	(1,581,170)	(90)
Fund Balance/Net Position, Beginning of Year	<u>44,636,198</u>	<u>56,461,794</u>	<u>837</u>
FUND BALANCE/NET POSITION, END OF YEAR	<u>41,915,709</u>	<u>54,880,624</u>	<u>747</u>

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

Exhibit 3

GOVERNMENTAL FUNDS TOTAL	ADJUSTMENTS EXHIBIT 4	STATEMENT OF ACTIVITIES
37,418,113	868,697	38,286,810
343,600	--	343,600
12,270,012	--	12,270,012
(1,239,604)	--	(1,239,604)
666,491	--	666,491
304,064	(224,513)	79,551
<u>49,762,676</u>	<u>644,184</u>	<u>50,406,860</u>
1,952,934	12,018	1,964,952
52,104,790	--	52,104,790
--	260,084	260,084
6,701	(6,701)	--
<u>54,064,425</u>	<u>265,401</u>	<u>54,329,826</u>
(4,301,749)	378,783	(3,922,966)
667,000	(667,000)	--
(667,000)	667,000	--
<u>--</u>	<u>--</u>	<u>--</u>
(4,301,749)	378,783	(3,922,966)
<u>101,098,829</u>	<u>9,236,979</u>	<u>110,335,808</u>
<u>96,797,080</u>	<u>9,615,762</u>	<u>106,412,842</u>

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NUECES COUNTY HOSPITAL DISTRICT**(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)****EXPLANATIONS FOR ADJUSTMENTS TO RECONCILE
GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**

Net Change in Fund Balances - Total Governmental Funds	(4,301,749)
--	-------------

Amounts reported for governmental activities in the statement of net position are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of \$260,084 was more than capital outlays of \$6,701 and loss on disposal of Memorial Hospital buildings of \$224,513 in the current period. (Note 8)	(477,896)
---	-----------

Revenues from uncollected taxes that do not provide current financial resources are included in the statement of activities and not reported as revenues in the governmental funds.	868,697
---	---------

Expenses accrued for employees paid time off in the statement of activities that do not use current financial resources are not reported as expenses in the governmental funds.	<u>(12,018)</u>
---	-----------------

CHANGE IN NET POSITION	<u><u>(3,922,966)</u></u>
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The notes to the financial statements are an integral part of this statement.

NUECES COUNTY HOSPITAL DISTRICT
(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL

YEAR ENDED SEPTEMBER 30, 2022

	ORIGINAL AND FINAL BUDGET	ACTUAL GAAP BASIS	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:			
Taxes	36,780,945	37,418,113	637,168
Penalties and Interest - Taxes	367,809	343,600	(24,209)
Spohn Corporate Membership Revenue	9,883,929	12,270,012	2,386,083
Investment Income	3,868	341,147	337,279
Other	250,000	304,064	54,064
Total Revenues	47,286,551	50,676,936	3,390,385
Expenditures:			
Current:			
General Government			
Administration:			
Personal Services	742,211	635,320	106,891
Materials and Supplies	67,700	43,697	24,003
Contractual Services	2,015,960	1,091,714	924,246
Other	218,510	181,605	36,905
Total Administration	3,044,381	1,952,336	1,092,045
Facilities Management -			
Materials and Supplies	1,300	598	702
Total General Government	3,045,681	1,952,934	1,092,747
Health:			
Personal Services	1,483,380	1,204,131	279,249
Materials and Supplies	43,100	33,551	9,549
Contractual Services	942,950	480,533	462,417
Intergovernmental Transfers (Note 11)	30,120,513	40,210,253	(10,089,740)
County Services	11,687,925	10,172,067	1,515,858
Other	9,500	4,255	5,245
Total Health	44,287,368	52,104,790	(7,817,422)
Capital Outlay	163,000	6,701	156,299
Total Current Expenditures	47,496,049	54,064,425	(6,568,376)
Excess Expenditures over Revenues	(209,498)	(3,387,489)	(3,177,991)
Other Financing Sources-			
Transfers In	550,000	667,000	117,000
Total Other Financing Sources	550,000	667,000	117,000
Net Change in Fund Balance	340,502	(2,720,489)	(3,060,991)
Fund Balance, Beginning of Year		44,636,198	
FUND BALANCE, END OF YEAR		41,915,709	

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

NUECES COUNTY HOSPITAL DISTRICT
(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)
INDIGENT CARE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2022

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues -			
Investment Income	56,456	(1,581,170)	(1,637,626)
	<u>56,456</u>	<u>(1,581,170)</u>	<u>(1,637,626)</u>
Net Change in Fund Balance			
	<u>56,456</u>	<u>(1,581,170)</u>	<u>(1,637,626)</u>
Fund Balance, Beginning of Year		<u>56,461,794</u>	
FUND BALANCE, END OF YEAR		<u>54,880,624</u>	

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

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

TOBACCO SETTLEMENT FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL

YEAR ENDED SEPTEMBER 30, 2022

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:			
Tobacco Settlement	550,000	666,491	116,491
Investment Income	--	419	419
Total Revenues	<u>550,000</u>	<u>666,910</u>	<u>116,910</u>
Other Financing Uses -			
Transfers Out	<u>(550,000)</u>	<u>(667,000)</u>	<u>(117,000)</u>
Total Other Financing Uses	<u>(550,000)</u>	<u>(667,000)</u>	<u>(117,000)</u>
Net Change in Fund Balance	<u> --</u>	<u> (90)</u>	<u> (90)</u>
Fund Balance, Beginning of Year		<u> 837</u>	
FUND BALANCE, END OF YEAR		<u> 747</u>	

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

NUECES COUNTY HOSPITAL DISTRICT
(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

	HEALTH BENEFIT PLAN AND TRUST FUND
ASSETS	
Cash and Cash Equivalents (Note 4)	68,172
Accrued Interest	159
Total Assets	68,331
LIABILITIES	
Due to General Fund	4,025
NET POSITION	
Held in Trust for Employee Health Benefits	64,306

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

NUECES COUNTY HOSPITAL DISTRICT
(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2022

	<u>HEALTH BENEFIT PLAN AND TRUST FUND</u>
ADDITIONS	
Interest	595
DEDUCTIONS	
Administration and General	1,455
Employee Benefits	22,103
Total Deductions	<u>23,558</u>
Net Decrease	(22,963)
Net Position, Beginning of Year	<u>87,269</u>
NET POSITION, END OF YEAR	<u><u>64,306</u></u>

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

NUECES COUNTY HOSPITAL DISTRICT
(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

Note 1 – REPORTING ENTITY

Nueces County Hospital District (the District), a discretely presented component unit of Nueces County, Texas (the County), was made available by an Act of the Legislature of the State of Texas and subsequently approved by the voters of Nueces County, Texas. The District is legally separate from the County; however, members of the District’s governing board (the Board) are appointed by the County Commissioners’ Court.

