NUECES COUNTY HOSPITAL DISTRICT

AUDITED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2023

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AUDITED FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2023

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INDEPENDENT AUDITOR'S REPORT

February 22, 2024

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Nueces County Hospital District, a component unit of Nueces County, Texas, as of and for the year ended September 30, 2023, 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, 2023, and the respective changes in financial position and budgetary comparisons for the general fund, indigent care fund and tobacco settlement fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Nueces County Hospital District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Nueces County Hospital District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Nueces County Hospital District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 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 22, 2024 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.

Nueces County Hospital District
Management's Discussion and Analysis
For Fiscal Year Ended September 30, 2023

This Management's Discussion and Analysis ("MD&A") of the Nueces County Hospital District ("District"), a political subdivision of the State of Texas and component unit of Nueces County, Texas ("County"), is intended to provide an overview of the District's financial position and results of operation for year ended September 30, 2023 ("Fiscal Year 2023"). Since the focus of the MD&A is on the above fiscal period's operations, activities, and currently known facts, it should be read in conjunction with the District's related financial statements and accompanying notes to best understand the District's financial position.

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

Financial Highlights

The District's net position increased $12.8 million or 12.1% compared to the prior year net position. The net position of the District on September 30, 2023 and 2022 was $119.3 million and $106.4 million, respectively. Cash and cash equivalents, restricted cash, and investments amounted to $122.6 million and $121.8 million which represent 92.1% of total assets for September 30, 2023 and 92.4% for 2022, respectively.

In Fiscal Year 2023, the District's General Fund Balance increased $11.3 million or 27.0% compared to the prior year balance. At fiscal year ended September 30, 2023, the District's General Fund balance was $53.2 million compared to $41.9 million in 2022.

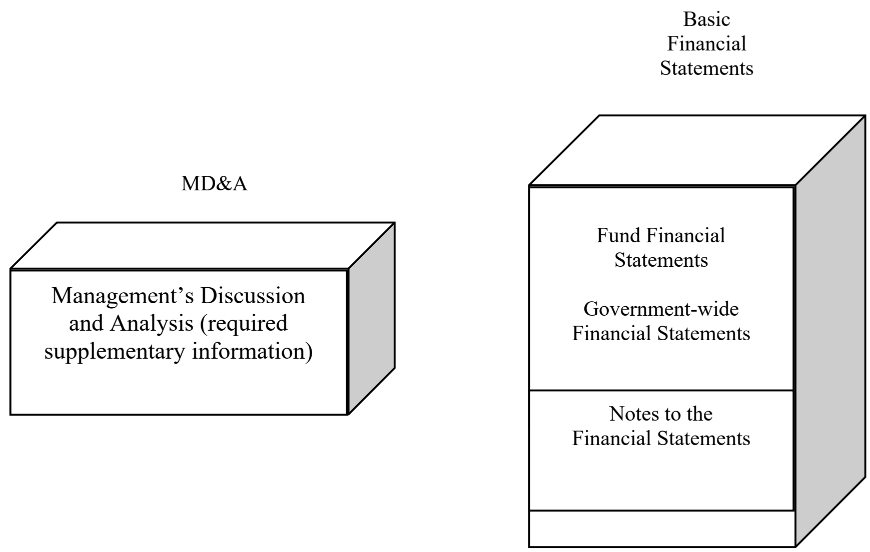
In Fiscal Year 2023, the District's total revenues increased $24.5 million or 48.6% compared to the prior year. 48.8% of the District's total revenues were from non-tax sources. The District's total expenses increased $7.7 million or 14.2% compared to the prior year.

In Fiscal Year 2023, the District continued to make voluntary intergovernmental transfers for several Medicaid-related supplemental payment, waiver, and Medicaid managed care provider payment initiative programs sponsored by the State ("Medicaid Payment Programs"). These transferred funds enabled both local and regional healthcare providers, who provide indigent healthcare consistent with the District's primary mission, to draw additional Medicaid funds. In addition, the District continued its state- authorized Local Provider Participation Fund Program ("LPPF") to sustain these payments to the State.

In Fiscal Year 2023, the District's Board of Managers committed $11.9 million of the District's fiscal year-end General Fund balance cash to funding the Medicaid Payment Programs-related intergovernmental transfers that are expected to be requested sometime during the District's subsequent fiscal year. Please refer to Note 12 on intergovernmental transfers and Note 13 on committed fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

The District has two kinds of funds:

1.) **Government Funds -** The accounting for most of the District's services is included in the governmental funds. The General Fund and Special Revenue Fund are governmental funds that use the modified accrual accounting method which focuses on how cash and other financial assets that can readily be converted to cash and the balance at year-end that are available for future spending. Furthermore, under this basis of accounting, changes in net spendable assets are normally recognized only to the extent that they are expected to have a near-term impact, while inflows are recognized only if they are available to liquidate liabilities of the current period. Similarly, future outflows are typically recognized only if they represent a depletion of current financial resources.

2.) **Fiduciary Funds -** These funds are used to report activity and other resources held purely in a custodial capacity. The resources accounted for in these funds are excludable from the government-wide financial statements or columns because these funds are not available to finance the District's operations. Consequently, the District is responsible for ensuring that these resources are used only for their intended purpose. The District has an irrevocable trust originally used for self-insured health claims of the then employees of the District's former hospital, Memorial Medical Center. The fund may be used to subsidize the District's current employees with their health insurance premiums and other Board-approved allowable Trust benefits.

Notes to the Financial Statements

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

GOVERNMENT WIDE-FINANCIAL ANALYSIS

Statement of Net Position (Government-Wide)

The District's total Net Position was $119.3 million and $106.4 million as of September 30, 2023 and 2022, respectively, an increase of $12.8 million or 12.1%. Total assets increased $1.4 million or 1.1% compared to September 30, 2022. The District's total liabilities decreased $11.4 million or 45.2% compared to September 30, 2022.

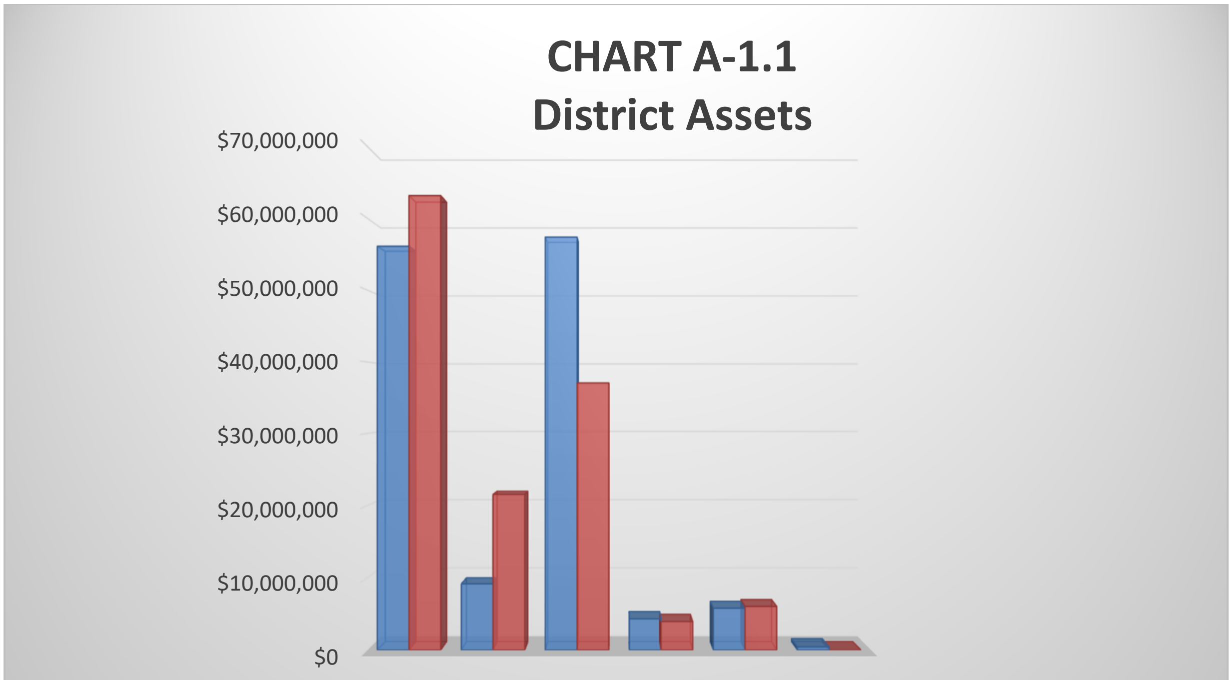
TABLE A-1
Nueces County Hospital District Net Position
September 30, 2023 and 2022
(In Thousands)

