Andrews County Hospital District d/b/a Permian Regional Medical Center

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

September 30, 2025 and 2024

Andrews County Hospital District d/b/a Permian Regional Medical Center
Contents
September 30, 2025 and 2024

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Independent Auditor's Report

Board of Directors
Andrews County Hospital District d/b/a Permian Regional Medical Center
Andrews, Texas

Opinion

We have audited the financial statements of Andrews County Hospital District d/b/a Permian Regional Medical Center (District) as of and for the years ended September 30, 2025 and 2024 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2025 and 2024 and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Forvis Mazars, LLP

Waco, Texas
April 20, 2026

Introduction

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

Financial Highlights

- Cash and cash equivalents decreased in 2025 by $4,342,797, or 43.2%, and decreased in 2024 by $9,782,317, or 49.3%
- The District's net position decreased in 2025 by $7,495,661, or 9.7%, and decreased in 2024 by $2,586,557, or 3.3%.
- The District reported operating losses in 2025 of $35,888,201 and in 2024 of $28,871,619. The operating loss in 2025 increased by $7,016,582, or 24.3%, from the operating loss reported in 2024. The operating loss in 2024 increased by $1,349,886, or 4.9%, from the operating loss reported in 2023.
- Net nonoperating revenues increased by $1,913,367, or 7.3%, in 2025 compared to 2024 and increased by $444,251, or 1.7%, in 2024 compared to 2023.

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 and cash equivalents 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 and cash equivalents during the reporting period.

The District's Net Position

The District's net position is the difference between its assets and deferred outflows of resources and liabilities and deferred inflows of resources reported in the balance sheets. The District's net position decreased by $7,495,661, or 9.7%, in 2025 over 2024 and decreased by $2,586,557, or 3.3%, in 2024 over 2023 as shown in Table 1.

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

	2025	2024	2023
ASSETS			
Cash and cash equivalents	$ 5,708,847	$ 10,051,644	$ 19,833,961
Patient accounts receivable, net	3,873,566	6,873,614	5,475,169
Other current assets	3,997,124	3,686,540	4,982,565
Capital assets, net	79,211,211	81,566,057	78,896,501
Subscription assets, net	1,681,586	2,426,544	3,171,502
Other noncurrent assets	4,021,624	1,861,142	1,334,325
Total Assets	98,493,958	106,465,541	113,694,023
Deferred Outflows of Resources	3,463,316	3,409,925	4,698,177
Total Assets and Deferred Outflows of Resources	$ 101,957,274	$ 109,875,466	$ 118,392,200
LIABILITIES			
Long-term debt, including current maturities	$ 21,237,679	$ 24,133,062	$ 26,913,445
Other current and noncurrent liabilities	10,416,157	8,605,599	11,609,110
Total Liabilities	31,653,836	32,738,661	38,522,555
Deferred Inflows of Resources – Pensions	808,576	146,282	292,565
Net Position			
Net investment in capital assets	58,231,848	57,624,686	52,317,909
Restricted for net pension asset	2,969,728	712,984	-
Unrestricted	8,293,286	18,652,853	27,259,171
Total Net Position	69,494,862	76,990,523	79,577,080
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 101,957,274	$ 109,875,466	$ 118,392,200

A significant change between the District's 2025 assets is the decrease in cash and cash equivalents, due to increased operating expenses and purchases of capital assets. Another significant change in 2025 is the increase in other noncurrent assets and deferred inflows of resources related to the District's participation in the defined benefit pension plan, as described in Note 11.

A significant change between the District's 2024 assets is the decrease in cash and cash equivalents and increase in capital assets due to the ongoing construction project for the dialysis project. Another significant change in 2024 is the increase in other noncurrent assets and a decrease in deferred inflows of resources related to the District's participation in the defined benefit pension plan, as described in Note 11.

Operating Results and Changes in the District's Net Position

In 2025, the District's net position decreased by $7,495,661, or 9.7%, as shown in Table 2. This decrease is made up of several different components and represents a decrease of $4,909,104 compared with the decrease in net position for 2024 of $2,586,557. The District's change in net position decreased from $196,733 in 2023 to $2,586,557 in 2024, a decrease of $2,389,824.