The District has no component units as defined by Governmental Accounting Standards Board. Although the District appoints three of the members of the Board of Trustees of CHRISTUS Spohn Health System (“Spohn”) as part of the Spohn Membership Agreement between the two parties, Spohn does not qualify as a component unit. The District does not approve the budget of Spohn, nor have any rights to surpluses of Spohn. However, Spohn shares certain revenues with the District pursuant to the terms of the Agreement.

Additionally, the District serves as the Region 4 Anchor and funds voluntary intergovernmental transfers (IGTs) for certain healthcare providers under provisions of the Texas Health and Human Services Commission’s (HHSC) Medicaid Payment Programs. This allows Spohn and certain other Region 4 healthcare providers to participate in supplemental Medicaid Payment Programs.

Formation and Background

The District is a tax-supported governmental entity authorized by the Constitution of the State of Texas, the creation of which was approved by the voters of Nueces County in 1967. Pursuant to Chapter 281 of the Texas Health and Safety Code, the District assumed full responsibility for furnishing medical and hospital care for indigent and needy persons residing in the District beginning on the date on which taxes were collected for the District. The Commissioner’s Court is authorized to levy hospital district taxes on property located within the District whose boundaries are coterminous with the County. Chapter 281 allows the District to use funds from any source to fund indigent health care and intergovernmental transfers from the District to the state for use as the nonfederal share of Medicaid supplemental payment programs or waiver program payments.

The District is governed by a Board of Managers, whose members are appointed by the Commissioners Court. The Commissioners Court has final approval of the District’s operating budget and tax rate. The Commissioners Court has the authority to levy on all property subject to District taxation a tax not to exceed seventy-five cents (\$.75) on each \$100 valuation of all taxable property within the District.

Note 1 – REPORTING ENTITY – (Continuation)

1996 Transaction

Historically, the Nueces County Hospital District (the “District”) owned and operated Memorial Medical Center (“Memorial”). Memorial served as the safety-net hospital in Nueces County providing indigent care services to the needy, consistent with the District’s role as a Chapter 281 hospital district. In 1996, through a series of agreements (the “1996 Transaction”) which include a Master Agreement, Lease Agreement, and Indigent Care Agreement, (collectively, the “1996 Transaction Agreements”), the District leased Memorial to Spohn and Spohn assumed the responsibility to operate Memorial in Nueces County, with obligations for Spohn to provide indigent care and for the District to utilize its ad valorem tax revenues to fund the provision of indigent care by Spohn in Nueces County.

Renegotiation of 1996 Transaction

During the 2011 – 2012 timeframe, Spohn started facing significant capital costs due to the deteriorating condition of its hospital facilities in Corpus Christi, particularly the Memorial hospital facility. Spohn’s options to address these capital needs were somewhat limited by the 1996 Transaction Agreements, through which Spohn assumed a 30-year responsibility for the maintenance and operations of the Memorial facility. In addition to the lease rate for the Memorial facility and the District’s other assets and Spohn’s obligation to maintain the facilities in a commercially reasonable manner, Spohn had also agreed to invest at least \$6 million per year in capital improvements and equipment at the Memorial campus, the neighborhood clinics, and the physician office buildings. In 2011, Spohn began the process of evaluating a transformative capital project in the Nueces County market, with the goal to shift the delivery of care towards a focus on more appropriate outpatient care venues and better coordination across the care continuum, rather than simply retrofitting the existing hospital inpatient infrastructure. In order for the parties to make significant changes to the infrastructure, Spohn desired more flexibility than what was available under the 1996 Transaction documents; in particular, it desired to align the interests of the District and Spohn more closely and to relax or remove its contractual commitment to maintain the existing facilities, including the Memorial facility owned by the District. CHRISTUS Health, Spohn’s parent organization, ultimately approved a \$325 million capital investment in 2013 in the Corpus Christi market, after Spohn’s transition to the co-membership/ownership role with the District discussed below.

Recognizing the constraints placed on their strategic planning efforts due to the historical structure, the parties invoked the process outlined in the 1996 Transaction that allowed for the District and Spohn to renegotiate the agreements between the parties in the event there was an adverse material change in government reimbursement. The parties therefore included in the 1996 Transaction documents a right to renegotiate changes in their relationship in the event there was a substantial reduction in government program funding for Spohn. On invoking this process to assess the risk of adverse material change in government reimbursement to Spohn, the parties also identified opportunities to improve the delivery of care in the Coastal Bend communities.

2012 Spohn Membership Agreement

The parties structured the Spohn Membership Agreement (“2012 Membership Agreement”) in 2012 to further support their efforts to more closely and comprehensively collaborate and align the operations of the District and Spohn as a governmental and public provider. Effective September 30, 2012, the parties entered into a Memorandum of Understanding (“MOU”) to effectuate termination of the 1996 Transaction Agreements. Pursuant to the terms of the MOU, the parties agreed to terminate the 1996 Transaction Agreements. The parties also agreed in the MOU to the reinstatement of the 1996 Transaction Agreements to be effective upon the termination of the 2012 Membership Agreement, subject to certain amendments to the 1996 Transaction Agreements (including to the Lease Agreement) which are attached to the MOU. At the same time, the parties entered into the 2012 Membership Agreement, effective October 1, 2012, pursuant to which the District became a co-member in Spohn along with CHRISTUS Health, with the rights, privileges, obligations, and duties attendant to such role. The parties intended that Spohn would continue to serve as the public safety-net hospital in Corpus Christi. In order to reflect the District as a co-member in Spohn, the parties revised Spohn’s corporate documents, and submitted the appropriate enrollment change documents to the Medicare fiscal intermediary and the State related to its Medicare and Medicaid provider agreements.