	2023	2022	2023-2022 Variance
Assets:			
Cash and Cash Equivalents	$ 56,079	$ 63,129	$ (7,050)
Cash Restricted for Local Provider Participation Fund	9,159	21,553	(12,394)
Investments	57,356	37,074	20,282
Other Assets	4,320	3,936	384
Capital Assets (Net of Accumulated Depreciation)	5,787	6,030	(243)
Right of Use Assets	429	--	429
Total Assets	133,130	131,722	1,408
Liabilities:			
Accounts Payable	3,855	3,434	421
Lease Payable	77	--	77
Accrued Payroll and Related Liabilities	317	256	61
Long-Term Liabilities:			
Accrued Paid Time Off	106	66	40
Lease Payable	358	--	358
Due to Local Provider Participation Fund	9,159	21,553	(12,394)
Total Liabilities	13,872	25,309	(11,437)
Net Position:			
Net Investment in Capital Assets	5,787	6,030	(243)
Unrestricted	113,471	100,383	13,088
Total Net Position	$ 119,258	$ 106,413	$ 12,845

Financial Analysis

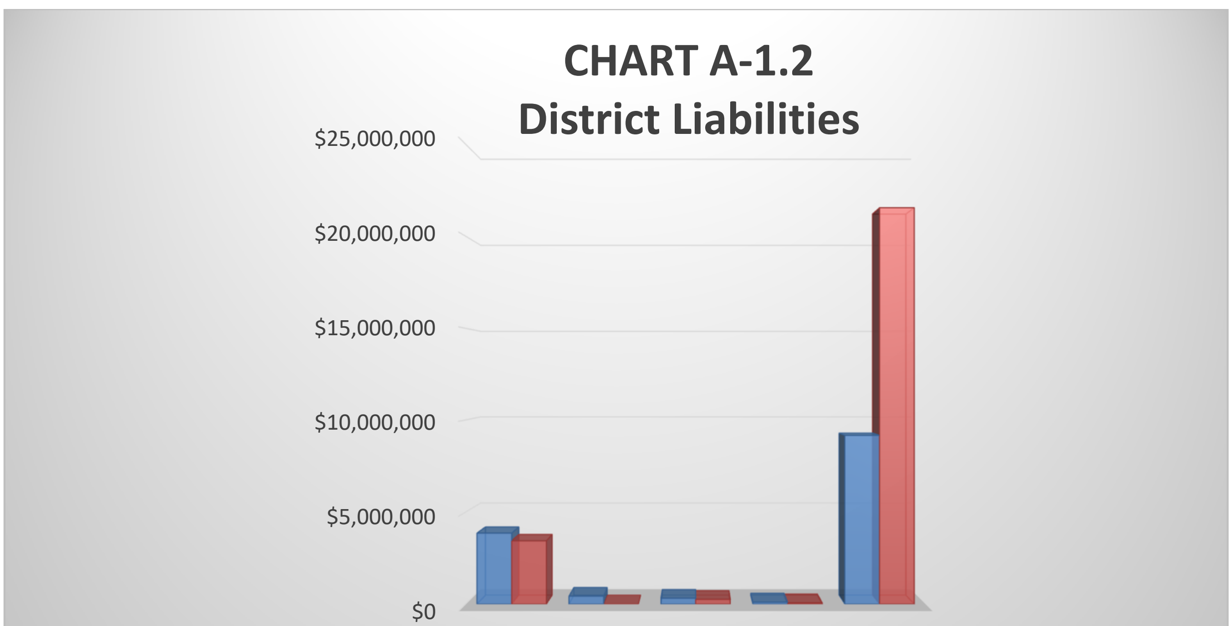
In Fiscal Year 2023, cash and cash equivalents and investments combined increased $838 thousand mostly due to higher investment earnings and Spohn corporate membership revenue. Other Assets increased $384 thousand or 9.8% primarily from an increase in certain accounts receivable. The $243 thousand or 4.0% decrease in Capital Assets (Net of Accumulated Depreciation) mainly relates to depreciation expense. $429 thousand in Right of Use Assets has been added to recognize leased assets for the District. Accounts Payable and Related Liabilities decreased $11.4 million or 45.2% due to a decrease in the Local Provider Participation Fund and annual fluctuations in payments of various accrued liabilities.

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



	Cash and Cash Equivalents	Retricted Cash LPPF	Investments	Other Assets	Capital Assets	Right of Use Assets
FY 2023	$56,079,000	$9,159,000	$57,356,000	$4,320,000	$5,787,000	$429,000
FY 2022	$63,129,000	$21,553,000	$37,074,000	$3,936,000	$6,030,000	$0

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



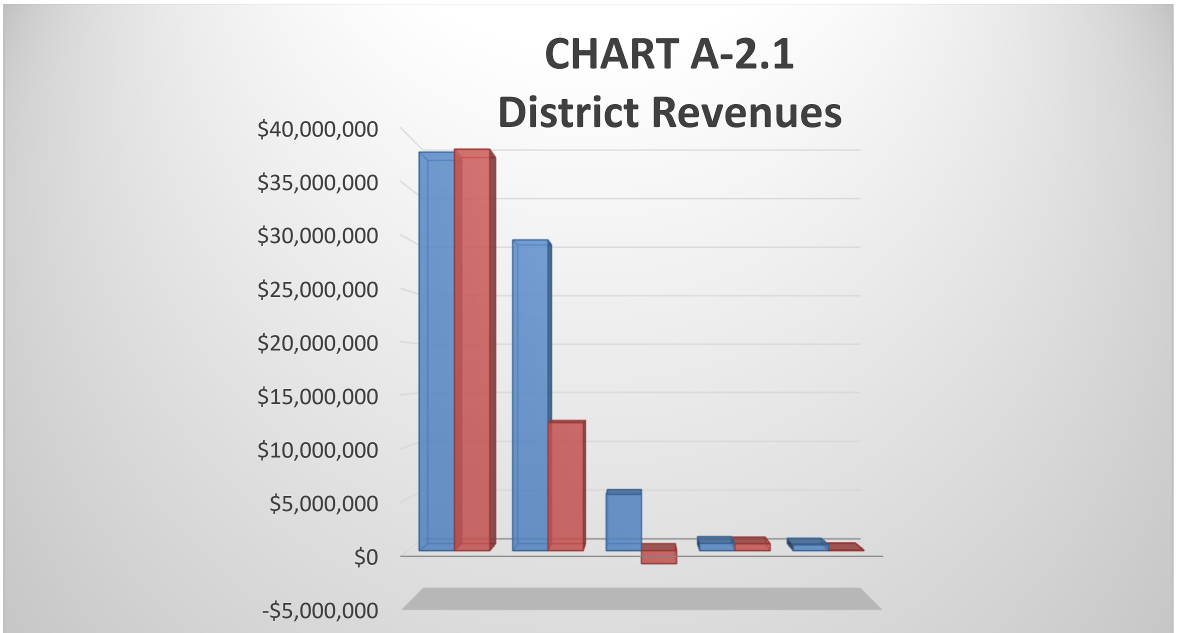
	Accounts Payable	Lease Payable	Accrued Payroll & Retained Liabilities	Accrued Paid Time Off	Due to LPPF
FY 2023	$3,855,000	$435,000	$317,000	$106,000	$9,159,000
2022	$3,434,000	$0	$256,000	$66,000	$21,553,000

