

NUECES COUNTY HOSPITAL DISTRICT

AUDITED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2025

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INDEPENDENT AUDITOR'S REPORT

February 24, 2026

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 (the "District"), a component unit of Nueces County, Texas, as of and for the year ended September 30, 2025, 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, 2025, and the respective changes in financial position and budgetary comparisons for the general fund, indigent care fund, tobacco settlement fund and opioid 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 17 be presented to supplement the basic financial statements.

Such information is the responsibility of management and, 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 24, 2026 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.

Adamson & Company, LLC

**Nueces County Hospital District
Management's Discussion and Analysis
For Fiscal Year Ended September 30, 2025**

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 fiscal year ended September 30, 2025 ("Fiscal Year 2025"). 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 fiscal information between the current year and the prior year is required to assist in financial analysis.

Financial Highlights

The District's net position increased by \$13.7 million, or 9%, compared to the prior year. As of September 30, 2025 and 2024, the District's net position totaled \$165.0 million and \$151.3 million, respectively. Cash and cash equivalents, restricted cash, and investments totaled \$198.0 million at September 30, 2025 and \$165.1 million at September 30, 2024, representing 96.3% and 95.6% of total assets, respectively.

During Fiscal Year 2025, the District's General Fund balance increased by \$10.0 million, or 12.2%, compared to the prior year. At fiscal year-end September 30, 2025, the General Fund balance was \$91.9 million, compared to \$81.8 million in 2024.

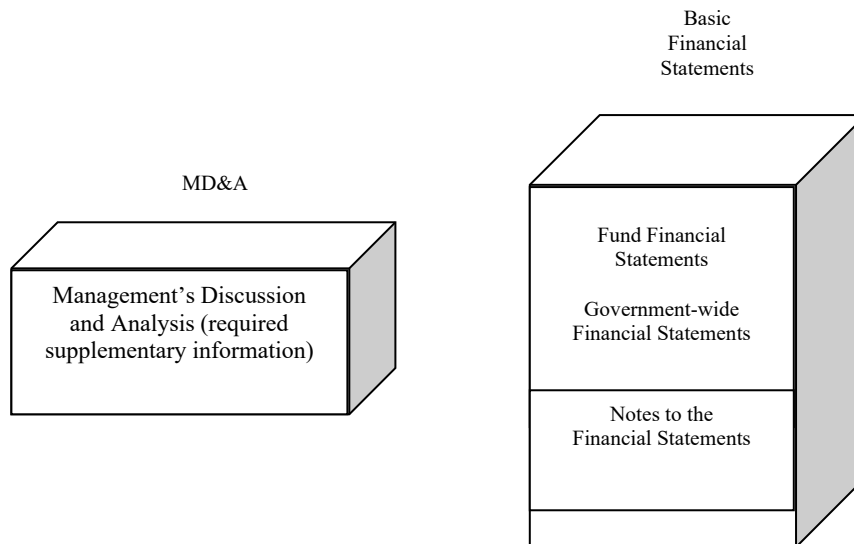
Total revenues for Fiscal Year 2025 increased by \$20.4 million, or 11.5%, over the prior year, with non-tax sources accounting for 78.8% of total revenues. Total expenses increased by \$38.8 million, or 26.7%, compared to the prior year.

In Fiscal Year 2025, the District continued to make discretionary intergovernmental transfers supporting Medicaid-related supplemental and directed payment programs sponsored by the State of Texas through the Texas Health and Human Services Commission ("Medicaid Payment Programs"). These transfers enabled local and regional healthcare providers that deliver indigent healthcare consistent with the District's mission to access additional Medicaid funding. The District also continued to utilize its authority to operate a Local Provider Participation Fund Program ("LPPF") to sustain these Medicaid Payment Programs.

During Fiscal Year 2025, the District's Board of Managers committed \$34.3 million of fiscal year-end General Fund balance cash to fund Medicaid Payment Program-related intergovernmental transfers anticipated to be requested by the State in the subsequent fiscal year. Refer to Note 12 regarding intergovernmental transfers and Note 13 regarding 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 \$165 million and \$151.3 million as of September 30, 2025 and 2024, respectively, an increase of \$13.7 million or 9%. Total assets increased \$33 million or 19.1% compared to September 30, 2024. The District's total liabilities increased \$19.3 million or 90.8% compared to September 30, 2024.

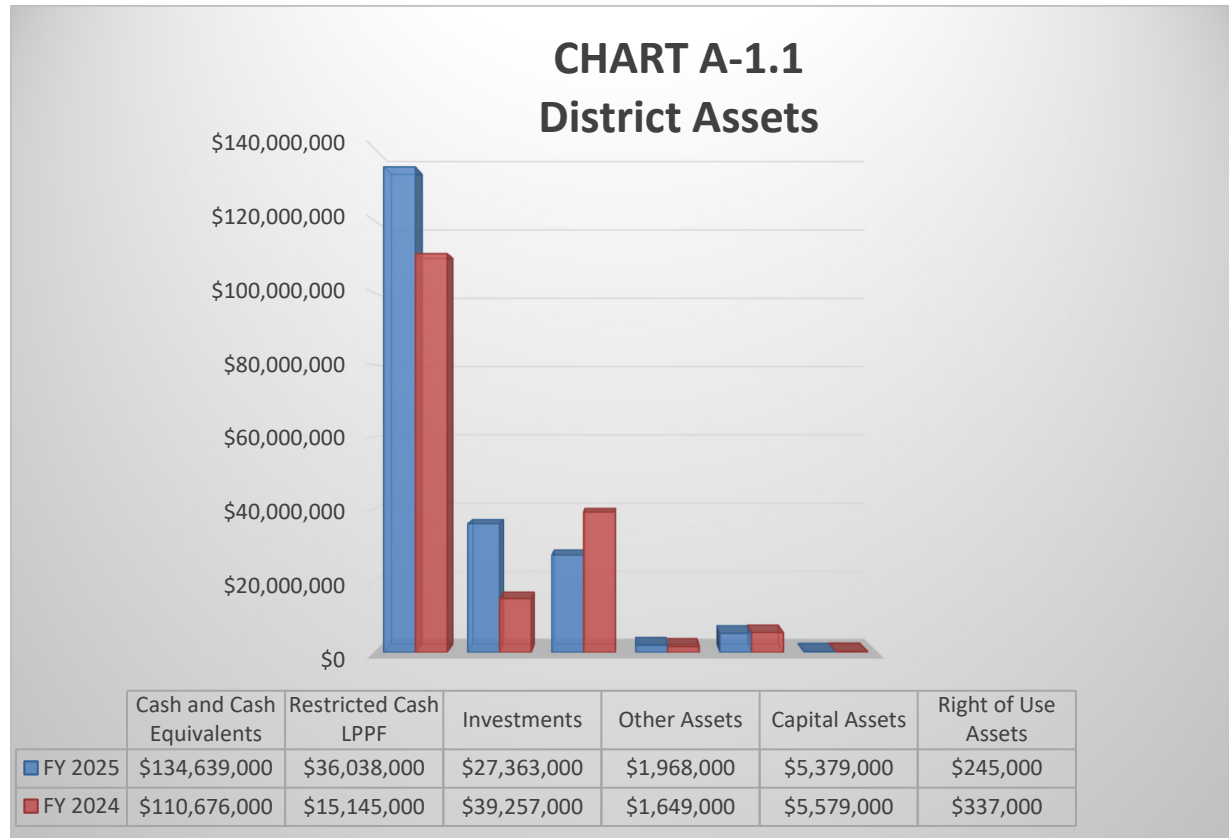
TABLE A-1
Nueces County Hospital District Net Position
September 30, 2025 and 2024
(In Thousands)

	<u>2025</u>	<u>2024</u>	<u>2025-2024</u> <u>Variance</u>
Assets:			
Cash and Cash Equivalents	\$ 134,639	\$ 110,676	\$ 23,963
Cash Restricted for Local Provider Participation Fund	36,038	15,145	20,893
Investments	27,363	39,257	(11,894)
Other Assets	1,968	1,649	319
Capital Assets (Net of Accumulated Depreciation)	5,379	5,579	(200)
Right of Use Assets	245	337	(92)
Total Assets	<u>205,632</u>	<u>172,643</u>	<u>32,989</u>
Liabilities:			
Accounts Payable	3,924	5,384	(1,460)
Lease Payable	94	85	9
Accrued Payroll and Related Liabilities	368	382	(14)
Long-Term Liabilities:			
Accrued Paid Time Off	45	40	5
Lease Payable	179	273	(94)
Due to Local Provider Participation Fund	36,038	15,145	20,893
Total Liabilities	<u>40,648</u>	<u>21,309</u>	<u>19,339</u>
Net Position:			
Net Investment in Capital Assets	5,379	5,580	(201)
Unrestricted	159,605	145,754	13,851
Total Net Position	<u>\$ 164,984</u>	<u>\$ 151,334</u>	<u>\$ 13,650</u>

