




Graham Hospital District d/b/a Graham Regional Medical Center

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

September 30, 2025 and 2024



Graham Hospital District d/b/a Graham Regional Medical Center
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September 30, 2025 and 2024

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Independent Auditor's Report

Board of Directors
Graham Hospital District d/b/a Graham Regional Medical Center
Graham, Texas

Opinion

We have audited the financial statements of Graham Hospital District d/b/a Graham Regional Medical Center (District), as of and for the years ended September 30, 2025 and 2024, 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 September 30, 2025 and 2024, 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.

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

Forvis Mazars, LLP

**Waco, Texas
March 18, 2026**

Graham Hospital District d/b/a Graham Regional Medical Center Management's Discussion and Analysis Years Ended September 30, 2025 and 2024

Introduction

This management's discussion and analysis of the financial performance of Graham Hospital District d/b/a Graham Regional Medical Center (District) provides an overview of the District's financial activities for the years ended September 30, 2025 and 2024. It should be read in conjunction with the accompanying financial statements of the District.

Financial Highlights

- Cash and cash equivalents and short-term investments decreased in 2025 by \$1,824,112, or 25.7%, and decreased in 2024 by \$3,496,665, or 33.0%.
- The District's net position increased in 2025 by \$1,783,919, or 8.6%, and decreased by \$491,231, or 2.3%, in 2024.
- The District reported operating losses in 2025 of \$3,415,855 and in 2024 of \$5,345,450. The operating loss in 2025 decreased by \$1,929,595, or 36.1%, over the operating loss reported in 2024. The operating loss in 2024 increased by \$592,252, or 12.5%, from the operating loss reported in 2023.
- Net nonoperating revenues decreased by \$185,945, or 4.1%, in 2025 compared to 2024 and decreased by \$1,362,402, or 23.0%, in 2024 compared to 2023.

Using This Annual Report

The District's financial statements consist of three statements—a balance sheet; statement of revenues, expenses, and changes in net position; and statement of cash flows. These statements provide information about the activities of the District, including resources held by the District but restricted for specific purposes by creditors, contributors, grantors, or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Position

One of the most important questions asked about any hospital's finances is, "Is the hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses, and changes in net position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, deferred outflows of resources, and all liabilities and deferred inflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. The District's total net position—the difference between its assets and deferred outflows of resources and its liabilities and deferred inflows of resources—is one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating.

Other nonfinancial factors, such as changes in the District's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the District.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash during the reporting period.

**Graham Hospital District d/b/a Graham Regional Medical Center
Management's Discussion and Analysis
Years Ended September 30, 2025 and 2024**

The District's Net Position

The District's net position is the difference between its assets and deferred outflows of resources and liabilities and deferred inflows of resources reported in the accompanying balance sheets. The District's net position increased by \$1,783,919, or 8.6%, in 2025 over 2024 and decreased by \$491,231, or 2.3%, in 2024 over 2023 as shown in Table 1.

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

	2025	2024	2023
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Cash and cash equivalents	\$ 3,060,138	\$ 4,890,136	\$ 4,500,096
Short-term investments	2,214,521	2,208,635	6,095,340
Patient accounts receivable, net	2,072,843	2,322,735	1,781,776
Other current and noncurrent assets	1,638,094	1,155,178	2,091,296
Capital and subscription assets, net	16,032,220	13,604,024	10,291,107
Net pension asset	1,304,577	1,051,990	785,997
Total Assets	26,322,393	25,232,698	25,545,612
Deferred Outflows of Resources – Pensions	197,155	243,994	453,425
Total Assets and Deferred Outflows of Resources	\$ 26,519,548	\$ 25,476,692	\$ 25,999,037
LIABILITIES			
Long-term debt	\$ 257,482	\$ 428,672	\$ 591,574
Other current and noncurrent liabilities	3,703,638	4,296,045	4,110,861
Total Liabilities	3,961,120	4,724,717	4,702,435
Deferred Inflows of Resources – Pensions	65,046	42,512	95,908
Net Position			
Net investment in capital assets	14,338,131	12,513,081	9,072,019
Restricted expendable for pension	1,304,577	1,051,990	785,997
Restricted expendable for capital assets	48,260	15,294	411,570
Unrestricted	6,802,414	7,129,098	10,931,108
Total Net Position	22,493,382	20,709,463	21,200,694
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 26,519,548	\$ 25,476,692	\$ 25,999,037

A significant change in the District's 2025 assets is the increase in capital assets, primarily due to the completion of construction and renovation projects. A significant change in the District's 2025 liabilities is the decrease in accounts payable, due to the completion of construction and renovation projects.

A significant change in the District's 2024 assets is the decrease in short-term investments, as well as the increase in capital assets, primarily due to ongoing construction and the use of restricted short-term investments for expenditures related to projects. A significant change in the District's 2024 liabilities is the increase in current liabilities, primarily due to the timing of payments to construction related vendors.

**Graham Hospital District d/b/a Graham Regional Medical Center
Management’s Discussion and Analysis
Years Ended September 30, 2025 and 2024**

Operating Results and Changes in the District’s Net Position

In 2025, the District’s net position increased by \$1,783,919, or 8.6%, over 2024 as shown in Table 2. In 2024, the District’s change in net position decreased by \$491,231, or 2.3%, over 2023.

