Lubbock County Hospital District
d/b/a UMC Health System
A Component Unit of
Lubbock County, Texas

Independent Auditor's Report, Financial Statements, and Required Supplementary Information

December 31, 2023 and 2022

Contents

Forvis Mazars, LLP
14241 Dallas Parkway, Suite 1100
Dallas, TX 75254
P 972.702.8262 | F 972.702.0673
forvismazars.us

Independent Auditor's Report

Board of Managers
Lubbock County Hospital District
d/b/a UMC Health System
Lubbock, Texas

Opinion

We have audited the financial statements of Lubbock County Hospital District d/b/a UMC Health System (District), a component unit of Lubbock County, Texas, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, on January 1, 2023, the District adopted Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements.* Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 the 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 pension information listed in the table of contents 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 GAAS, 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.

Management has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Forvis Mazars, LLP

Dallas, Texas
June 26, 2024

Lubbock County Hospital District d/b/a UMC Health System
A Component Unit of Lubbock County, Texas
Balance Sheets
December 31, 2023 and 2022
(In Thousands)

	2023	2022 As Restated
ASSETS		
Current Assets		
Cash	$ 115,846	$ 74,328
Restricted cash	7,838	1,663
Investments	268,527	291,472
Patient accounts receivable, net of allowance; 2023 – $113,247, 2022 – $86,762	106,539	103,815
Property taxes receivable, net	28,519	17,943
Supplies	22,013	20,410
Supplemental Medicaid funding receivable	18,740	17,749
Estimated amounts due from third-party payors	7,666	10,921
Prepaid expenses and other	28,143	17,786
Total current assets	603,831	556,087
Noncurrent Cash and Investments		
Investments	44,616	61,276
Restricted by donors	29,364	23,122
Internally designated for self-insurance and other	17,300	16,909
Total noncurrent cash and investments	91,280	101,307
Capital Assets, Net	486,490	388,185
Subscription Assets, Net	56,498	66,193
Other Assets	27,611	28,600
Total assets	$ 1,265,710	$ 1,140,372

Lubbock County Hospital District d/b/a UMC Health System
A Component Unit of Lubbock County, Texas
Balance Sheets (Continued)
December 31, 2023 and 2022
(In Thousands)

	2023	2022 As Restated
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	$ 64,096	$ 31,843
Accrued payroll	30,894	27,432
Estimated self-insurance costs – current	3,961	3,718
Estimated amounts due to third-party payors	7,342	1,487
Other accrued liabilities	7,689	6,423
Intergovernmental transfer obligation	7,838	1,663
Provider Relief Fund revenue received in advance	3,253	3,301
Current portion of subscription liabilities	10,385	9,342
Total current liabilities	135,458	85,209
Estimated Self-insurance Costs	1,029	944
Other Postemployment Benefits	1,696	934
Subscription Liabilities, Noncurrent	45,908	55,158
Other Noncurrent Liabilities	3,655	3,618
Total liabilities	187,746	145,863
Net Position		
Net investment in capital assets	480,936	385,691
Restricted – nonexpendable	12,137	12,588
Restricted – expendable	30,959	25,272
Unrestricted	553,932	570,958
Total net position	1,077,964	994,509
Total liabilities and net position	$ 1,265,710	$ 1,140,372

Lubbock County Hospital District d/b/a UMC Health System
A Component Unit of Lubbock County, Texas
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2023 and 2022
(In Thousands)

	2023	2022 As Restated
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2023 – $79,677, 2022 – $59,969	$ 736,447	$ 669,658
Supplemental Medicaid funding	126,043	136,751
Other revenue	43,533	17,173
Total operating revenues	906,023	823,582
Operating Expenses		
Salaries, wages, and benefits	424,449	386,863
Purchased services and professional fees	222,257	188,279
Supplies and other	185,847	186,393
Depreciation and amortization	55,892	52,990
Total operating expenses	888,445	814,525
Operating Income	17,578	9,057
Nonoperating Revenues (Expenses)		
Property tax revenue	32,880	29,329
Investment return	25,421	153
Interest expense	(2,972)	(3,364)
Tobacco settlement and uncompensated trauma care	542	413
Gain on investment in equity investees	4,271	3,398
Noncapital grant revenue	1,224	5,418
Other nonoperating expense	(72)	(62)
Total nonoperating revenues (expenses)	61,294	35,285
Income Before Capital Grants and Gifts	78,872	44,342
Capital Grants and Gifts	4,583	19,498
Increase in Net Position	83,455	63,840
Net Position, Beginning of Year	994,509	930,669
Net Position, End of Year	$ 1,077,964	$ 994,509

Lubbock County Hospital District d/b/a UMC Health System
A Component Unit of Lubbock County, Texas
Statements of Cash Flows
Years Ended December 31, 2023 and 2022
(In Thousands)

	2023	2022 As Restated
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	$ 742,833	$ 614,478
Cash received from supplemental Medicaid funding programs	125,052	137,752
Net receipts from Local Provider Participation Fund	6,175	389
Payments to suppliers and contractors	(378,789)	(376,339)
Payments to or on behalf of employees	(422,497)	(388,473)
Other receipts	38,947	15,202
Net cash provided by operating activities	111,721	3,009
Cash Flows from Noncapital Financing Activities		
Receipt of property taxes supporting operations	22,304	28,758
Proceeds received from tobacco settlement and uncompensated trauma care	136	413
Proceeds from contributions	2,651	978
Proceeds from grant funds	1,176	5,436
Net cash provided by noncapital financing activities	26,267	35,585
Cash Flows from Capital and Related Financing Activities		
Capital grants and gifts	5,815	5,904
Purchase of capital assets	(143,853)	(101,556)
Principal payments on subscription liabilities	(9,955)	(9,871)
Interest paid on subscription liabilities	(2,972)	(3,364)
Net cash used in capital and related financing activities	(150,965)	(108,887)
Cash Flows from Investing Activities		
Income on investments	23,054	7,616
Purchase of investments	(39,867)	(48,639)
Maturities and sales of investments	82,270	73,258
Distributions from equity investee	2,012	4,497
Other investing activities	311	338
Net cash provided by investing activities	67,780	37,070
Increase (Decrease) in Cash and Cash Equivalents	54,803	(33,223)
Cash and Cash Equivalents, Beginning of Year	86,919	120,142
Cash and Cash Equivalents, End of Year	$ 141,722	$ 86,919