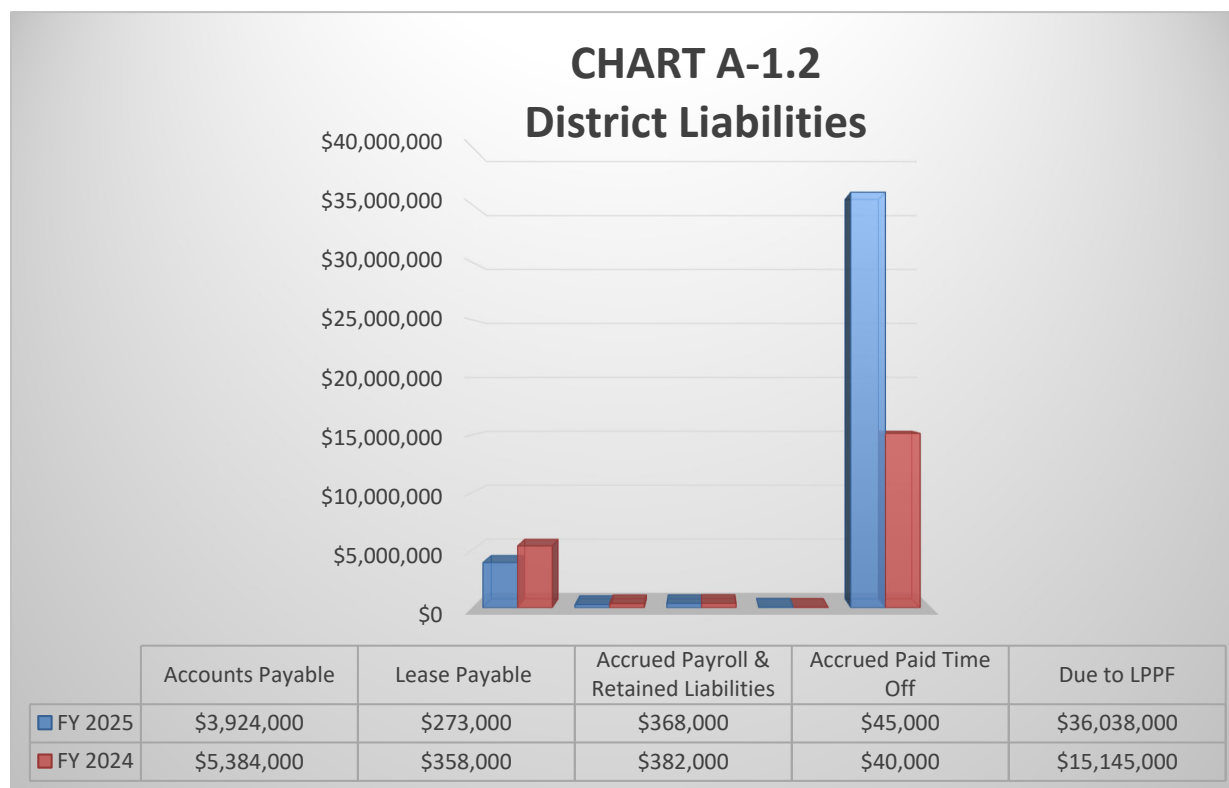
Financial Analysis

In Fiscal Year 2025, cash and cash equivalents and investments combined increased \$33 million compared to the prior year mostly due to higher Spohn corporate membership revenue, as well as an increase in LPPF funds. The LPPF cash is statutorily restricted to funding the Medicaid Payment Programs. Other Assets increased \$319 thousand or 19.3% primarily from an increase in property taxes receivable. The \$292 thousand or 4.9% decrease in Capital Assets (Net of Accumulated Depreciation) mainly relates to depreciation expense. Accounts Payable and Related Liabilities increased \$19.3 million or 90.8% mainly due to offsetting the LPPF cash and 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.

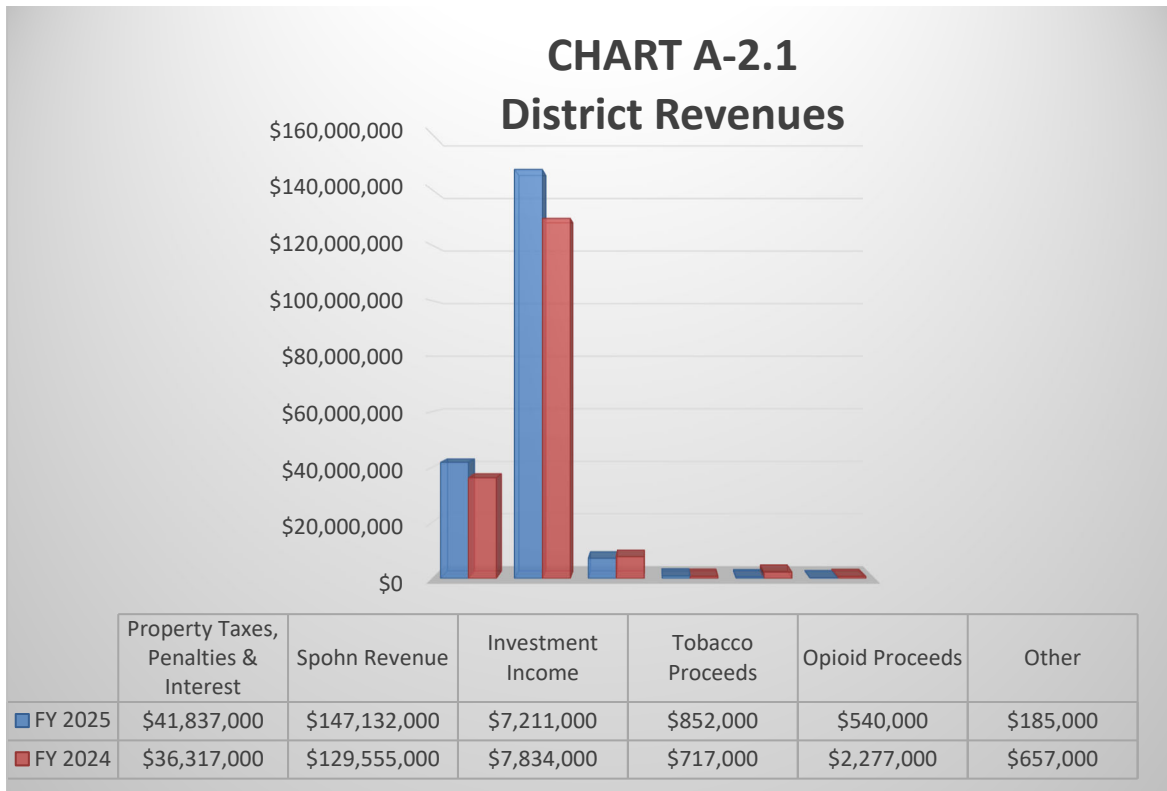


Statement of Activities (Government-Wide)

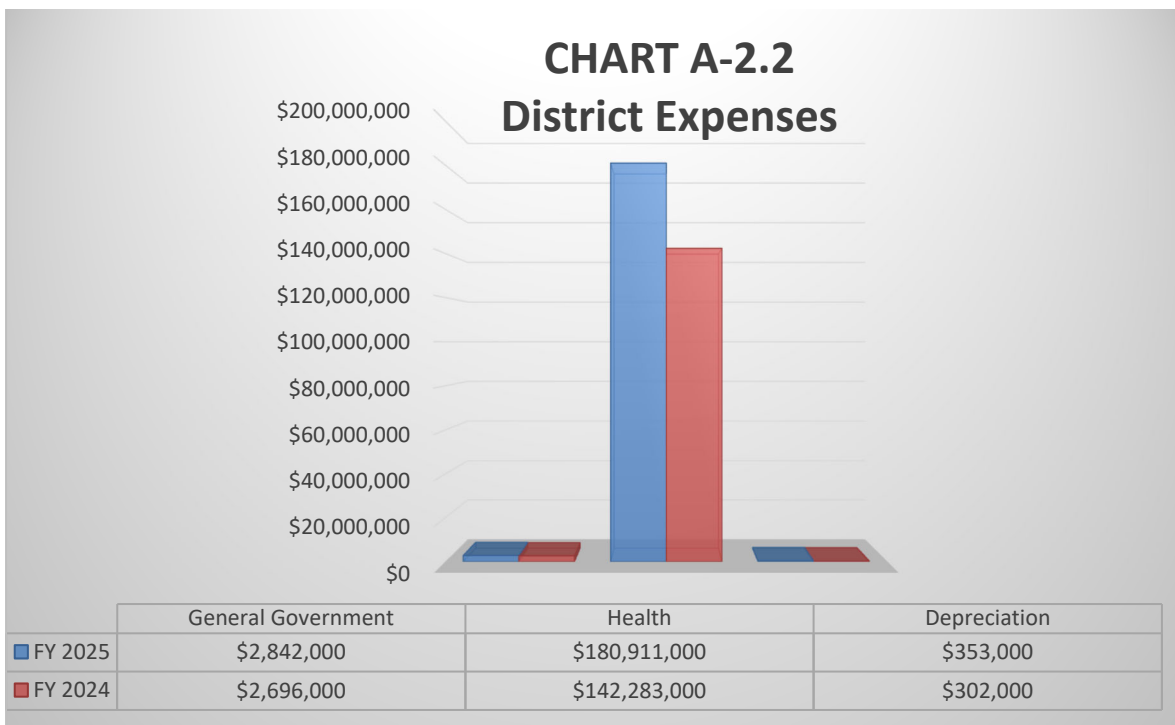
TABLE A-2
Changes in Nueces County Hospital District Net Position
September 30, 2025 and 2024
(In Thousands)

