




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

**Independent Auditor's Reports
and Financial Statements**

September 30, 2023 and 2022



Graham Hospital District
d/b/a Graham Regional Medical Center
September 30, 2023 and 2022

Contents

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis	3
Financial Statements	
Balance Sheets.....	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows.....	9
Notes to Financial Statements.....	11
Required Supplementary Information	
Schedule of Changes in District’s Net Pension (Asset) Liability and Related Ratios.....	34
Schedule of District Pension Contributions	35
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards – Independent Auditor’s Report.....	36
Schedule of Findings and Responses	38



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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Graham Hospital District d/b/a Graham Regional Medical Center (the District) as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 and *Government Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 as 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

FORVIS,LLP

**Waco, Texas
March 22, 2024**

Graham Hospital District

d/b/a Graham Regional Medical Center

Management's Discussion and Analysis

Years Ended September 30, 2023 and 2022

Introduction

This management's discussion and analysis of the financial performance of Graham Hospital District (the District) d/b/a Graham Regional Medical Center provides an overview of the District's financial activities for the years ended September 30, 2023 and 2022. It should be read in conjunction with the accompanying financial statements of the District.

Financial Highlights

- Cash and cash equivalents decreased in 2023 by \$7,426,905, or 62.3%, and increased in 2022 by \$323,993, or 2.8%.
- The District's net position increased in 2023 by \$2,255,221, or 11.9%, and increased by \$2,398,914, or 14.5%, in 2022.
- The District reported operating losses in 2023 of \$4,753,198 and in 2022 of \$2,834,226. The operating loss in 2023 increased by \$1,918,972, or 67.7%, over the operating loss reported in 2022. The operating loss in 2022 increased by \$204,401, or 7.8%, from the operating loss reported in 2021.
- Net nonoperating revenues increased by \$964,647, or 19.5%, in 2023 compared to 2022 and decreased by \$2,014,575, or 28.9%, in 2022 compared to 2021.

Using This Annual Report

The District's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a 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.

The District's Net Position

The District's net position is the difference between its assets and liabilities reported in the accompanying balance sheets. The District's net position increased by \$2,255,221, or 11.9%, in 2023 over 2022 and increased by \$2,398,914, or 14.5%, in 2022 over 2021 as shown in Table 1.

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets and Deferred Outflows of Resources			
Cash and cash equivalents	\$ 4,500,096	\$ 11,927,001	\$ 11,603,008
Short-term investments	6,095,340	-	-
Patient accounts receivable, net	1,781,776	1,662,404	1,673,453
Other current and noncurrent assets	2,091,296	1,289,942	1,527,851
Capital and subscription assets, net	10,291,107	9,071,470	8,171,749
Net pension asset	785,997	1,496,318	693,797
	<u>25,545,612</u>	<u>25,447,135</u>	<u>23,669,858</u>
Deferred Outflows of Resources - Pensions	<u>453,425</u>	<u>339,998</u>	<u>381,578</u>
Total assets and deferred outflows of resources	<u>\$ 25,999,037</u>	<u>\$ 25,787,133</u>	<u>\$ 24,051,436</u>
Liabilities			
Long-term debt	\$ 591,574	\$ 746,527	\$ 894,180
Other current and noncurrent liabilities	4,110,861	5,293,084	6,409,851
	<u>4,702,435</u>	<u>6,039,611</u>	<u>7,304,031</u>
Deferred Inflows of Resources - Pensions	<u>95,908</u>	<u>802,049</u>	<u>200,846</u>
Net Position			
Net investment in capital assets	9,072,019	8,177,290	7,015,148
Restricted expendable for pension	785,997	1,496,318	693,797
Restricted expendable for capital assets	411,570	49,628	56,059
Unrestricted	10,931,108	9,222,237	8,781,555
	<u>21,200,694</u>	<u>18,945,473</u>	<u>16,546,559</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 25,999,037</u>	<u>\$ 25,787,133</u>	<u>\$ 24,051,436</u>

A significant change in the District's 2023 assets is the decrease in the net pension asset, primarily due to the investment performance on the defined benefit pension plan, as detailed in *Note 11*. A significant

change in the District's 2023 liabilities is the decrease in current liabilities, primarily due to the recognition of Provider Relief Funds received in advance in 2023, as detailed in *Note 13*.

A significant change in the District's 2022 assets is the increase in net pension asset, primarily due to the investment performance on the defined benefit pension plan. There was a related increase in pension related deferred inflows of resources. See *Note 11*. Total liabilities also decreased as a result of recoupment of Medicare Advance Payments received in prior years.

Operating Results and Changes in the District's Net Position

In 2023, the District's net position increased by \$2,255,221, or 11.9%, over 2022 as shown in Table 2. In 2022, the District's change in net position decreased by \$3,698,298, or 60.7% over 2021.