Lubbock County Hospital District d/b/a UMC Health System
A Component Unit of Lubbock County, Texas
Statements of Cash Flows (Continued)
Years Ended December 31, 2023 and 2022
(In Thousands)

	2023	2022 As Restated
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash in current assets	$ 123,684	$ 75,991
Cash and cash equivalents in noncurrent investments	2,190	358
Cash and cash equivalents in assets restricted by donors	15,848	10,570
Total cash and cash equivalents	$ 141,722	$ 86,919
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 17,578	$ 9,057
Depreciation and amortization	55,892	52,990
Provision for uncollectible accounts	79,677	58,631
Changes in operating assets and liabilities		
Patient accounts receivable, net	(82,401)	(70,924)
Supplemental Medicaid funding receivable	(991)	1,001
Estimated amounts due from and to third-party payors	9,110	656
Intergovernmental transfer obligation	6,175	389
Accounts payable and accrued expenses	38,746	(7,945)
Medicare Advance Payments	-	(43,543)
Other assets and liabilities	(12,065)	2,697
Net cash provided by operating activities	$ 111,721	$ 3,009
Noncash Investing, Capital, and Financing Activities		
Capital asset acquisitions included in accounts payable	$ 5,489	$ 7,843
Subscription liabilities incurred for subscription assets	$ 1,748	$ 3,243

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Lubbock County Hospital District d/b/a UMC Health System (District) is a political subdivision of the state of Texas and operates University Medical Center (UMC) on the Texas Tech University Health Sciences Center (TTUHSC) campus in Lubbock, Texas. UMC is a teaching hospital for the Texas Tech University School of Medicine, is licensed for 494 beds, and primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in Lubbock County and surrounding areas. The District is governed by a Board of Managers (Board) appointed by the Commissioners Court of Lubbock County (County).

UMC Physicians (UMCP) is a taxable nonprofit corporation organized for the purpose of delivering physician-related primary healthcare to the residents of the District's primary service area. The District is the sole corporate member of UMCP and has the District to exercise significant control over and absorb all losses from the financial operations of UMCP. As such, UMCP is presented as a blended component unit of the District. Separate financial statements of UMCP can be obtained by contacting the District's management.

UMC Foundation (Foundation) is a nonprofit corporation organized to support and benefit scientific, education, and charitable activities conducted by the District. The Foundation is a nonprofit organization whose purpose is to perform services on behalf of the District, including organizing fundraising activities. Because the Foundation operates primarily for the exclusive benefit of the District, it is presented as a blended component unit of the District. Separate financial statements of the Foundation can be obtained by contacting the District's management.

UMC Holding, Inc. (Holding) is a nonprofit corporation organized to hold title to property, collect revenues therefrom, pay expenses, and remit net profits to the District. The Board serves as Holding's board of directors and Holding is presented as a blended component unit of the District. Holding does not issue separate financial statements.

UMC Health Network, Inc. (Health Network) is a taxable nonprofit corporation organized for delivery of various modalities of healthcare. The District is the sole member of Health Network and the District appoints the board of directors of Health Network. Health Network is presented as a blended component unit of the District. Health Network does not issue separate financial statements.

UMC Accountable Care, LLC (UMC ACO) is a taxable nonprofit corporation organized for operating an accountable care organization (ACO) as defined in the *Patient Protection and Affordable Care Act*, as amended by the *Health Care and Education Reconciliation Act of 2012*. Effective December 2021, UMC ACO no longer operates an ACO and transactions during the year ended December 31, 2022 were primarily related to the wind-down of the organization. UMC ACO did not have any financial transactions during the year ended December 31, 2023. Health Network is the sole member of the UMC ACO. UMC ACO is presented as a blended component unit of the District. UMC ACO does not issue separate financial statements.

The District holds a 50% interest in South Plains Rehabilitation Hospital (South Plains), which is accounted for using the equity method of accounting. South Plains was formed to provide inpatient rehabilitation services for stroke, brain injury, and other complex neurological and orthopedic conditions.

The District holds a 50% interest in UMC Home Health and Hospice (UMC Home Health), which is accounted for using the equity method of accounting. UMC Home Health was formed to provide adult and pediatric home health and hospice services in Lubbock, Texas.

The District's financial statements include the activities set forth above. All material intercompany accounts and transactions have been eliminated in the financial statements.

Basis of Accounting and Presentation

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program-specific, property taxes, investment income, and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2023 and 2022, cash equivalents consisted primarily of money market accounts with brokers.

Property Taxes

The District received approximately 3.4% of its financial support from property taxes in both 2023 and 2022. The property tax revenue was used to support operations in both 2023 and 2022.

Property taxes are levied by the District on October 1 of each year based on the preceding January 1 assessed property values. To secure payment, an enforceable lien attaches to the property on January 1 when the value is assessed. Property taxes become due and payable when levied on October 1. This is the date on which enforceable legal claims arise and the District records a receivable for the property tax assessment less an allowance for uncollectible taxes. Property taxes are considered delinquent after January 31 of the following year. The District recorded an allowance for uncollectible property taxes of $1,377 and $1,376 at December 31, 2023 and 2022, respectively.