Table 2: Operating Results and Changes in Net Position

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Operating Revenues			
Net patient service revenue	\$ 22,309,871	\$ 20,779,311	\$ 19,098,635
Other	1,405,930	641,846	508,421
Total Operating Revenues	<u>23,715,801</u>	<u>21,421,157</u>	<u>19,607,056</u>
Operating Expenses			
Salaries, wages, and employee benefits	12,199,638	12,148,515	11,556,380
Purchased services and professional fees	8,234,745	8,395,618	6,766,000
Depreciation	1,492,493	1,191,826	1,302,460
Supplies and other	5,204,780	5,030,648	4,735,414
Total Operating Expenses	<u>27,131,656</u>	<u>26,766,607</u>	<u>24,360,254</u>
Operating Loss	<u>(3,415,855)</u>	<u>(5,345,450)</u>	<u>(4,753,198)</u>
Nonoperating Revenues (Expenses)			
Property taxes	3,848,376	3,400,370	3,290,866
Investment income	249,740	441,090	463,028
Interest expense	(75,106)	(34,583)	(46,142)
Contributed services	655,665	658,046	633,413
Provider Relief Fund	-	-	1,113,047
Other nonoperating revenue	57,939	85,746	458,859
Total Nonoperating Revenues (Expenses)	<u>4,736,614</u>	<u>4,550,669</u>	<u>5,913,071</u>
Capital Grants and Gifts	<u>463,160</u>	<u>303,550</u>	<u>1,095,348</u>
Increase (Decrease) in Net Position	<u>\$ 1,783,919</u>	<u>\$ (491,231)</u>	<u>\$ 2,255,221</u>

Operating Losses

The first component of the overall change in the District’s net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the District has reported an operating loss. This is consistent with the District’s recent operating history as the District was formed and is operated primarily to serve residents of Young County and the surrounding area. The District levies property taxes to provide resources to assist the District in serving lower income and other residents.

The operating loss for 2025 decreased by \$1,929,595, or 36.1%, as compared to 2024. The primary components of the decreased operating loss are:

- An increase in net patient service revenue of \$1,530,560, or 7.4%, due to increased inpatient revenues, as well as emergency room revenue.
- An increase in other revenues of \$764,084, or 119.0%, due to an increase in 340B pharmacy program participation.

Graham Hospital District d/b/a Graham Regional Medical Center Management's Discussion and Analysis Years Ended September 30, 2025 and 2024

The operating loss for 2024 increased by \$592,252, or 12.5%, as compared to 2023. The primary components of the increased operating loss are:

- An increase in net patient service revenue of \$1,680,676, or 8.8%, due to increased outpatient visits and increased supplemental Medicaid funding.
- An increase in salaries, wages, and employee benefits of \$592,135, or 5.1%, due to an increase in full-time equivalents.
- An increase in purchased services and professional fees of \$1,629,618, or 24.1%, due to increased certified registered nurse anesthetist fees and locum coverage for emergency medicine physicians through the vendor TeamHealth.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the District and contributed services. The most significant change in nonoperating revenues and expenses in 2025 was an increase in property tax revenue of \$448,006, or 13.2%. The most significant change in nonoperating revenues and expenses in 2024 was a decrease in Provider Relief Funding of \$1,113,047, or 100.0%, due to COVID funding stopping at the end of the pandemic.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues/expenses and expenses discussed earlier.

Capital and Subscription Assets

At September 30, 2025 and 2024, the District had \$14,852,600 and \$13,549,743, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2025 and 2024, the District purchased capital assets costing \$2,617,403 and \$4,504,743, respectively. At September 30, 2025 and 2024, the District had \$1,179,620 and \$54,281, respectively, in subscription assets, net of accumulated amortization. The District obtained a new subscription asset in 2025, as detailed in Note 7 to the financial statements.

Debt and Subscription Liabilities

At September 30, 2025 and 2024, the District had \$428,672 and \$591,623, respectively, of notes payable outstanding. At September 30, 2025 and 2024, the District had \$1,115,604 and \$58,226, respectively, of outstanding subscription liabilities. More detailed information about the District's long-term debt and subscription liabilities is presented in Note 7 of the financial statements.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the District's administrator at Graham Regional Medical Center, 1301 Montgomery Road, Graham, Texas 76450.

Graham Hospital District d/b/a Graham Regional Medical Center
Balance Sheets
September 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	\$ 3,011,878	\$ 4,874,842
Short-term investments	2,214,521	2,208,635
Patient accounts receivable, net of allowance; 2025 – \$4,588,000; 2024 – \$4,347,000	2,072,843	2,322,735
Property taxes receivable	53,282	57,338
Estimated amounts due from third-party payors	450,943	54,500
Supplies	526,218	544,607
Prepaid expenses and other	343,299	234,381
Total Current Assets	8,672,984	10,297,038
Restricted Cash	48,260	15,294
Capital Assets, Net	14,852,600	13,549,743
Subscription Assets, Net	1,179,620	54,281
Net Pension Asset	1,304,577	1,051,990
Other Assets	264,352	264,352
Total Assets	26,322,393	25,232,698
Deferred Outflows of Resources – Pensions	197,155	243,994
Total Assets and Deferred Outflows of Resources	\$ 26,519,548	\$ 25,476,692

Graham Hospital District d/b/a Graham Regional Medical Center
 Balance Sheets
 September 30, 2025 and 2024

(Continued)

	<u>2025</u>	<u>2024</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities		
Current maturities of long-term debt	\$ 171,190	\$ 162,951
Current maturities of subscription liabilities	276,693	26,034
Accounts payable	887,422	1,551,067
Accrued expenses	918,741	1,226,249
Estimated amounts due to third-party payors, current	1,094	453,943
Patient credit balance payables and other	163,618	547,640
Total Current Liabilities	<u>2,418,758</u>	<u>3,967,884</u>
Noncurrent Liabilities		
Estimated amounts due to third-party payors	150,000	-
Self-funded malpractice liability	295,969	295,969
Long-term debt	257,482	428,672
Subscription liabilities	838,911	32,192
Total Noncurrent Liabilities	<u>1,542,362</u>	<u>756,833</u>
Total Liabilities	<u>3,961,120</u>	<u>4,724,717</u>
Deferred Inflows of Resources – Pensions	<u>65,046</u>	<u>42,512</u>
Net Position		
Net investment in capital assets	14,338,131	12,513,081
Restricted expendable for pension	1,304,577	1,051,990
Restricted expendable for capital assets	48,260	15,294
Unrestricted	6,802,414	7,129,098
Total Net Position	<u>22,493,382</u>	<u>20,709,463</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 26,519,548</u>	<u>\$ 25,476,692</u>