			2025-2024
Revenues	<u>2025</u>	<u>2024</u>	<u>Variance</u>
Property Taxes and Penalties and Interest	\$ 41,837	\$ 36,317	\$ 5,520
Spohn Corporate Membership Revenue	147,132	129,555	17,577
Investment Gain (Loss)	7,211	7,834	(623)
Tobacco Proceeds	852	717	135
Opioid Proceeds	540	2,277	(1,737)
Other	185	657	(472)
Total Revenues	<u>197,757</u>	<u>177,357</u>	<u>20,400</u>
Expenses:			
General Government	2,842	2,696	146
Health	180,911	142,283	38,628
Depreciation	353	302	51
Total Expenses	<u>184,106</u>	<u>145,281</u>	<u>38,825</u>
 Net Change in Net Position	 13,650	 32,076	 (18,425)
 Net Position, Beginning of Year	 <u>151,334</u>	 <u>119,258</u>	 <u>32,076</u>
 NET POSITION, END OF YEAR	 <u>\$ 164,984</u>	 <u>\$ 151,334</u>	 <u>\$ 13,651</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

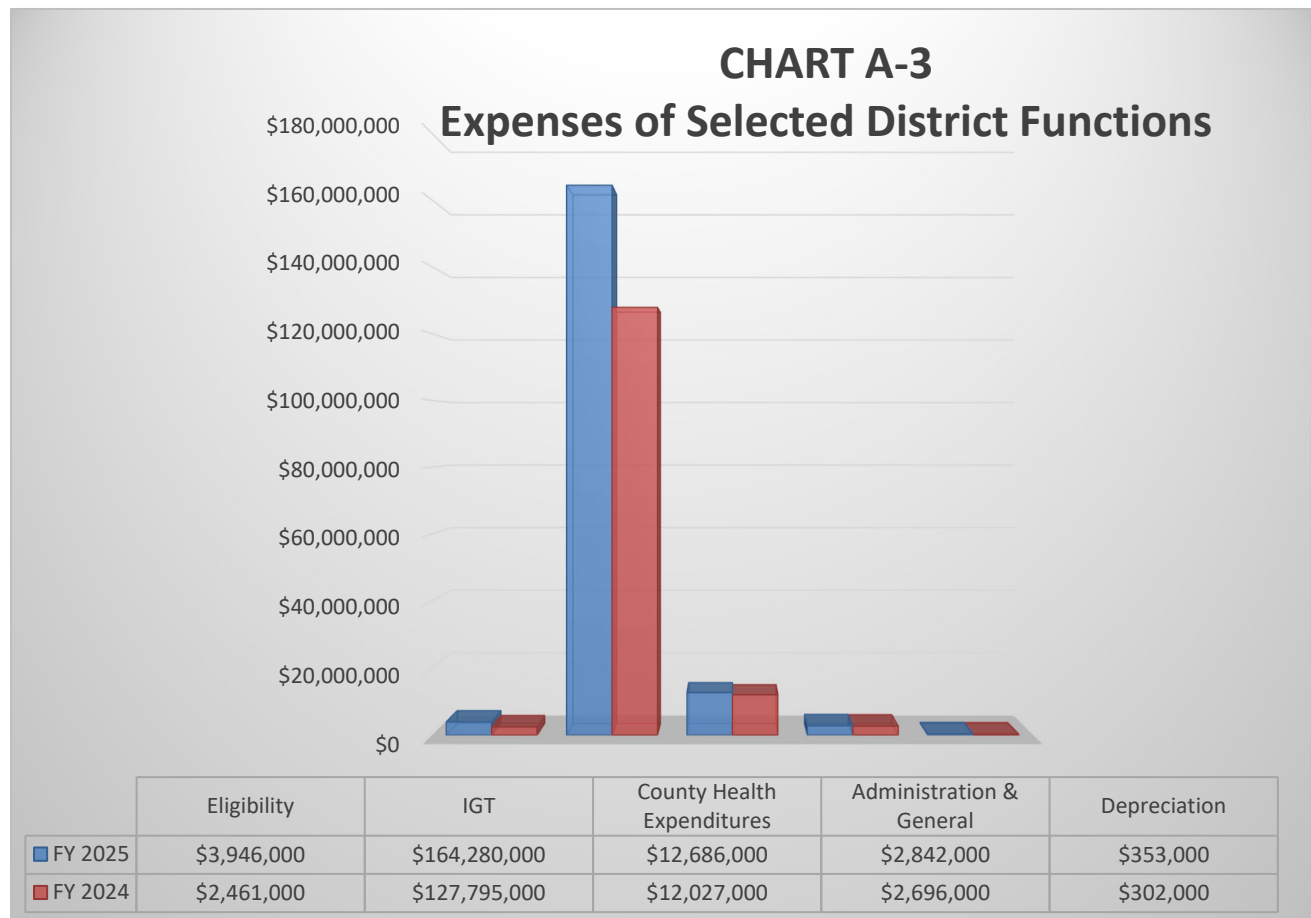
In Fiscal Year 2025, the District's total revenues increased \$20.4 million or 11.5% compared to the prior year. There were five principal sources of revenue for the District during the fiscal year. The initial and primary source is from the Membership Agreement with Spohn which accounted for \$147.1 million and 74.4% of total revenue. This revenue increased \$17.6 million, or 13.6%, and resulted 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 second source is from ad valorem taxes levied on property owners based on assessed valuations. These tax revenues amounted to \$41.8 million representing an increase of \$5.5 million or 15.2% and accounted for 21.2% of total revenues compared to 20.5% in the prior year. The District's tax rate during Fiscal Year 2025 increased to \$0.08924 per \$100 valuation, which was the new-revenue tax rate. Property valuations decreased by \$804.7 million or 1.7%. The antepenultimate source is investment income which amounted to \$7.2 million representing a decrease of \$623 thousand or 8% mainly due to decreasing interest rates. The penultimate source is an annual Tobacco Settlement distribution of \$852 thousand from settlement of the State's past tobacco litigation which increased by \$135 thousand or 18.8% from prior year. The last source is \$540 thousand from settlement proceeds from the State of Texas' opioid litigation. Additionally, revenue proceeds of \$185 thousand decreased \$472 thousand from prior year or 71.9%. These funds largely include a reimbursement from a federal agency for COVID-19 epidemic-related expenditures and the receipt of an annual administrative fee from the LPPF.

TABLE A-3
Net Cost of Selected District Functions
September 30, 2025 and 2024
(In Thousands)

	<u>2025</u>	<u>2024</u>	<u>2025-2024</u> <u>Variance</u>
Eligibility	\$ 3,946	\$ 2,461	\$ 1,485
Intergovernmental Transfers (IGT)	164,280	127,795	36,485
County Healthcare Expenditures	12,686	12,027	659
Administration and General	2,842	2,696	146
Depreciation	<u>353</u>	<u>302</u>	<u>51</u>
TOTAL	<u>\$ 184,107</u>	<u>\$ 145,281</u>	<u>\$ 38,826</u>

Expenses

The expenses associated with the District's functions in Fiscal Year 2025 increased \$38.8 million or 26.7% compared to the prior year. The District's health functions include intergovernmental transfers and county healthcare expenditures. The District's largest function cost category is discretionary intergovernmental transfers to the State in support of the Medicaid Payment Programs for the benefit of various local and regional health care providers who provide indigent healthcare; these transfers draw down supplemental and directed Medicaid funds for the local and regional providers under the Medicaid Payment Programs. This cost totaled \$164.3 million during the fiscal year and represented 89.2% of all functional expenditures. The second largest function cost is \$12.7 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 related healthcare costs that were paid by Nueces County in earlier years. These costs include expenses such as emergency medical services, jail healthcare services, reimbursement for the County's portion of the City/County Public Health District, match and other subsidies for the Nueces Center for Mental Health and Intellectual Disabilities for jail mental health programs, and other miscellaneous costs. The county healthcare expenditures cost increased \$659 thousand or 5.5% in the fiscal year compared to the prior year. County healthcare expenditure costs represented 6.9% of all the District's net costs in the fiscal year compared to 8.3% in the prior year. The two smallest functions of the District were Administrative and General and Eligibility determination. Collectively, the costs for these functions increased \$1.6 million or 31.6% during the fiscal year compared to the prior year. Major costs in this category were emergency room residency support, legal fees, consulting fees, rents, supplies, purchased services, and salaries and benefits. Administrative and General costs represented 1.5% of all net costs in the fiscal year compared to 1.9% in the prior year. Eligibility determination costs represented 2.1% of all net costs during the fiscal year compared to 1.7% in the prior 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

Expectations for the District's general fund budget were surpassed during Fiscal Year 2025.