Statement of Activities (Government-Wide)

TABLE A-2
Changes in Nueces County Hospital District Net Position
September 30, 2023 and 2022
(In Thousands)

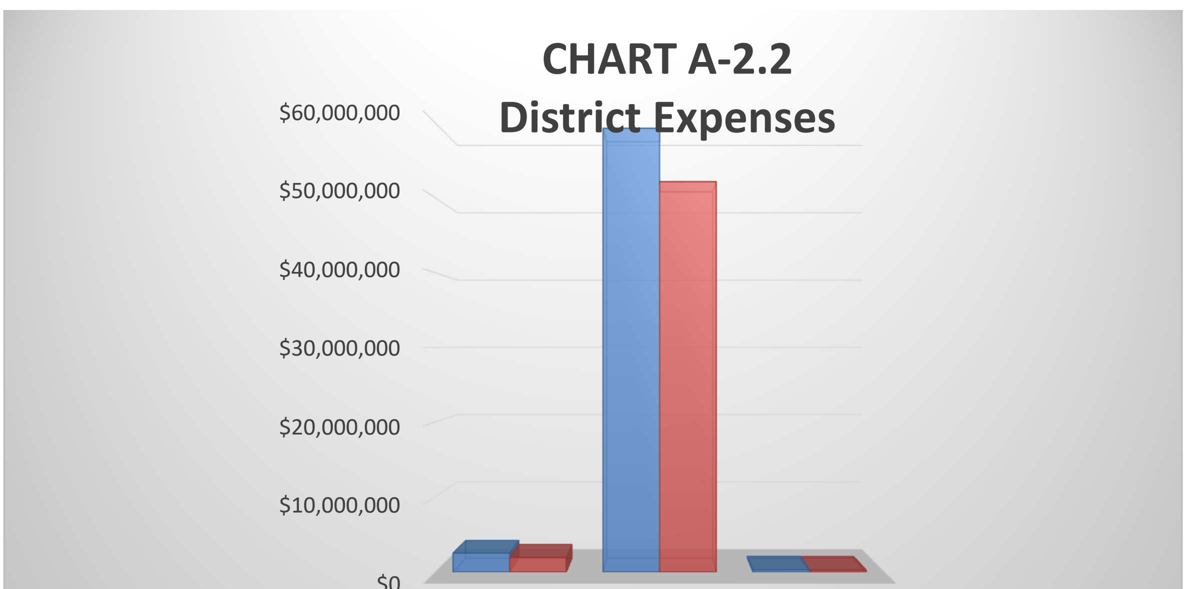
Revenues	**2023**	**2022**	**2023-2022 Variance**
Property Taxes and Penalties and Interest	$ 38,346	$ 38,631	$ (285)
Spohn Corporate Membership Revenue	29,885	12,270	17,615
Investment Gain (Loss)	5,397	(1,240)	6,637
Tobacco Proceeds	710	666	44
Other	552	80	472
Total Revenues	74,890	50,407	24,483
Expenses:			
General Government	2,544	1,965	579
Health	59,210	52,105	7,105
Depreciation	291	260	31
Total Expenses	62,045	54,330	7,715
Net Change in Net Position	12,845	(3,923)	16,768
Net Position, Beginning of Year	106,413	110,336	(3,923)
NET POSITION, END OF YEAR	$ 119,258	$ 106,413	$ 12,845

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



	Property Taxes, Penalties & Interest	Spohn Revenue	Investment Income	Tobacco Proceeds	Other
FY 2023	$38,346,000	$29,885,000	$5,397,000	$710,000	$552,000
FY 2022	$38,631,000	$12,270,000	-$1,240,000	$666,000	$80,000

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



	General Government	Health	Depreciation
FY 2023	$2,544,000	$59,210,000	$291,000
FY 2022	$1,965,000	$52,105,000	$260,000

FINANCIAL ANALYSIS

Revenues

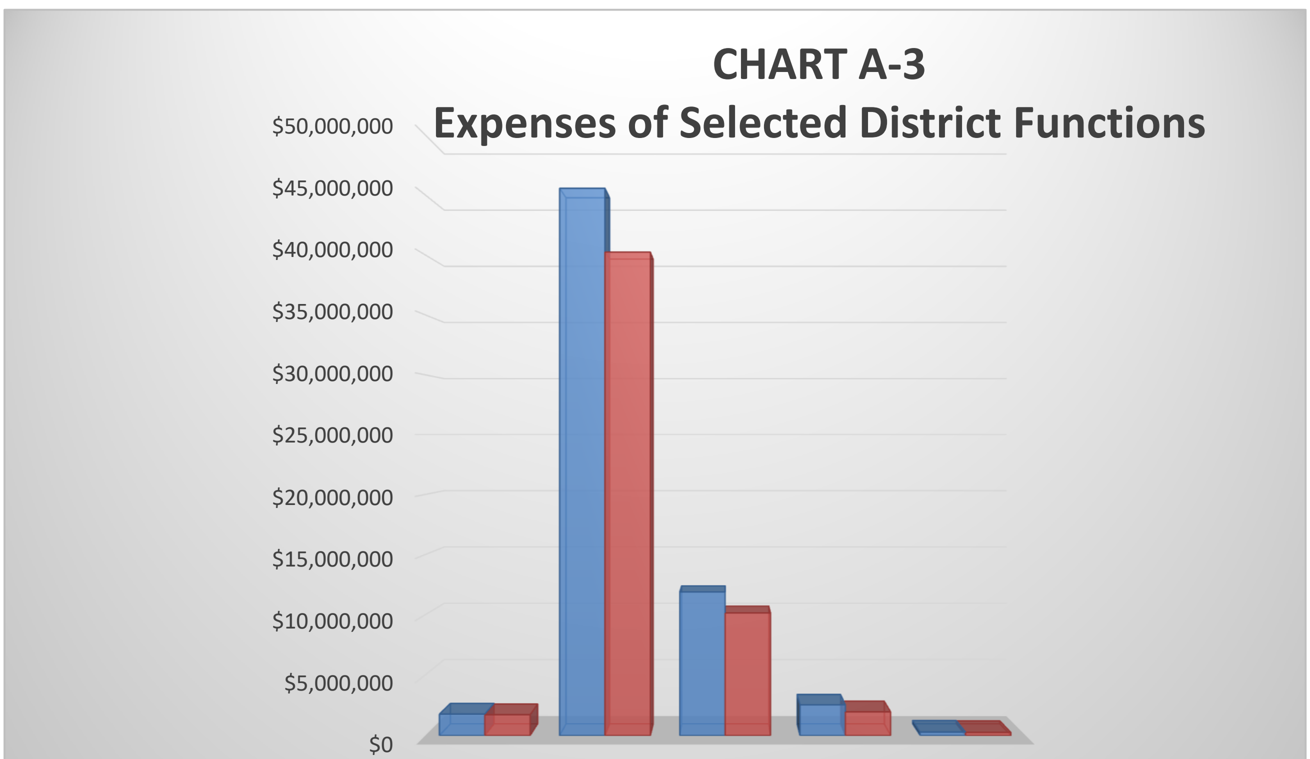
In Fiscal Year 2023, the District's total revenues increased $24.5 million or 48.6% compared to the prior fiscal year. There were four principal sources of revenue for the District. The initial source of revenue is from ad valorem taxes levied on Nueces County property owners based on assessed valuations. These tax revenues decreased by $285 thousand or 0.7% and accounted for 51.2% of total revenues compared to 76.6% in the prior fiscal year. The District's tax rate during Fiscal Year 2023 decreased to $0.098846 per $100 valuation, which was 1.5% above the no-new-revenue tax rate. Property valuations increased by $5.0 billion or 14.3%. The second source is from the Membership Agreement with Spohn which accounted for $29.9 million and 39.9% of total revenue. This revenue increased $17.6 million, or 143.6%, resulting from an increased net patient revenue sharing allocation percentage utilized during the fiscal year. See Note 3 for an outline of the Membership Agreement. The third source is investment income which increased $6.6 million or 535.2% due mainly to unrealized net gains in certain funds and increased interest rates during the year. The final source is a Tobacco Settlement distribution from the State of Texas' tobacco litigation which increased by $44 thousand or 6.6% compared to prior fiscal year. Additional revenue proceeds increased $472 thousand from prior fiscal year or 590%. These funds largely include a reimbursement from the State for the District's assistance in operating one of the Medicaid Payment Programs in the region, another State reimbursement for COVID related expenditures, and the receipt of administrative fees from the LPPF program.

