Supplemental Retirement Plan of University Medical Center

Financial Statements

For the Years Ended:

August 31, 2023 and 2022

RBMS LLP

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RBMS LLP

Independent Auditor's Report

To the Board of Managers
Supplemental Retirement Plan of University Medical Center
Lubbock, Texas

Opinion

We have audited the accompanying financial statements of the Supplemental Retirement Plan of University Medical Center (the Plan), which comprise the statements of fiduciary net position as of August 31, 2023 and 2022, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of August 31, 2023 and 2022, and the changes in its financial status for the years then ended, in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 Plan 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.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with GAAP, 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 Plan's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Management is also responsible for maintaining a current plan instrument, including all plan amendments, and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants.

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.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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 Plan'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 Plan'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

GAAP requires that the required supplementary 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.

RBMS, LLP

Lubbock, Texas
March 5, 2024

Supplemental Retirement Plan of Unversity Medical Center

Statements of Fiduciary Net Position

August 31, 2023 and 2022

		2023		2022
Accrued interest and dividends receivable	$	14,742	$	12,610
Receivables		14,742		12,610
Certificates of deposit		3,120,352		2,762,162
Government agency securities		2,011,940		2,033,452
Investments, at fair value		5,132,292		4,795,614
Assets		5,147,034		4,808,224
Liabilities		-		-
Net Position Held in Trust for Pension Benefits	$	5,147,034	$	4,808,224

See accompanying Notes to Financial Statements.

Supplemental Retirement Plan of Unversity Medical Center

Statements of Changes in Fiduciary Net Position
For the Years Ended August 31, 2023 and 2022

	2023	2022
University Medical Center contributions	$ 550,000	$ 450,000
Contributions	550,000	450,000
Net depreciation in fair value of investments	(28,962)	(326,052)
Interest and dividend income	93,652	59,678
Net investment income (loss)	64,690	(266,374)
Additions to Net Position	614,690	183,626
Benefit payments	263,526	343,418
Professional services expense	12,354	12,111
Deductions from Net Position	275,880	355,529
Net Increase (Decrease) in Net Position Held in Trust for Pension Benefits	338,810	(171,903)
Net Position Held in Trust for Pension Benefits:		
Beginning of year	4,808,224	4,980,127
End of year	$ 5,147,034	$ 4,808,224

Note 1: Plan Description

The following description of the Supplemental Retirement Plan of University Medical Center (the Plan) provides only general information. Participants should refer to the plan document for a complete description of the Plan provisions.

General. The Board of Managers for the Lubbock County Hospital District dba University Medical Center (UMC or the District) is the Plan Sponsor of this single-employer defined benefit pension plan. This pension plan is a trust fund, which is reported by the District as a related organization and not considered to be a part of the District's financial reporting entity. As a governmental plan, the Plan is not subject to the Employee Retirement Income Security Act of 1974 (ERISA).

The trust department of Prosperity Bank, Lubbock, Texas (the Trustee), administers the Plan activities and acts as the trustee and custodian of the Plan's assets.

The Plan is for the benefit of four UMC executives, two of which are active employees and one of which is a retired employee currently receiving benefits. The fourth executive's final remaining benefits payable under the Plan were paid out during plan year 2022.

Benefits. The Plan provides service retirement, death and disability benefits. Retirement benefits for eligible employees are defined dollar amounts specified in appendices to the plan document. Participants are eligible to retire at their normal retirement date unless an early retirement date is specified in the appendices. Disability retirement benefits and death benefits are determined in the same manner as retirement benefits.

Funding. The participants do not contribute to the Plan. The District makes contributions at actuarially determined rates deemed sufficient to finance both the costs of benefits earned by employees during the year and any unfunded accrued liability.

Tax Status. The Plan is a qualified plan under Section 401(a) of the Internal Revenue Code (the Code) and the underlying trust is a qualified trust under Section 501(a) of the Code. The Internal Revenue Service has determined and informed the Plan by a letter dated May 30, 2017 that the Plan and related trust are designed in accordance with applicable sections of the Code. The Board of Managers believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Code.

Note 2: Summary of Significant Accounting Policies

The Plan's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), including specialized practices specified in the Governmental Accounting Standards Board's (GASB) Statement No. 67, *Financial Reporting for Pension Plans*.

Basis of Accounting. The financial statements of the Plan are prepared on the accrual basis of accounting, whereby employer contributions are recorded when due, and dividends, interest and other investment income are recorded when earned. Plan expenses and benefit payments are recorded when paid, which, for the Plan, does not differ materially from recognition when the liability is incurred, as required by GAAP.

Use of Estimates. Financial statements prepared in conformity with GAAP require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Note 2: Summary of Significant Accounting Policies (continued)

Investments. Investments are stated at fair value. Quoted market prices are used to value investments, when available. The Plan recognizes security transactions on the trade date basis required by GAAP.