Revenues

Revenues exceeded budget by \$29 million. The greater amount of additional revenue resulted from the Membership Agreement, which surpassed budget by \$24.2 million. That amount is due to the method of determining the Membership Agreement's revenue sharing allocation percentage between the District and Spohn when the year's 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. The additional revenue is also attributed to investment income that exceeded budget by \$3.4 million. Ad valorem tax revenue, combined with penalties and interest, exceeded budget by \$1.4 million. Finally, the lesser of the surplus included reimbursements from a federal agency for COVID-19 epidemic-related expenses and receipt of an annual administrative fee from the LPPF Fund, collectively exceeded budget by approximately \$35 thousand.

Expenditures

Expenditures were more than budget by \$8.8 million. Of the expenditures that exceeded budget, \$11.2 million was associated with Medicaid Payment Programs-related discretionary intergovernmental transfers by the District for the benefit of local and regional healthcare providers. This amount is the result of the State delaying its request for the remaining amount of the prior year's budgeted intergovernmental transfer which was subsequently transferred during Fiscal Year 2026. Due to the District's lack of means to prospectively calculate the State's intergovernmental transfer requests, the District is limited to approximating the timing and estimating the transfer amounts when its budget is adopted. County Services expenses exceeded the approved budget by \$571 thousand, primarily due to county jail healthcare costs that were not fully reflected at the time the District's budget was adopted. Of the expenditures that were less than budget, Contractual Services were below by \$2 million primarily due to overestimated jail diversion program costs. Personal services expenditures were below budget by \$669 thousand, reflecting a reduction in eligibility staff, increased utilization of the District's paid-time-off accrued liability and less than maximal participation in certain employee benefit programs. The Materials and Supplies category was under budget by \$88 thousand. Finally, the Other category which includes office lease and administrative expenditures ended under budget by approximately \$69 thousand.

CAPITAL ASSETS

The District had \$5.6 million in net capital assets at the end of September 30, 2025. The breakdown of the capital assets is as follows:

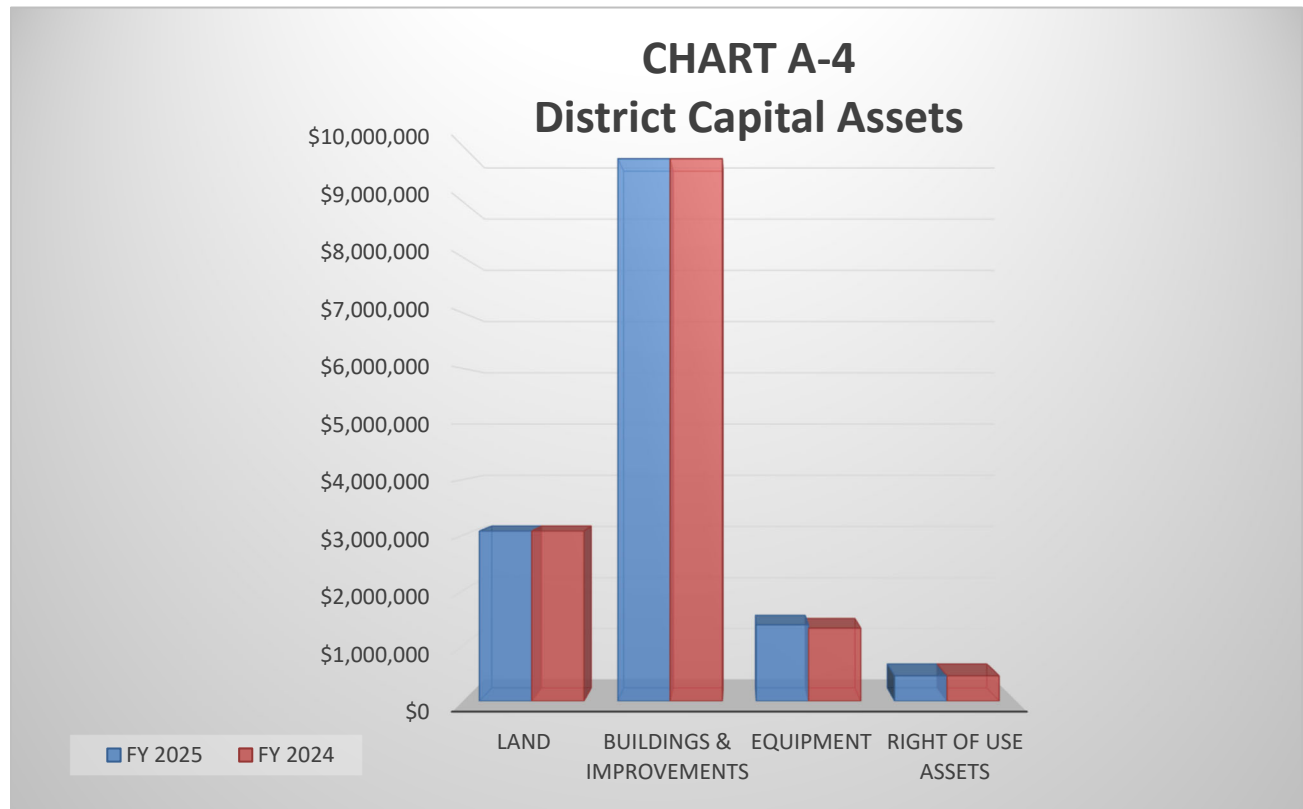
TABLE A-4
Nueces County Hospital District's Capital Assets
September 30, 2025 and 2024
(In Thousands)

	<u>2025</u>	<u>2024</u>	<u>2025-2024</u> <u>Variance</u>
Land	\$ 3,077	\$ 3,077	\$ --
Buildings and Improvements	9,768	9,768	-
Equipment	1,389	1,328	61
Right of Use Assets	460	460	-
Total	<u>14,694</u>	<u>14,633</u>	<u>61</u>
Less: Accumulated Depreciation	<u>9,070</u>	<u>8,716</u>	<u>354</u>
NET CAPITAL ASSETS	<u>\$ 5,624</u>	<u>\$ 5,917</u>	<u>\$ (293)</u>

Under terms of the Membership Agreement, the District contributed the use of its former hospital Memorial Medical Center (“MMC”) campus, buildings, and equipment along with certain medical office buildings and health clinics to Spohn (“District Contributed Assets”). In accordance with the terms of the Membership Agreement, Spohn completed construction of an approximate 40,000 square foot family health center named the Dr. Hector P. Garcia Health Center on the MMC Campus (“Family Health Center”) on December 9, 2016. The Membership Agreement provides that the District has fee simple title to the Family Health Center. Consistent with the terms of the Membership Agreement, Spohn demolished the MMC buildings and related structures and infrastructure as of August 3, 2024. The MMC equipment was re-purposed, salvaged, sold, or disposed of in accordance with the terms of the Membership Agreement. In each calendar year starting in 2017 and thereafter, the Membership Agreement requires that Spohn spend a minimum of \$600 thousand annually on upkeep of the District Contributed Assets, including a minimum of \$200 thousand in capital expenditures. Please refer to Note 8 – Capital Assets of the Financial Statements for more details on capital assets.

Net Capital Assets shows an overall decrease of \$293 thousand mostly due to depreciation.