TABLE A-3
Net Cost of Selected District Functions
September 30, 2023 and 2022
(In Thousands)

	2023	2022	2023-2022 Variance
Eligibility	$ 1,776	$ 1,723	$ 53
Intergovernmental Transfers (IGT)	45,518	40,210	5,308
County Healthcare Expenditures	11,916	10,172	1,744
Administration and General	2,544	1,965	579
Depreciation	291	260	31
TOTAL	$ 62,045	$ 54,330	$ 7,715

Expenses

The expenses of the District's functions in Fiscal Year 2023 increased $7.7 million or 14.2% compared to the prior fiscal year. The District's health functions include intergovernmental transfers and county healthcare expenditures. The District's largest amount of costs is voluntary intergovernmental transfers to the State for the Medicaid Payment Programs for the benefit of various regional health care providers who provide indigent healthcare. The intergovernmental transfers draw down additional Medicaid funds for regional providers under the Medicaid Payment Programs. This cost totaled $45.5 million in Fiscal Year 2023 and represented 73.4% of all functional expenditures. The second largest amount of cost is $11.9 million for county healthcare expenditures which relates to the District's support of other healthcare services in Nueces County. The District directly or indirectly pays for non-indigent healthcare-related service costs that were paid by Nueces County in earlier years. These costs include expenses such as emergency medical services, county jail and juvenile detention center healthcare services, reimbursement of operating expenditures at the City/County Public Health Department, match, and other subsidies for the Nueces Center for Mental Health and Intellectual Disabilities and costs associated with operation of the County Jail's infirmary. This cost increased $1.7 million or 17.1% in Fiscal Year 2023 compared to the prior fiscal year. County healthcare expenditure costs represented 19.2% of all the District's net costs in Fiscal Year 2023 compared to 18.7% in the prior fiscal year. The two other costs of the District were Administrative and General and Eligibility determination costs. Collectively, these costs increased $632 thousand or 17.1% during Fiscal Year 2023 compared to the prior fiscal year. Major costs in this category were legal fees, consulting fees, rents, supplies, purchased services, and salaries and benefits. Administrative and General costs represented 4.1% of all net costs in Fiscal Year 2023 compared to 3.6% in the prior fiscal year. Eligibility costs represented 2.9% of all net costs in Fiscal Year 2023 compared to 3.2% in the prior fiscal year. Please refer to Table A-3 for details of Chart A-3 below relating to the District's net cost of selected functions.



	Eligibility	IGT	County Health Expenditures	Administration & General	Depreciation
FY 2023	$1,776,000	$45,518,000	$11,916,000	$2,544,000	$291,000
FY 2022	$1,723,000	$40,210,000	$10,172,000	$1,965,000	$260,000

General Fund Budgetary Highlights

Expectations for the District's general fund budget were surpassed during Fiscal Year 2023.

Revenues

Revenues exceeded budget by $6.4 million. The excess is partially attributed to revenue resulting from the Membership Agreement, which surpassed budget by $1.9 million. The surplus is due to the use of an estimate of the Membership Agreement's initial revenue sharing allocation percentage between the District and Spohn when the Fiscal Year 2023 budget was developed; due to the difficulty in projecting Spohn's net patient revenues, the District is only able to estimate the Membership Agreement-related sharing allocation. Ad valorem tax revenue combined with penalties and interest, exceeded budget by $1.4 million. Investment income also exceeded budget by $2.8 million. Finally, other income, including a reimbursement from the State for the District's assistance in operating one of the State's Medicaid Payment Programs in the region, recovery of certain prior fiscal year's expenses, and the receipt of administrative fees from the LPPF Fund, surpassed budget by approximately $303.9 thousand.

Expenditures

Expenditures were less than budget by $1.6 million. Of the expenditures less than budget, $292 thousand was associated with County Services due to overestimated jail diversion program costs. Personal services were less than budget by $350 thousand due to the increased utilization of the District's paid-time-off accrued liability and less than maximum participation of certain benefit programs. Contractual Services were under budget this year by $1.4 million mainly due to less utilization of legal fees and consultant fees for one of the Medicaid Payment Programs. The Materials and Supplies category was under budget by $21 thousand; and finally, the Other category which includes office lease and administrative expenditures ended under budget by approximately $24 thousand. Medicaid Payment Programs-related intergovernmental transfers by the District were over budget by $670 thousand. These transfers benefit local and regional healthcare providers, and due to the complex nature of the calculations of intergovernmental transfers, the District is only able to approximate the timing and amounts when its budget is adopted.

CAPITAL ASSETS

The District had $6.2 million in net capital assets at the end of September 30, 2023. The breakdown of the capital assets is as follows:

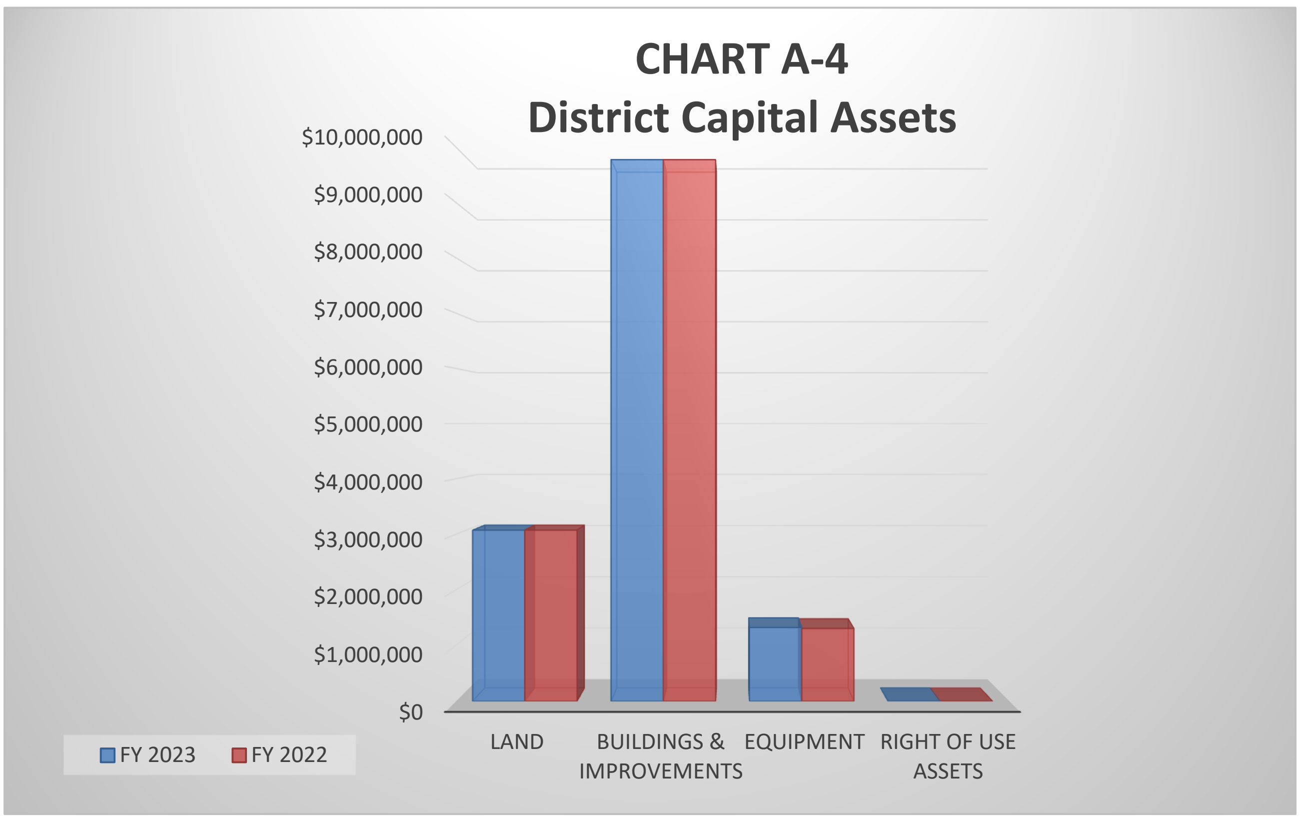
TABLE A-4
Nueces County Hospital District's Capital Assets
September 30, 2023 and 2022
(In Thousands)