**Graham Hospital District d/b/a Graham Regional Medical Center
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2025 and 2024**

	<u>2025</u>	<u>2024</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2025 – \$2,408,000; 2024 – \$2,899,000	\$ 22,309,871	\$ 20,779,311
Other	1,405,930	641,846
Total Operating Revenues	<u>23,715,801</u>	<u>21,421,157</u>
Operating Expenses		
Salaries and wages	10,621,752	10,230,992
Employee benefits	1,577,886	1,917,523
Purchased services and professional fees	8,234,745	8,395,618
Supplies and other	5,204,780	5,030,648
Depreciation and amortization	1,492,493	1,191,826
Total Operating Expenses	<u>27,131,656</u>	<u>26,766,607</u>
Operating Loss	<u>(3,415,855)</u>	<u>(5,345,450)</u>
Nonoperating Revenues (Expenses)		
Property taxes	3,848,376	3,400,370
Investment income	249,740	441,090
Interest expense	(75,106)	(34,583)
Contributed services	655,665	658,046
Other nonoperating revenue	57,939	85,746
Total Nonoperating Revenues (Expenses)	<u>4,736,614</u>	<u>4,550,669</u>
Income (Loss) Before Capital Grants and Gifts	<u>1,320,759</u>	<u>(794,781)</u>
Capital Grants and Gifts	<u>463,160</u>	<u>303,550</u>
Increase (Decrease) in Net Position	1,783,919	(491,231)
Net Position, Beginning of Year	<u>20,709,463</u>	<u>21,200,694</u>
Net Position, End of Year	<u>\$ 22,493,382</u>	<u>\$ 20,709,463</u>

Graham Hospital District d/b/a Graham Regional Medical Center
Statements of Cash Flows
Years Ended September 30, 2025 and 2024

	2025	2024
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	\$ 21,477,349	\$ 20,888,150
Payments to suppliers and contractors	(13,206,397)	(12,535,058)
Payments to employees	(12,690,359)	(12,122,890)
Other receipts	1,364,674	641,846
Net Cash Used in Operating Activities	(3,054,733)	(3,127,952)
Cash Flows From Noncapital Financing Activities		
Property taxes supporting operations	3,852,432	3,515,371
Other	57,939	85,746
Net Cash Provided by Noncapital Financing Activities	3,910,371	3,601,117
Cash Flows From Capital and Related Financing Activities		
Capital grants and gifts	463,160	303,550
Principal paid on subscription liabilities	(245,908)	(35,612)
Interest paid on subscription liabilities	(46,644)	(4,218)
Principal paid on long-term debt	(162,951)	(154,975)
Interest paid on long-term debt	(28,463)	(33,691)
Purchase of capital assets	(2,908,684)	(4,442,301)
Net Cash Used in Capital and Related Financing Activities	(2,929,490)	(4,367,247)
Cash Flows From Investing Activities		
Investment earnings received	249,740	397,417
Purchase of investments	(5,886)	-
Sale of investments	-	3,886,705
Net Cash Provided by Investing Activities	243,854	4,284,122
Increase (Decrease) in Cash and Cash Equivalents	(1,829,998)	390,040
Cash and Cash Equivalents, Beginning of Year	4,890,136	4,500,096
Cash and Cash Equivalents, End of Year	\$ 3,060,138	\$ 4,890,136

**Graham Hospital District d/b/a Graham Regional Medical Center
Statements of Cash Flows
Years Ended September 30, 2025 and 2024**

(Continued)

	<u>2025</u>	<u>2024</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 3,011,878	\$ 4,874,842
Restricted cash – long term	48,260	15,294
Total Cash and Cash Equivalents	<u>\$ 3,060,138</u>	<u>\$ 4,890,136</u>
Reconciliation of Operating Loss to Net Cash Used In Operating Activities		
Operating loss	\$ (3,415,855)	\$ (5,345,450)
Depreciation and amortization	1,492,493	1,191,826
Contributed services	655,665	658,046
Provision for uncollectible accounts	2,408,000	2,899,000
Changes in operating assets and liabilities		
Patient accounts receivable	(2,158,108)	(3,439,959)
Estimated amounts due from and to third-party payors	(699,292)	467,532
Accounts payable and accrued expenses	(679,871)	446,133
Deferred outflows of resources – pensions	46,839	209,431
Deferred inflows of resources – pensions	22,534	(53,396)
Net pension asset	(252,587)	(265,993)
Other assets and liabilities	(474,551)	104,878
Net Cash Used in Operating Activities	<u>\$ (3,054,733)</u>	<u>\$ (3,127,952)</u>
Noncash Investing, Capital, and Financing Activities		
Capital assets acquisitions included in accounts payable	\$ 149,813	\$ 441,094
Subscription obligation incurred for subscription assets	\$ 1,303,286	\$ -

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

Nature of Operations and Reporting Entity

Graham Hospital District d/b/a Graham Regional Medical Center (District) operates an acute care hospital located in Graham, Texas. The District primarily earns revenues by providing inpatient, outpatient, intermediate nursing, and emergency care services for residents of Young County, Texas. It also operates physician clinics in the same geographic area. The District was formed as a hospital district in June 2013 under Article IX, Section 9, of the Texas Constitution and is governed by a seven-member board of directors elected by the citizens of Young County, Texas.

Graham Hospital Foundation (Foundation) is a nonprofit health organization and was organized as a 501(c)(3) entity for the purpose of supporting and benefiting the District. The Foundation is a separate legal entity but is financially integrated with the District and is reported as a blended component unit of the District and does not issue separate financial statements. The Foundation did not have any significant activities or balances in either 2025 or 2024.