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, Uncertainties and External Influences, and Property Valuations, and Financial Planning

Economic Factors

For the forthcoming fiscal year, the expiration of the COVID-19 public health emergency, the expiration of the State’s Medicaid waiver program, State budget policies, expansions of State supplemental and directed payment programs, and shifting national health policy—including the non-renewal of temporary federal premium subsidy enhancements under the Affordable Care Act—may alter Medicaid funding, services, programs, or eligibility, which could downstream affect enrollment in the District’s indigent health care program. Beginning in 2026, subsidy eligibility and amounts reverted to pre-pandemic rules, resulting in reduced or eliminated subsidies for certain households and higher out-of-pocket premium costs. Texas continues to have the highest uninsured rate in the nation, with the County’s rate among the highest in the State, and the intended coverage expansion 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) have not been fully realized in Texas. The repeal of the individual mandate effective in 2020 may further influence coverage decisions, while potential federal regulatory changes affecting State financing of the non-federal share of Medicaid payments could jeopardize the availability or continuation of indigent health care services. Additionally, services provided by local non-profit health care clinics and other unknown future changes to federal health policy may further affect demand for the District’s services.

Next Year's Budget, Tax Rates, Uncertainties and External Influences, and Property Valuations

Budget

For the District's forthcoming fiscal year ending September 30, 2026 ("Fiscal Year 2026"), the District's Board of Managers and County Commissioners Court approved a District operating budget wherein expenditures exceed revenues by \$21.4 million primarily to utilize unexpended intergovernmental transfer funds held over from the prior year. Revenues are budgeted at \$137 million, a 16.3% decrease compared to the prior year. Expenditures are budgeted at \$175.1 million, an 8.9% decrease compared to the prior year.

Tax Rates and Property Valuations

The property valuations for the District's Fiscal Year 2026 are \$47.9 billion, an increase of 0.8% from the prior year. To maintain about the same District tax revenue as the prior year, Commissioners Court adopted a District tax rate of \$0.089495 per \$100 valuation, which is the no-new-revenue tax rate. The Fiscal Year 2026 budget estimates include tax revenues, inclusive of payment of delinquent taxes and payment of penalties, and interest, of \$40.9 million, an increase of \$884 thousand or 2.2% over the Fiscal Year 2025 budget. The District assumes that future tax base valuations will be comparable to those of recent years.

Uncertainties and External Influences

Several potential policy and strategic actions may affect the District's financial position. Possible expansions of medical education and workforce development support could increase operating commitments while strengthening long-term provider capacity within the community. In addition, changes to health insurance exchange subsidy policies—including the expiration or modification of federal premium assistance—may influence insurance affordability and coverage levels in the individual market, potentially affecting demand for indigent health care services. The timing, scope, and financial impact of these actions will depend on future legislative, regulatory, and budgetary decisions at the federal and state levels.

Financial Planning

The District does not receive state or federal funding for the direct provision of indigent health care; however, it expects to continue receiving de minimis reimbursement for administering the Local Provider Participation Fund (LPPF) program. The District anticipates that revenues in the forthcoming fiscal year will be insufficient to support the full range of its objectives and, accordingly, expects to rely on reserves to fund operations to a greater extent than in the prior year. The District anticipates adoption of the no-new-revenue tax rate (formerly the effective tax rate), which is expected to result in property tax revenues remaining generally consistent with the prior year.

The District expects to continue providing financial support for an emergency medicine residency program at Spohn during Fiscal Year 2026 (see Note 17). In addition, during Fiscal Year 2026, either party to the Membership Agreement may terminate the agreement with 60 days' notice. While termination is not anticipated, if the agreement were terminated and not replaced, the resulting loss of revenue-sharing could significantly impact Fiscal Year 2026 revenues. Further, federal regulatory requirements applicable to certain provisions of the Membership Agreement, as well as prior state actions related to recoveries and disallowances under Medicaid payment programs, may affect the future performance of the agreement. It is possible that the District's currently permitted use of a combination of tax revenues, LPPF proceeds, and Membership Agreement-related revenues to make discretionary intergovernmental transfers to the State in support of Medicaid directed and supplemental payment programs could change during Fiscal Year 2026.

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, 2025

	<u>GENERAL</u>	<u>INDIGENT CARE FUND</u>	<u>TOBACCO SETTLEMENT FUND</u>
ASSETS			
Cash and Cash Equivalents (Note 4)	87,074,128	44,624,090	2,005
Cash Restricted for Local Provider Participation Fund (Note 4 and 16)	36,037,687	--	--
Investments (Note 4 and Note 5)	8,883,606	18,479,385	--
Accrued Interest	--	148,442	--
Taxes Receivable Net of Allowance for Uncollectible (Note 7 and 10):	1,633,193	--	--
Other Receivables	1,596	--	--
Prepaid Expenditures	184,954	--	--
Due from Indigent Care Fund	2,718	--	--
Land (Note 8)	--	--	--
Other Capital Assets, net of Accumulated Depreciation (Note 8)	--	--	--
Right-of-Use Building (Note 8 and 9)	--	--	--
TOTAL ASSETS	133,817,882	63,251,917	2,005

Exhibit 1

OPIOID SETTLEMENT FUND	GOVERNMENTAL FUNDS TOTAL	ADJUSTMENTS EXHIBIT 2	STATEMENT OF NET POSITION
2,938,513	134,638,736	--	134,638,736
--	36,037,687	--	36,037,687
--	27,362,991	--	27,362,991
--	148,442	--	148,442
--	1,633,193	--	1,633,193
--	1,596	--	1,596
--	184,954	--	184,954
--	2,718	(2,718)	--
--	--	3,076,926	3,076,926
--	--	2,302,262	2,302,262
--	--	245,079	245,079
2,938,513	200,010,317	5,621,549	205,631,866

(Continued)

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET POSITION

SEPTEMBER 30, 2025

	<u>GENERAL</u>	<u>INDIGENT CARE FUND</u>	<u>TOBACCO SETTLEMENT FUND</u>
LIABILITIES			
Accounts Payable	3,923,640	--	--
Lease Payable (Note 9)	--	--	--
Accrued Payroll and Related Liabilities	368,315	--	--
Unearned Revenue (Note 10)	1,633,193	--	--
Due to General Fund	--	2,719	--
Long-term Liabilities-			
Accrued Paid Time Off (Note 11)	--	--	--
Lease Payable (Note 9)	--	--	--
Due to Local Provider Participation Fund			
Fund (Note 16)	36,037,687	--	--
TOTAL LIABILITIES	41,962,835	2,719	--
 FUND EQUITY/NET POSITION			
Fund Balances:			
Nonspendable	184,954	--	--
Committed to: (Note 13)			
Intergovernmental Transfers	34,296,362	--	--
Indigent Care	--	63,249,198	--
Opioid Crisis	--	--	--
Assigned to County Health Care	--	--	2,005
Unassigned	57,373,731	--	--
Total Fund Equity	91,855,047	63,249,198	2,005
 TOTAL LIABILITIES AND FUND EQUITY	133,817,882	63,251,917	2,005
 Net Position:			
Net Investment in Capital Assets			
Unrestricted			
 TOTAL NET POSITION			

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

OPIOID SETTLEMENT FUND	GOVERNMENTAL FUNDS TOTAL	ADJUSTMENTS EXHIBIT 2	STATEMENT OF NET POSITION
--	3,923,640	--	3,923,640
--	--	94,213	94,213
--	368,315	--	368,315
--	1,633,193	(1,633,193)	--
--	2,719	(2,719)	--
--	--	--	--
--	--	45,322	45,322
--	--	178,757	178,757
--	36,037,687	--	36,037,687
--	41,965,554	(1,317,620)	40,647,934
--	184,954	(184,954)	--
--	34,296,362	(34,296,362)	--
--	63,249,198	(63,249,198)	--
2,938,513	2,938,513	(2,938,513)	--
--	2,005	(2,005)	--
--	57,373,731	(57,373,731)	--
2,938,513	158,044,763	(158,044,763)	--
2,938,513	200,010,317		
		5,379,189	5,379,189
		159,604,743	159,604,743
		164,983,932	164,983,932

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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	158,044,763
---	-------------

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

Capital assets and Right of Use 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 \$14,694,490 and the accumulated depreciation and amortization is \$9,070,222 (Note 8).	5,379,189
--	-----------

Taxes receivable, net of allowance is not available to pay for current period expenditures and is, therefore, deferred in the governmental funds. (Note 7)	1,633,193
--	-----------

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 11)	(45,322)
--	----------

Differences between the right-of-use assets and the District's lease liability under (GASB 87) not reported in the governmental funds	(27,891)
---	----------

NET POSITION	<u>164,983,932</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)