	2023	2022	2023-2022 Variance
Land	$ 3,077	$ 3,077	$ --
Buildings and Improvements	9,769	9,769	-
Equipment	1,325	1,308	17
Right of Use Assets	460	-	460
Total	14,631	14,154	477
Less: Accumulated Depreciation	8,415	8,124	291
NET CAPITAL ASSETS	$ 6,216	$ 6,030	$ 186

Under terms of the Membership Agreement, the District contributed the use of its former hospital Memorial Medical Center ("MMC") buildings, equipment, and campus to Spohn; and Spohn is responsible for maintaining the buildings, equipment, and the purchase of any medical and other equipment needed during the Agreement's term. The District contributed to Spohn the use of MMC until it was vacated in 2022 and demolished in 2023. The Membership Agreement requires that Spohn spend $600 thousand on upkeep of the buildings and equipment in each calendar year starting in 2017 and thereafter. Please refer to Note 8 - Capital Assets of the Financial Statements for more details on capital assets.

Net Capital Assets shows an increase of $186 thousand due to the addition of Right of Use Assets, or leased assets, to the District's statements with the implementation of GASB 87 and the reduction of accumulated depreciation.

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



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

Economic Factors

For the forthcoming fiscal year and subsequent fiscal years, expiration of the COVID-19 public health emergency, expiration of the Medicaid waiver program, State budget pressures, and shifting policy priorities may alter funding, services, programs, changing eligibility for its Medicaid program, or ending of federally-mandated COVID-19 pandemic-related continuous Medicaid coverage, could affect enrollments in the District's indigent health care program.

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

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

Budget

For the District's forthcoming fiscal year ending September 30, 2024 ("Fiscal Year 2024"), the District's Board of Managers and County Commissioners Court approved a District operating budget wherein revenues exceed expenditures by $5.8 million. Revenues are budgeted at $153.4 million, a 132.6% increase compared to the prior fiscal year. Expenditures are budgeted at $147.6 million, a 133% increase compared to the prior fiscal year.

Tax Rates and Property Valuations

The property valuations for the District's Fiscal Year 2024 are $48.3 billion, an increase of 19.7% from the prior year. To offset this increase, County Commissioners Court has decreased the District's tax rate for the Fiscal Year 2024 budget to $0.085242 per $100 valuation, which is 4% above the no-new-revenue tax rate. The Fiscal Year 2024 budget estimates include tax revenues of $37.6 million, an increase of $276 thousand or 0.7% over Fiscal Year 2023. Certain prior year local refinery related property value lawsuits still continue and potential related refunds have been prospectively applied to the tax revenue budget. The District expects tax base expansion and increases in property values to approximate recent years.

Financial Planning

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

CONTACTING DISTRICT MANAGEMENT

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

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

HISTORICAL AUDITED FINANCIAL STATEMENTS

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

Basic Financial Statements

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET POSITION

SEPTEMBER 30, 2023

	GENERAL	INDIGENT CARE FUND	TOBACCO SETTLEMENT FUND
ASSETS			
Cash and Cash Equivalents (Note 4)	41,857,303	14,219,667	2,144
Cash Restricted for Local Provider Participation Fund (Note 4 and 15)	9,159,393	--	--
Investments (Note 4 and Note 5)	14,739,262	42,616,531	--
Accrued Interest	43,604	272,164	--
Taxes Receivable Net of Allowance for Uncollectible (Note 7 and 10):	3,261,191	--	--
Other Receivables	593,908	--	--
Prepaid Expenditures	149,264	--	--
Due to Indigent Care Fund	3,301	--	--
Land (Note 8)	--	--	--
Other Capital Assets, net of Accumulated Depreciation (Note 8)	--	--	--
Right-of-Use Building (Note 8 and 9)	--	--	--
TOTAL ASSETS	69,807,226	57,108,362	2,144

GOVERNMENTAL FUNDS TOTAL	ADJUSTMENTS EXHIBIT 2	STATEMENT OF NET POSITION
56,079,114	--	56,079,114
9,159,393	--	9,159,393
57,355,793	--	57,355,793
315,768	--	315,768
3,261,191	--	3,261,191
593,908	--	593,908
149,264	--	149,264
3,301	(3,301)	--
--	3,076,926	3,076,926
--	2,709,878	2,709,878
--	428,889	428,889
126,917,732	6,212,392	133,130,124

(Continued)

NUCEES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET POSITION

SEPTEMBER 30, 2023

	GENERAL	INDIGENT CARE FUND	TOBACCO SETTLEMENT FUND
LIABILITIES			
Accounts Payable	3,855,301	--	--
Lease Payable (Note 9)	--	--	--
Accrued Payroll and Related Liabilities	316,423	--	--
Unearned Revenue (Note 10)	3,261,191	--	--
Due to General Fund	--	3,301	--
Long-term Liabilities-			
Accrued Paid Time Off (Note 11)	--	--	--
Lease Payable (Note 9)		--	--
Due to Local Provider Participation Fund	--		
Fund (Note 16)	9,159,393	--	--
TOTAL LIABILITIES	16,592,308	3,301	--
FUND EQUITY/NET POSITION			
Fund Balances:			
Nonspendable	149,264	--	--
Committed to: (Note 13)			
Intergovernmental Transfers	11,857,945	--	--
Indigent Care	--	57,105,061	--
Assigned to County Health Care	--	--	2,144
Unassigned	41,207,709	--	--
Total Fund Equity	53,214,918	57,105,061	2,144
TOTAL LIABILITIES AND FUND EQUITY	69,807,226	57,108,362	2,144
Net Position:			
Net Investment in Capital Assets			
Unrestricted			
TOTAL NET POSITION			

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

Exhibit 1
Continued

GOVERNMENTAL FUNDS TOTAL	ADJUSTMENTS EXHIBIT 2	STATEMENT OF NET POSITION
3,855,301	--	3,855,301
--	77,094	77,094
316,423	--	316,423
3,261,191	(3,261,191)	--
3,301	(3,301)	--
--	105,708	105,708
--	358,272	358,272
9,159,393	--	9,159,393
16,595,609	(2,723,418)	13,872,191
149,264	(149,264)	--
11,857,945	(11,857,945)	--
57,105,061	(57,105,061)	--
2,144	(2,144)	--
41,207,709	(41,207,709)	--
110,322,123	(110,322,123)	--
126,917,732		
	5,786,804	5,786,804
	113,471,129	113,471,129
	119,257,933	119,257,933