Table 2: *Operating Results and Changes in Net Position*

	2023	2022	2021
Operating Revenues			
Net patient service revenue	\$ 19,098,635	\$ 19,528,796	\$ 20,656,751
Other	508,421	507,742	401,786
Total operating revenues	<u>19,607,056</u>	<u>20,036,538</u>	<u>21,058,537</u>
Operating Expenses			
Salaries, wages and employee benefits	11,556,380	10,296,301	10,541,383
Purchased services and professional fees	6,766,000	6,672,777	6,484,300
Depreciation	1,302,460	1,055,650	980,217
Supplies and other	4,735,414	4,846,036	5,682,462
Total operating expenses	<u>24,360,254</u>	<u>22,870,764</u>	<u>23,688,362</u>
Operating Loss	<u>(4,753,198)</u>	<u>(2,834,226)</u>	<u>(2,629,825)</u>
Nonoperating Revenues (Expenses)			
Property taxes	3,290,866	3,055,558	3,070,241
Investment income	463,028	20,664	9,045
Interest expense	(46,142)	(50,022)	(74,314)
Contributed services	633,413	584,000	587,000
Provider Relief Fund	1,113,047	1,288,445	3,315,886
Other nonoperating revenue	458,859	49,779	55,141
Total nonoperating revenues	<u>5,913,071</u>	<u>4,948,424</u>	<u>6,962,999</u>
Capital Grants and Gifts and Special Items			
Special item - Forgiveness of PPP loan	-	-	1,732,538
Capital grants and gifts	1,095,348	284,716	31,500
Total capital grants and gifts and special items	<u>1,095,348</u>	<u>284,716</u>	<u>1,764,038</u>
Increase in Net Position	<u>\$ 2,255,221</u>	<u>\$ 2,398,914</u>	<u>\$ 6,097,212</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 2023 increased by \$1,918,972, or 67.7%, as compared to 2022. The primary components of the increased operating loss are:

- A decrease in net patient service revenue of \$430,161, or 2.2%, due to a decrease in census and decreased supplemental Medicaid funding.
- An increase in salaries, wages and employee benefits of \$1,260,079, or 12.2%, primarily due to increased wage pressures and employee retention efforts.
- A decrease in supplies and other of \$110,622, or 2.3%, due to a decrease in census.

The operating loss for 2022 increased by \$204,401, or 7.8%, as compared to 2021. The primary components of the increased operating loss are:

- A decrease in net patient service revenue of \$1,127,955, or 5.5%, due to a decrease in census and decreased supplemental Medicaid funding.
- A decrease in salaries, wages and employee benefits of \$245,082, or 2.3%, primarily attributable to a decrease in full time equivalents.
- An increase in purchased services and professional fees of \$188,477, or 2.9%, due to an increase in outsourced administrative services.
- A decrease in supplies and other of \$836,426, or 14.7%, due to a decrease in census and stabilized supply costs following the impact of the COVID-19 pandemic.

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 2023 was an increase in investment income of \$442,364, or 2,140.7%. The most significant change in nonoperating revenues and expenses in 2022 was the decrease in Provider Relief Fund Revenue of \$2,027,441, or 61.1.%

The District's Cash Flows

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

Capital, Lease and Subscription Assets

At September 30, 2023 and 2022, the District had \$10,200,847 and \$9,071,470, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2023 and 2022, the District purchased capital assets costing \$2,437,931 and \$1,932,700, respectively. At September 30, 2023 and 2022, the District had \$90,260 and \$0, respectively, in subscription assets, net of accumulated amortization of \$67,783 and \$0, respectively.

Debt and Subscription Liabilities

At September 30, 2023 and 2022, the District had \$746,598 and \$894,180, respectively, of notes payable outstanding. At September 30, 2023 and 2022, the District had \$93,838 and \$0, respectively, of outstanding subscription liabilities. More detailed information about the District's long-term debt, lease and subscription liabilities is presented in *Note 8* 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, 2023 and 2022

Assets and Deferred Outflows of Resources

	2023	2022
Current Assets		
Cash and cash equivalents	\$ 4,088,526	\$ 11,927,001
Short-term investments	6,095,340	-
Restricted cash	-	49,628
Patient accounts receivable, net of allowance; 2023 - \$3,257,000 and 2022 - \$3,148,000	1,781,776	1,662,404
Property taxes receivable	172,339	145,154
Estimated amounts due from third-party payers	994,749	142,810
Supplies	461,699	514,936
Prepaid expenses and other	241,830	209,838
Total current assets	13,836,259	14,651,771
Restricted Cash	411,570	-
Capital Assets, Net	10,200,847	9,071,470
Subscription Assets, Net	90,260	-
Net Pension Asset	785,997	1,496,318
Other Assets	220,679	227,576
Total assets	25,545,612	25,447,135
Deferred Outflows of Resources - Pensions	453,425	339,998
Total assets and deferred outflows of resources	\$ 25,999,037	\$ 25,787,133

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2023</u>	<u>2022</u>
Current Liabilities		
Current maturities of long-term debt	\$ 155,024	\$ 147,653
Current maturities of subscription liabilities	35,612	-
Accounts payable	1,178,075	921,744
Accrued expenses	1,093,992	976,418
Estimated amounts due to third-party payers, current	374,651	1,564,773
Provider Relief Funds received in advance	-	920,343
Patient credit balance payables and other	367,303	466,184
	<u>3,204,657</u>	<u>4,997,115</u>
Noncurrent Liabilities		
Estimated amounts due to third-party payers	552,009	-
Self-funded malpractice	295,969	295,969
Long-term debt	591,574	746,527
Subscription liabilities	58,226	-
	<u>1,497,778</u>	<u>1,042,496</u>
Total noncurrent liabilities	<u>1,497,778</u>	<u>1,042,496</u>
Total liabilities	<u>4,702,435</u>	<u>6,039,611</u>
Deferred Inflows of Resources - Pensions	<u>95,908</u>	<u>802,049</u>
Net Position		
Net investment in capital assets	9,072,019	8,177,290
Restricted expendable for pension	785,997	1,496,318
Restricted expendable for capital assets	411,570	49,628
Unrestricted	10,931,108	9,222,237
	<u>21,200,694</u>	<u>18,945,473</u>
Total net position	<u>21,200,694</u>	<u>18,945,473</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 25,999,037</u>	<u>\$ 25,787,133</u>