Basis of Accounting and Presentation

The accompanying 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, deferred outflows of resources, liabilities, and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, federal and state grants and property taxes) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated 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, deferred outflows of resources, liabilities and deferred inflows of resources 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 September 30, 2025 and 2024, cash equivalents consisted of sweep accounts.

Property Taxes

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 an enforceable legal claim arises 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. In both 2025 and 2024, the District received approximately 14% of its financial support from property taxes, which are used to support operations.

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

Graham Hospital District d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2025 and 2024

employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims and medical malpractice. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Beginning in January 2023, the District became 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 employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

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, determined using the first-in, first-out method, or market.

Investments and Investment Income

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, and the net change for the year in the fair value of investments carried at fair value.

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	5–20 years
Buildings and improvements	5–40 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 capitalized 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 September 30, 2025 and 2024.

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Deferred Outflows of Resources

The District reports the consumption of net assets that is applicable to a future period as deferred outflows of resources in a separate section of its balance sheets.

Compensated Absences

District 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. A liability is accrued for compensated absences as the benefits are earned if the leave is more likely than not to be used for time off or settled in cash.

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.

Agent Multiple Defined Benefit Pension Plan

The District has an agent multiple-employer defined benefit pension plan through the Texas County and District Retirement System (Plan). For purposes of measuring the net pension asset and deferred outflows or inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. 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.

Deferred Inflows of Resources

The District reports an acquisition of net assets that is applicable to a future period as deferred inflows of resources in a separate section of its balance sheets.

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 for pension represents assets restricted for providing contributions to the agent multiple-employer defined benefit pension plan which provides pensions in accordance with the benefit terms of the plan.
- Restricted expendable net position is noncapital assets that must be used for a particular purpose, as specified by donors external to the District.
- Unrestricted net position is 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.

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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

The District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income. The Foundation is subject to federal income tax, but activity is insignificant.

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. As of August 4, 2023, the District is certified as a Critical Access Hospital (CAH) by Medicare. As a CAH, the District is reimbursed for substantially all inpatient and outpatient services to Medicare beneficiaries based on reasonable costs. Additionally, as a CAH, the District's licensed beds are limited to 25, and the acute average length of stay may not exceed 96 hours. The District is reimbursed for substantially all 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.

Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries prior to August 4, 2023 were paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The District was 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 and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. 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 Medicaid administrative contractor.

Approximately 52% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for both the years ended September 30, 2025 and 2024. 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.

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.

Supplemental Medicaid Funding

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 the indigent patients by providing funds supporting increased access to healthcare within the community. This program allows the Texas Department of Health and Human Services (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.

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On December 12, 2011, the United States Department of Health and Human Services (HHS) approved a Medicaid Section 1115(a) demonstration project entitled, "Texas Health Transformation Quality Improvement Program" (Waiver). This demonstration expanded Medicaid managed care programs and established two funding pools that assist providers with uncompensated care (UC Pool) costs and promote health system transformation (DSRIP Pool).

The Waiver was originally effective from December 12, 2011 to September 30, 2016 and extended through December 2017 as HHSC and the Centers for Medicare & 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, 2023. Among other changes, the approved plan required a change in the methodology used to allocate UC funds and a phase out 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 extension provides for the continuation of the UC Pool. The DSRIP program ended on September 30, 2021 and was not extended under the Waiver extension. CMS has also approved an expansion of directed payment programs, which transitions participating hospitals away from the DSRIP program, which are discussed more fully below.

Comprehensive Hospital Increased Reimbursement Program (CHIRP) is a new directed payment program, which adds a quality component to the existing Uniform Hospital Rate Increase Program (UHRIP). Participating hospitals may opt into this second component. Under UHRIP and CHIRP, HHSC directs managed care organizations in a service delivery area to provide a uniform percentage rate increase to all hospitals within a particular class of hospitals. The UHRIP program transitioned on August 31, 2021, and the CHIRP program began on September 1, 2021. CHIRP requires annual approval by CMS and has been approved through August 31, 2026. Revenue from UHRIP and CHIRP is recognized as a component of net patient service revenue in the statements of revenues, expenses, and changes in net position.

The District participates in the Rural Access to Primary and Preventative Services (RAPPS) program. RAPPS is a directed payment program for rural health clinics that incentivizes the provision of primary and preventative services to individuals enrolled in certain Medicaid and Medicaid managed care programs. RAPPS requires annual approval by CMS and has been approved through August 31, 2026. RAPPS is recognized as a component of net patient service revenue in the statements of revenues, expenses, and changes in net position.

The funding from the UC Pool and the DSH program is limited by certain costs and is subject to recoupment based on subsequent audit results. The District recorded a liability for expected recoupments of approximately \$150,000 and \$363,000 at September 30, 2025 and 2024, respectively, which is included in estimated amounts due to third-party payors in the balance sheets.

Total funding recognized through these programs (exclusive of CHIRP and UHRIP) was approximately \$1,060,000 and \$622,000 for the years ended September 30, 2025 and 2024, respectively, and is included with net patient service revenue on the statements of revenues, expenses, and changes in net position.

These 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 received is subject to audit and is not representative of funding to be received in future years.

Indigent Care Affiliation

The District is part of an indigent care affiliation agreement with the Service Organization of Big Country and the Service Organization of North Texas, both of which are nonprofit corporations (Service Organizations). These agreements are intended to increase funding for the Medicaid population and to access federal funding for the indigent population. Under this program, the District contributes certain governmental funds to the state of Texas. The Service Organization supports care to the Medicaid and non-Medicaid indigent in the region and surrounding

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communities. These services were valued at approximately \$655,000 and \$658,000 for the years ended September 30, 2025 and 2024, respectively.