Investment policy decisions are established and maintained by the Trustee except where an investment manager is appointed. The Plan generally invests in certificates of deposit and direct obligations of and other obligations guaranteed as to principal by U.S. agencies and instrumentalities.

Rate of Return. For the years ended August 31, 2023 and 2022, the annual money-weighted rate of return on Plan investments, net of investment expenses, was 1.31% and (5.38)%, respectively. The money-weighted rate of return expresses investment performance adjusted for the changing amounts actually invested each month.

Administrative Expenses. Certain administrative expenses of the Plan are paid by UMC. Employees of UMC also perform certain functions of the Plan Sponsor with no compensation from the Plan. These costs are not reflected in the accompanying financial statements. All other administrative expenses are recognized when incurred.

Note 3: Investments

The Plan's investments are held in safekeeping by the Trustee. Trustee fees totaled $12,354 and $12,111 for the years ended August 31, 2023 and 2022, respectively.

Note 4: Risks and Uncertainties

The Plan's investments, in general, are subject to various risks, such as interest rate, credit, and overall market volatility risk. In addition, the value, liquidity, and related income of the investment securities are sensitive to changes in economic conditions and may be affected by shifts in the market's perception of issuers and changes in interest rates. Certain investments are less liquid and may have restrictions on their sale. Forced liquidation, although not expected at this time, may affect the value of such investments. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the Plan's financial status or the changes in its financial status.

Plan contributions are made, and the actuarial present value of accumulated Plan benefits is reported, based on certain assumptions pertaining to interest rates, inflation rates, and participant demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the basic financial statements.

Note 5: Fair Value Measurements

Fair values of assets measured on a recurring basis were as follows at August 31:

	2023		
	Level 1	**Level 2**	**Total**
Certificates of deposit	$ –	$ 3,120,352	$ 3,120,352
Government agency securities	–	2,011,940	2,011,940
Total	$ –	$ 5,132,292	$ 5,132,292

Note 5: Fair Value Measurements (continued)

	2022		
	Level 1	Level 2	Total
Certificates of deposit	$ –	$ 2,762,162	$ 2,762,162
Government agency securities	–	2,033,452	2,033,452
Total	$ –	$ 4,795,614	$ 4,795,614

FASB ASC 820, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 inputs were used for investments for which Level 1 inputs were not available.

Level 2 Fair Value Measurements

The fair values of investments in certificates of deposit and government agency securities are based on yields currently available on comparable securities of issues with similar credit ratings.

Note 6: Net Pension Liability

The components of the net pension liability of the Plan at August 31 were as follows:

	2023	2022
Total pension liability	$ 6,662,617	$ 5,461,771
Less: Plan fiduciary net position	5,147,034	4,808,224
Net pension liability	$ 1,515,583	$ 653,547
Plan fiduciary net position as a percentage of total pension liability	77.25%	88.03%

Discount Rate: The discount rate used to measure the total pension liability was 4.00% per annum. The projection of cash flows used to determine the discount rate assumed that contributions from UMC will be made in amounts consistent with UMC's more recent five-year contribution history, as actuarially determined. Based on those assumptions, the Plan's fiduciary net position is projected to be available to make all projected future benefit payments of current Plan participants. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the Plan, calculated using the discount rate of 4.00% at August 31, 2023, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Discount Rate	Net Pension Liability
1% decrease	3.00%	$ 1,954,143
Current discount rate	4.00%	1,515,583
1% increase	5.00%	1,117,127

Note 7: Actuarial Information

Actuarially-determined information about funded status and the progress being made to accumulate sufficient assets to pay benefits when due, from a long-term perspective, is not included in the current financial information presented in the accompanying financial statements; this information is detailed in the following paragraphs.

The Plan has an actuarial valuation performed annually as of December 31st, which are rolled forward eight months to the August 31st plan year-end, in accordance with provisions of GASB. The most recent actuarial valuation was performed as of December 31, 2022 and rolled forward eight months to August 31, 2023. The Plan’s actuary uses the Entry Age Actuarial Cost Method in determining the contribution requirements for the plan. The actuarial cost method is the procedure by which the actuary annually identifies a series of annual contributions which, along with current assets and future investment earnings, will fund the expected plan benefits. The entry age cost method compares the excess of the present value of expected future plan benefits over the current value of plan assets. This difference represents the expected present value of current and future contributions that will be paid into the Plan. The contributions are divided into two components: an annual normal cost (or current cost) and an amortization charge for the unfunded accrued liability.

The portion of this actuarial present value allocated to a valuation year is called “normal cost.” The normal cost is the sum of individually determined normal costs for each active participant. Each active participant’s normal cost is the current annual contribution in a series of annual contributions which, if made throughout the participant’s total period of employment, would fund his expected benefits from the plan. To determine the actuarially determined contribution, each participant’s normal cost is calculated to be a level dollar amount per year of employment. For the total pension liability, each participant’s normal cost is calculated to be an annual constant percentage of his expected compensation in each year of employment.