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Exhibit 2

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	110,322,123
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 the assets is $14,630,218 and the accumulated depreciation and amortization is $8,414,490 (Note 8).	5,786,804
Taxes receivable, net of allowance is not available to pay for current period expenditures and is, therefore, deferred in the governmental funds. (Note 7)	3,261,191
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)	(105,708)
Differences between the right-of-use assets and the District's lease liability under (GASB 87) not reported in the governmental funds	(6,477)
NET POSITION	119,257,933

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, 2023

	GENERAL	INDIGENT CARE FUND	TOBACCO SETTLEMENT FUND
Revenues:			
Taxes	38,357,980	--	--
Penalties and Interest - Taxes	378,310	--	--
Spohn Corporate Membership Revenue	29,884,824	--	--
Investment Income	3,166,848	2,227,738	2,082
Tobacco Settlement	--	--	710,315
Other (Note 8 and 16)	553,979	--	--
Total Revenue	72,341,941	2,227,738	712,397
Expenditures/Expenses:			
General Government	2,524,167	3,301	--
Health	59,210,425	--	--
Depreciation and Amortization	--	--	--
Capital Outlay	19,140	--	--
Total Expenditures/Expenses	61,753,732	3,301	--
Excess of Revenues Over Expenditures/Expenses	10,588,209	2,224,437	712,397
Other Financing Sources (Uses):			
Transfers In (Note 14)	711,000	--	--
Transfers Out (Note 14)	--	--	(711,000)
Total Other Financing Sources (Uses)	711,000	--	(711,000)
Net Change in Fund Balance/Net Position	11,299,209	2,224,437	1,397
Fund Balance/Net Position, Beginning of Year	41,915,709	54,880,624	747
FUND BALANCE/NET POSITION, END OF YEAR	53,214,918	57,105,061	2,144

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

Exhibit 3

GOVERNMENTAL FUNDS TOTAL	ADJUSTMENTS EXHIBIT 4	STATEMENT OF ACTIVITIES
38,357,980	(390,130)	37,967,850
378,310	--	378,310
29,884,824	--	29,884,824
5,396,668	--	5,396,668
710,315	--	710,315
553,979	(1,519)	552,460
75,282,076	(391,649)	74,890,427
2,527,468	16,047	2,543,515
59,210,425	--	59,210,425
--	291,396	291,396
19,140	(19,140)	--
61,757,033	288,303	62,045,336
13,525,043	(679,952)	12,845,091
711,000	(711,000)	--
(711,000)	711,000	--
--	--	--
13,525,043	(679,952)	12,845,091
96,797,080	9,615,762	106,412,842
110,322,123	8,935,810	119,257,933

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Exhibit 4

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	13,525,043
Amounts reported for governmental activities in the statement of net position are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of $260,762 and amortization of $30,635 was more than capital outlays of $19,140 and $1,519 loss on disposal of assets in the current period. (Note 8)	(273,775)
Lease payments related to (GASB 87) are recorded in the statement of activities but not reported in the governmental funds.	24,158
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.	(390,130)
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.	(40,205)
CHANGE IN NET POSITION	12,845,091

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

Exhibit 5

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

GENERAL FUND

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

YEAR ENDED SEPTEMBER 30, 2023

	ORIGINAL AND FINAL BUDGET	ACTUAL GAAP BASIS	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:			
Taxes	36,929,581	38,357,980	1,428,399
Penalties and Interest - Taxes	369,296	378,310	9,014
Spohn Corporate Membership Revenue	28,000,000	29,884,824	1,884,824
Investment Income	376,092	3,166,848	2,790,756
Other	250,000	553,979	303,979
Total Revenues	65,924,969	72,341,941	6,416,972
Expenditures:			
Current:			
General Government			
Administration:			
Personal Services	761,382	716,882	44,500
Materials and Supplies	62,400	47,487	14,913
Contractual Services	2,044,540	1,556,394	488,146
Other	223,105	202,954	20,151
Total Administration	3,091,427	2,523,717	567,710
Facilities Management -			
Materials and Supplies	1,800	450	1,350
Total General Government	3,093,227	2,524,167	569,060
Health:			
Personal Services	1,631,934	1,326,558	305,376
Materials and Supplies	39,300	33,450	5,850
Contractual Services	1,313,750	410,277	903,473
Intergovernmental Transfers (Note 11)	44,847,968	45,518,171	(670,203)
County Services	12,207,824	11,916,017	291,807
Other	9,500	5,952	3,548
Total Health	60,050,276	59,210,425	839,851
Capital Outlay	215,400	19,140	196,260
Total Current Expenditures	63,358,903	61,753,732	1,605,171
Excess Expenditures over Revenues	2,566,066	10,588,209	8,022,143
Other Financing Sources-			
Transfers In	600,000	711,000	111,000
Total Other Financing Sources	600,000	711,000	111,000
Net Change in Fund Balance	3,166,066	11,299,209	8,133,143
Fund Balance, Beginning of Year		41,915,709	
FUND BALANCE, END OF YEAR		53,214,918	

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

Exhibit 6

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, 2023

	ORIGINAL AND FINAL BUDGET	ACTUAL GAAP BASIS	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues -			
Investment Income	369,939	2,227,738	1,857,799
Expenditures -			
General Government -			
Consultant Fees	--	3,301	(3,301)
Total Other Financing Sources	--	3,301	(3,301)
Net Change in Fund Balance	369,939	2,224,437	1,854,498
Fund Balance, Beginning of Year		54,880,624	
FUND BALANCE, END OF YEAR		57,105,061	

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, 2023

	ORIGINAL AND FINAL BUDGET	ACTUAL GAAP BASIS	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:			
Tobacco Settlement	600,000	710,315	110,315
Investment Income	--	2,082	2,082
Total Revenues	600,000	712,397	112,397
Other Financing Uses -			
Transfers Out	(600,000)	(711,000)	(111,000)
Total Other Financing Uses	(600,000)	(711,000)	(111,000)
Net Change in Fund Balance	--	1,397	1,397
Fund Balance, Beginning of Year		747	
FUND BALANCE, END OF YEAR		2,144	

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

Exhibit 8-A

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

FIDUCIARY FUNDS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2023

	HEALTH BENEFIT PLAN AND TRUST FUND
ASSETS	
Cash and Cash Equivalents (Note 4)	46,867
Accrued Interest	287
Total Assets	47,154
LIABILITIES	
Due to General Fund	2,737
NET POSITION	
Held in Trust for Employee Health Benefits	44,417

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

Exhibit 8-B

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN NET POSITION

YEAR ENDED SEPTEMBER 30, 2023

	HEALTH BENEFIT PLAN AND TRUST FUND
ADDITIONS	
Interest	3,106
DEDUCTIONS	
Administration and General	1,448
Employee Benefits	21,547
Total Deductions	22,995
Net Decrease	(19,889)
Net Position, Beginning of Year	64,306
NET POSITION, END OF YEAR	44,417

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

Note 1 – REPORTING ENTITY

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

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

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

Formation and Background

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

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

1996 Transaction

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

Renegotiation of 1996 Transaction

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

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

2012 Spohn Membership Agreement

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

The District also provided Spohn the right to continue to use and operate the Memorial facilities and granted Spohn the right to make material alterations to the Memorial facilities upon reasonable review of the District. Spohn continued to have the right to use the Memorial campus and other facilities without rental obligation. Spohn continued to have the right to use the memorial hospital facility until Spohn completed its demolition 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.