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

YEAR ENDED SEPTEMBER 30, 2025

	<u>GENERAL</u>	<u>INDIGENT CARE FUND</u>	<u>TOBACCO SETTLEMENT FUND</u>
Revenues:			
Taxes	41,002,821	--	--
Penalties and Interest - Taxes	441,938	--	--
Spohn Corporate Membership Revenue	147,131,719	--	--
Investment Income	4,272,625	2,821,361	4,196
Tobacco Settlement	--	--	852,026
Opioid Settlement	--	--	--
Other (Note 16)	184,673	--	--
Total Revenue	<u>193,033,776</u>	<u>2,821,361</u>	<u>856,222</u>
Expenditures/Expenses:			
General Government	2,908,461	13,307	--
Health	180,911,436	--	--
Depreciation and Amortization	--	--	--
Capital Outlay	60,884	--	--
Total Expenditures/Expenses	<u>183,880,781</u>	<u>13,307</u>	<u>--</u>
Excess of Revenues Over Expenditures/Expenses	9,152,995	2,808,054	856,222
Other Financing Sources (Uses):			
Transfers In (Note 14)	856,000	--	--
Transfers Out (Note 14)	--	--	(856,000)
Total Other Financing Sources (Uses)	<u>856,000</u>	<u>--</u>	<u>(856,000)</u>
Net Change in Fund Balance/Net Position	10,008,995	2,808,054	222
Fund Balance/Net Position, Beginning of Year	<u>81,846,052</u>	<u>60,441,144</u>	<u>1,783</u>
FUND BALANCE/NET POSITION, END OF YEAR	<u>91,855,047</u>	<u>63,249,198</u>	<u>2,005</u>

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

Exhibit 3

OPIOID SETTLEMENT FUND	GOVERNMENTAL FUNDS TOTAL	ADJUSTMENTS EXHIBIT 4	STATEMENT OF ACTIVITIES
--	41,002,821	392,732	41,395,553
--	441,938	--	441,938
--	147,131,719	--	147,131,719
112,506	7,210,688	--	7,210,688
--	852,026	--	852,026
540,319	540,319	--	540,319
--	184,673	--	184,673
652,825	197,364,184	392,732	197,756,916
--	2,921,768	(79,932)	2,841,836
--	180,911,436	--	180,911,436
--	--	353,339	353,339
--	60,884	(60,884)	--
--	183,894,088	212,523	184,106,611
652,825	13,470,096	180,209	13,650,305
--	856,000	(856,000)	--
--	(856,000)	856,000	--
--	--	--	--
652,825	13,470,096	180,209	13,650,305
2,285,688	144,574,667	6,758,960	151,333,627
2,938,513	158,044,763	6,939,169	164,983,932

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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	13,470,096
--	------------

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 \$261,434 and amortization of \$91,905 was more than capital outlays of \$60,884 in the current period. (Note 8)	(292,455)
--	-----------

Lease payments related to (GASB 87) are recorded in the statement of activities but not reported in the governmental funds.	85,302
---	--------

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.	392,732
---	---------

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.	(5,370)
---	---------

CHANGE IN NET POSITION	<u><u>13,650,305</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 FUNDSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUALYEAR ENDED SEPTEMBER 30, 2025

	ORIGINAL AND FINAL BUDGET	ACTUAL GAAP BASIS	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:			
Taxes	39,617,597	41,002,821	1,385,224
Penalties and Interest - Taxes	391,961	441,938	49,977
Spohn Corporate Membership Revenue	122,980,000	147,131,719	24,151,719
Investment Income	904,124	4,272,625	3,368,501
Other	150,000	184,673	34,673
Total Revenues	164,043,682	193,033,776	28,990,094
Expenditures:			
Current:			
General Government			
Administration:			
Personal Services	1,071,821	945,506	126,315
Materials and Supplies	116,500	44,582	71,918
Contractual Services	2,068,940	1,737,326	331,614
Other	236,300	180,793	55,507
Total Administration	3,493,561	2,908,207	585,354
Facilities Management -			
Materials and Supplies	1,500	254	1,246
Total General Government	3,495,061	2,908,461	586,600
Health:			
Personal Services	2,152,762	1,609,608	543,154
Materials and Supplies	57,800	41,401	16,399
Contractual Services	3,957,200	2,288,690	1,668,510
Intergovernmental Transfers (Note 11)	153,092,697	164,279,998	(11,187,301)
County Services	12,114,275	12,685,743	(571,468)
Other	19,450	5,996	13,454
Total Health	171,394,184	180,911,436	(9,517,252)
Capital Outlay	174,000	60,884	113,116
Total Current Expenditures	175,063,245	183,880,781	(8,817,536)
Excess (Deficiency) of Revenues over Expenditures	(11,019,563)	9,152,995	20,172,558
Other Financing Sources-			
Transfers In	650,000	856,000	206,000
Total Other Financing Sources	650,000	856,000	206,000
Net Change in Fund Balance	<u>(10,369,563)</u>	10,008,995	<u>20,378,558</u>
Fund Balance, Beginning of Year		<u>81,846,052</u>	
FUND BALANCE, END OF YEAR		<u>91,855,047</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)****INDIGENT CARE FUND****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**
BUDGET (GAAP BASIS) AND ACTUAL**YEAR ENDED SEPTEMBER 30, 2025**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues -			
Investment Income	904,206	2,821,361	1,917,155
Expenditures -			
General Government -			
Consultant Fees	12,000	13,307	(1,307)
Total Other Financing Sources	12,000	13,307	(1,307)
Net Change in Fund Balance	<u>892,206</u>	2,808,054	<u>1,915,848</u>
Fund Balance, Beginning of Year		<u>60,441,144</u>	
FUND BALANCE, END OF YEAR		<u>63,249,198</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, 2025**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:			
Tobacco Settlement	650,000	852,026	202,026
Investment Income	--	4,196	4,196
Total Revenues	650,000	856,222	206,222
Other Financing Uses -			
Transfers Out	(650,000)	(856,000)	(206,000)
Total Other Financing Uses	(650,000)	(856,000)	(206,000)
Net Change in Fund Balance	--	222	222
Fund Balance, Beginning of Year		1,783	
FUND BALANCE, END OF YEAR		2,005	

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

NUECES COUNTY HOSPITAL DISTRICT**(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)****OPIOID SETTLEMENT FUND****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**
BUDGET (GAAP BASIS) AND ACTUAL**YEAR ENDED SEPTEMBER 30, 2025**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:			
Opioid Settlement	--	540,319	540,319
Investment Income	--	112,506	112,506
Total Revenues	--	652,825	652,825
Other Financing Uses -			
Transfers Out	--	--	--
Total Other Financing Uses	--	--	--
Net Change in Fund Balance	--	652,825	652,825
Fund Balance, Beginning of Year		2,285,688	
FUND BALANCE, END OF YEAR		2,938,513	

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, 2025

	HEALTH BENEFIT PLAN AND TRUST FUND
ASSETS	
Cash and Cash Equivalents (Note 4)	16,901
Accrued Interest	80
Total Assets	<u>16,981</u>
LIABILITIES	
Due to General Fund	<u>1,596</u>
NET POSITION	
Held in Trust for Employee Health Benefits	<u><u>15,385</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)
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2025

	HEALTH BENEFIT PLAN AND TRUST FUND
ADDITIONS	
Interest	1,312
DEDUCTIONS	
Administration and General	1,466
Employee Benefits	13,971
Total Deductions	<u>15,437</u>
Net Decrease	(14,125)
Net Position, Beginning of Year	<u>29,510</u>
NET POSITION, END OF YEAR	<u><u>15,385</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, 2025

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 the County. The District is legally separate from the County; however, members of the District’s board of managers (the “Board”) are appointed by the County Commissioners’ Court, with the Board retaining financial and operational responsibility for the District’s functions.

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 Corporation (“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 funds 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 healthcare providers to participate in supplemental and directed Medicaid Payment Programs.

The District is also the custodian of a state-authorized Local Provider Participation Fund Program (“LPPF”), which is renewable on an annual basis and collects mandatory payments assessed by the District on hospitals operating in the County. Use of the LPPF funds is statutorily restricted to funding intergovernmental transfers to the State in support of the Medicaid Payment Programs and paying the associated administrative expenses of the District.

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 County beginning on the date on which taxes were collected for the District. In addition, Chapter 61 of the Code prescribes the types and scope of health care services that the District is required to provide to eligible indigent residents. The Commissioner’s Court is authorized to levy hospital district taxes on property located within the District’s boundaries, which are coterminous with the County. Chapter 281 notably authorizes the District’s Board, with Commissioners Court approval, to use non-tax levy funds of the District to support a broad range of health care services, including public health services, mental health care services, intellectual disability services, emergency medical services, jail health services and for other health related purposes. Chapter 281 also permits the District’s Board to use funds from any source for indigent health care and intergovernmental transfers to support Medicaid supplemental and waiver programs, and expressly prohibits the use of those transferred or federal funds to expand Medicaid eligibility under the Affordable Care Act.