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice, employee health claims, and workers' compensation claims. UMCP purchases commercial insurance coverage for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District is self-insured for a portion of its exposure to risk of loss from medical malpractice, employee health claims, and workers' compensation claims. UMCP is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of medical malpractice, employee health claims, and workers' compensation claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in U.S. Treasury, agency, and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in non-negotiable certificates of deposit are carried at amortized cost. Investments in equity investees are reported on the equity method of accounting. Investments in external investment pools qualifying for amortized cost under GASB Statement No. 79, *Certain External Investment Pools and Pool Participants,* are carried at amortized cost per share. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value, and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. The District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost or market. Costs are determined using the first-in, first-out method.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the District:

Land improvements	10–20 years
Buildings and leasehold improvements	10–40 years
Equipment	3–20 years

Subscription Assets

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at or before the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor and certain payments made before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying IT asset.

Capital and Subscription Asset Impairment

The District evaluates capital and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or subscription asset has occurred. If a capital or subscription asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended December 31, 2023 and 2022.

Compensated Absences

The District's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash.

Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized.

Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the District is classified in four components on its balance sheets:

- Net investment in capital assets consists of capital and subscription assets net of accumulated depreciation and amortization and reduced by the outstanding balances of borrowings used to finance the purchase, use, or construction of those assets.
- Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the District.
- Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the District, such as permanent endowments.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known.

Single-Employer Defined Benefit Pension Plans

The District has two single-employer benefit pension plans: 1) supplemental retirement plan (SRP) and 2) excess benefit plan (EBP) (Plans). For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Charity Care

The District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government function of the County, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code (IRC) and a similar provision of state law. The District and the Foundation also carry an exemption from income taxes under IRC Section 501(c)(3). Holding is exempt from income taxes under IRC Section 501(c)(2). The District, the Foundation, and Holding are all subject to federal income tax on any unrelated business taxable income.

UMCP, Health Network, and UMC ACO are taxable for federal income tax purposes.

UMCP has net operating loss carryforwards. The net operating loss carryforwards arising from tax years prior to 2018 have started to expire, as they are not utilized. Net operating loss carryforwards arising from tax years beginning in 2018 and onward carry forward indefinitely for future utilization. Management has provided a valuation allowance for the entire balance of the deferred tax asset. The valuation allowance was established due to the uncertainties regarding the realization of the tax benefits in future years and because it is more likely than not that some portion or all of the deferred tax asset may not be realized.

Change in Accounting Principle

On January 1, 2023, the District adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, using a retrospective method of adoption to all SBITAs in place and not yet completed at the beginning of the earliest period presented, January 1, 2022. The statement requires governmental entities to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The 2022 financial statements and notes to the financial statements were restated to reflect the impact of this adoption.

The effects of the changes made to the accompanying financial statements for the adoption of GASB 96 as of and for the year ended December 31, 2022 are shown on the next page.

(In Thousands)

	2022 (As Previously Reported)	Effect of Adoption	2022 (As Restated)
Balance Sheet			
Prepaid expenses and other	$ 21,429	$ (3,643)	$ 17,786
Total current assets	$ 559,730	$ (3,643)	$ 556,087
Subscription assets, net	$ -	$ 66,193	$ 66,193
Total assets	$ 1,077,822	$ 62,550	$ 1,140,372
Other accrued liabilities	$ 5,636	$ 787	$ 6,423
Current portion of subscription liabilities	$ -	$ 9,342	$ 9,342
Total current liabilities	$ 75,080	$ 10,129	$ 85,209
Subscription liabilities, noncurrent	$ -	$ 55,158	$ 55,158
Total liabilities	$ 80,576	$ 65,287	$ 145,863
Net investment in capital assets	$ 384,490	$ 1,201	$ 385,691
Unrestricted net position	$ 574,896	$ (3,938)	$ 570,958
Total net position	$ 997,246	$ (2,737)	$ 994,509
Total liabilities and net position	$ 1,077,822	$ 62,550	$ 1,140,372
Statement of Revenues, Expenses, and Changes in Net Position			
Purchased services and professional fees	$ 200,081	$ (11,802)	$ 188,279
Depreciation and amortization	$ 41,815	$ 11,175	$ 52,990
Total operating expenses	$ 815,152	$ (627)	$ 814,525
Operating income	$ 8,430	$ 627	$ 9,057
Interest expense	$ -	$ (3,364)	$ (3,364)
Total nonoperating revenues (expenses)	$ 38,649	$ (3,364)	$ 35,285
Income before capital grants and gifts	$ 66,577	$ (2,737)	$ 63,840
Net position, end of year	$ 997,246	$ (2,737)	$ 994,509
Statement of Cash Flows			
Payments to suppliers and contractors	$ (389,575)	$ 13,236	$ (376,339)
Net cash provided by (used in) operating activities	$ (10,227)	$ 13,236	$ 3,009
Principal payments on subscription liabilities	$ -	$ (9,871)	$ (9,871)
Interest paid on subscription liabilities	$ -	$ (3,364)	$ (3,364)
Net cash used in capital and related financing activities	$ (95,651)	$ (13,236)	$ (108,887)
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities			
Operating income	$ 8,430	$ 627	$ 9,057
Depreciation and amortization	$ 41,815	$ 11,175	$ 52,990
Accounts payable and accrued expenses	$ (8,732)	$ 787	$ (7,945)
Other assets and liabilities	$ 2,050	$ 647	$ 2,697
Net cash provided by (used in) operating activities	$ (10,227)	$ 13,236	$ 3,009
Noncash Investing, Capital, and Financing Activities			
Subscription liabilities incurred for subscription assets	$ -	$ 3,243	$ 3,243

Note 2. Net Patient Service Revenue

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. These payment arrangements include:

Medicare Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain inpatient nonacute services and defined medical education costs are paid based on a cost reimbursement methodology. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.