2015 Transaction

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

Note 1 – REPORTING ENTITY – (Continuation)

- Authorize Spohn to construct the Family Health Center on the MMC campus, transition MMC inpatient beds, emergency room, and trauma services to Spohn's Shoreline hospital, and subsequently demolish the MMC hospital facility.
- Require Spohn to continue to (1) provide inpatient and outpatient indigent care services to Nueces Aid enrollees at the same levels as during prior periods through 2036; (2) make certain outpatient services available to Nueces Aid enrollees at the Family Health Center; (3) ensure appropriate availability of inpatient and outpatient psychiatric and behavioral health services to indigents at a location in Corpus Christi, Texas and analyze the most appropriate facility for such services in conjunction with House Bill 3793, 83rd Legislature, Regular Session, 2013 Plan for the Appropriate and Timely Provision of Mental Health Services, (4) ensure the community has constant access to an emergency department equipped to provide Level II trauma services at Shoreline prior to the demolition of the MMC hospital facility; (5) maintain at least two graduate medical education programs with comprehensive resident training available in both programs; and (6) make adequate and appropriately furnished and equipped space available at the Family Health Center for the District's enrollment officers and receptionist.
- Require Spohn to renovate Spohn's Shoreline hospital to enable it to have a sufficient number of inpatient beds, achieve Level II Trauma Center designation, and address emergency department capacity issues prior to the demolition of the MMC hospital facility.
- Following the termination of the Membership Agreement, (1) obligate Spohn to 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.

Effective November 2015, the Parties entered into an Amended and Restated Membership Agreement and Amended and Restated MOU (which include amendments to the suspended Master Agreement, Lease, and Revised and Restated Indigent Care Agreement) to memorialize the parties' various agreements under the Letter of Intent. The parties also entered into an Escrow Agreement with Bank of America serving as the escrow agent to maintain the funds that Spohn will deposit into escrow to secure its commitments under the Amended and Restated Membership Agreement and Amended and Restated MOU. By 2024, either party has the option to terminate the amended and restated Membership Agreement.

Note 1 – REPORTING ENTITY – (Continuation)

Memorial Campus

Governmental Accounting Standards Board No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets* requires that assets no longer used by the government be reported at lower of carrying value or fair value. The Memorial Hospital building was 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 demolished and is no longer in use, management determined that the building was impaired and wrote off the remaining net book value of $224,513 as of the year ended September 30, 2022.

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, deemed impaired and written off, portions of the Memorial campus are still in use. Management is considering alternative expansion plans for the Family Heath Center on the Memorial Campus.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES

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

A. Basic Financial Statements

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

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

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

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

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

B. Basis of Presentation

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

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

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

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

Additionally, the District reports the following fund type:

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

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

C. Basis of Accounting

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

Accrual

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

Modified Accrual

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

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

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

D. Budgets and Budgetary Accounting

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

E. Cash and Cash Equivalents

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

F. Investments

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

G. Receivables and Payables

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

H. Capital Assets

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

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

I. Compensated Absences

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

J. Leases

Nueces County Hospital District is a lessee for a noncancellable 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 noncancellable 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.

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 the Nueces County indigent residents during the term of the Agreement, without payment by the District to Spohn for such services, (2) operative provisions and parameters for Spohn's continued use of the District's Memorial Medical Center (MMC) facilities and satellite clinics during the term of the Agreement in a manner consistent with the substantive and maintenance provisions in the former Lease Agreement, without payment of rent by Spohn to the District for such use, and (3) a Spohn net patient revenue allocation and sharing arrangement between Spohn and the District, the amount of which is determined each year prior to October 1.

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

Note 3 – SPOHN MEMBERSHIP AGREEMENT (Continuation)

The Spohn Membership Agreement was amended and restated effective November 18, 2015 permitting Spohn to renovate and transform the MMC campus and improve facilities at its Christus Spohn Hospital Shoreline campus. Spohn has constructed a new Family Health Center on an unoccupied portion of the MMC campus, expanded its Shoreline campus Emergency Department, relocated the MMC trauma center to the Shoreline campus, and added in-patient bed capacity to that campus. With the addition, relocation, and expansions completed, the community has access to the health care services previously available at MMC and Spohn was allowed to cease operation of and demolish MMC. Neither party exercised its right to terminate the amended and restated Membership Agreement by providing written notice to the other party within 90 days of the expiration of the initial term on September 30, 2023, and therefore the amended and restated Membership Agreement was automatically renewed until September 30, 2028.

Annual Member Revenue Allocation

Each year under the Spohn Membership Agreement, Spohn and the District confer regarding the support necessary for the operations of Spohn over the ensuing fiscal year starting October 1. Spohn prepares a budget that contemplates any modifications or additions in cost to provide healthcare services at MMC and the Satellite Clinics. Upon review of the Spohn budget, economic resources of Spohn and the Members and other factors, Spohn and the District agree on a "Specified Annual Percentage", (as defined in the agreement), of Spohn's net patient revenue that the District will receive. Based on this year's estimate the District budgeted $28,000,000 and received $29,884,824 in member revenues for the year ended September 30, 2023.

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

Note 4 – CASH AND INVESTMENTS

The District's investment policies and types of investments are governed by the Texas Public Funds Investment Act ("PFIA"). The District's management believes that it has complied with the requirements of the PFIA and the District's investment policies.

Note 4 – CASH AND INVESTMENTS – (Continuation)

At September 30, 2023, the District segmented time distribution analysis of the portfolio by market sector is as follows, including the Health Benefit Trust:

		INVESTMENT MATURITIES IN YEARS	
	TOTAL	LESS THAN ONE YEAR	ONE TO THREE YEARS
Cash and Equivalents:			
Collateralized Bank Accounts	225,262	225,262	--
Money Market Mutual Funds - Fiduciary Funds	46,867	46,867	--
Petty Cash	300	300	--
AAA-Rate Local Government Investment Pools:			
Texpool	44,138,240	44,138,240	--
Logic	8,257,787	8,257,787	--
TexStar	3,457,525	3,457,525	--
Total Cash and Equivalents	56,125,981	56,125,981	--
Investments At Fair Value:			
Commercial Paper	15,622,946	15,622,946	--
Federal Home Loan Bank	22,179,206	10,611,770	11,567,436
Federal Home Loan Mortgage Corporation	9,398,523	--	9,398,523
Federal Farm Credit Banks	3,965,496	3,965,496	--
Municipal Bond	6,189,622	2,274,729	3,914,893
Total Investments	57,355,793	32,474,941	24,880,852
TOTAL VALUE	113,481,774	88,600,922	24,880,852
% of Total Portfolio	100%	78.08%	21.92%

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

Note 4 – CASH AND INVESTMENTS – (Continuation)

Investment Pools

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

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

All investments pools funds held by the District are rated AAAm by Standard & Poor's and comply with the PFIA. Investment pools are included in Cash and Cash Equivalents. A more detailed description of investment pools held by the District at September 30, 2023 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 made up by three participants and one of each of the program's professional administrators. The responsibility of the board includes the ability to influence operations, designation of management and accountability for fiscal matters.

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

Credit Risk

The primary stated objectives of the District's adopted Investment Policy are the safety of principal, liquidity, diversification and yield. Credit risk within the District's portfolio among the authorized investments approved by the District's adopted Investment Policy is present only in time and demand deposits, U.S. government agency bonds, repurchase agreements, commercial paper, municipal obligations and money market mutual funds. All investments are rated 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 the 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)

Credit Risk – (Continuation)

As of September 30, 2023, the cash and investments contained:

- FDIC insured or fully collateralized bank deposits representing .20% of the total portfolio;
- Investment in three local government investment pools representing 49.22% of the total portfolio;
- AAA-rated money market funds striving to maintain a $1 net asset value represented 0.04% of the total portfolio;
- US Government agency securities representing 31.32% of the total portfolio; and.
- Municipal Bonds representing 5.45% of the total portfolio.
- Commercial Paper representing 13.76% 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, 2023 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 43. As of September 30, 2023, holdings in the portfolio with stated maturity dates beyond one year representing 21.92% 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 counter-party of each type transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis.

Note 4 – CASH AND INVESTMENTS – (Continuation)

Custodial Credit Risk – (Continuation)

As of September 30, 2023, the portfolio contained no certificates of deposit and no repurchase agreements. The portfolio contained .20% in fully insured and collateralized demand deposit accounts. All pledged bank collateral for demand deposits was held by an independent institution outside the bank's holding company.