Note 1 – REPORTING ENTITY – (Continuation)

The Commissioners Court is required to approve the District’s annual budget, major contracts, real property transactions, certain uses of non-tax funds, retirement programs, and the issuance of debt, and is responsible for appointing the District’s Board. The Commissioners Court also has the authority to levy on all property subject to District taxation a tax not to exceed seventy-five cents (\$0.75) on each \$100 valuation of all taxable property within the boundaries of the District.

1996 Transaction

Historically, 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 the District and Spohn to renegotiate the agreements between the parties 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.

Note 1 – REPORTING ENTITY – (Continuation)

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 MOU also outlined the reinstatement of the 1996 Transaction Agreements, which would take effect upon the termination of the 2012 Membership Agreement, subject to certain amendments, including amendments to the Lease Agreement, as outlined in 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 for Spohn to 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 continued to have the right to use the Memorial campus and other facilities without rental obligation. Spohn retained the right to use the Memorial hospital facility until its demolition was completed on August 8, 2023. 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.

Note 1 – REPORTING ENTITY – (Continuation)

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 Memorial hospital building, construct a 40,000 square foot outpatient clinic on the Memorial campus to be known as the Dr. Hector P. Garcia—Memorial Family Health Center (“Family Health Center”), and relocate 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 and restate the Membership Agreement and MOU to make the following changes:

- Authorize Spohn to construct the Family Health Center on the Memorial Hospital campus, transition Memorial Hospital inpatient beds, emergency room and trauma services to Spohn’s Shoreline hospital, and subsequently demolish the Memorial 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 are 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 provide lease payments to the District in the amount of \$6,253,865 until September 30, 2026 and to pay \$1 million per year in lease payments from October 1, 2026 through September 30, 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.

Note 1 – REPORTING ENTITY – (Continuation)

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 initially with Bank of America and then with Argent Institutional Trust Company (formerly TMI Trust Co.) serving as the escrow agent to maintain the funds Spohn was required to deposit into escrow to secure its commitments under the Amended and Restated Membership Agreement and Amended and Restated MOU.

The initial 10-year term of the Amended and Restated Membership expired September 30, 2022 but the term was automatically renewed until September 30, 2027. The Amended and Restated Membership Agreement may be terminated by either party without cause by providing 30 days advance written notice to the other party.

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 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 and certified completion of the demolition on August 8, 2023. Because the building was no longer in use and demolished, management wrote off the remaining net book value of \$224,513 as of the year ended September 30, 2022.

The District is considering various health care related options for future use of the Memorial campus following demolition. Although the Memorial Hospital building was demolished and written off, a portion of the Memorial campus is still in use and continues to support health care services provided by Spohn.

Escrow Agreement and Completion of Spohn's Commitments

Spohn's final commitments under the Amended and Restated Membership Agreement were met and the remaining escrow funds were disbursed by the escrow agent to Spohn in December 2024, and the escrow account was closed in January 2025.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES

The District is a special purpose government engaged in a single governmental program. As such, 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.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

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 emphasize the major funds of the District which are the General Fund and the Indigent Care Fund. The Tobacco Settlement Fund and the Opioid Settlement Fund are reported as nonmajor governmental funds.

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.

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.

Although all governmental funds are presented individually in the governmental fund financial statements, the statements emphasize the major funds of the District. The criteria used to determine whether a governmental fund is reported as a major fund are as follows: the total assets, liabilities, revenues or expenditures of that governmental fund are at least 10 percent of the corresponding element total for all governmental funds and at least 5 percent of the total for all governmental funds.

The District reports the following major governmental 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.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

The District also reports the following nonmajor governmental funds, which are presented individually in the fund financial statements:

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.

Opioid 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.

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.

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 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.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

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 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.

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 costs incurred for repairs and maintenance are expensed as incurred.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

<u>ASSETS</u>	<u>LIFE IN YEARS</u>
Buildings 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.

In the current fiscal year, the District adopted GASB Statement No. 101, *Compensated Absences*, which modifies the recognition, measurement and disclosure of compensated absences. The implementation of this standard did not have a significant impact on the financial statements of the District.

J. Leases

Nueces County Hospital District is a lessee for a non-cancellable lease of a building. The District recognizes a lease liability and an intangible right-to-use asset in the financial statements.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term and the lease liability is reduced by the principal portion of lease payments when made. The intangible right-to-use asset is initially measured at the initial amount of the lease liability and is amortized on a straight-line basis over its useful life.

The key estimates and judgements related to leases include how the District determines the discount rate used to discount the expected lease payments to present value, lease term, and lease payments. The District uses its estimated incremental borrowing rate as the discount rate for the leases. The lease term includes the non-cancellable period of the lease and lease payments included in the measurement of the lease liability are comprised of fixed payments.

The District monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the intangible right-to-use asset and lease liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

K. 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.

L. 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.

M. 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 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.

Note 3 – SPOHN MEMBERSHIP AGREEMENT – (Continuation)

The Spohn Membership Agreement serves multiple purposes including to (1) facilitate 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 Dr. Hector P. Garcia Family Health Center for the continued provision of indigent health care services in Nueces County, (3) ensure availability of inpatient and outpatient psychiatric and behavioral health services to indigents at a location in Corpus Christi, Texas, (4) ensure the community has constant access to an emergency department equipped to provide Level II trauma services (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 Dr. Hector P. Garcia Family Health Center for the District's enrollment officer and receptionist.

The Spohn Membership Agreement was amended and restated effective November 18, 2015 ("Amended and Restated Membership Agreement") 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 was allowed to cease operation of and demolish MMC, which was completed in 2023. Neither party exercised its right to terminate the Amended and Restated Membership Agreement by providing written notice to the other party within 60 days of the expiration of the initial term on September 30, 2022, and therefore the amended and restated Membership Agreement was automatically renewed until September 30, 2027, subject to the 60 day written notice requirement.

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 the leased facilities. 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 during the ensuing fiscal year. Based on this year's estimate the District budgeted \$122,980,000 and received \$147,131,719 in member revenues for the year ended September 30, 2025.

According to management, estimating the Specified Annual Percentage for membership revenue sharing is challenging due to the numerous and evolving factors within the health care system that affect both costs and revenues. Accordingly, management intends to review and adjust the Specified Annual Percentage annually in accordance with 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, 2025, 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	189,118	189,118	--
Money Market Mutual Funds -			
Fiduciary Funds	16,901	16,901	--
Petty Cash	300	300	--
AAA-Rate Local Government			
Investment Pools:			
Texpool	94,907,879	94,907,879	--
Logic	26,451,802	26,451,802	--
TexStar	13,089,637	13,089,637	--
Total Cash and Equivalents	134,655,637	134,655,637	--
Investments At Fair Value:			
Commercial Paper	11,872,965	11,872,965	--
Federal Farm Credit Banks	2,997,000	--	2,997,000
United States Treasury Bills	6,048,398	--	6,048,398
Municipal Bond	6,444,628	4,076,903	2,367,725
Total Investments	27,362,991	15,949,868	11,413,123
 TOTAL VALUE	 162,018,628	 150,605,505	 11,413,123
% of Total Portfolio	100%	92.96%	7.04%

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.

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.

Note 4 – CASH AND INVESTMENTS – (Continuation)

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, 2025 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.

Note 4 – CASH AND INVESTMENTS – (Continuation)

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 comprised of 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 AAA, 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.

By policy and state law, commercial paper must be rated not less than A1/P1 or equivalent by at least two national recognized statistical rating organizations (NRSRO) or by one NRSRO if fully secured by an irrevocable letter of credit issued by a bank organized and existing under U. S. law or the law of a state of the U.S. Commercial paper is restricted to a stated maturity of 365 days or less.

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.

Note 4 – CASH AND INVESTMENTS – (Continuation)

As of September 30, 2025, the cash and investments contained:

- FDIC insured or fully collateralized bank deposits representing 0.12% of the total portfolio;
- Investment in three local government investment pools representing 82.98% of the total portfolio;
- AAA-rated money market funds striving to maintain a \$1 net asset value represented 0.01% of the total portfolio;
- US Government agency securities representing 5.58% of the total portfolio;
- Municipal Bonds representing 3.98% of the total portfolio; and
- Commercial Paper representing 7.33% of the total portfolio.

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, 2025 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 two years. 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 45. As of September 30, 2025, holdings in the portfolio with stated maturity dates beyond one year represent 7.04% of the total portfolio, all of which were US agencies and municipal bonds.

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 counterparty of each type transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis.

As of September 30, 2025, the portfolio contained no certificates of deposit and no repurchase agreements. The portfolio contained 0.12% 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.

Note 4 – CASH AND INVESTMENTS – (Continuation)

Restricted Cash

At September 30, 2025, the District held \$36,037,687 in cash, for the benefit of the LPPF. See Note 16 for a description of the program.