Table 2: Operating Results and Changes in Net Position

	2025	2024	2023
Operating Revenues			
Net patient service revenue	$ 34,001,120	$ 34,462,122	$ 34,904,325
Other	2,886,152	2,842,868	3,411,096
Total Operating Revenues	36,887,272	37,304,990	38,315,421
Operating Expenses			
Salaries, wages, and employee benefits	41,030,361	37,229,314	39,490,453
Purchased services and professional fees	14,143,894	11,929,924	10,519,757
Depreciation and amortization	5,758,053	5,742,055	4,574,044
Supplies and other	11,843,165	11,275,316	11,252,900
Total Operating Expenses	72,775,473	66,176,609	65,837,154
Operating Loss	(35,888,201)	(28,871,619)	(27,521,733)
Nonoperating Revenues (Expenses)			
Property taxes	27,427,449	25,472,246	24,736,824
Investment income	593,085	1,121,943	1,350,868
Interest expense	(646,887)	(812,043)	(864,431)
Noncapital grants and gifts and other	737,941	416,075	530,709
Total Nonoperating Revenues (Expenses)	28,111,588	26,198,221	25,753,970
Capital Grants and Gifts	280,952	86,841	1,570,990
Decrease in Net Position	$ (7,495,661)	$ (2,586,557)	$ (196,773)

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 Andrews County and the surrounding area. The District levies property taxes to provide resources to assist the District in serving lower income and other residents.

The operating loss for 2025 increased by $7,016,582, or 24.3%, as compared to 2024. The primary components of the increased operating loss are:

- An increase in salaries, wages, and employee benefits of $3,801,047, or 10.2%, primarily attributed to an increase in full-time equivalents and an increase in pension expense related to the defined benefit pension plan.
- An increase in purchased services and professional fees of $2,213,970, or 18.6%, primarily attributed to increased business office and dialysis professional services.
- An increase in supplies and other of $567,849, or 5.0%, primarily attributable to increased visits and a new dialysis service line.

The operating loss for 2024 increased by $1,349,886, or 4.9%, as compared to 2023. The primary components of the increased operating loss are:

- A decrease in salaries, wages, and employee benefits of $2,261,139, or 5.7%, primarily attributed to a decrease in pension expense related to the defined benefit pension plan.
- An increase in purchased services and professional fees of $1,410,167, or 13.4%, primarily attributed to increased agency staffing and coverage for surgeons and anesthesia contracted professional fees.
- An increase in depreciation and amortization of $1,168,011, or 25.5%, primarily attributable to the memory care unit expansion and other equipment being placed into service.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the District, investment income and interest expense. Investment income decreased by $528,858, or 47.1%, in 2025 as compared to 2024 due to decreased cash and cash equivalents. Property tax revenue increased in 2025 by $1,955,203, or 7.7%, compared to 2024 due to an increase in property valuations; and interest expense decreased in 2025 by $165,156, or 20.3%, compared to 2024 as the District continues to pay down debt.

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 Asset and Debt Administration

At September 30, 2025 and 2024, the District had $79,211,211 and $81,566,057, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2025 and 2024, the District purchased capital assets costing $2,500,224 and $7,490,696, respectively.

At September 30, 2025 and 2024, the District had $39,507 and $197,532, respectively, in lease assets, net of accumulated amortization of $790,125 and $632,100, respectively.

At September 30, 2025 and 2024, the District had $1,681,586 and $2,426,544, respectively, in subscription assets, net of accumulated amortization of $1,696,469 and $951,511, respectively.

Debt

At September 30, 2025 and 2024, the District had $21,237,679 and $24,133,062, respectively, in bonds outstanding as detailed in Note 9 to the financial statements. The District's bonds are subject to limitations imposed by state law.

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 Business Administration by telephoning 432.523.2200.