The District also provided Spohn the right to continue to use and operate the Memorial facilities and granted Spohn the right to make material alterations to the Memorial facilities upon reasonable review of the District. Spohn continues to have the right to use Memorial, the Memorial campus, and other facilities without a rental obligation. The Agreement carries over most of the other duties and responsibilities from the Lease. The District also agreed to reduce Spohn’s obligation to make \$6 million in capital expenditures per year for Memorial and the District’s other facilities in the event such material alterations were made.

The parties agreed that each co-member of Spohn was entitled to an allocated portion of the funds as part of their co-membership/ownership role, commensurate with their liability for Spohn’s operating losses. Specifically, under the 2012 Membership Agreement, the co-members agreed to remit to Spohn their pro rata share of any operating loss deficits within a specified timeframe. Upon implementation of the 2012 Membership Agreement, CHRISTUS Health and the District were co-members in the Spohn corporate entity. CHRISTUS Health continued to receive its management fees and other revenue from Spohn’s operations in return for the support services it furnished to Spohn. In exchange for the District’s support of Spohn and its assumption of economic risk and the various tangible and intangible economic and other benefits the District granted to Spohn, the District was entitled to an allocated portion of the funds Spohn had available for distribution to its co-members—i.e., a share of the Spohn nonfederal net patient revenue negotiated annually based on Spohn’s operating budget and projected operating margin for the upcoming year.

2015 Transaction

In September 2012, Spohn issued a Notice of Material Alteration to the District in accordance with the Membership Agreement requesting to, among other things, demolish the MMC hospital building, construct a 40,000 square foot outpatient clinic on the MMC campus to be known as the Dr. Hector P. Garcia—Memorial Family Health Center (“Family Health Center”), and relocation of Memorial’s inpatient beds and trauma services to Spohn’s Shoreline hospital following the redesign of Shoreline. The parties then entered into a binding Letter of Intent. Under the Letter of Intent, the District approved Spohn’s material alteration plans as described in the Notice. The parties also agreed to amend the Membership Agreement and MOU to make the following changes:

Note 1 – REPORTING ENTITY – (Continuation)

- Authorize Spohn to construct the Family Health Center on the MMC campus, transition MMC inpatient beds, emergency room, and trauma services to Spohn’s Shoreline hospital, and subsequently demolish the MMC hospital facility.
- Require Spohn to continue to (1) provide inpatient and outpatient indigent care services to Nueces Aid enrollees at the same levels as during prior periods through 2036; (2) make certain outpatient services available to Nueces Aid enrollees at the Family Health Center; (3) ensure appropriate availability of inpatient and outpatient psychiatric and behavioral health services to indigents at a location in Corpus Christi, Texas and analyze the most appropriate facility for such services in conjunction with House Bill 3793, 83rd Legislature, Regular Session, 2013 Plan for the Appropriate and Timely Provision of Mental Health Services, (4) ensure the community has constant access to an emergency department equipped to provide Level II trauma services at Shoreline prior to the demolition of the MMC hospital facility; (5) maintain at least two graduate medical education programs with comprehensive resident training available in both programs; and (6) make adequate and appropriately furnished and equipped space available at the Family Health Center for the District’s enrollment officers and receptionist.
- Require Spohn to renovate Spohn’s Shoreline hospital to enable it to have a sufficient number of inpatient beds, achieve Level II Trauma Center designation, and address emergency department capacity issues prior to the demolition of the MMC hospital facility.
- Following the termination of the Membership Agreement, (1) obligate Spohn to continue to provide lease payments to the District as previously required prior to the termination of the Lease and to pay \$1 million per year in lease payments from 2026 through 2036 and (2) reduce the District’s payments to Spohn for providing indigent care services to Nueces Aid enrollees with no inflator.
- Gradually reset Spohn’s obligations to make capital expenditures related to the MMC campus but requires Spohn to place in escrow the difference between the amounts it would have been obligated to make for capital expenditures and the reduced capital expenditure obligations until Spohn completes various of its obligations under the Letter of Intent.

Following the parties’ entry into the Letter of Intent, the District’s Board of Managers issued a resolution formally authorizing the closure and demolition of the MMC hospital facility.

Effective November 2015, the Parties entered into an Amended and Restated Membership Agreement and Amended and Restated MOU (which include amendments to the suspended Master Agreement, Lease, and Revised and Restated Indigent Care Agreement) to memorialize the parties’ various agreements under the Letter of Intent. The parties also entered into an Escrow Agreement with Bank of America serving as the escrow agent to maintain the funds that Spohn will deposit into escrow to secure its commitments under the Amended and Restated Membership Agreement and Amended and Restated MOU. By 2023, either party has the option to terminate the amended and restated Membership Agreement.

Note 1 – REPORTING ENTITY – (Continuation)

Memorial Campus

Governmental Accounting Standards Board No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets* requires that assets no longer used by the government be reported at lower of carrying value or fair value. The Memorial Hospital building was still being utilized to provide psychiatric services and office spaces for Spohn until it was vacated on September 15, 2022. Spohn began demolition of the building in late 2022. Because the building is no longer in use, management determined that the building was impaired and wrote off the remaining net book value of \$224,513 as of the year ended September 30, 2022, in the statement of activities. See Note 8 and 15 for additional information.

The District is considering various health care related options for future use of the Memorial campus following demolition; Spohn is not obligated to complete its demolition of Memorial Hospital until September 30, 2023. Although the Memorial Hospital building was deemed impaired and written off, portions of the property are still in use. Management is considering alternative expansion plans for the Family Health Center on the property in the near future.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES

The District is a special purpose government engaged in a single governmental program, GASB allows the District to combine the required fund financial statements and government-wide statements.

A. Basic Financial Statements

The Basic financial statements include combined government-wide (based on the District as a whole) and fund financial statements.

The Government-wide statements are included in the combined statements of Exhibit 1 and 3 as the Statement of Net Position and Statement of Activities Column. The government-wide statements focus more on the substantiality of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements emphasis is on the major funds which for the District are the general fund and the indigent care fund. There is one non-major fund: The Tobacco Settlement Fund.