Medicaid Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment system. Inpatient reimbursement is inclusive of an add-on for trauma care that is based on the Medicaid Standard Dollar Amount. Outpatient and physician services rendered to Medicaid program beneficiaries are reimbursed under a mixture of fee schedules and cost reimbursement. The District is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid administrative contractor.

Approximately 49% and 48% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2023 and 2022, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term. Settlements under reimbursement agreements with Medicare and Medicaid programs are estimated and recorded in the period the related services are rendered and are adjusted in future periods as adjustments become known or as the service years are no longer subject to audit, review, or investigation.

The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Note 3. Supplemental Medicaid Funding Revenue

In response to the growing number of uninsured patients and the rising cost of healthcare, the Texas Legislature established a Texas Medicaid Disproportionate Share Program (DSH Program) that was designed to assist those facilities serving the majority of indigent patients by providing funds supporting increased access to healthcare within the community. This program allows the Texas Health and Human Services Commission (HHSC) to levy assessments from certain hospitals, use the assessed funds to obtain federal matching funds, and then redistribute the total funds to those facilities serving a disproportionate share of indigent patients in the state of Texas.

On December 12, 2011, the U.S. Department of Health and Human Services (HHS) approved a Medicaid section 1115(a) demonstration entitled “Texas Health Transformation and Quality Improvement Program” (Waiver). The Waiver expanded existing Medicaid managed care programs and established two funding pools that assist providers with uncompensated care costs (UC Pool) and promote health system transformation (DSRIP Pool). The revenue from the two funding pools is recognized as earned throughout the related demonstration year.

The Waiver was originally effective from December 12, 2011 to September 30, 2016 and extended through December 2017 as the HHSC and the Centers for Medicare and Medicaid Services (CMS) negotiated a longer-term extension. On December 21, 2017, HHSC received an approved extension from CMS for the period of January 1, 2018 through September 30, 2022. Among other changes, the approved plan required a change in the methodology used to allocate UC funds and a phaseout of the DSRIP program over the five-year period. On April 22, 2022, CMS approved an extension of the Waiver through September 30, 2030. The DSRIP program ended on September 30, 2021 and was not extended under the Waiver extension.

CMS has also approved a number of directed payment programs. The directed payment programs the District participates in are discussed more fully below:

- Comprehensive Hospital Increased Reimbursement Program (CHIRP) – CHIRP began on September 1, 2021 with a uniform percentage rate increase to all hospitals within a particular class of hospitals as well as a quality component, which participating hospitals may opt into. The state's share of CHIRP funding is funded through intergovernmental transfers from certain hospitals, including the District. CHIRP will require annual approval by CMS and has been approved through August 31, 2024. Revenue from CHIRP is part of the claims payment from the Medicaid managed care organizations and is recognized as a component of net patient service revenue in the accompanying statements of changes in revenues, expenses, and changes in net position.
- Network Access Improvement Program (NAIP) – NAIP aims to increase the availability and effectiveness of primary care for Medicaid by providing incentive payments to participating Health Related Institutions (HRIs). Participation is voluntary and requires HRIs to create a proposal in partnership with a managed care organization (MCO). When the proposal is approved by HHSC, the costs associated with the incentive payments are added to the monthly capitation rates paid to the MCO and the MCOs are responsible for making payments to the HRIs, such as the District. Under federal law, pass-through payments to hospitals, like NAIP, must be phased out by July 1, 2027.
- Medicaid Graduate Medical Education (GME) supplemental payment program – The GME program provides reimbursement to support teaching hospitals that operate approved medical residency training programs in recognition of the higher costs incurred by teaching hospitals.
- Texas Incentives for Physicians and Professional Services Program (TIPPS) – TIPPS is a directed payment program for certain physician practice groups providing healthcare services to children and adults enrolled in the STAR, STAR+PLUS and STAR Kids Medicaid managed care programs. Eligible physician practice groups include HRIs, indirect medical education physician practice groups affiliated with hospitals, and other physician practice groups.
- Public Hospital Augmented Reimbursement Program (HARP) – HARP is a statewide supplemental program that provides Medicaid payments to certain hospitals for inpatient and outpatient services that serve Texas Medicaid fee-for-service patients. The program serves as a financial transition for providers historically participating in the DSRIP program and provides additional funding to participating hospitals to assist in offsetting the cost hospitals incur while providing Medicaid services.

(In Thousands)

Revenue from these programs is recognized throughout the program year as services are rendered and the revenue is earned. Revenue recognized from all programs that are not components of claims payments (CHIRP) is included as supplemental Medicaid funding within operating revenues in the accompanying statements of revenues, expenses, and changes in net position as follows:

	2023	2022
DSH Program	$ 28,789	$ 30,596
UC Pool	51,442	44,522
DSRIP	-	4,517
NAIP	41,722	46,275
GME	3,965	3,406
TIPPS	(2,345)	3,254
HARP	2,470	4,181
	$ 126,043	$ 136,751

Accounts receivable under the programs listed above were $12,430 and $12,241 at December 31, 2023 and 2022, respectively, and are included as a component of the supplemental Medicaid funding receivable in the balance sheets. At December 31, 2023 and 2022, the District recorded $6,310 and $5,508, respectively, of prepaid intergovernmental transfers, which the District is required to contribute as the state share of CHIRP funding, which is included as a component of the supplemental Medicaid funding receivable in the accompanying balance sheets.

The programs described above are subject to review and scrutiny by both the Texas Legislature and CMS, and the programs could be modified or terminated based on new legislation or regulation in future periods. The funding the District has historically received from these programs is not representative of funding to be received in future years.