Graham Hospital District
d/b/a Graham Regional Medical Center
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2023 and 2022

	2023	2022
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2023 - \$1,550,000; 2022 - \$3,041,000	\$ 19,098,635	\$ 19,528,796
Other	508,421	507,742
	19,607,056	20,036,538
Operating Expenses		
Salaries and wages	9,513,402	8,963,445
Employee benefits	2,042,978	1,332,856
Purchased services and professional fees	6,766,000	6,672,777
Supplies and other	4,735,414	4,846,036
Depreciation and amortization	1,302,460	1,055,650
	24,360,254	22,870,764
Operating Loss	(4,753,198)	(2,834,226)
Nonoperating Revenues (Expenses)		
Property taxes	3,290,866	3,055,558
Investment income	463,028	20,664
Interest expense	(46,142)	(50,022)
Contributed services	633,413	584,000
Provider Relief Fund revenue	1,113,047	1,288,445
Other nonoperating revenue	458,859	49,779
	5,913,071	4,948,424
Income Before Capital Grants and Gifts	1,159,873	2,114,198
Capital Grants and Gifts	1,095,348	284,716
Increase in Net Position	2,255,221	2,398,914
Net Position, Beginning of Year	18,945,473	16,546,559
Net Position, End of Year	\$ 21,200,694	\$ 18,945,473

Graham Hospital District
d/b/a Graham Regional Medical Center
Statements of Cash Flows
Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	\$ 17,589,331	\$ 18,945,716
Payments to suppliers and contractors	(11,168,078)	(11,285,553)
Payments to employees	(11,547,746)	(10,463,525)
Other receipts, net	515,318	559,236
	<u>(4,611,175)</u>	<u>(2,244,126)</u>
Net cash used in operating activities		
Cash Flows from Noncapital Financing Activities		
Property taxes supporting operations	3,263,681	3,041,126
Noncapital grants and gifts	2,035	-
Provider Relief Fund receipts	190,669	1,433,788
Other	48,875	49,779
	<u>3,505,260</u>	<u>4,524,693</u>
Net cash provided by noncapital financing activities		
Cash Flows from Capital and Related Financing Activities		
Capital grants and gifts	1,095,348	284,716
Principal paid on subscription liabilities	(33,974)	-
Interest paid on subscription liabilities	(5,507)	-
Principal paid on lease liabilities	-	(44,267)
Interest paid on lease liabilities	-	(700)
Principal paid on long-term debt	(147,582)	(240,825)
Interest paid on long-term debt	(39,369)	(49,893)
Proceeds from insurance	452,057	-
Purchase of capital assets	(2,059,279)	(1,932,700)
	<u>(738,306)</u>	<u>(1,983,669)</u>
Net cash used in capital and related financing activities		
Investing Activities		
Investment earnings	463,028	20,664
Purchase of investments	(6,095,340)	-
	<u>(5,632,312)</u>	<u>20,664</u>
Net cash provided by (used in) investing activities		
Increase (Decrease) in Cash and Cash Equivalents	(7,476,533)	317,562
Cash and Cash Equivalents, Beginning of Year	<u>11,976,629</u>	<u>11,659,067</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,500,096</u>	<u>\$ 11,976,629</u>

Graham Hospital District
d/b/a Graham Regional Medical Center
Statements of Cash Flows (Continued)
Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 4,088,526	\$ 11,927,001
Restricted cash - current	-	49,628
Restricted cash - long-term	<u>411,570</u>	<u>-</u>
Total cash and cash equivalents	<u><u>\$ 4,500,096</u></u>	<u><u>\$ 11,976,629</u></u>
Reconciliation of Operating Loss to Net Cash Used In Operating Activities		
Operating loss	\$ (4,753,198)	\$ (2,834,226)
Depreciation and amortization	1,302,460	1,055,650
Contributed services	633,413	584,000
Provision for uncollectible accounts	1,550,000	3,041,000
Changes in operating assets and liabilities:		
Patient accounts receivable	(1,669,372)	(3,029,951)
Estimated amounts due from and to third-party payers	(1,490,052)	(775,675)
Accounts payable and accrued expenses	(4,440)	284,721
Deferred outflows of resources - pensions	(113,427)	41,580
Deferred inflows of resources - pensions	(706,141)	601,203
Net pension asset	710,321	(802,521)
Other assets and liabilities	<u>(70,739)</u>	<u>(409,907)</u>
Net cash used in operating activities	<u><u>\$ (4,611,175)</u></u>	<u><u>\$ (2,244,126)</u></u>
Noncash Investing, Capital and Financing Activities		
Capital assets acquisitions included in accounts payable	\$ 378,652	\$ -
Subscription obligation incurred for subscription assets	\$ 158,043	\$ -

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

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

Nature of Operations and Reporting Entity

Graham Hospital District (the District) d/b/a Graham Regional Medical Center 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 (the 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. There were no significant activities or balances in the current year.