Note 3. Deposits and Investments

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; bonds and other obligations of the U.S. Treasury, U.S. agencies, or instrumentalities of the state of Texas; bonds of any city, county, school district, or special road district of the state of Texas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At September 30, 2025 and 2024, none of the District’s deposits of \$3,270,564 and \$5,171,844, respectively, were uninsured or uncollateralized.

Investments

The District may legally invest in public fund investment pools, direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies or instrumentalities and in bank repurchase agreements.

The District had the following investments and maturities at September 30:

Type	Maturities in Years				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
2025					
U.S. Treasury obligations	\$ 2,214,521	\$ 2,214,521	\$ -	\$ -	\$ -
2024					
U.S. Treasury obligations	\$ 2,208,635	\$ 2,208,635	\$ -	\$ -	\$ -

Interest Rate Risk

Interest rate risk is the risk that market values of investments will change based on changes in market interest rates. The District’s investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. U.S. Treasury obligations are presented as investments with a maturity of less than one year based on the maturity dates of the funds.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the District’s policy to limit its investments to federal agencies, U.S. Treasuries and/or other U.S. government-backed securities maturing in two years or less, local government investment pools, fully collateralized by certificates of deposit that mature in two years or less and fully collateralized demand deposits. At September 30, 2025 and 2024, the District’s investments in U.S. Treasury obligations are guaranteed by the U.S. Treasury and were rated AAA by Moody’s.

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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. Management believes its current investments are not subject to significant credit risk.

Concentration of Credit Risk

The District places no limit on the amount that may be invested in any one issuer.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District’s investments consist of U.S. treasury obligations that are valued 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 (Level 2 inputs).

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2025	2024
Carrying value		
Deposits	\$ 3,060,138	\$ 4,890,136
Investments	2,214,521	2,208,635
	\$ 5,274,659	\$ 7,098,771
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 3,011,878	\$ 4,874,842
Short-term investments	2,214,521	2,208,635
Restricted cash – long-term	48,260	15,294
	\$ 5,274,659	\$ 7,098,771

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Note 4. 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 consisted of the following at September 30:

	<u>2025</u>	<u>2024</u>
Medicare	\$ 760,218	\$ 1,921,526
Medicaid	245,201	292,535
Other third-party payors	1,663,513	859,305
Patients	<u>3,991,911</u>	<u>3,596,369</u>
	6,660,843	6,669,735
Less allowance for uncollectible accounts	<u>(4,588,000)</u>	<u>(4,347,000)</u>
	<u>\$ 2,072,843</u>	<u>\$ 2,322,735</u>

Note 5. Capital and Subscription Assets

Capital assets activity was as follows for the years ended September 30:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
2025					
Land	\$ 134,209	\$ 26,180	\$ -	\$ -	\$ 160,389
Land improvements	375,846	-	-	-	375,846
Buildings and improvements	18,878,628	1,614,643	-	4,995,031	25,488,302
Equipment	23,895,747	976,580	-	-	24,872,327
Construction in progress	4,995,031	-	-	(4,995,031)	-
	<u>48,279,461</u>	<u>2,617,403</u>	<u>-</u>	<u>-</u>	<u>50,896,864</u>
Less accumulated depreciation	34,729,718	1,314,546	-	-	36,044,264
Capital assets, net	<u>\$ 13,549,743</u>	<u>\$ 1,302,857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,852,600</u>
2024					
Land	\$ 134,209	\$ -	\$ -	\$ -	\$ 134,209
Land improvements	369,467	6,379	-	-	375,846
Buildings and improvements	18,758,559	120,069	-	-	18,878,628
Equipment	23,378,493	517,254	-	-	23,895,747
Construction in progress	1,133,990	3,861,041	-	-	4,995,031
	<u>43,774,718</u>	<u>4,504,743</u>	<u>-</u>	<u>-</u>	<u>48,279,461</u>
Less accumulated depreciation	33,573,870	1,155,848	-	-	34,729,718
Capital assets, net	<u>\$ 10,200,848</u>	<u>\$ 3,348,895</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,549,743</u>

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Subscription assets activity was as follows for the years ended September 30:

	Beginning Balance	Additions	Disposals	Ending Balance
2025				
Subscription IT asset	\$ 158,043	\$ 1,303,286	\$ -	\$ 1,461,329
Less accumulated amortization	103,762	177,947	-	281,709
Subscription assets, net	<u>\$ 54,281</u>	<u>\$ 1,125,339</u>	<u>\$ -</u>	<u>\$ 1,179,620</u>
2024				
Subscription IT asset	\$ 158,043	\$ -	\$ -	\$ 158,043
Less accumulated amortization	67,783	35,979	-	103,762
Subscription assets, net	<u>\$ 225,826</u>	<u>\$ (35,979)</u>	<u>\$ -</u>	<u>\$ 54,281</u>

Note 6. Medical Malpractice Claims

The District is a unit of government covered by the *Texas Tort Claims Act (Act)*, which, by statute, limits its liability to \$100,000 per person/\$300,000 per occurrence. The District is self-insured for amounts not covered by the Act. 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. Based upon claims experience, the District has accrued approximately \$296,000 for malpractice claims at September 30, 2025 and 2024, that is included in self-funded malpractice liability on the balance sheets. The District made no payments on malpractice claims in 2025 or 2024. It is reasonably possible that this estimate could change materially in the near term.

Note 7. Long-Term Obligations

The following is a summary of long-term obligations transactions for the District for the years ended September 30:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
2025					
Long-term debt note payable	\$ 591,623	\$ -	\$ (162,951)	\$ 428,672	\$ 171,190
Estimated amounts due to third-party payors	453,943	150,000	(452,849)	151,094	1,094
Subscription liabilities	58,226	1,303,286	(245,908)	1,115,604	276,693
Total long-term obligations	<u>\$ 1,103,792</u>	<u>\$ 1,453,286</u>	<u>\$ (861,708)</u>	<u>\$ 1,695,370</u>	<u>\$ 448,977</u>
2024					
Long-term debt note payable	\$ 746,598	\$ -	\$ (154,975)	\$ 591,623	\$ 162,951
Subscription liabilities	93,838	-	(35,612)	58,226	26,034
Total long-term obligations	<u>\$ 840,436</u>	<u>\$ -</u>	<u>\$ (190,587)</u>	<u>\$ 649,849</u>	<u>\$ 188,985</u>

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Note Payable

During 2018, the District obtained a promissory note for equipment for \$1,485,102. The promissory note is due February 1, 2028, with principal and interest at 4.875% payable monthly. The note is collateralized by revenue and receivables of the District operations.