Note 4. Local Provider Participation Fund

The District participates in a Local Provider Participation Fund (LPPF) in the County. The District acts as the administrator of the LPPF by assessment and collection of mandatory payments from hospitals in the County. These payments are to be used to fund intergovernmental transfers representing the state's share of supplemental Medicaid funding program. As the District acts a conduit for these funds, the receipts and intergovernmental transfers are not recognized as revenues and expenses in the statements of revenues, expenses, and changes in net position. At December 31, 2023 and 2022, the District held $7,838 and $1,663, respectively, in mandatory payments that will be transferred in the following year.

Note 5. Deposits, Investments, and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance or other qualified investments.

(In Thousands)

At December 31, 2023, the District's bank deposits were fully insured or collateralized. Health Network's cash accounts exceeded federally insured limits by $3,272 at December 31, 2023.

Investments

The District may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At December 31, the District had the following investments and maturities:

	December 31, 2023			
		Maturities in Years		
Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**
U.S. agencies obligations	$ 68,600	$ 17,725	$ 29,254	$ 21,621
Municipal bonds	7,196	1,638	5,558	-
Corporate bonds	2,976	591	2,292	93
		$ 19,954	$ 37,104	$ 21,714
Money market mutual funds	2,190			
Investment pools	217,921			
Equity securities	9,026			
Mutual funds	963			
	$ 308,872			

	December 31, 2022			
		Maturities in Years		
Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**
U.S. agencies obligations	$ 83,702	$ 14,329	$ 61,394	$ 7,979
Municipal bonds	4,466	-	4,466	-
Corporate bonds	3,024	398	2,253	373
		$ 14,727	$ 68,113	$ 8,352
Money market mutual funds	358			
Investment pools	245,114			
Equity securities	8,832			
Mutual funds	726			
	$ 346,222			

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy prohibits individual investment maturities from exceeding 10 years and the weighted-average life cannot exceed five years. The longer the maturity of a fixed rate bond or note, the greater the impact a change in interest rates will have on its fair value. As interest rates increase, the fair values of the notes and bonds decrease. Likewise, when interest rates decrease, the fair values of the notes and bonds increase. Certain investments are presented as investments with maturity of less than one year because they are redeemable in full immediately.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District has developed an investment policy that addresses the limitation of credit risk or otherwise follows the restrictions of the *Texas Public Funds Investment Act*. UMC and UMCP are restricted to purchases of investments in mortgage-backed securities, other government agencies, government pooled funds, certificates of deposit, repurchase agreements, and general obligation bonds of the state of Texas. The Foundation has invested in corporate bonds, mutual funds, and equity securities. The notes and bonds of the U.S. government-sponsored entities and municipal bonds include ratings that range from AA- to AAA by Standard & Poor's (S&P) rating agency. UMC's investment pools include local government investment pools that are AAAm rated by S&P. The Foundation's corporate bonds include ratings that range from BBB+ to AA+ by S&P. Other investments that include mortgage-backed securities, mutual funds, and equity securities are not rated.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the District are held in safekeeping or trust accounts.

Concentration of Credit Risk

The District's investment policy seeks to diversify the use of investment instruments, maturities, and individual financial institutions to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, maturities, or individual financial institutions.

Investment in State Investment Pools

The District invests in TexPool and TexSTAR. 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. TexPool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

TexSTAR's governing body is a five-member board of directors. Three directors are officers or employees of participants; one director is an officer or employee of Hilltop Securities, Inc.; and the final director is an officer or employee of an affiliate of J.P. Morgan Asset Management, Inc. TexSTAR's bylaws also require the board of directors to appoint an advisory board.

The advisory board currently consists of six members, each of whom is either (1) a representative of a participant or (2) a person who has no business relationship with the board of directors, but who is qualified to advise the board of directors. The advisory board shall at all times include at least one member of each such designation.

(In Thousands)

The following table reflects the District's investments in single issuers that represent more than 5% of total investments:

	2023	2022
Federal National Mortgage Association	7.1%	8.3%
Federal Home Loan Mortgage Corp.	6.0%	6.6%

Summary of Carrying Values

The carrying values of deposits and investments shown on the previous page are included in the accompanying balance sheets as follows:

	2023	2022
Carrying value		
Deposits	$ 174,619	$ 122,548
Investments	308,872	346,222
	$ 483,491	$ 468,770
Included in the following balance sheet captions		
Cash and restricted cash	$ 123,684	$ 75,991
Short-term investments	268,527	291,472
Noncurrent cash and investments	91,280	101,307
	$ 483,491	$ 468,770

Investment Income

Investment income for the years ended December 31 consisted of:

	2023	2022
Interest income	$ 23,100	$ 7,850
Net change in fair value of investments	2,321	(7,697)
Total investment income	$ 25,421	$ 153

(In Thousands)

Note 6. Patient Accounts Receivable

The District grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. Patient accounts receivable at December 31 consisted of:

	2023	2022
Medicare	$ 30,024	$ 29,283
Medicaid	10,461	11,127
Other third-party payors	114,465	95,466
Patients	64,836	54,701
	219,786	190,577
Less allowance for uncollectible accounts	113,247	86,762
	$ 106,539	$ 103,815

Note 7. Capital and Subscription Assets

Capital assets activity for the years ended December 31 was:

	2023				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 19,450	$ -	$ -	$ -	$ 19,450
Land improvements	12,788	360	(115)	-	13,033
Buildings and improvements	376,028	362	(5,539)	126,241	497,092
Equipment	337,207	56,001	(68,650)	2,135	326,693
Leasehold improvements	8,519	-	(653)	(5,166)	2,700
Construction in progress	78,144	85,782	-	(123,210)	40,716
	832,136	142,505	(74,957)	-	899,684
Less accumulated depreciation					
Land improvements	11,773	392	(113)	-	12,052
Buildings and improvements	170,643	14,559	(5,312)	-	179,890
Equipment	259,129	28,793	(68,656)	-	219,266
Leasehold improvements	2,406	223	(643)	-	1,986
	443,951	43,967	(74,724)	-	413,194
Capital assets, net	$ 388,185	$ 98,538	$ (233)	$ -	$ 486,490