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, 2023 and 2022, cash equivalents consisted of cash sweep accounts.

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

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 2023 and 2022, the District received approximately 13% and 12%, respectively, 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 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 payers, 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.

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

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

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

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 at 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, Lease and Subscription Asset Impairment

The District evaluates capital, lease and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or lease asset has occurred. If a capital, lease 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, 2023 and 2022.

Lease Liabilities

The District is a lessee for noncancellable leases. The District recognizes a lease liability and an intangible lease asset (lease asset) in the financial statements. At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

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

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

Compensated Absences

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

Defined Benefit Pension Plan

The District has an agent multiple-employer defined benefit pension plan through the Texas County and District Retirement System (the 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 Outflows and Inflows of Resources

Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources or deferred inflows of resources. Certain pension related transactions are reported as deferred outflows of resources and deferred inflows of resources and are recognized in subsequent periods as disclosed in *Note 11*.

Net Position

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

- Net investment in capital assets consists of capital, lease and subscription assets net of accumulated depreciation and reduced by the outstanding balances of borrowings, lease, or subscription liabilities used to finance the purchase, use, or construction of those assets.
- Restricted for pensions 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 assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

Net Patient Service Revenue

The District has agreements with third-party payers 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 payers 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.

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.

Change in Accounting Principle

The On October 1, 2022, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, using the retrospective method of adoption to all SBITAs in place and not yet completed at the beginning of the earliest period presented. The statement requires governmental entities to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The impact to the 2022 financial statements and disclosures was not material.

Note 2: Net Patient Service Revenue

The District has agreements with third-party payers 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.

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries prior to August 4, 2023 are 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 is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient 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 50% and 55% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for both the years ended September 30, 2023 and 2022, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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 health care, 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 health care 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.

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 revenue from the two funding pools is recognized as earned throughout the demonstration year.

On April 22, 2022, the Centers for Medicare and Medicaid Services (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.

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

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 will require annual approval by CMS and has been approved through August 31, 2024. Revenue from UHRIP and CHIRP are recognized as a component of patient services 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 recoupment of approximately \$927,000 and \$319,000 at September 30, 2023 and 2022, respectively, which is included in estimated amounts due to third-party payers in the balance sheets.

The District participates in the Public Hospital Augmented Reimbursement Program (HARP). HARP is a statewide supplemental program that provides Medicaid payments to certain hospitals for inpatient and outpatient services that serve Texas Medicaid fee-for-service patients. The program serves as a financial transition for providers historically participating in the DSRIP program and provides additional funding to participating hospitals to assist in offsetting the cost hospitals incur while providing Medicaid services.

Total funding recognized through these programs (exclusive of CHIRP and UHRIP) was approximately \$385,000 and \$1,366,000 for the years ended September 30, 2023 and 2022, 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 non-profit corporations (the 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 communities. These services were valued at approximately \$633,000 and \$584,000 for the years ended September 30, 2023 and 2022, respectively. As part of the affiliation agreement, the District provided approximately \$0 in funding to the program for both years ended September 30, 2023 and 2022.

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

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 or 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, 2023 and 2022, \$161,570 and \$0, respectively, of the District's deposits 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.

At September 30, the District had the following investments and maturities:

Type	September 30, 2023				
	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
U.S. Treasury obligations	\$ 6,095,340	\$ 6,095,340	\$ -	\$ -	\$ -

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, 2023, the District's investments in U.S. Treasury obligations are guaranteed by the U.S. Treasury and were rated AAA by Moody's.

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.

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer. Investments in U.S. Treasury obligations represent 100% of total investments at September 30, 2023.

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 money market mutual funds 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:

	2023	2022
Carrying value		
Deposits	\$ 4,500,096	\$ 11,976,629
Investments	6,095,340	-
	\$ 10,595,436	\$ 11,976,629
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 4,088,526	\$ 11,927,001
Short-term investments	6,095,340	-
Restricted cash - current	-	49,628
Restricted cash - long-term	411,570	-
	\$ 10,595,436	\$ 11,976,629

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

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 payer agreements. Patient accounts receivable at September 30 consisted of:

	2023	2022
Medicare	\$ 588,102	\$ 551,480
Medicaid	92,968	140,442
Other third-party payers	1,453,521	1,311,624
Patients	2,904,185	2,806,858
	5,038,776	4,810,404
Less allowance for uncollectible accounts	(3,257,000)	(3,148,000)
	\$ 1,781,776	\$ 1,662,404

Note 5: Capital, Lease and Subscription Assets

Capital assets activity for the years ended September 30 was:

	2023				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 134,209	\$ -	\$ -	\$ -	\$ 134,209
Land improvements	369,467	-	-	-	369,467
Buildings and improvements	19,127,662	464,545	(833,649)	-	18,758,558
Equipment	22,402,851	975,642	-	-	23,378,493
Construction in progress	136,246	997,744	-	-	1,133,990
	42,170,435	2,437,931	(833,649)	-	43,774,717
Less accumulated depreciation	33,098,965	1,234,677	(759,772)	-	33,573,870
Capital assets, net	\$ 9,071,470	\$ 1,203,254	\$ (73,877)	\$ -	\$ 10,200,847

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 126,500	\$ 7,709	\$ -	\$ -	\$ 134,209
Land improvements	279,587	89,880	-	-	369,467
Buildings and improvements	18,948,264	35,734	-	143,664	19,127,662
Equipment	20,683,910	1,663,131	-	55,810	22,402,851
Construction in progress	199,474	136,246	-	(199,474)	136,246
	<u>40,237,735</u>	<u>1,932,700</u>	<u>-</u>	<u>-</u>	<u>42,170,435</u>
Less accumulated depreciation	32,065,986	1,032,979	-	-	33,098,965
Capital assets, net	<u>\$ 8,171,749</u>	<u>\$ 899,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,071,470</u>

Construction in progress, as of September 30, 2023, includes construction for an outpatient building and renovations to existing facility to be completed in November 2024. The project is being funded through existing cash balances and Foundation donations, and management anticipates the total cost to be approximately \$4,900,000.