Restricted Cash

At September 30, 2023, the District held $9,159,393 in cash, for the benefit of the Local Provider Participation Fund (LPPF). See Note 15 for a description of the program.

Note 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

The fair market prices used for these fair market valuations of the Districts portfolio are all Level 2 and represent other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The investments held by the District as of September 30, 2023 are U.S. Government Agency Bonds, Commercial Paper and Municipal Bonds.

Note 6 – PROPERTY TAXES

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

Property taxes are considered available when collected within the current year. Property taxes attach as an enforceable lien on property as of January 1. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid before February 1 of the year following the October 1 levy date. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges as well as attorney costs. The assessed value of the roll-on January 1, 2022 upon which the levy for the 2023 fiscal year was based was $40,395,837,497.

The tax rate assessed for the year ended September 30, 2023 to finance general fund operations and the limited tax refunding bonds was $0.098846 per $100 valuation. Current tax collections for the year ended September 30, 2023 were 97% 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, 2022	CURRENT YEAR LEVY	TOTAL COLLECTIONS	ADJUSTMENTS	BALANCE SEPTEMBER 30, 2023
Delinquent Taxes Receivable	4,835,217	39,969,897	38,903,605	(1,441,219)	4,460,290
Allowance for Uncollectible Taxes	(1,183,897)	--	--	(15,202)	(1,199,099)
NET DELINQUENT TAXES RECEIVABLE	3,651,320	39,969,897	38,903,605	(1,456,421)	3,261,191

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

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

	BALANCE OCTOBER 1, 2022	ADDITIONS	REDUCTIONS	BALANCE SEPTEMBER 30, 2023
Capital Assets, Not Being Depreciated-				
Land	3,076,926	--	--	3,076,926
Capital Assets and Leases, Being Depreciated/ Amortized:				
Equipment	1,308,327	19,139	2,150	1,325,316
Buildings	9,768,452	--	--	9,768,452
Right-of-Use Building	--	459,524	--	459,524
Total Capital Assets and Leases Being Depreciated and Amortized	11,076,779	478,663	2,150	11,553,292
Less Accumulated Depreciation/Amortization for				
Equipment	1,206,476	36,151	631	1,241,996
Buildings	6,917,284	224,610	--	7,141,894
Right-of-Use Building	--	30,635	--	30,635
Total Accumulated Depreciation and Amortization	8,123,760	291,396	631	8,414,525
Total Capital Assets and Leases, Being Depreciated and Amortized, Net	2,953,019	187,267	1,519	3,138,767
TOTAL CAPITAL ASSETS AND LEASES, NET	6,029,945	187,267	1,519	6,215,693

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 $.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 financing 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.

An initial lease liability was recorded in the amount of $459,524. As of September 30, 2023, the value of the lease liability is $435,366. The lease has an interest rate of 8.25%, which was the incremental borrowing rate for the District. The value of the right-of-use asset as of September 30, 2023 is $428,889 net of accumulated amortization of $30,635.

Note 9 – RIGHT-OF-USE ASSET AND LEASES – (Continuation)

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

Year Ended September 30,	PRINCIPAL	INTEREST	TOTAL
2024	77,094	30,067	107,161
2025	85,302	23,931	109,233
2026	94,213	17,148	111,361
2027	103,887	9,663	113,550
2028	74,870	2,335	77,205
TOTAL	435,366	83,144	518,510

Note 10 – UNEARNED REVENUES

Unearned Revenue balances at September 30, 2023 consist of property taxes of $3,261,191.

Note 11 – LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the District for the year ended September 30, 2023:

	BALANCE OCTOBER 1, 2022	ADDITIONS	REDUCTIONS	BALANCE SEPTEMBER 30, 2023
Other Liabilities- Accrued Paid Time Off	65,503	163,734	123,529	105,708
TOTAL	65,503	163,734	123,529	105,708

Note 12 – INTERGOVERNMENTAL TRANSFERS (IGTs)

The District participates in the State sponsored Medicaid payment program serving as the Region 4 Anchor. The District provides IGT's for certain healthcare providers in Region 4 so they can participate in Medicaid payment programs. The District budgets IGTs based on provider's cost estimates. HHSC determines the amount of available State funds available to providers under the various Medicaid payment programs. After these complicated calculations are made by HHSC for all providers in the entire State, then HHSC calculates the amount of IGT needed by each provider and determines timing of the payments to providers. Therefore, of the District's budgeted $44,847,968 for IGT's, the District paid $45,518,171 in IGT's in the current fiscal year.

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

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

Note 13 – COMMITTED FUND BALANCE

As shown in the fund financial statements the Board of Managers committed an amount not to exceed $11,857,945 in the District's general fund balance to anticipated additional expenditures for IGTs arising from the District's participation in the Waiver during the year ended September 30, 2023.

Funds included in the Indigent Care Fund of $57,105,061 are committed to be used for indigent health care.

Note 14 – INTERFUND TRANSACTIONS AND BALANCES

Interfund transfers during the year ended September 30, 2023 were as follows:

	TRANSFERS OUT		
	GENERAL FUND	TOBACCO SETTLEMENT FUND	TOTAL
TRANSFERS IN			
General Fund	711,000	(711,000)	--
TOTAL	711,000	(711,000)	--

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, 2023, nineteen employees were enrolled in the plan.

The Plan is administrated by an outside party. Employees can contribute a percentage of their compensation as permitted by the Internal Revenue Code Section 403(b). The District can make a discretionary matching contribution ranging from 5% to 7% of the employee's earnings, based on tenure. The vesting schedule provides for employees to be 100% vested in their contributions. The District's contributions are vested at a rate of 20% per year of employment. The plan permits employees to borrow from the plan and the related administration cost thereof shall be borne by the employee participant. The normal retirement age has been designated as 65 years of age. During the year ended September 30, 2023, the District had retirement plan expense of $86,979.

Deferred Compensation Plan

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

Note 16 – LOCAL PROVIDER PARTICIPATION FUND

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

During the year ended September 30, 2023, Nueces County Hospital District collected $113,294,680 in mandatory payments from participating hospitals and made intergovernmental transfers of $126,236,210. As of September 30, 2023, the District held $9,159,393 in mandatory payments that will be used for future funding of eligible supplemental payment programs.

The District serves as the administrator of the LPPF. Accordingly, the District is authorized a fee for their administrative services. During the year ended September 30, 2023 the district received $300,000 fees for serving as administrator.

Note 17 – SUBSEQUENT EVENTS

Tax Revenues

One of our top ten taxpayers has disputed their values since 2018. The values through year 2022 have remained around. $1.1 billion. Under Texas Tax Code Section 111.104 - Refunds, taxpayers have the ability to pay the undisputed portion of their taxes while any disputed or protested amounts are resolved separately. The taxpayer chose to pay on the undisputed portion which has created underpayments totaling $4.2 million ($3.1 million for M&O and $1.1 million for I&S) to the district. Tax year 2023 values were set at $2.5 billion. At this time, it's uncertain what value the taxpayer will determine is undisputed. The additional underpayment for 2023 could range from $4.0 million to $4.3 million. We are actively engaged with relevant tax authorities and ensure compliance with all regulatory obligations.

Spohn Emergency Medicine Residency Program

In June 2024, the District will begin phasing in $21.250 million of funding to Spohn for support of their Emergency Medicine Residency Program; the funding will be spread over a 6-year period ending in 2030. In late 2023 Spohn elected to terminate the Program and County Commissioners and the public requested the District take action with Spohn to retain the Program in the community. The District plans to initially pay these funds from its reserves, but will be seeking external funding and consideration of a tax rate increase from Commissioners Court to offset these additional costs.

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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 22, 2024

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the governmental activities and each major fund of the Nueces County Hospital District, a component unit of Nueces County, Texas, as of and for the year ended September 30, 2023, 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 22, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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