(In Thousands)

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 19,450	$ -	$ -	$ -	$ 19,450
Land improvements	12,602	186	-	-	12,788
Buildings and improvements	355,985	362	-	19,681	376,028
Equipment	303,984	32,136	(17)	1,104	337,207
Leasehold improvements	3,191	-	-	5,328	8,519
Construction in progress	33,486	70,771	-	(26,113)	78,144
	728,698	103,455	(17)	-	832,136
Less accumulated depreciation					
Land improvements	11,543	230	-	-	11,773
Buildings and improvements	156,881	13,762	-	-	170,643
Equipment	232,775	26,371	(17)	-	259,129
Leasehold improvements	2,114	292	-	-	2,406
	403,313	40,655	(17)	-	443,951
Capital assets, net	$ 325,385	$ 62,800	$ -	$ -	$ 388,185

The District has approved various capital improvement projects and the construction of a new cancer center that will be completed over the next three years that have a total estimated cost of completion of $159,000.

Subscription asset activity for the years ended December 31 was:

	2023			
	Beginning Balance	Additions	Retirements	Ending Balance
Subscription IT assets	$ 77,367	$ 1,748	$ (1,011)	$ 78,104
Less accumulated amortization				
Subscription IT assets	11,174	11,443	(1,011)	21,606
Subscription IT assets, net	$ 66,193	$ (9,695)	$ -	$ 56,498

(In Thousands)

	2022 (As Restated)			
	Beginning Balance	Additions	Retirements	Ending Balance
Subscription IT assets	$ 74,124	$ 3,243	$ -	$ 77,367
Less accumulated amortization				
Subscription IT assets	-	11,174	-	11,174
Subscription IT assets, net	$ 74,124	$ (7,931)	$ -	$ 66,193

Note 8. Subscription Liabilities

The District has various SBITAs, the terms of which expire in various years through 2030. Variable payments based upon the use of the underlying asset are not included in the subscription liability because they are not fixed in substance.

The following is a summary of subscription liability transactions for the District for the years ended December 31:

	2023				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Subscription liabilities	$ 64,500	$ 1,748	$ (9,955)	$ 56,293	$ 10,385

	2022 (As Restated)				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Subscription liabilities	$ 71,128	$ 3,243	$ (9,871)	$ 64,500	$ 9,342

The following is a schedule by year of payments under the SBITAs as of December 31, 2023:

Year Ending December 31,	Total to Be Paid	Principal	Interest
2024	$ 12,920	$ 10,385	$ 2,535
2025	10,526	8,459	2,067
2026	9,281	7,607	1,674
2027	9,110	7,830	1,280
2028	7,700	6,968	732
2029–2030	15,956	15,044	912
	$ 65,493	$ 56,293	$ 9,200

Note 9. Risk Management

Professional and General Liability Risk

The District is self-insured for medical malpractice and general liability claims. The District's maximum liability for professional and general liability claims as a governmental unit under the *Tort Claims Act* is generally $100 per individual and $300 per occurrence.

Losses from asserted and unasserted claims identified under the District's incident reporting system are accrued based on estimates that incorporate the District's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. It is reasonably possible that the District's estimate of losses will change by a material amount in the near term.

UMCP purchases medical malpractice insurance under a claims-made policy on a fixed premium basis and general liability insurance under an occurrence basis policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents.

Based upon UMCP's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Employee Health Claims

Substantially all of the District's employees and their dependents are eligible to participate in the District's employee health insurance plan. Commercial stop-loss insurance coverage is purchased for claims in excess of $100 for UMCP. Commercial stop-loss insurance coverage was purchased for claims in excess of $500 for the District during the year ended December 31, 2022. The District's stop-loss insurance coverage expired effective January 1, 2023 and was not renewed. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the District's estimate will change by a material amount in the near term.

Workers' Compensation Claims

The District is self-insured for workers' compensation claims. Commercial stop-loss insurance coverage is purchased for workers' compensation claims in excess of $600. A provision is accrued for self-insured workers' compensation claims including both claims reported, and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the District's estimate will change by a material amount in the near term.

UMCP purchases workers' compensation insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of workers' compensation claim costs, if any, for any reported and unreported incidents occurring during the year by estimating the probable ultimate costs of the incidents. Based upon UMCP's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

(In Thousands)

Activity in the District's self-insured claims liability accounts during 2023, 2022, and 2021 is summarized below:

	2023		
	Employee Healthcare Benefits	Workers' Compensation	General and Professional Liability
Balance, beginning of year	$ 2,390	$ 1,526	$ 746
Current year claims incurred and changes in estimates for claims incurred in prior years	24,352	1,059	315
Claims and expenses paid, net	(24,124)	(1,132)	(142)
Balance, end of year	$ 2,618	$ 1,453	$ 919

	2022		
	Employee Healthcare Benefits	Workers' Compensation	General and Professional Liability
Balance, beginning of year	$ 1,434	$ 1,826	$ 817
Current year claims incurred and changes in estimates for claims incurred in prior years	22,793	734	114
Claims and expenses paid, net	(21,837)	(1,034)	(185)
Balance, end of year	$ 2,390	$ 1,526	$ 746

	2021		
	Employee Healthcare Benefits	Workers' Compensation	General and Professional Liability
Balance, beginning of year	$ 1,721	$ 1,600	$ 910
Current year claims incurred and changes in estimates for claims incurred in prior years	17,021	1,200	114
Claims and expenses paid, net	(17,308)	(974)	(207)
Balance, end of year	$ 1,434	$ 1,826	$ 817

Note 10. Restricted and Designated Net Position

At December 31, 2023 and 2022, $17,300 and $16,909, respectively, of unrestricted net position has been designated by the Board for self-insurance liability coverage, pension obligations, and support of programs at TTUHSC. Designated net position remains under the control of the Board, which may at its discretion later use this net position for other purposes.