Lease assets activity for the years ended September 30 was:

	2023				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Equipment	\$ 429,392	\$ -	\$ -	\$ -	\$ 429,392
Less accumulated amortization	429,392	-	-	-	429,392
Lease assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Equipment	\$ 429,392	\$ -	\$ -	\$ -	\$ 429,392
Less accumulated amortization	406,721	22,671	-	-	429,392
Lease assets, net	<u>\$ 22,671</u>	<u>\$ (22,671)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

Lease assets activity for the years ended September 30, 2023 was:

	2023			
	Beginning Balance	Additions	Disposals	Ending Balance
Subscription IT Asset	\$ -	\$ 158,043	\$ -	\$ 158,043
Less accumulated amortization	-	67,783	-	67,783
Subscription assets, net	\$ -	\$ 90,260	\$ -	\$ 90,260

Note 6: Medical Malpractice Claims

The District is a unit of government covered by the Texas Tort Claims 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 in both 2023 and 2022, that is included in self-funded malpractice on the balance sheets. The District made no payments on malpractice claims in 2023 or 2022. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Employee Health Claims

Beginning in 2023, substantially all the District's employees and their dependents are eligible to participate in the District's employee health insurance plan. The District is self-insured for health claims of participating employees and dependents up to \$50,000 per individual. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported and is included in accrued expenses in the balance sheets. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible the District's estimate will change by a material amount in the near term.

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

Activity in the District's accrued employee health claims liability during 2023 is summarized as follows:

Balance, beginning of year	\$	-
Current year claims incurred and changes in estimates for claims incurred in prior years		697,452
Claims and expenses paid		<u>(512,511)</u>
Balance, end of year	<u>\$</u>	<u>184,941</u>

Note 8: Long-Term Obligations

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

	2023				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable	\$ 894,180	\$ -	\$ (147,582)	\$ 746,598	\$ 155,024
Total long-term debt	<u>894,180</u>	<u>-</u>	<u>(147,582)</u>	<u>746,598</u>	<u>155,024</u>
Subscription liabilities	<u>-</u>	<u>127,812</u>	<u>(33,974)</u>	<u>93,838</u>	<u>35,612</u>
Total long-term obligations	<u>\$ 894,180</u>	<u>\$ 127,812</u>	<u>\$ (181,556)</u>	<u>\$ 840,436</u>	<u>\$ 190,636</u>

	2022				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable	\$ 1,135,005	\$ -	\$ (240,825)	\$ 894,180	\$ 147,653
Total long-term debt	<u>1,135,005</u>	<u>-</u>	<u>(240,825)</u>	<u>894,180</u>	<u>147,653</u>
Lease liabilities	<u>44,267</u>	<u>-</u>	<u>(44,267)</u>	<u>-</u>	<u>-</u>
Total long-term obligations	<u>\$ 1,179,272</u>	<u>\$ -</u>	<u>\$ (285,092)</u>	<u>\$ 894,180</u>	<u>\$ 147,653</u>

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

Notes 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.

During 2019, the District obtained a promissory note for equipment for \$340,308. The promissory note was due July 15, 2022, with principal and interest at 5.500% payable monthly. The note is secured by certain capital assets.

The debt service requirements as of September 30, 2023, are as follows:

Year Ending September 30,	Total to be Paid	Principal	Interest
2024	\$ 187,741	\$ 155,024	\$ 32,717
2025	188,524	163,574	24,950
2026	188,523	171,728	16,795
2027	188,523	180,290	8,233
2028	76,785	75,982	803
	\$ 830,096	\$ 746,598	\$ 83,498

Lease Liabilities

The District leased equipment, the terms of which expired in 2022. The leases were measured based upon the rates at lease commencement.

During the years ended September 30, 2023 and 2022, the District recognized approximately \$56,000 and \$180,000, respectively, of rental expense for variable payments, short-term and cancellable leases that are not included in the measurement of the lease liability.

Subscription Liabilities

The District has various SBITAs, the terms of which expire in various years through 2027. 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, 2023 and 2022, the District recognized approximately \$393,000 and \$415,000 respectively, of subscription expense for variable payments, short-term and cancelable subscriptions that are not included in the measurement of the subscription liability.