The governmental funds statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (1) demonstrate legal and covenant compliance, (2) demonstrate the source and use of liquid resources, and (3) demonstrate how the District's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements a reconciliation is presented in Exhibit 2 and 4 which briefly explains the adjustment necessary to transform the fund based financial statements columns into the government-wide presentation called the statement of net position and statement of activities column.

The District's fiduciary fund is presented in the basic financial statement as separate statements. Since by definition these assets are being held for the benefit of a third party (employees and former employees) and cannot be used to finance activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

B. Basis of Presentation

The financial transactions of the District are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The criteria used to determine if a governmental fund should be reported as a major fund are as follows: the total assets, liabilities, revenues or expenditures of that governmental fund are at least 10% of the corresponding element total for all governmental funds. The special revenue Tobacco Settlement Fund is reported as a major fund because it is the only other fund. The District reports the following major funds:

General Fund – The General Fund is the primary operating fund of the District. It is used to account for all financial resources, except those required to be accounted for in another fund.

Indigent Care Fund – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally or contractually committed to expenditures for specific purposes. They also are used to account for funds that are committed by the Board to be spent for specific purposes.

Tobacco Settlement Fund – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally or contractually committed to expenditures for specific purposes.

Additionally, the District reports the following fund type:

Fiduciary Funds – Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for individuals, private organizations, other governments or funds. These assets are held under the terms of a formal trust agreement. The District has the following fiduciary fund type:

Expendable Trust Fund – An expendable trust fund is used to account for the Health Benefit Plan and Trust. Funds are used to offset employee health insurance premiums, employee reimbursements for out-of-pocket health care costs. The District is not under an obligation to maintain the trust principal.

C. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of measurements made, regardless of the measurement focus applied. The government-wide financial statements and the fiduciary fund statements are presented on an accrual basis of accounting. The governmental funds in the funds financial statements are presented on a modified accrual basis.

Accrual

Revenues are recognized when earned and expenses are recognized when incurred.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

Modified Accrual

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

The District considers property tax revenues available if they are collected within sixty days after year-end. Penalties, interest, and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Spohn corporate membership revenue and interest income are accrued, when their receipt occurs soon enough after the end of the accounting period to be both measurable and available.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, debt service expenditures, except interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to accumulated unpaid paid time off benefits which are recognized when paid.

D. Budgets and Budgetary Accounting

The Board adopts an annual budget for all funds. The annual budget and revisions must be approved by the Board of Managers and then the County Commissioners Court.

E. Cash and Cash Equivalents

Cash and Cash Equivalents include currency on hand, demand deposits with banks and amounts included in pooled cash or liquid investments with a maturity of three months or less when purchased.

F. Investments

Statutes give the District the authority to invest its funds in obligations of the United States; direct obligations of the state of Texas; other obligations guaranteed or insured by the state of Texas or the United States; obligations of states, agencies, counties, or cities of any state that have been rated not less than one or its equivalent by a nationally recognized investment firm; certificates of deposit guaranteed insured or secured by approved obligations; certain commercial paper; fully collateralized repurchase agreements, and Securities & Exchange Commission-registered, no-load money market mutual funds whose assets consist exclusively of approved obligations. Investments are recorded at fair value, except for investments pools which are reported at amortized costs and included in cash and cash equivalents. See Note 5 for discussion on fair value measurement.

G. Receivables and Payables

Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the government-wide statement of net assets column of the combined financial statements. Tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 3% of the annual tax levy. IGTs are not accrued because they cannot be reasonably estimated and are not legal obligations of the District.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

H. Capital Assets

All fixed assets are valued at historical cost if purchased or constructed. Donated fixed assets are valued at their estimated fair value on the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

ASSETS	LIFE IN YEARS
Building and Improvements	20-40
Furniture and Equipment	10
Computer Equipment	5

I. Compensated Absences

District employees earn paid time off and sick leave. Paid time off accumulates from year to year up to a maximum of two years accrual. Semi-annually, employees can elect to be paid in lieu of utilizing paid time off and sick leave at a rate of 80% of time earned. Sick leave accumulates up to a maximum of 1,440 hours. Upon termination of employment, employees may receive pay for their unused paid time off. The cost of paid time off and sick leave is recognized when earned by employees.

J. Employee Benefit Plans

The District has a 403(b) tax sheltered annuity retirement plan and a deferred compensation plan as described in Note 14. The assets, liabilities, fund equity and operations of this plan are not presented on the District’s financial statements as both plans are independently administrated.

K. Fund Balance Classifications

The *nonspendable* fund balance includes the portion of net resources that cannot be spent because of their form or because they must be maintained intact. For the District, resources not in spendable form include prepaid items.

The *committed* fund balance includes spendable net resources that can only be used for specific purposes pursuant to constraints imposed by a formal vote of the Board of Managers no later than the close of the fiscal year. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

The *assigned* fund balance includes amounts that are constrained by the District’s intent to use funds for specific purposes, but are neither restricted nor committed. Such intent should be expressed by the Board of Managers to assign amounts to be used. Constraints imposed on the use of assigned amounts can be removed with no formal Board action. The residual fund balance that is not committed in governmental funds; except the General Fund, is assigned.

The *unassigned* fund balance represents the spendable net resources that have not been restricted, committed, or assigned to specific purposes.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

L. Codification of Accounting and Financial Reporting Guidance

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

Note 3 - SPOHN MEMBERSHIP AGREEMENT

The District and Spohn entered into a Spohn Membership Agreement to establish a structure for the joint membership of Spohn with the District effective October 1, 2012, as stated in Note 1. The Agreement includes (1) provisions stipulating the parameters for the healthcare services that Spohn will continue to provide to the Nueces County indigent residents during the term of the Agreement, without payment by the District to Spohn for such services, (2) operative provisions and parameters for Spohn's continued use of the District's Memorial Medical Center (MMC) facilities and satellite clinics during the term of the Agreement in a manner consistent with the substantive and maintenance provisions in the former Lease Agreement, without payment of rent by Spohn to the District for such use, and (3) a Spohn net patient revenue allocation and sharing arrangement between Spohn and the District, the amount of which is determined each year prior to October 1.