At December 31, 2023 and 2022, $12,137 and $12,588, respectively, of net position is restricted under donor endowments whereby the Foundation is the beneficiary.

At December 31, 2023 and 2022, $31,284 and $25,272, respectively, of net position was restricted by donors for capital and operating activities.

Note 11. Charity Care

In support of its mission, the District voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. The costs of charity care provided under the District's charity care policy was $95,385 and $93,374 for 2023 and 2022, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 12. Benefit Plans

Defined Contribution Plan

Part-time and full-time employees of the District may elect to participate in a tax-sheltered annuity plan under Sections 403(b) and 457 of the IRC after completion of 90 days of service. An employee may contribute earnings up to the maximum amount allowable by law and direct contributions to the investment account selected by the employee. UMC matches employees' contributions up to 2% of the employees' annual salary during the first five years of service, 3% after five years of service, 4% after eight years of service, 5% after 11 years of service, 6% after 15 years of service, 7% after 20 years of service, and 8% after 25 years of service. The annuity plan is administered by the District. The annuity plan provisions and contribution requirements are established and may be amended by District administration. The employees are vested in 100% of the contributions to the plan at the time the contributions are made. Employees contributed $12,677 and $12,195 for the years ended December 31, 2023 and 2022, respectively. The District contributed $9,734 and $8,364 for the years ended December 31, 2023 and 2022, respectively.

Defined Benefit Plans

Plan Description

The District has established a supplemental retirement plan (SRP) and an excess benefit plan (EBP) (Plans) for the benefit of three executives. Two of the executives are active employees and one is a retired employee currently receiving benefits. The District serves as the Plans' administrator and the Plans' assets are invested in trust funds with a bank serving as trustee. The EBP's assets are subject to the District's creditors. Amendments to the Plans are made only with the authority of the District's Board of Managers. The Plans do not issue stand-alone financial reports. However, an annual actuarial valuation report is available from the District. The Board has sole authority to establish or amend the obligations to contribute to the Plans by participants or the District.

Benefits Provided

The Plans provide retirement, disability, and death benefits. Retirement benefits for eligible employees are defined dollar amounts specified in the Plans' documents. Participants are eligible to retire at their normal retirement date unless an early retirement date is specified in the Plans' documents. Disability retirement benefits and death benefits are determined in the same manner as retirement benefits.

(In Thousands)

Contributions

The District's contributions are based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the established amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Net Pension Liability

The District's net pension liability relates to the SRP and was measured as of December 31, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The total pension liability was determined using the following actuarial assumptions:

Inflation	3.25%
Salary increases	3.25%
Investment rate of return	4%, net of investment expense, including inflation

All of the SRP's assets are invested in fixed income securities.

Discount Rate

The discount rate used to measure the total pension liability of the SRP was 4% at December 31, 2023 and 2022. The projection of cash flows used to determine the discount rate assumed that District contributions will be made in amounts consistent with the most recent five-year District contribution history. Based on those assumptions, the SRP's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on the SRP's investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the total pension liability, fiduciary net position, and net pension liability of the SRP for the years ended December 31 are:

	2023		
	Total Pension Liability (a)	**Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**
Balance at December 31, 2022	$ 5,567	$ 4,674	$ 893
Changes for the year			
Service cost	398	-	398
Interest	248	-	248
Change of benefit terms	868	-	868
Differences between expected and actual experience	(1)	-	(1)
Contributions – employer	-	550	(550)
Net investment income	-	233	(233)
Benefit payments	(264)	(264)	-
Assumption changes	(59)	-	(59)
Administrative expense	-	(13)	13
Balance at December 31, 2023	$ 6,757	$ 5,180	$ 1,577

(In Thousands)

	2022		
	Total Pension Liability (a)	**Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**
Balance at December 31, 2021	$ 5,295	$ 4,812	$ 483
Changes for the year			
Service cost	351	-	351
Interest	219	-	219
Change of benefit terms	-	-	-
Contributions – employer	-	450	(450)
Net investment income	-	(278)	278
Benefit payments	(298)	(298)	-
Administrative expense	-	(12)	12
Balance at December 31, 2022	$ 5,567	$ 4,674	$ 893

The net pension liability is reflected in the accompanying balance sheets as a component of other postemployment benefits.

At December 31, 2023 and 2022, the EBP's assets, invested primarily in certificates of deposit and U.S. agency obligations, were $850 and $861, respectively, and are reflected as a component of internally designated for self-insurance and other under noncurrent cash and investments in the accompanying balance sheets. At December 31, 2023 and 2022, the EBP's liability was $1 and $37, respectively, and is reflected as a component of other postemployment benefits in the accompanying balance sheets.

Note 13. Master Coordinating Agreement

The District has a contractual agreement as outlined in the Master Coordinating Agreement and certain ancillary agreements (collectively, MCA) with TTUHSC for certain services provided and space owned by TTUHSC. The current MCA, which is effective for the period from July 1, 2023 through June 30, 2024, renewing automatically annually for successive one-year terms, provides for payments to TTUHSC for resident services, medical director services, indigent and charity care services, hospital physician services, space rentals, and utilities. The total cost to the District for these services was $85,646 and $76,266 for the years ended December 31, 2023 and 2022, respectively.

Note 14. Related-Party Transactions

At the direction of the County, an exclusive banking relationship was established with City Bank, Lubbock, Texas (City Bank). UMCP also leases commercial office space from City Bank. The Board Chairman of City Bank is a member of the Board of Managers of the District. An employee of Prosperity Bank, which is an institution where UMC and the Foundation hold investments, is a member of the Board of Managers of the District.