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

The following is a schedule by year of payments under the SBITAs as of September 30, 2023:

Year Ending September 30,	Total to be Paid	Principal	Interest
2024	\$ 39,830	\$ 35,612	\$ 4,218
2025	28,530	26,034	2,496
2026	28,530	27,469	1,061
2027	4,755	4,723	32
	<u>\$ 101,645</u>	<u>\$ 93,838</u>	<u>\$ 7,807</u>

Note 9: Charity Care

Charges excluded from revenue under the District's charity care policy were approximately \$3,476,000 and \$2,716,000 for 2023 and 2022, respectively. The costs of charity care provided under the District's charity care policy were approximately \$1,039,000 and \$860,000 for 2023 and 2022, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 10: Defined Contribution Pension Plan

In January 2021, the District began a defined contribution pension plan covering substantially all employees classified by the employer as full-time 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, 2023 and 2022, were \$60,505 and \$52,164, respectively. The District made no contributions to the plan for the years ended September 30, 2023 and 2022.

Note 11: 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 TCERS. 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 TCERS. The Plan does not issue a separate report that includes financial statements and required supplementary information for the plan. TCERS in the aggregate issues an annual comprehensive financial report (ACFR) on a calendar year basis. The ACFR is available upon written request from the TCERS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034 or from the website www.tcdrs.org.

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

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 8 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 5 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, 2022 and 2021, measurement dates, are:

	2022	2021
Inactive employees or beneficiaries currently receiving benefits	21	16
Inactive employees entitled to but not yet receiving benefits	221	208
Active employees	136	136
	378	360

Actuarial Assumptions

The total pension liability in the December 31, 2022 and 2021 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5% for both 2023 and 2022
Salary increases	Varies by age, 4.7% for 2023 and 2022 average over career, including inflation
Ad hoc cost of living adjustments	Not included
Investment rate of return	7.50% for 2023 and 2022, net of administrative and investment expense, including inflation

Mortality rates for depositing members in both the 2022 and 2021 valuations were based on the Pub-2010 General Employees Amount-Weighted Mortality Table with a 120 percent for females and 135 percent for males, both projected with 100 percent of the MP-2021 Ultimate scale after 2010.

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

The actuarial assumptions used in the December 31, 2022 and 2021 valuations were based on the results of an actuarial experience study for the period January 1, 2017 through December 2020.

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	11.5%	4.95%
International Equities — Developed	5.0%	4.95%
International Equities — Emerging	6.0%	4.95%
Global Equities	2.5%	4.95%
Hedge Funds	6.0%	2.90%
High-Yield Investments		
Strategic Credit	9.0%	3.39%
Distressed Debt	4.0%	7.60%
Direct Lending	16.0%	6.95%
Private Equity	25.0%	7.95%
Real Assets		
REITs	2.0%	4.15%
Private Real Estate Partnerships	6.0%	5.70%
Master Limited Partnerships	2.0%	5.30%
Cash Equivalents	2.0%	0.20%
Investment-Grade Bonds	3.0%	2.40%
	<hr/>	
Total	<u>100.0%</u>	

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

Discount Rate

The discount rate used to measure the total pension liability was 7.60% at both December 31, 2022 and 2021. 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 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 plan years ended December 31, 2022 and 2021, employees contributed \$333,169 and \$323,489, or 4.0% of annual pay, respectively, and the District contributed \$209,386 and \$145,804, or 2.5% and 1.9% of annual pay, respectively, to the Plan.

Net Pension Asset

The District's net pension asset as of September 30, 2023 and 2022 was measured as of December 31, 2022 and 2021, respectively, and the total pension liability used to calculate the net pension asset was determined by actuarial valuations as of those dates.

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

Changes in the total pension liability, plan fiduciary net position and the net pension asset for the years ended September 30, 2023 and 2022 are:

	2023		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at September 30, 2022	\$ 5,608,149	\$ 7,104,467	\$ (1,496,318)
Changes for the year:			
Service cost	527,523	-	527,523
Interest on total pension liability	457,159	-	457,159
Effect of economic/demographic gains or losses	(127,534)	-	(127,534)
Refund of contributions	(187,285)	(187,285)	-
Benefit payments	(58,060)	(58,060)	-
Administrative expenses	-	(4,106)	4,106
Member contributions	-	327,233	(327,233)
Net investment income	-	(442,015)	442,015
Employer contributions	-	217,610	(217,610)
Other changes	-	48,105	(48,105)
Net changes	<u>611,803</u>	<u>(98,518)</u>	<u>710,321</u>
Balances at September 30, 2023	<u>\$ 6,219,952</u>	<u>\$ 7,005,949</u>	<u>\$ (785,997)</u>

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

	2022		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at September 30, 2021	\$ 4,806,948	\$ 5,500,745	\$ (693,797)
Changes for the year:			
Service cost	551,680	-	551,680
Interest on total pension liability	402,758	-	402,758
Effect of economic/demographic gains or losses	(26,321)	-	(26,321)
Effect of assumptions changes or inputs	(6,336)	-	(6,336)
Refund of contributions	(81,117)	(81,117)	-
Benefit payments	(39,463)	(39,463)	-
Administrative expenses	-	(3,844)	3,844
Member contributions	-	323,489	(323,489)
Net investment income	-	1,248,237	(1,248,237)
Employer contributions	-	145,047	(145,047)
Other changes	-	11,373	(11,373)
Net changes	<u>801,201</u>	<u>1,603,722</u>	<u>(802,521)</u>
Balances at September 30, 2022	<u>\$ 5,608,149</u>	<u>\$ 7,104,467</u>	<u>\$ (1,496,318)</u>

The net pension asset of the District has been calculated using a discount rate of 7.60%. The following presents the net pension liability (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>\$ 265,142</u>	<u>\$ (785,997)</u>	<u>\$ (1,637,545)</u>