The Spohn Membership Agreement serves multiple purposes including to facilitate (1) continued provision of indigent health care services in Nueces County, (2) Spohn's and other Region 4 healthcare providers' ability to participate in Medicaid supplemental funding under the Waiver based on the providers' achievement of Waiver-related project metrics and milestones and their provision of uncompensated care, to the benefit of the Nueces County indigent residents served by the District and (3) the District's ability to serve as the Region 4 Anchor under the Waiver.

The Spohn Membership Agreement was amended and restated effective November 18, 2015 permitting Spohn to renovate and transform the MMC campus and improve facilities at its Christus Spohn Hospital Shoreline campus. Spohn has constructed a new Family Health Center on an unoccupied portion of the MMC campus, expanded its Shoreline campus Emergency Department, relocated the MMC trauma center to the Shoreline campus, and added in-patient bed capacity to that campus. With the addition, relocation, and expansions completed, the community has access to the health care services previously available at MMC and Spohn will be allowed to cease operation of and demolish MMC. By 2023, either party has the option to terminate the amended and restated Membership Agreement.

Annual Member Revenue Allocation

Each year under the Spohn Membership Agreement, Spohn and the District confer regarding the support necessary for the operations of Spohn over the ensuing fiscal year starting October 1. Spohn prepares a budget that contemplates any modifications or additions in cost to provide healthcare services at MMC and the Satellite Clinics. Upon review of the Spohn budget, economic resources of Spohn and the Members and other factors, Spohn and the District agree on a "Specified Annual Percentage", (as defined in the agreement), of Spohn's net patient revenue that the District will receive. Based on this year's estimate the District budgeted \$9,883,929 and received \$12,270,012 in member revenues for the year ended September 30, 2022.

Note 3 - SPOHN MEMBERSHIP AGREEMENT – (Continuation)

According to management, estimating the Specified Annual Percentage for membership revenue sharing is difficult due to the number of changing factors in the health care system that affect costs, as well as, revenues. Management intends to adjust the membership revenue sharing "Specified Annual Percentage" annually according to the Spohn Membership Agreement.

Note 4 – CASH AND INVESTMENTS

The District’s investment policies and types of investments are governed by the Texas Public Funds Investment Act (“PFIA”). The District’s management believes that it has complied with the requirements of the PFIA and the District’s investment policies. At September 30, 2022, the District segmented time distribution analysis of the portfolio by market sector is as follows, including the Health Benefit Trust:

	TOTAL	INVESTMENT MATURITIES IN YEARS	
		LESS THAN ONE YEAR	ONE TO THREE YEARS
Cash and Equivalents:			
Collateralized Bank Accounts	644,672	644,672	--
Money Market Mutual Funds -			
Fiduciary Funds	68,172	68,172	--
Petty Cash	150	150	--
AAA-Rate Local Government			
Investment Pools:			
Texpool	47,060,511	47,060,511	--
Logic	10,602,100	10,602,100	--
TexStar	4,821,402	4,821,402	--
Total Cash and Equivalents	63,197,007	63,197,007	--
Investments At Fair Value:			
Federal Home Loan			
Bank	18,713,935	--	18,713,935
Federal Home Loan Mortgage			
Corporation	2,971,317	--	2,971,317
Federal Farm Credit Banks	3,811,664	--	3,811,664
Federal National Mortgage			
Association	7,722,668	7,722,668	--
Municipal Bond	3,854,363	1,620,875	2,233,488
Total Investments	37,073,947	9,343,543	27,730,404
TOTAL VALUE	100,270,954	72,540,550	27,730,404
% of Total Portfolio	100%	72.34%	27.66%

The District’s policy is to report money market investments and investment pools at amortized cost. U.S. Government Agency Securities are reported at fair value based on quoted market values. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value.

Note 4 – CASH AND INVESTMENTS – (Continuation)

Investment Pools

Public funds investment pools in Texas (Pools) are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code and are subject to the provisions of the Public Funds Investment Act (PFIA), chapter 2256.016 of the Texas Government Code.

In addition to others provision of the PFIA designed to promote liquidity and safety of principal, the PFIA requires Pools to: (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; (2) maintain a continuous rating of no lower than AAA or AAAM or an equivalent rating by at least one nationally recognized rating service; and (3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

All investments pools funds held by the District are rated AAAM by Standard & Poor's and comply with the PFIA. Investment pools are included in Cash and Cash Equivalents. A more detailed description of investment pools held by the District at September 30, 2022 is as follows:

TexPool Investment Fund

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

LOGIC Investment Pool

Local Government Investment Cooperative (LOGIC) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 79, of the Texas Government Code and the PFIA. The pool was created in April 1994 through a contract among its participating governmental units, and is governed by a board of directors (the board) to provide for the joint investments of participant's public funds and funds under their control. J.P. Morgan Investment Management Inc. (JPMIM) has served as the investment adviser. JPMIM is an SEC registered investment adviser and an affiliate of J.P. Morgan Asset Management (JPMAM). Hilltop Securities Inc. (Hilltop) and JPMIN serve as co-administrators to LOGIC, and Hilltop provides administrative, participant support and marketing services. Hilltop Securities is a registered broker dealer, member of FINRA/SIPC, which provides financial advisory and investment banking services to governmental entities. JPMorgan Chase Bank N.A. provides custodial services. LOGIC's policy seeks to invest pooled assets in a manner that will provide for safety of principal, liquidity in accordance with the operating requirements of the participants, and a competitive rate of return by utilizing economies of scale and professional investment expertise. S&P Global monitors pertinent pool information on a weekly basis to ensure the pool's compliance with its rating requirements.

TexSTAR Investment Pool

Texas Short Term Assets Reserve Program (“TexSTAR”) is administered by First Southwest Company and JP Morgan Chase. TexSTAR is overseen by a five member governing board made up by three participants and one of each of the program’s professional administrators. The responsibility of the board includes the ability to influence operations, designation of management and accountability for fiscal matters.

In addition, TexSTAR has a Participant Advisory Board which provides input and feedback on the operations and direction of the program and Standard and Poor’s reviews the pool on a weekly basis to ensure the pool’s compliance with its rating requirements. TexSTAR’s investment policy stipulates that it must invest in accordance with the Texas PFIA.