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

	2025	2024
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	$ 5,708,847	$ 10,051,644
Patient accounts receivable, net of allowance; 2025 – $4,396,000, 2024 – $2,568,000	3,873,566	6,873,614
Property taxes receivable	757,890	757,890
Estimated amounts due from third-party payors	1,136,922	909,538
Supplies	1,344,443	1,414,417
Prepaid expenses and other	757,869	604,695
Total Current Assets	13,579,537	20,611,798
Capital Assets, Net	79,211,211	81,566,057
Lease Assets, Net	39,507	197,532
Subscription Assets, Net	1,681,586	2,426,544
Net Pension Asset	2,969,728	712,984
Other Assets	1,012,389	950,626
Total Assets	98,493,958	106,465,541
Deferred Outflows of Resources		
Pension-related	3,016,032	2,898,743
Loss on bond refunding	447,284	511,182
Total Deferred Outflows of Resources	3,463,316	3,409,925
Total Assets and Deferred Outflows of Resources	$ 101,957,274	$ 109,875,466

Andrews County Hospital District d/b/a Permian Regional Medical Center
Balance Sheets
September 30, 2025 and 2024 **(Continued)**

	2025	2024
LIABILITES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities		
Current maturities of long-term debt	$ 2,645,000	$ 2,520,000
Current portion of lease liabilities	52,510	158,065
Current portion of subscription liabilities	587,433	746,777
Accounts payable	1,902,197	1,224,438
Estimated amounts due to third-party payors	1,617,359	800,453
Accrued expenses	5,113,090	3,892,355
Total Current Liabilities	11,917,589	9,342,088
Long-Term Debt	18,592,679	21,613,062
Lease Liabilities	-	52,510
Subscription Liabilities	1,143,568	1,731,001
Total Liabilities	31,653,836	32,738,661
Deferred Inflows of Resources – Pensions	808,576	146,282
Net Position		
Net investment in capital assets	58,231,848	57,624,686
Restricted for net pension asset	2,969,728	712,984
Unrestricted	8,293,286	18,652,853
Total Net Position	69,494,862	76,990,523
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 101,957,274	$ 109,875,466

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

	2025	2024
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2025 – $2,669,000, 2024 – $4,543,000	$ 34,001,120	$ 34,462,122
Other	2,886,152	2,842,868
Total Operating Revenues	36,887,272	37,304,990
Operating Expenses		
Salaries and wages	34,022,933	32,073,710
Employee benefits	7,007,428	5,155,604
Purchased services and professional fees	14,143,894	11,929,924
Supplies and other	11,843,165	11,275,316
Depreciation and amortization	5,758,053	5,742,055
Total Operating Expenses	72,775,473	66,176,609
Operating Loss	(35,888,201)	(28,871,619)
Nonoperating Revenues (Expenses)		
Property taxes	27,427,449	25,472,246
Investment income	593,085	1,121,943
Interest expense	(646,887)	(812,043)
Noncapital grants and gifts and other	737,941	416,075
Total Nonoperating Revenues (Expenses)	28,111,588	26,198,221
Loss Before Capital Grants and Gifts	(7,776,613)	(2,673,398)
Capital Grants and Gifts	280,952	86,841
Decrease in Net Position	(7,495,661)	(2,586,557)
Net Position, Beginning of Year	76,990,523	79,577,080
Net Position, End of Year	$ 69,494,862	$ 76,990,523

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

	2025	2024
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	$ 37,856,349	$ 34,935,204
Payments to suppliers and contractors	(25,062,368)	(23,771,454)
Payments to employees	(41,787,024)	(39,413,805)
Other receipts	2,886,152	2,842,868
Net Cash Used in Operating Activities	(26,106,891)	(25,407,187)
Cash Flows From Noncapital Financing Activities		
Property taxes supporting operations	24,136,155	22,013,983
Other noncapital financing activities	737,941	380,593
Net Cash Provided by Noncapital Financing Activities	24,874,096	22,394,576
Cash Flows From Capital and Related Financing Activities		
Capital grants and gifts	280,952	86,841
Principal paid on leases payable	(158,065)	(162,873)
Interest paid on leases payable	(4,022)	(8,976)
Principal paid on subscriptions payable	(746,777)	(718,182)
Interest paid on subscriptions payable	(64,128)	(86,065)
Property taxes to acquire or retire debt for acquisitions of capital assets	3,291,294	3,583,672
Principal paid on long-term debt	(2,520,000)	(2,405,000)
Interest paid on long-term debt	(890,222)	(1,028,487)
Purchase of capital assets	(2,892,119)	(7,188,061)
Net Cash Used in Capital and Related Financing Activities	(3,703,087)	(7,927,131)
Cash Flows From Investing Activities		
Investment earnings	593,085	1,121,943
Purchase of investments	-	(1,620,000)
Sale of investments	-	2,028,000
Other investing activities	-	35,482
Net Cash Provided by Investing Activities	593,085	1,565,425
Decrease in Cash and Cash Equivalents	(4,342,797)	(9,374,317)
Cash and Cash Equivalents, Beginning of Year	10,051,644	19,425,961
Cash and Cash Equivalents, End of Year	$ 5,708,847	$ 10,051,644