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

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

For the years ended September 30, 2023 and 2022, respectively, the District recognized pension expense of \$100,140 and \$35,834. At September 30, 2023 and 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,736	\$ 93,796
Changes of assumptions	82,300	2,112
Net difference between projected and actual earnings on pension plan investments	212,686	-
Contributions subsequent to the measurement date	149,703	-
	\$ 453,425	\$ 95,908
	2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 17,472	\$ 45,299
Changes of assumptions	164,599	4,224
Net difference between projected and actual earnings on pension plan investments	-	752,526
Contributions subsequent to the measurement date	157,927	-
	\$ 339,998	\$ 802,049

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

At September 30, 2023, the District reported \$149,703 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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources at September 30, 2023, related to pensions will be recognized in pension expense as follows:

Year ending September 30,		
	2024	\$ (2,151)
	2025	(24,558)
	2026	35,570
	2027	198,953
		<hr/>
		\$ 207,814
		<hr/> <hr/>

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued financial report of TCDRS for the year ended December 31, 2022.

Note 12: Related Party Transactions

The District from time to time conducts business transactions with individuals or companies that that members of the Board have a direct or indirect relationship. Specifically, a physician performing medical services for the District also served on the Board during 2023 and 2022.

Note 13: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

Provider Relief Fund and Coronavirus Relief Fund

Through the year ended September 30, 2023, the District received approximately \$5,302,000, respectively, of distributions from the CARES Act Provider Relief Fund and Coronavirus Relief Fund, of which \$191,000 and \$1,434,000 were received during 2022 and 2023 respectively. These distributions from the Provider Relief Fund are not subject to repayment, provided the District is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS).

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

The District is accounting for such payments as conditional contributions. Payments are recognized as nonoperating revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and Coronavirus Relief Fund and the effect of the pandemic on the District's operating revenues and expenses through September 30, 2023 and 2022, the District recognized approximately \$1,113,000 and \$1,288,000 related to Provider Relief Fund and Coronavirus Relief Fund in 2023 and 2022, respectively, and these payments are recorded as Provider Relief Fund revenue in the statements of revenues, expenses and changes in net position. At September 30, 2023 and 2022, the unrecognized amount of Provider Relief Fund and Coronavirus Relief Fund distributions are recorded as Provider Relief Funds received in advance on the accompanying balance sheets.

The terms and conditions governing the Provider Relief Funds and Coronavirus Relief Funds are complex and subject to interpretation and change. If the District is unable to attest to or comply with current or future terms and conditions the District's ability to retain some or all of the distributions received may be affected. Provider Relief Fund and Coronavirus Relief Fund payments are subject to government oversight, including potential audits.

Medicare Accelerated and Advanced Payment Program

During the year ended September 30, 2020, the District requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by CMS according to the payback provisions.

Payback provisions begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25 percent of the remittance advice payment followed by a six-month payback period at 50 percent of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withhold amounts to be paid back in a lump sum or interest will begin to accrue subsequent to the 29-month at a rate of 4 percent.

During the year ended September 30, 2020, the District received approximately \$2,600,000 from these accelerated Medicare payment requests. During the years ended September 30, 2023 and 2022, approximately \$1,134,000 and \$1,354,000, respectively was recouped by Medicare. The unapplied amount of accelerated Medicare payment requests at September 30, 2023 and 2022, of approximately \$0 and \$1,134,000, respectively, are recorded in estimated amounts due to third-party payers in the balance sheets.

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,

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability									
Service cost	\$ 527,523	\$ 551,680	\$ 483,097	\$ 490,920	\$ 519,309	\$ 692,762	\$ 742,674	\$ 808,693	\$ 1,348,855
Interest on total pension liability	457,159	402,758	335,809	285,825	236,824	237,542	153,905	142,196	53,321
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	(127,534)	(26,321)	34,944	(78,136)	(41,086)	(59,785)	(131,126)	(709,428)	7,674
Benefit payments, including refunds of employee contributions	(245,345)	(120,580)	(76,102)	(71,392)	(91,632)	(87,221)	(36,867)	(50,033)	(6,144)
Net change in total pension liability	611,803	801,201	1,106,945	627,217	623,415	166,750	728,586	150,329	1,403,706
Total pension liability—beginning	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)	\$ 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
Plan fiduciary net position									
Contributions—employer	\$ 217,610	\$ 145,047	\$ 157,195	\$ 145,468	\$ 138,238	\$ 331,798	\$ 367,831	\$ 419,272	\$ 392,721
Contributions—employee	327,233	323,489	310,065	288,763	271,111	364,613	370,051	406,272	379,343
Net investment income	(442,015)	1,248,237	478,404	599,282	(59,541)	361,550	116,909	(16,411)	3,019
Benefit payments, including refunds of employee contributions	(245,345)	(120,580)	(76,102)	(71,392)	(91,632)	(87,221)	(36,867)	(50,033)	(6,144)
Administrative expense	(4,106)	(3,844)	(4,025)	(3,523)	(2,933)	(2,252)	(1,271)	(858)	(307)
Other	48,105	11,373	12,033	13,068	9,806	8,142	66,429	(103)	(22)
Net change in plan fiduciary net position	(98,518)	1,603,722	877,570	971,666	265,049	976,630	883,082	758,139	768,610
Plan fiduciary net position—beginning	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)	\$ 7,005,949	\$ 7,104,467	\$ 5,500,745	\$ 4,623,175	\$ 3,651,509	\$ 3,386,460	\$ 2,409,830	\$ 1,526,748	\$ 768,610
District's net pension liability (asset)—ending (a) – (b)	\$ (785,997)	\$ (1,496,318)	\$ (693,797)	\$ (923,172)	\$ (578,723)	\$ (937,089)	\$ (127,209)	\$ 27,287	\$ 635,096
Plan fiduciary net position as a percentage of the total pension liability	112.64%	126.68%	114.43%	124.95%	118.83%	138.26%	105.57%	98.24%	54.76%
Covered payroll	\$ 8,180,835	\$ 8,087,221	\$ 7,751,630	\$ 7,219,085	\$ 6,777,783	\$ 7,292,257	\$ 7,401,021	\$ 8,125,430	\$ 8,276,568
District's net pension liability (asset) as a percentage of covered payroll	-9.61%	-18.50%	-8.95%	-12.79%	-8.54%	-12.85%	-1.72%	0.34%	7.67%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Graham Hospital District
d/b/a Graham Regional Medical Center
Schedule of District 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
2023	\$ 209,386	\$ 209,386	\$ -	\$ 8,329,217	2.5%
2022	196,330	196,330	-	8,082,501	2.4%
2021	151,926	151,926	-	8,135,484	1.9%
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	4.6%
2017	367,831	367,831	-	7,401,021	5.0%
2016	419,272	419,272	-	8,125,430	5.2%
2015	391,482	392,721	(1,239)	7,586,854	5.2%