Note 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with GASB 72, *Fair Value Measurement and Application*, financial instruments are categorized into three levels of fair value hierarchy, based on the type of inputs used in the valuation:

- *Level 1*: Quoted prices in active markets for identical assets or liabilities accessible at the measurement date.
- *Level 2*: Inputs other than quoted prices included within the Level 1 that are observable, either directly or indirectly, for the asset or liability.
- *Level 3*: Unobservable inputs for the asset or liability.

Because the District's 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 valuations are classified as Level 2, since they rely on observable market data from secondary market transactions involving U.S. Government Agency Bonds, Commercial Paper and Municipal Bonds.

Note 6 – PROPERTY TAXES

The Commissioners' Court of Nueces County levies on behalf of 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, 2024 upon which the levy for the 2025 fiscal year was based was \$47,539,309,429.

The tax rate assessed for the year ended September 30, 2025 to finance general fund operations and the limited tax refunding bonds was \$0.08924 per \$100 valuation. Current tax collections for the year ended September 30, 2025 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, 2024	CURRENT YEAR LEVY	TOTAL COLLECTIONS	ADJUSTMENTS	BALANCE SEPTEMBER 30, 2025
Delinquent Taxes Receivable	2,477,878	42,464,917	40,993,258	(1,042,397)	2,907,140
Allowance for Uncollectible Taxes	(1,237,417)	--	--	(36,531)	(1,273,948)
 NET DELINQUENT TAXES RECEIVABLE	 1,240,461	 42,464,917	 40,993,258	 (1,078,927)	 1,633,193

Note 8 – CAPITAL ASSETS AND RIGHT-TO-USE BUILDING

A summary of changes in the capital assets and leases follows:

	BALANCE OCTOBER 1, 2024	ADDITIONS	REDUCTIONS	BALANCE SEPTEMBER 30, 2025
Capital Assets, Not Being Depreciated-				
Land	3,076,926	--	--	3,076,926
Capital Assets and Leases, Being Depreciated/ Amortized:				
Equipment	1,328,705	60,884	--	1,389,589
Buildings	9,768,451	--	--	9,768,451
Right-of-Use Building	459,524	--	--	459,524
Total Capital Assets and Leases Being Depreciated and Amortized	11,556,680	60,884	--	11,617,564
Less Accumulated Depreciation/Amortization for				
Equipment	1,275,939	84,923	--	1,360,862
Buildings	7,318,405	176,511	--	7,494,916
Right-of-Use Building	122,540	91,905	--	214,445
Total Accumulated Depreciation and Amortization	8,716,884	353,339	--	9,070,223
Total Capital Assets and Leases, Being Depreciated and Amortized, Net	2,839,796	(292,455)	--	2,547,341
 TOTAL CAPITAL ASSETS AND LEASES, NET	 5,916,722	 (292,455)	 --	 5,624,267

Note 9 – RIGHT-OF-USE BUILDING AND LEASES

On May 31, 2023, the District entered into a 36-month lease for its administrative offices with a renewal period through May 31, 2028. Under the terms of the lease the base rent, including parking is \$9,137 per month for 6,166 square feet at \$16.75 per square foot and will increase by \$0.25 per square foot annually.

The District records the lease under GASB Statement No. 87, which establishes a single model for lease accounting based on the principle that leases are utilized to finance the right to use an underlying asset. Accordingly, the standard requires the lessee to record a lease liability and related right-to-use asset. The lease liability is calculated at the present value of the remaining lease payments expected to be paid over the term of the lease. Generally, the lease asset will be equal to the lease liability with a few exceptions, such as prepaid or deferred lease payments.

As of September 30, 2025, the value of the lease liability is \$272,970. The lease has an interest rate of 8.25%, which was the incremental borrowing rate for the District as of the lease inception date. The value of the right-of-use asset as of September 30, 2025 is \$459,524 net of accumulated amortization of \$214,445.

Future minimum lease payments for the next three year are as follows:

Year Ended September 30,	PRINCIPAL	INTEREST	TOTAL
2026	94,213	19,024	113,237
2027	103,887	10,892	114,779
2028	74,870	2,335	77,205
TOTAL	272,970	32,251	305,221

Note 10 – UNEARNED REVENUES

Unearned Revenue balances at September 30, 2025 consist of property taxes of \$1,633,193.

Note 11 – LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the District for the year ended September 30, 2025:

	BALANCE OCTOBER 1, 2024	ADDITIONS	REDUCTIONS	BALANCE SEPTEMBER 30, 2025
Other Liabilities-				
Accrued Paid Time Off	39,952	167,259	161,889	45,322
TOTAL	39,952	167,259	161,889	45,322

Note 12 – INTERGOVERNMENTAL TRANSFERS (IGTs)

The District participates in state-sponsored Medicaid payment programs and provides discretionary intergovernmental transfers (“IGTs”) for Medicaid supplemental and directed payment programs that benefit certain local and regional healthcare providers. The District budgets IGTs based on participating providers’ cost estimates, while the Health and Human Services Commission (“HHSC”) determines the amount of state funding available under the various Medicaid payment programs. After completing its statewide calculations, HHSC determines the amount of IGT required for each provider and establishes the timing of payments. As a result, although the District budgeted \$153,092,697 for IGTs, it made actual IGT payments totaling \$164,279,998 during the current fiscal year.

In addition, IGTs are not accrued as liabilities in the District’s government-wide financial statements because 1) the District is not legally obligated to remit IGTs to HHSC and (2) the amount of any future payments cannot be reasonably estimated.

Note 13 – COMMITTED FUND BALANCE

As shown in the fund financial statements, the Board of Managers committed an amount not to exceed \$34,296,362 in the District's general fund balance to anticipated additional expenditures for IGTs during the subsequent fiscal year.

Funds included in the Indigent Care Fund of \$63,249,198 are committed to be used for indigent health care.

Funds included in the Opioid Settlement Fund of \$2,938,513 are committed to reducing the impact of opioid addiction.

Note 14 – INTERFUND TRANSACTIONS AND BALANCES

Interfund transfers during the year ended September 30, 2025 were as follows:

	TRANSFERS OUT		
	TOBACCO		
	GENERAL	SETTLEMENT	
	FUND	FUND	TOTAL
<u>TRANSFERS IN</u>			
General Fund	856,000	(856,000)	--
TOTAL	856,000	(856,000)	--

Note 15 – 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, 2025, sixteen employees were enrolled in the plan.

Note 15 – EMPLOYEE BENEFIT PLANS – (Continuation)

The Plan is administrated by the District. 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, 2025, the District had retirement plan expense of \$102,126.

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 the District.

Note 16 – LOCAL PROVIDER PARTICIPATION FUND

In 2020, the District established a Local Provider Participation Fund ("LPPF") pursuant to authorization by the Texas Legislature in 2019 under Texas Health and Safety Code, Chapter 298C. The District is authorized under the statute to assess and collect mandatory payments from hospitals operating in Nueces County based on net patient revenue. These payments are used to fund IGTs necessary to support the non-federal share of supplemental and directed Medicaid payment programs.

For the fiscal year ended September 30, 2025, the District collected \$66,935,688 in mandatory payments from participant hospitals and made IGTs totaling \$76,190,361. As of September 30, 2025, the District held \$36,037,687 in mandatory payments designated for future eligible supplemental and directed Medicaid payment programs.

The District administers the LPPF and is authorized to receive compensation for related administrative expenses. For the year ended September 30, 2025 the District received \$150,000 for these services.

Note 17 – EMERGENCY MEDICINE RESIDENCY PROGRAM

In 2023, the District entered into an Emergency Medicine Support Letter Agreement with Spohn to provide financial support for an emergency medicine residency program for Academic Years 2024-2025 through Academic Years 2029-2030, with total funding not to exceed \$21,250,000 as reflected in the table below. For purposes of the letter agreement, an "Academic Year" is defined as the period from July 1 through June 30. For each Academic Year during the term, the District is obligated to pay the lesser of the amount specified in the table below or Spohn's Actual Costs. "Actual Costs" are defined as Spohn's direct expenses, applicable overhead allocations calculated in accordance with generally accepted Medicare reimbursement principles and indirect medical education ("IME" expenses equal to fifty percent (50%) of Spohn's IME reimbursement.

ACADEMIC YEAR	AMOUNT
2024-2025	\$ 1,402,500
2025-2026	2,847,500
2026-2027	4,250,000
2027-2028	4,250,000
2028-2029	4,250,000
2029-2030	4,250,000

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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 24, 2026

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 (the "District"), a component unit of Nueces County, Texas, as of and for the year ended September 30, 2025, 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 24, 2026.

Report on Internal Control Over Financial Reporting

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

Adamson & Company, LLC