The debt service requirements are as follows as of September 30, 2025:

<u>Year Ending September 30</u>	<u>Total to Be Paid</u>	<u>Principal</u>	<u>Interest</u>
2026	\$ 187,985	\$ 171,190	\$ 16,795
2027	188,523	180,290	8,233
2028	77,995	77,192	803
	<u>\$ 454,503</u>	<u>\$ 428,672</u>	<u>\$ 25,831</u>

Subscription Liabilities

The District has various SBITAs, the terms of which expire in various years through 2030. The subscriptions were measured at the present value of subscription payments expected to be made during the SBITA term. Variable payments based upon the use of the underlying asset are not included in the subscription liability because they are not fixed in substance. During the years ended September 30, 2025 and 2024, the District recognized approximately \$239,000 and \$407,000 respectively, of subscription expense for variable payments and short-term and cancelable subscriptions that are not included in the measurement of the subscription liability.

The following is a schedule by year of payments under the SBITAs as of September 30, 2025:

<u>Year Ending September 30</u>	<u>Total to Be Paid</u>	<u>Principal</u>	<u>Interest</u>
2026	\$ 316,554	\$ 276,693	\$ 39,861
2027	292,781	264,103	28,678
2028	288,024	269,945	18,079
2029	288,024	280,943	7,081
2030	24,000	23,920	80
	<u>\$ 1,209,383</u>	<u>\$ 1,115,604</u>	<u>\$ 93,779</u>

Note 8. Charity Care

Charges excluded from revenue under the District's charity care policy were approximately \$2,975,000 and \$4,212,000 for 2025 and 2024, respectively. The costs of charity care provided under the District's charity care policy was approximately \$1,108,000 and \$1,394,000 for 2025 and 2024, respectively. The cost of charity care is estimated by applying the ratio of cost-to-gross charges to the gross uncompensated charges.

Note 9. Defined Contribution Plan

The District has a defined contribution plan covering substantially all employees. This plan is sponsored by the Texas Hospital Association (THA). It is funded in monthly contributions with the District’s contribution to the plan being discretionary. District contributions to the plan in future periods will be determined by Board resolution. Employee contributions to the plan for the years ended September 30, 2025 and 2024 were \$87,120 and \$85,391, respectively. The District made no contributions to the plan for the years ended September 30, 2025 and 2024.

Note 10. Defined Benefit Pension Plan

Plan Description

The District contributes to the Texas County and District Retirement System (TCDRS), an agent multiple-employer defined benefit pension plan covering substantially all employees. The Plan is administered by a board of trustees appointed by TCDRS. Benefit provisions are contained in the plan document and were established and can be amended by action of the District’s governing body within the options available in the state statutes governing TCDRS. The Plan does not issue a separate report that includes financial statements and required supplementary information for the plan. TCDRS in the aggregate issues an annual comprehensive financial report (ACFR) on a calendar year basis. The ACFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034 or from the website www.tcdrs.org.

Benefits Provided

The Plan provides retirement, disability, and survivor benefits to plan members and their beneficiaries. Benefit amounts are determined by the sum of the employee’s contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the District within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the commitment of the District to contribute to the plan. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee’s accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS.

Members can retire at ages 60 and above with eight or more years of service or with 30 years regardless of age, or when the sum of their age and years of service equals 75 or more. A member is vested after five years but must leave his accumulated contributions in the plan to receive any employer-financed benefit. If a member withdraws his personal contributions in a lump sum, he is not entitled to any amounts contributed by the employer.

The employees covered by the Plan at the December 31, 2024 and 2023, measurement dates are:

	2024	2023
Inactive employees or beneficiaries currently receiving benefits	27	23
Inactive employees entitled to but not yet receiving benefits	252	242
Active employees	150	140
	429	405

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Actuarial Assumptions

The total pension liability in the December 31, 2024 and 2023 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Varies by age, 4.7% average over career, including inflation
Ad hoc cost-of-living adjustments	Not included
Investment rate of return	7.50%, net of administrative and investment expense, including inflation

Mortality rates for depositing members in both the 2024 and 2023 valuations were based on the Pub-2010 General Employees Amount-Weighted Mortality Table with a 120% for females and 135% for males, both projected with 100% of the MP-2021 Ultimate scale after 2010.

The actuarial assumptions used in the December 31, 2024 and 2023 valuations were based on the results of an actuarial experience study for the period January 1, 2017 through December 2020.

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Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information. The target allocation and best estimates of rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Equities		
U.S. equities	13.0%	5.35%
International equities – developed	6.0%	4.75%
International equities – emerging	0.0%	4.75%
Global equities	4.0%	5.15%
Hedge funds	6.0%	3.60%
High-yield investments		
Strategic credit	9.0%	3.70%
Distressed debt	4.0%	6.80%
Direct lending	16.0%	6.85%
Private equity	25.0%	8.15%
Real assets		
REITs	2.0%	3.95%
Commodities	2.0%	1.00%
Private real estate partnerships	6.0%	5.75%
Master limited partnerships	2.0%	4.95%
Cash equivalents	2.0%	4.95%
Investment-grade bonds	3.0%	2.55%
Total	100.0%	

Discount Rate

The discount rate used to measure the total pension liability was 7.60% at both December 31, 2024 and 2023. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that District contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was 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 pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Contributions

The District's governing body has the authority to establish and amend the contribution requirements of the District and active employees.