The Plan’s current accrued liability is the excess of the present value of expected future benefits over the present value of all future remaining normal cost contributions. The unfunded accrued liability is the amount by which the accrued liability exceeds the actuarial value of plan assets. The unfunded accrued liability is recalculated each time a valuation is performed. The unfunded accrued liability is amortized in level dollar annual contributions in accordance with employer funding goals. Experience gains and losses, which represent deviations of the unfunded accrued liability from its expected value based on the prior valuation, are determined at each valuation and are amortized as part of the newly calculated unfunded accrued liability.

Other actuarial assumptions used in the December 31, 2022 actuarial valuation follow:

Investment rate of return, net of investment expenses*	4.00% per year
Projected salary increases (for total pension liability purposes only)	3.25% per year

* Includes inflation assumption of 3.25% per year.

Note 7: Actuarial Information (continued)

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of August 31, 2023 are summarized as follows:

Asset Class	Long-Term Expected Real Rate of Return
Fixed income*	0.75%

* Includes certificates of deposit and government agency securities.

Note 8: Subsequent Events Evaluation

Management has evaluated subsequent events through March 5, 2024, the date which the financial statements were available to be issued. No material subsequent events have occurred during this time which would require recognition in the financial statements or footnotes as of or for the year ended August 31, 2023.

Supplemental Retirement Plan of University Medical Center

Supplemental Schedules

For the Year Ended:

August 31, 2023

Supplemental Retirement Plan of University Medical Center

Schedules of Changes in Net Pension Liability and
Related Ratios for the Last Ten Fiscal Years[1]
For the Years Ended August 31:

	2023	2022
Service cost	$ 360,342	$ 348,999
Interest	227,614	215,453
Changes in benefit provisions	878,501	-
Differences between expected and actual experience	(2,085)	31,706
Changes in assumptions	-	-
Benefit payments	(263,526)	(343,418)
Net Change in Total Pension Liability	1,200,846	252,740
Total pension liability - beginning of year	5,461,771	5,209,031
Total pension liability - end of year	$ 6,662,617	$ 5,461,771
Contributions - employer	$ 550,000	$ 450,000
Net investment income (loss)	64,690	(266,374)
Benefit payments	(263,526)	(343,418)
Administrative expenses	(12,354)	(12,111)
Net Change in Fiduciary Net Position	338,810	(171,903)
Fiduciary net position - beginning of year	4,808,224	4,980,127
Fiduciary net position - end of year	$ 5,147,034	$ 4,808,224
Net pension liability - end of year	$ 1,515,583	$ 653,547
Fiduciary net position as a percentage of the total pension liability	77.25%	88.03%
Covered payroll	$ 1,530,104	$ 1,340,083
Net pension liability as a percentage of covered payroll	99.05%	48.77%

[1] Schedule is intended to show information for 10 years. Additional years will be presented as they become available.

Supplemental Retirement Plan of University Medical Center

Schedules of Plan Contributions and
Investment Returns for the Last Ten Fiscal Years [1]
For the Years Ended August 31:

	2023	2022
Actuarially-determined contribution	$ 516,000	$ 430,000
Contributions in relation to the actuarially-determined contribution	550,000	450,000
Contribution deficiency (excess)	$ (34,000)	$ (20,000)
Covered payroll	$ 1,530,104	$ 1,340,083
Contributions as a percentage of covered payroll	35.95%	33.58%
Annual money-weighted rate of return, net of investment expense	1.31%	-5.38%

[1] Schedule is intended to show information for 10 years. Additional years will be presented as they become available.

Supplemental Retirement Plan of University Medical Center
Schedule of Direct and Indirect Fees
For the Year Ended August 31, 2023

Direct and Indirect Fees and Commissions

ASSET CLASS	MANAGEMENT FEES PAID FROM TRUST	MANAGEMENT FEES NETTED FROM RETURNS	TOTAL INVESTMENT MANAGEMENT FEES (Management Fees Netted from Returns + Management Fees Paid From Trust)	BROKERAGE FEES/COMMISSIONS	PROFIT SHARE/CARRIED INTEREST	TOTAL DIRECT AND INDIRECT FEES AND COMMISSIONS (Management Fees + Brokerage Fees/Commissions + Profit Share)
Cash	-	-	-	-	-	-
Public Equity	-	-	-	-	-	-
Fixed Income	-	-	-	-	-	-
Real Assets	-	-	-	-	-	-
Alternative/Other	-	-	-	-	-	-
TOTAL	$ -	$ -	$ -	$ -	$ -	$ -

Alternative/Other

List of Alternative/Other Investments*

Investment Managers

List of Investment Manager Names*
Prosperity Bank Trust Department

Total Investment Expenses

Total Direct and Indirect Fees and Commissions	**$ -**
Investment Services	
Custodial	12,354
Research	-
Investment Consulting	-
Legal	-
Total	**12,354**
Total Investment Expenses (Total Direct and Indirect Fees and Commissions + Investment Services)	**$ 12,354**