Andrews County Hospital District d/b/a Permian Regional Medical Center
Statements of Cash Flows
Years Ended September 30, 2025 and 2024 **(Continued)**

	2025	2024
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (35,888,201)	$ (28,871,619)
Depreciation and amortization	5,758,053	5,742,055
Provision for uncollectible accounts	2,669,052	4,543,220
Changes in operating assets and liabilities		
Patient accounts receivable	330,996	(5,941,665)
Estimated amounts due to/from third-party payors	589,522	1,972,510
Accounts payable and accrued expenses	2,290,389	(724,858)
Deferred outflows of resources – pensions	(117,289)	1,224,354
Deferred inflows of resources – pensions	662,294	(146,283)
Net pension asset	(2,256,744)	(3,213,670)
Other assets and liabilities	(144,963)	8,769
Net Cash Used in Operating Activities	$ (26,106,891)	$ (25,407,187)
Noncash Investing, Capital, and Financing Activities		
Capital assets acquisitions included in accounts payable	$ 126,550	$ 518,445

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

Nature of Operations and Reporting Entity

Andrews County Hospital District d/b/a Permian Regional Medical Center (District) operates an acute care hospital located in Andrews, Texas. The District primarily earns revenues by providing inpatient, outpatient, intermediate nursing, and emergency care services for residents of Andrews County, Texas. It also operates physician clinics in the same geographic area. The District was formed as a hospital district in May 2001 under Article IX, Section 9, of the Texas Constitution and is governed by a seven-member board of directors elected by the citizens of Andrews County, Texas.

Permian Physician Services, Inc. (Corporation) is a nonprofit health organization and was organized as a 501(a) entity for the purpose of employing physicians. The Corporation is considered a blended component unit of the District. There were no significant activities or balances in the current year.

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2025 and 2024, cash equivalents consisted primarily of investments in the Texas Local Government Investment Pool (TexPool).

Property Taxes

The District received approximately 42% and 40% in 2025 and 2024, respectively, of its financial support from property taxes. These funds were used as follows.

	2025	2024
Percentage used to support operations	88%	86%
Percentage used for debt service on bonds	12%	14%
Total	100%	100%

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.

The District enters into property tax abatement agreements with local businesses under the state *Property Redevelopment and Tax Abatement Act* (Act). Under the Act, counties may designate reinvestment zones within the county boundaries, excluding municipal areas. The District, which shares part of the county boundaries, may grant abatements to applicant companies to develop projects within the reinvestment zones that are expected to provide economic benefits. The District can grant property tax abatements of up to 100% of a business' property tax bill. The abatements may be granted to any business developing within or promising to develop in the designated zones.

For the fiscal years ended September 30, 2025 and 2024, the District abated property taxes totaling approximately $1,995,000 and $2,174,000, respectively, under this program. For 2025 and 2024, the tax abatements included agreements for 13 and 18 properties, respectively, with 100% abatements for the development of commercial/industrial facilities. In return for the abatements, the developers agree to complete the projects within a reasonable time period and to continue operations for the seven-year abatement period. The District can recapture the abated taxes on any removed improvements from the date of the abatement election.

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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District is self-insured for a portion of its exposure to risk of loss from 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.