Credit Risk

The primary stated objectives of the District’s adopted Investment Policy are the safety of principal, liquidity, diversification and yield. Credit risk within the District's portfolio among the authorized investments approved by the District's adopted Investment Policy is present only in time and demand deposits, U.S. government agency bonds, repurchase agreements, commercial paper, municipal obligations and money market mutual funds. All investments are rated AA, AA+ or equivalent, by at least one nationally recognized rating agency. Investments are made primarily in obligations of the U.S. Government, its agencies or instrumentalities.

State law and the District's adopted Investment Policy require inclusion of a procedure to monitor and act as necessary to changes in credit rating on any investment which requires a rating. State law and the District’s adopted Investment Policy also require a procedure to verify continued FDIC insurance weekly. State law and the District's adopted Investment Policy restrict both time and demand deposits, including certificates of deposit (CD), to those banks doing business in the State of Texas and further requires full insurance and/or collateralization from these depositories (banks and savings banks). Depository certificates of deposit are limited to a stated maturity of three years. Collateral, with a 102% margin, is required and collateral is limited to obligations of the U.S. Government, its agencies or instrumentalities. Independent safekeeping is required outside the pledging bank's holding company with monthly reporting. Securities are priced at market on a daily basis as a contractual responsibility of the bank.

The District's adopted Investment Policy restricts investment in money market mutual funds to those rated AAA and registered with the SEC. Each fund must strive to maintain a \$1 net asset value. Local government investment pools in Texas are required to be rated AAA, or equivalent, by at least one nationally recognized rating agency. The Policy further restricts investments to AAA-rated local government investment pools which strive to maintain a \$1 net asset value.

As of September 30, 2022, the cash and investments contained:

- FDIC insured or fully collateralized bank deposits representing .64% of the total portfolio;
- Investment in three local government investment pools representing 62.32% of the total portfolio;
- AAA-rated money market funds striving to maintain a \$1 net asset value represented 0.07% of the total portfolio;
- US Government agency securities representing 33.13% of the total portfolio; and.
- Municipal Bonds representing 3.84% of the total portfolio.

Note 4 – CASH AND INVESTMENTS – (Continuation)

Credit Risk – (Continuation)

Concentration of Credit Risk

The District recognizes over-concentration of assets by market sector or maturity as a risk to the portfolio. The District's adopted Investment Policy establishes diversification as a major objective of the investment program and at least 33% of the District's investments are designed to be in obligations of the US Government. As of September 30, 2022 the portfolio met its diversification requirements.

Interest Rate Risk

In order to limit interest and market rate risk from changes in interest rates, the District's adopted Investment Policy sets a maximum stated maturity date of three years and at least 33% of the District's investments shall be obligations of the U.S. Government. To ensure liquidity a minimum of 10% shall be liquid. The maximum weighted average maturity (WAM) is one year. At the time any investment is placed, the overall compliance with the Investment Policy is verified. A segmented time distribution analysis of the portfolio is shown on page 42. As of September 30, 2022, holdings in the portfolio with stated maturity dates beyond one year representing 27.66% of the total portfolio all of which were US agencies and a municipal bond.

Custodial Credit Risk

To control custody and safekeeping risk State law and the District's adopted Investment Policy requires collateral for all time and demand deposits, as well as collateral for repurchase agreements. All pledged securities are to be transferred delivery versus payment and held by an independent party approved by the District and held in the District's name by an independent custodian. The custodian is required to provide original safekeeping receipts and monthly reporting of positions with position descriptions including market value. Repurchase agreements and deposits must be collateralized to 102% of market value and collateral terms to be detailed in executed written agreements. Depository agreements are executed under the terms of U.S. Financial Institutions Resource and Recovery Enforcement Act (FIRREA). The counter-party of each type transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis.

As of September 30, 2022, the portfolio contained no certificates of deposit and no repurchase agreements. The portfolio contained .64% in fully insured and collateralized demand deposit accounts. All pledged bank collateral for demand deposits was held by an independent institution outside the bank's holding company.

Restricted Cash

At September 30, 2022, the District held \$21,552,874 in cash, for the benefit of the Local Provider Participation Fund (LPPF). See Note 15 for a description of the program.

Note 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS

GASB 72, *Fair Value Measurement and Application*, for financial reporting purposes categorizes financial instruments within three different levels of risk dependent upon the measure of their fair value and pricing as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the government can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

Because the investments are restricted by Policy and state law to active secondary market, the market approach is being used for valuation. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities.

The fair market prices used for these fair market valuations of the Districts portfolio are all Level 2 and represent other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The investments held by the District as of September 30, 2022 are U.S. Government Agency Bonds and Municipal Bonds.

Note 6 – PROPERTY TAXES

The Commissioners' Court of Nueces County levies for the District, an ad valorem tax as provided under state law on properties within the District. These taxes are collected by the Nueces County Tax Assessor-Collector and are remitted to the District when received. The Nueces County Appraisal District establishes appraised values.

Property taxes are considered available when collected within the current year. Property taxes attach as an enforceable lien on property as of January 1. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid before February 1 of the year following the October 1 levy date. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges as well as attorney costs. The assessed value of the roll-on January 1, 2021 upon which the levy for the 2022 fiscal year was based was \$35,352,713,874.

The tax rate assessed for the year ended September 30, 2022 to finance general fund operations and the limited tax refunding bonds was \$0.111502 per \$100 valuation. Current tax collections for the year ended September 30, 2022 were 95% of the year-end adjusted tax.

Note 7 – DELINQUENT TAXES RECEIVABLE

The following table shows a schedule of delinquent taxes receivable and the allowance for uncollectible taxes for the District.