The District establishes rates based on the annually determined rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both the employee members and the employer based on the covered payroll of employee members. Plan members are required to contribute 4% of their annually covered salary. Under the

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TCDRS Act, rates are based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the years ended September 30, 2025 and 2024, employees contributed \$372,281 and \$360,326, or 4.0% of annual pay, respectively, and the District contributed \$215,062 and \$211,698, or 2.3% and 2.4% of annual pay, respectively, to the Plan.

Net Pension Asset

The District's net pension asset as of September 30, 2025 and 2024 was measured as of December 31, 2024 and 2023, respectively, and the total pension liability used to calculate the net pension asset was determined by actuarial valuations as of those dates.

Changes in the total pension liability, plan fiduciary net position and the net pension asset for the years ended September 30, 2025 and 2024 are:

	2025		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at beginning of year	\$ 7,150,604	\$ 8,202,594	\$ (1,051,990)
Changes for the year			
Service cost	561,586	-	561,586
Interest on total pension liability	580,437	-	580,437
Effect of economic/demographic gains or losses	44,884	-	44,884
Refund of contributions	(70,802)	(70,802)	-
Benefit payments	(81,713)	(81,713)	-
Administrative expenses	-	(5,166)	5,166
Member contributions	-	363,861	(363,861)
Net investment income	-	845,043	(845,043)
Employer contributions	-	210,130	(210,130)
Other changes	-	25,626	(25,626)
Net changes	<u>1,034,392</u>	<u>1,286,979</u>	<u>(252,587)</u>
Balances at end of year	<u>\$ 8,184,996</u>	<u>\$ 9,489,573</u>	<u>\$ (1,304,577)</u>

Graham Hospital District d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2025 and 2024

	2024		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at beginning of year	\$ 6,219,952	\$ 7,005,948	\$ (785,996)
Changes for the year			
Service cost	537,705	-	537,705
Interest on total pension liability	508,185	-	508,185
Effect of economic/demographic gains or losses	29,423	-	29,423
Refund of contributions	(76,680)	(76,680)	-
Benefit payments	(67,981)	(67,981)	-
Administrative expenses	-	(4,283)	4,283
Member contributions	-	339,690	(339,690)
Net investment income	-	773,958	(773,958)
Employer contributions	-	208,910	(208,910)
Other changes	-	23,032	(23,032)
Net changes	<u>930,652</u>	<u>1,196,646</u>	<u>(265,994)</u>
Balances at end of year	<u>\$ 7,150,604</u>	<u>\$ 8,202,594</u>	<u>\$ (1,051,990)</u>

The net pension asset of the District has been calculated using a discount rate of 7.60%. The following presents the net pension asset using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
	District's net pension liability (asset)	<u>\$ 83,293</u>	<u>\$ (1,304,577)</u>

Graham Hospital District d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2025 and 2024

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended September 30, 2025 and 2024, the District recognized pension expense of \$31,850 and \$101,740, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at September 30:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2025		
Differences between expected and actual experience	\$ 39,730	\$ -
Net difference between projected and actual earnings on pension plan investments	-	65,046
Contributions subsequent to the measurement date	<u>157,425</u>	<u>-</u>
	<u>\$ 197,155</u>	<u>\$ 65,046</u>
2024		
Differences between expected and actual experience	\$ 19,615	\$ 42,512
Net difference between projected and actual earnings on pension plan investments	71,887	-
Contributions subsequent to the measurement date	<u>152,492</u>	<u>-</u>
	<u>\$ 243,994</u>	<u>\$ 42,512</u>

At September 30, 2025, the District reported \$157,425 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date that will be recognized as an increase in the net pension asset at September 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources at September 30, 2025 related to pensions will be recognized in pension expense as follows:

Year ending September 30	
2026	\$ (25,842)
2027	127,735
2028	(86,178)
2029	<u>(41,031)</u>
	<u>\$ (25,316)</u>

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued financial report of TCERS for the year ended December 31, 2024.

Note 11. One Big Beautiful Bill Act

On July 3, 2025, the U.S. Congress enacted the *One Big Beautiful Bill Act* (OBBBA), a comprehensive budget reconciliation law introducing significant changes to federal healthcare programs, tax policy, and energy-related incentives. The legislation includes substantial reductions in Medicaid funding, modifications to provider tax structures, and new eligibility and cost-sharing requirements for Medicaid beneficiaries. The OBBBA has not had a material impact on the financial results to date, as many aspects of the legislation are effective for future periods. The District is currently evaluating what impact the OBBBA may have on the financial results, cash flows, and financial position for future periods.

Note 12. Future Change in Accounting Principle – GASB Statement No. 103, *Reporting Model Improvements* (GASB 103)

GASB Statement No. 103, *Financial Reporting Model Improvement* (GASB 103), improves the financial reporting model by standardizing the presentation for various matters within governmental financial statements. The purpose is to eliminate diversity in practice and improve comparability.

Impacted areas include management’s discussion and analysis, unusual or infrequent items, the definitions and presentation of operating and nonoperating revenues and expenses. While GASB 103 does not impact the timing of recognition and measurement of revenue, it could affect the presentation and geographical location of certain healthcare-specific revenues within the financial statements.

The requirements of GASB 103 are effective for the District’s fiscal year ending September 30, 2026 and all reporting periods thereafter. Changes are required to be made retroactively to the earliest period presented.