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	6.9 years (based on contribution rate calculated in 12/31/2022)
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
Retirement age	Members who are eligible for service retirement are assumed to commerce 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%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.



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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Graham Hospital District d/b/a Graham Regional Medical Center (the District), which comprise the District's balance sheet as of September 30, 2023 and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 22, 2024.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001, 2023-002, and 2023-003 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

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

The District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

Purpose of this Report

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

FORVIS,LLP

**Waco, Texas
March 22, 2024**

Graham Hospital District
d/b/a Graham Regional Medical Center
Schedule of Finding and Responses
September 30, 2023

Reference Number	Finding
2023-001	<p>Financial Reporting Process</p> <p>Criteria: Financial statements should be prepared in accordance with generally accepted accounting principles, and internal controls should be in place to ensure this happens.</p> <p>Condition: The District's financial statements required material adjusting entries to properly state the balance sheet and statement of revenues, expenses, and changes in net position. Monthly reconciliations and a formal review process were not accurately performed on all balance sheet accounts, resulting in inaccurate financial information.</p> <p>Cause: The District is a small entity with a limited number of personnel, causing the chief financial officer (CFO) to perform multiple accounting functions, leaving less time for review of monthly reconciliations.</p> <p>Effect: Financial information presented to those charged with governance was inaccurate.</p> <p>Recommendation: The CFO should ensure that financial data is reconciled and reviewed by management.</p> <p>Views of responsible officials and planned corrective actions: We understand the importance of the financial reporting process and the District plans to implement controls and processes to improve accuracy of financial information.</p>

Graham Hospital District
d/b/a Graham Regional Medical Center
Schedule of Finding and Responses
September 30, 2023

Reference Number	Finding
2023-002	<p>Segregation of Duties</p> <p>Criteria: Personnel functions and duties that create the ability to perpetrate and conceal fraud should be segregated.</p> <p>Condition: The District has a lack of segregation of duties regarding the cash receipts transaction cycle.</p> <p>Within the cash receipts transaction cycle, the revenue cycle director and payment poster have primary and secondary access to most recording functions including receiving payments, authorizing electronic funds transfers and adjusting patient accounts for charges, adjustments and payments.</p> <p>Cause: The District is a small entity with a limited number of personnel, which causes incompatible duties to be assigned to certain individuals.</p> <p>Effect: The potential ability to perpetrate and conceal fraud.</p> <p>Recommendation: The District should segregate incompatible duties to improve its internal controls related to cash receipts.</p> <p>Views of responsible officials and planned corrective actions: We understand the importance of the segregation of duties as it relates to maintaining internal control. As mentioned, the District does have limited personnel in certain areas that creates a lack of segregation of duties, but we will try to segregate as resources allow.</p>

Graham Hospital District
d/b/a Graham Regional Medical Center
Schedule of Finding and Responses
September 30, 2023

Reference Number	Finding
2023-003	<p>Journal Entry Process</p> <p>Criteria: Journal entries should require approval by a separate individual and appropriate documentation should be maintained.</p> <p>Condition: Journal entries were not consistently reviewed or documented for approval in a consistent manner. Documentation was not consistently maintained for the purpose, support and approval of the entries.</p> <p>Cause: The District is a small entity with a limited number of personnel, causing the chief financial officer (CFO) to perform multiple accounting functions, leaving less time for review of journal entries.</p> <p>Effect: The potential ability to perpetrate and conceal fraud.</p> <p>Recommendation: The District should put controls into place to require approval of journal entries by a separate individual and documentation should be maintained.</p> <p>Views of responsible officials and planned corrective actions: We understand the importance of the review and approval of journal entries and the District plans to implement controls and processes to improve internal controls surrounding the journal entry process.</p>