	BALANCE OCTOBER 1, 2021	CURRENT YEAR LEVY	TOTAL COLLECTIONS	ADJUSTMENTS	BALANCE SEPTEMBER 30, 2022
Delinquent Taxes Receivable	3,914,521	39,463,164	37,933,597	(608,871)	4,835,217
Allowance for Uncollectible Taxes	(1,131,898)	--	--	(51,999)	(1,183,897)
NET DELINQUENT TAXES RECEIVABLE	2,782,623	39,463,164	37,933,597	(660,870)	3,651,320

Note 8 – CAPITAL ASSETS

A summary of changes in the capital assets follows:

	BALANCE OCTOBER 1, 2021	ADDITIONS	REDUCTIONS	BALANCE SEPTEMBER 30, 2022
Capital Assets, Not Being Depreciated- Land	3,076,926	--	--	3,076,926
Capital Assets, Being Depreciated- Equipment	1,319,110	6,701	17,484	1,308,327
Buildings	27,759,534	--	17,991,082	9,768,452
Total Capital Assets, Being Depreciated	29,078,644	6,701	18,008,566	11,076,779
Less Accumulated Depreciation for Equipment	1,188,487	35,473	17,484	1,206,476
Buildings	24,459,242	224,611	17,766,569	6,917,284
Total Accumulated Depreciation	25,647,729	260,084	17,784,053	8,123,760
Total Capital Assets, Being Depreciated Net	3,430,915	(253,383)	224,513	2,953,019
TOTAL CAPITAL ASSETS, NET	6,507,841	(253,383)	224,513	6,029,945

As more fully described in Note 1 on page 35, at September 30, 2022, management determined that the unoccupied building and related equipment constituting the Memorial Hospital were an impaired asset. The assets carrying value comprised of cost less accumulated depreciation of \$224,513 was written off and included as a loss on the statement of activities.

Note 9 – UNEARNED REVENUES

Unearned Revenue balances at September 30, 2022 consist of property taxes of \$3,651,320.

Note 10 – LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the District for the year ended September 30, 2022:

	BALANCE OCTOBER 1, 2021	ADDITIONS	REDUCTIONS	BALANCE SEPTEMBER 30, 2022
Other Liabilities-				
Accrued Paid Time Off	53,485	134,366	122,348	65,503
TOTAL	53,485	134,366	122,348	65,503

Note 11- INTERGOVERNMENTAL TRANSFERS (IGTs)

The District participates in the State sponsored Medicaid payment program serving as the Region 4 Anchor. The District provides IGT's for certain healthcare providers in Region 4 so they can participate in Medicaid payment programs. The District budgets IGTs based on provider's cost estimates. HHSC determines the amount of available State funds available to providers under the various Medicaid payment programs. After these complicated calculations are made by HHSC for all providers in the entire State, then HHSC calculates the amount of IGT needed by each provider and determines timing of the payments to providers. Therefore, of the District's budgeted \$30,120,513 for IGT's, the District paid \$40,210,253 in IGT's in the current fiscal year.

Additionally, IGTs are not accrued as liabilities by the District on the government-wide financial statements because of the following factors:

- There is no legal obligation for the District to remit IGTs to HHSC;
- The amount to pay cannot be reasonably estimated

Note 12- COMMITTED FUND BALANCE

As shown in the fund financial statements the Board of Managers committed an amount not to exceed \$8,537,101 in the District's general fund balance to anticipated additional expenditures for IGTs arising from the District's participation in the Waiver during the year ended September 30, 2022.

Funds included in the Indigent Care Fund of \$54,880,624 are committed to be used for indigent health care.

Note 13 – INTERFUND TRANSACTIONS AND BALANCES

Interfund transfers during the year ended September 30, 2022 were as follows:

	TRANSFERS OUT		TOTAL
	GENERAL FUND	TOBACCO SETTLEMENT FUND	
<u>TRANSFERS IN</u>			
General Fund	667,000	(667,000)	--
TOTAL	667,000	(667,000)	--

Note 14 – EMPLOYEE BENEFIT PLANS

Retirement Plan

The District maintains a single-employer, defined contribution retirement plan available to all employees. The Plan is a tax-qualified plan pursuant to section 403(b) of the Internal Revenue Code. All full-time employees are eligible for participation in the plan. As of September 30, 2022, nineteen employees were enrolled in the plan.

The Plan is administrated by an outside party. Employees can contribute a percentage of their compensation as permitted by the Internal Revenue Code Section 403(b). The District can make a discretionary matching contribution ranging from 5% to 7% of the employee’s earnings, based on tenure. The vesting schedule provides for employees to be 100% vested in their contributions. The District’s contributions are vested at a rate of 20% per year of employment. The plan permits employees to borrow from the plan and the related administration cost thereof shall be borne by the employee participant. The normal retirement age has been designated as 65 years of age. During the year ended September 30, 2022, the District had retirement plan expense of \$68,490.

Deferred Compensation Plan

The District has a deferred compensation agreement with a key employee which allows the employee to defer a percentage of his annual compensation to future periods as permitted by the Internal Revenue Code. The Plan is administrated by an outside party.

Note 15 – LOCAL PROVIDER PARTICIPATION FUND

During 2020, a Local Provider Participation Fund (“LPPF”) in Nueces County was created by the Texas Legislature. Nueces County Hospital District acts as the administrator of the LPPF by assessment and collection of mandatory payments by hospitals in Nueces County. These payments are to be used to fund the local share of supplemental Medicaid funding programs.

Note 15 – LOCAL PROVIDER PARTICIPATION FUND – (Continuation)

During the year ended September 30, 2022, Nueces County Hospital District collected \$137,613,358 in mandatory payments from participating hospitals and made intergovernmental transfers of \$133,688,459. As of September 30, 2022, the District held \$21,552,874 in mandatory payments that will be used for future funding of eligible supplemental payment programs.

The District serves as the administrator of the LPPF. Accordingly, the District is authorized a fee for their administrative services. During the year ended September 30, 2022 the district received \$150,000 fees for serving as administrator.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

February 23, 2023

The Board of Managers
Nueces County Hospital District
Corpus Christi, Texas

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the governmental activities and each major fund of the Nueces County Hospital District, a component unit of Nueces County, Texas, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents and have issued our report thereon dated February 23, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nueces County Hospital District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Collier, Johnson & Woods

Exhibit # 5

February 23, 2023

To the Board of Managers of the
Nueces County Hospital District
Corpus Christi, Texas

We have audited the financial statements of the Nueces County Hospital District (the District) for the year ended September 30, 2022 and have issued our report thereon dated February 23, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 28, 2022. Professional standards require that we provide you with the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies has not changed during The application of other existing policies was not changed during the year ended September 30, 2022. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was accrual of expenses.