Required Supplementary Information

Graham Hospital District d/b/a Graham Regional Medical Center
Schedule of Changes in District's Net Pension (Asset) Liability and Related Ratios
Years Ended December 31,

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability										
Service cost	\$ 561,586	\$ 537,705	\$ 527,523	\$ 551,680	\$ 483,097	\$ 490,920	\$ 519,309	\$ 692,762	\$ 742,674	\$ 808,693
Interest on total pension liability	580,437	508,185	457,159	402,758	335,809	285,825	236,824	237,542	153,905	142,196
Effect of plan changes	-	-	-	-	-	-	-	(617,111)	-	(67,214)
Effect of assumption changes or inputs	-	-	-	(6,336)	329,197	-	-	563	-	26,115
Effect of economic and demographic (gains) or losses	44,884	29,423	(127,534)	(26,321)	34,944	(78,136)	(41,086)	(59,785)	(131,126)	(709,428)
Benefit payments, including refunds of employee contributions	(152,514)	(144,661)	(245,345)	(120,580)	(76,102)	(71,392)	(91,632)	(87,221)	(36,867)	(50,033)
Net change in total pension liability	1,034,393	930,652	611,803	801,201	1,106,945	627,217	623,415	166,750	728,586	150,329
Total pension liability—beginning	7,150,604	6,219,952	5,608,149	4,806,948	3,700,003	3,072,786	2,449,371	2,282,621	1,554,035	1,403,706
Total pension liability—ending (a)	\$ 8,184,997	\$ 7,150,604	\$ 6,219,952	\$ 5,608,149	\$ 4,806,948	\$ 3,700,003	\$ 3,072,786	\$ 2,449,371	\$ 2,282,621	\$ 1,554,035
Plan fiduciary net position										
Contributions—employer	\$ 210,130	\$ 208,910	\$ 217,610	\$ 145,047	\$ 157,195	\$ 145,468	\$ 138,238	\$ 331,798	\$ 367,831	\$ 419,272
Contributions—employee	363,861	339,690	327,233	323,489	310,065	288,763	271,111	364,613	370,051	406,272
Net investment income	845,043	773,958	(442,015)	1,248,237	478,404	599,282	(59,541)	361,550	116,909	(16,411)
Benefit payments, including refunds of employee contributions	(152,514)	(144,661)	(245,345)	(120,580)	(76,102)	(71,392)	(91,632)	(87,221)	(36,867)	(50,033)
Administrative expense	(5,166)	(4,283)	(4,106)	(3,844)	(4,025)	(3,523)	(2,933)	(2,252)	(1,271)	(858)
Other	25,626	23,031	48,105	11,373	12,033	13,068	9,806	8,142	66,429	(103)
Net change in plan fiduciary net position	1,286,980	1,196,645	(98,518)	1,603,722	877,570	971,666	265,049	976,630	883,082	758,139
Plan fiduciary net position—beginning	8,202,594	7,005,949	7,104,467	5,500,745	4,623,175	3,651,509	3,386,460	2,409,830	1,526,748	768,609
Plan fiduciary net position—ending (b)	\$ 9,489,574	\$ 8,202,594	\$ 7,005,949	\$ 7,104,467	\$ 5,500,745	\$ 4,623,175	\$ 3,651,509	\$ 3,386,460	\$ 2,409,830	\$ 1,526,748
District's net pension liability (asset)—ending (a) – (b)	\$ (1,304,577)	\$ (1,051,990)	\$ (785,997)	\$ (1,496,318)	\$ (693,797)	\$ (923,172)	\$ (578,723)	\$ (937,089)	\$ (127,209)	\$ 27,287
Plan fiduciary net position as a percentage of the total pension liability	115.94%	114.71%	112.64%	126.68%	114.43%	124.95%	118.83%	138.26%	105.57%	98.24%
Covered payroll	\$ 9,096,527	\$ 8,492,257	\$ 8,180,835	\$ 8,087,221	\$ 7,751,630	\$ 7,219,085	\$ 6,777,783	\$ 7,292,257	\$ 7,401,021	\$ 8,125,430
District's net pension liability (asset) as a percentage of covered payroll	-14.34%	-12.39%	-9.61%	-18.50%	-8.95%	-12.79%	-8.54%	-12.85%	-1.72%	0.34%

**Graham Hospital District d/b/a Graham Regional Medical Center
Schedule of District Pension Contributions
Years Ended September 30,**

Year Ended September 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll⁽¹⁾	Contributions as a Percentage of Covered- Employee Payroll
2025	\$ 208,910	\$ 208,910	\$ -	\$ 9,307,028	2.2%
2024	\$ 211,698	\$ 211,698	\$ -	\$ 9,008,140	2.4%
2023	\$ 209,386	\$ 209,386	\$ -	\$ 8,329,217	2.5%
2022	\$ 196,330	\$ 196,330	\$ -	\$ 8,082,501	2.7%
2021	\$ 151,926	\$ 151,926	\$ -	\$ 8,135,484	1.8%
2020	\$ 145,862	\$ 145,862	\$ -	\$ 7,196,361	2.0%
2019	\$ 143,886	\$ 143,886	\$ -	\$ 7,112,649	2.0%
2018	\$ 331,798	\$ 331,798	\$ -	\$ 7,292,257	2.0%
2017	\$ 367,831	\$ 367,831	\$ -	\$ 7,401,021	4.5%
2016	\$ 419,272	\$ 419,272	\$ -	\$ 8,125,430	5.0%

Notes to Schedule:

(1) Payroll is calculated based on contributions as reported to TCDRS.

Valuation date:

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost
Amortization method	Level percentage of payroll, closed
Remaining amortization period	0.0 years (based on contribution rate calculated in 12/31/2024 valuation)
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary increases	Varies by age and service. 4.7% average over career including inflation
Investment rate of return	7.50%, net of administrative and investment expenses, including inflation
Retirement age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Change in Assumptions and Methods Reflected in the Schedule of Employer	2015: New inflation, mortality, and other assumptions were reflected. 2017: New mortality assumptions were reflected. 2019: New inflation, mortality, and other assumptions were reflected. 2022: New investment return and inflation assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions	2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2018: Employer contributions reflect that the member contribution rate was decreased to 4% and the current service matching rate was decreased to 100%