(In Thousands)

Note 15. Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets

Level 3 Unobservable inputs supported by little or no market activity and significant to the fair value of the assets

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31:

		Fair Value Measurements Using		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023				
Investments by fair value level				
Money market mutual funds	$ 2,190	$ 2,190	$ -	$ -
U.S. agencies obligations	68,600	-	68,600	-
Corporate bonds	2,976	-	2,976	-
Municipal bonds	7,196	-	7,196	-
Equity securities	9,026	9,026	-	-
Mutual funds	963	963	-	-
Total investments by fair value level	90,951	$ 12,179	$ 78,772	$ -
Investment Pool Carried at Amortized Cost	217,921			
Total investments	$ 308,872			

(In Thousands)

		Fair Value Measurements Using		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022				
Investments by fair value level				
Money market mutual funds	$ 358	$ 358	$ -	$ -
U.S. agencies obligations	83,702	-	83,702	-
Corporate bonds	3,024	-	3,024	-
Municipal bonds	4,466	-	4,466	-
Equity securities	8,832	8,832	-	-
Mutual funds	726	726	-	-
Total investments by fair value level	101,108	$ 9,916	$ 91,192	$ -
Investment Pool Carried at Amortized Cost	245,114			
Total investments	$ 346,222			

Investments in external investment pools qualifying for amortized cost under GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, are carried at amortized cost per share; thus, they are excluded from fair value reporting above.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities classified in Level 2 of the valuation hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The District held no Level 3 investments as of December 31, 2023 or 2022.

Note 16. Contingencies

In the normal course of business, the District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the District's self-insurance program (discussed elsewhere in these notes) or by commercial insurance, for example, allegations regarding employment practices or performance of contracts. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Required Supplementary Information

Lubbock County Hospital District d/b/a UMC Health System
A Component Unit of Lubbock County, Texas
Schedule of Changes in District's Net Pension Liability (Asset) and Related Ratios
(In Thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability									
Service cost	$ 398	$ 351	$ 340	$ 329	$ 319	$ 241	$ 249	$ 249	$ 406
Interest	248	219	210	205	199	181	178	167	158
Differences between expected and actual experience	(1)	-	33	(1)	(1)	-	(87)	12	-
Change in benefit terms	868	-	-	-	-	356	-	-	-
Changes of assumptions	(59)	-	-	-	-	-	-	-	(58)
Benefit payments	(264)	(298)	(400)	(400)	(400)	(400)	(137)	(137)	(137)
Net Change in Total Pension Liability	1,190	272	183	133	117	378	203	291	369
Total Pension Liability—Beginning	5,567	5,295	5,112	4,979	4,862	4,484	4,281	3,990	3,621
Total Pension Liability—Ending (a)	$ 6,757	$ 5,567	$ 5,295	$ 5,112	$ 4,979	$ 4,862	$ 4,484	$ 4,281	$ 3,990
Fiduciary Net Position									
Contributions – employer	$ 550	$ 450	$ 400	$ 400	$ 400	$ -	$ -	$ -	$ 395
Net investment income	233	(278)	(52)	181	229	73	92	-	89
Benefit payments	(264)	(298)	(400)	(400)	(400)	(400)	(137)	(137)	(137)
Administrative expense	(13)	(12)	(12)	(12)	(12)	(11)	(12)	(13)	(12)
Net Change in Fiduciary Net Position	506	(138)	(64)	169	217	(338)	(57)	(150)	335
Fiduciary Net Position—Beginning	4,674	4,812	4,876	4,707	4,490	4,828	4,885	5,035	4,700
Fiduciary Net Position—Ending (b)	$ 5,180	$ 4,674	$ 4,812	$ 4,876	$ 4,707	$ 4,490	$ 4,828	$ 4,885	$ 5,035
Net Pension Liability (Asset)—Ending (a) - (b)	$ 1,577	$ 893	$ 483	$ 236	$ 272	$ 372	$ (344)	$ (604)	$ (1,045)
Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	77%	84%	91%	95%	95%	92%	108%	114%	126%
Covered Payroll	$ 1,586	$ 1,418	$ 1,184	$ 1,149	$ 1,125	$ 1,194	$ 1,533	$ 1,564	$ 1,459
Net Pension Liability (Asset) as a Percentage of Covered Payroll	99%	63%	41%	21%	24%	31%	-22%	-39%	-72%

Notes to Schedule:

This schedule is presented as of December 31, which is the measurement date.

Benefit changes in 2018 reflect an increased annual benefit amount for one participant. Benefit changes in 2023 reflect increased annual benefit amounts for two participants.

Changes of assumptions in 2015 reflect a change in the investment return assumption to 4.00% net of investment expenses. Changes of assumptions in 2023 reflect the addition of a mortality assumption.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available. All amounts are in thousands, unless otherwise indicated.

Lubbock County Hospital District d/b/a UMC Health System
A Component Unit of Lubbock County, Texas
Schedule of District Pension Contributions
(In Thousands)

Year Ended December 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Covered-Payroll	Contributions as a Percentage of Covered-Payroll
2023	$ 550	$ 550	$ 1,586	35%
2022	448	450	1,418	32%
2021	395	400	1,184	34%
2020	394	400	1,149	35%
2019	400	400	1,125	36%
2018	339	-	1,194	0%
2017	190	-	1,533	0%
2016	147	-	1,564	0%
2015	315	395	1,459	27%

Notes to Schedule:

Valuation date: January 1, 2023

Actuarially determined contribution rates are calculated as of January 1, 2023, which is the most recent valuation date prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level Dollar, closed
Remaining amortization period	5 years
Asset valuation method	Fair Value
Inflation	3.25%
Salary increases	Not applicable
Investment rate of return	4.00%, net of pension plan investment expense, including inflation
Retirement age	62 on average
Mortality	None

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available. All amounts are in thousands, unless otherwise indicated.