Management's estimate of the expenses to be accrued is based on management's evaluation of the expected billings from the County and other recipients for services rendered through September 30, 2022, and discussions with key personnel from the recipient's organization. We evaluated the key factors and assumptions used to develop the accruals in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule Exhibit 1, summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. All of the uncorrected or waived journal entries related to the new lease standard. As shown in Exhibit 1, the net effect of waiving the proposed entries to the financial is that both Assets and Liabilities would be understated by \$75,840 and Net Assets and Expenditures would decrease by \$239.

The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit. It is anticipated that with the expiration and renewal of current leases in fiscal 2023, the lease standard will need to be review and may result in the need for material adjustments in the future.

Disagreements with Management

For purposes of this letter, a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 23, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Plan's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. We discussed with management the application of *GASB 87* and determined it need to be addressed in fiscal year 2023 if the building and copier leases are renewed.

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit RSI and do not express an opinion or provide any assurance on the RSI. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financials statements or to the financial statements themselves.

Restrictions on Use

This information is intended solely for the use of the Board of Managers and management of the District Nueces County Hospital District and is not intended to be, and should not be, used by anyone other than these specified parties.

Collier, Johnson & Woods

WAIVED ADJUSTING JOURNAL ENTRIES
SEPTEMBER 30, 2022

EXHIBIT 1

Client: 57000 - Nueces County Hospital District
 Engagement: 2022 - Nueces County Hospital District
 Period Ending: 9/30/2022
 Trial Balance: 2101 - Trial Balance Database
 Workpaper: 2503 - PJE Report

EFFECT ON FINANCIAL STATEMENTS

Account	Description	W/P Ref	Debit	Credit	Assets	Liabilities	Net Assets	Net Income
Passed Adjusting Entries								
Passed Adjusting Entries JE # 3		3820						
Implementation of GASB 87-Copier								
99996	Right of Use Asset		26,150.56		26,150.56			
99997	Lease Liability			26,150.56		26,150.56		
Total			26,150.56	26,150.56				
Passed Adjusting Entries JE # 4								
Passed Adjusting Entries JE # 4		3820						
Record activity on leases-Copier								
99995	Interest-Lease		778.96				778.96	(778.96)
99997	Lease Liability		12,313.04			(12,313.04)		
99994	Rent Expense-Leases			13,092.00			13,092.00	13,092.00
Total			13,092.00	13,092.00				
Passed Adjusting Entries JE # 5								
Passed Adjusting Entries JE # 5		3820						
Amortization Expense on Activity-Copier								
99998	Amortization Expense		12,552.27				(12,552.27)	(12,552.27)
99993	Accumulated Amortization			12,552.27	(12,552.27)			
Total			12,552.27	12,552.27				
Passed Adjusting Entries JE # 6								
Passed Adjusting Entries JE # 6		3821						
Implementation of GASB 87-Operating Lease								
99996	Right of Use Asset		178,443.98		178,443.98			
99997	Lease Liability			178,443.98		178,443.98		
Total			178,443.98	178,443.98				
Passed Adjusting Entries JE # 7								
Passed Adjusting Entries JE # 7		3821						
Record activity on leases-Operating Lease								
99997	Lease Liability		116,441.80			(116,441.80)		
99996	Right of Use Asset			116,441.80	(116,441.80)			
Total			116,441.80	116,441.80				
Total Passed Adjusting Entries			346,680.61	346,680.61	75,600.47	75,839.70	239.23	(239.23)

Exhibit # 6



August 1, 2022

Jonny Hipp
Administrator and Chief Executive Officer
Nueces County Hospital District
555 N. Carancahua St, Suite 950
Corpus Christi, TX 78401-0835

Re: 2023 Specified Annual Percentage

Dear Jonny:

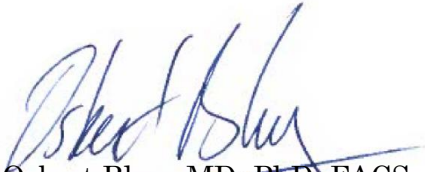
Thank you and your team for a thoughtful and productive dialogue regarding our current operations under the Amended and Restated CHRISTUS Spohn Health System Corporation Membership Agreement (the "Membership Agreement"). The collaboration between CHRISTUS Spohn Health System Corporation ("Spohn"), CHRISTUS Health ("CHRISTUS"), and the Nueces County Hospital District ("District") over the past few weeks served as our annual process under Section 5.03 of the Membership Agreement. I am writing to memorialize the Specified Annual Percentage for the Ensuing Year (October 1, 2022 – September 30, 2023). While Section 5.03 of the Membership Agreement requires that the parties agree to the Specified Annual Percentage by July 1, the parties mutually agreed to extend this deadline.

In preparation for establishing the Specified Annual Percentage for the Ensuing Year, Spohn prepared a hospital budget and projected Spohn's Net Patient Revenue (as defined in Section 5.01 of the Membership Agreement). Preparing these figures assisted Spohn in projecting Spohn's operational needs during the Ensuing Year and the Net Patient Revenue that would be available to share with the District. On July 28, Spohn and the District met to discuss Spohn's proposed budget and projected Net Patient Revenue for the Ensuing Year. The parties also discussed the many factors that are considered each year when negotiating the Specified Annual Percentage, including (but not limited to) Spohn's role in operating programs in the community and the District's role as the Region 4 Anchor. Finally, the parties discussed the specific circumstances expected to affect the parties' respective operations in the Ensuing Year, including (but not limited to) the District's efforts to maintain its tax collections, renewal of the Texas 1115 Demonstration Waiver, and the impact of the approved Comprehensive Hospital Increase Reimbursement Program on the parties.

Jonny Hipp
August 1, 2022
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Based on these discussions, the parties agreed, subject to submission to the District's Board of Managers, that the Specified Annual Percentage for the Ensuing Year will be ninety-three percent (93%), and the remaining seven percent (7%) will be transferred to the District in accordance with the provisions of Section 5.02 of the Membership Agreement and in recognition of its membership in Spohn and role in Spohn's continued delivery of high-quality, integrated, and accessible services to patients in Nueces County.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Osbert Blow", with a long horizontal flourish extending to the right.

Osbert Blow, MD, PhD, FACS
Chief Executive Officer
CHRISTUS Spohn Health System