Investments and Investment Income

Investments in TexPool are carried at amortized cost. Investment income includes interest income.

Patient Accounts Receivable

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

Supplies

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

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	25–50 years
Buildings and improvements	25–50 years
Equipment	3–20 years
Vehicles	5–7 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. The District has a capitalization policy to only record the lease assets related to leases with more than $5,000 of payments over the life of the lease.

Subscription Assets

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

Capital, 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, 2025 and 2024.

Deferred Outflows of Resources

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

Compensated Absences

District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. A liability is accrued for compensated absences as the benefits are earned if the leave is more likely than not to be used for time off or settled in cash.

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

Agent Multiple Employer Defined Benefit Pension Plan

The District has an agent multiple employer-defined benefit pension plan through the Texas County and District Retirement System (Plan). For purposes of measuring the net pension asset, deferred outflows and inflows of

resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

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

Net Position

Net position of the District is classified in three 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 liabilities, and 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.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

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

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 Corporation is subject to federal income tax, but activity is insignificant.

Reclassifications

Certain reclassifications have been made to the 2024 financial statements to conform to the 2025 presentation. These reclassifications had no effect on the changes in financial position.

Note 2. Net Patient Service Revenue

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

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. 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 cost-reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid administrative contractor.

Approximately 44% and 39%, of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2025 and 2024, 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

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.

The Waiver was originally effective from December 12, 2011 to September 30, 2016 and extended through December 2017 as the Texas Department of Health and Human Services (HHSC) and the Centers for Medicare and Medicaid Services (CMS) negotiated a longer-term extension. On December 21, 2017, HHSC received an approved extension from CMS for the period of January 1, 2018 through September 30, 2023. Among other changes, the approved plan required a change in the methodology used to allocate UC funds and a phase out of the DSRIP program over the five-year period.

On April 22, 2023, 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 approved an expansion of directed payment programs, which transitions participating hospitals away from the DSRIP program, which are discussed more fully below.

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

recognized as a component of net patient service revenue in the statements of revenues, expenses, and changes in net position.

Total revenue recognized under the Waiver program (exclusive of UHRIP and CHIRP) was approximately $2,618,000 and $2,585,000 for the years ended September 30, 2025 and 2024, respectively, and is included as net patient service revenue in the statements of revenues, expenses, and changes in net position.

The funding from UC Pool is limited to certain costs and is subject to recoupment based on subsequent audit results. At September 30, 2025 and 2024, the District has recorded an expected overpayment of approximately $1,617,000 and $800,000, respectively, which is included in estimated amounts due to third-party payors on the balance sheets. The change in estimate related to these overpayments is included in net patient service revenue in the statements of revenues, expenses, and changes in net position.

The District also participates in the Quality Incentive Payment Program (QIPP). This program was designed to assist nursing facilities serving indigent patients by providing funding to support increased access to healthcare within the community. QIPP allows participating providers to receive additional reimbursement if they either reach certain national benchmarks or if they make quarterly improvements in up to four predetermined quality measures. Revenue recognized under the programs (net of any intergovernmental transfer payments) was approximately $517,000 and $394,000 for the years ended September 30, 2025 and 2024, respectively, and is included in net patient service revenue in the statements of revenues, expenses, and changes in net position. At September 30, 2025 and 2024, the District had recorded estimated receivables under the programs of $687,000 and $459,000, respectively. At September 30, 2025 and 2024, the estimated receivable included approximately $473,000 and $373,000, respectively, of prepaid intergovernmental transfers, which the District is required to contribute in advance of receiving any gross proceeds.

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.

Note 3. Deposits and Investments

Deposits

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

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

At September 30, 2025 and 2024, all of the District's uninsured deposits were collateralized by collateral held by the pledging financial institution's agent in the District's name.

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 bank repurchase agreements.

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

		Maturities in Years			
Type	Fair Value	Less than 1	1–5	6–10	More than 10
2025					
TexPool	$ 3,194,269	$ 3,194,269	$ -	$ -	$ -
2024					
TexPool	$ 7,277,918	$ 7,277,918	$ -	$ -	$ -

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons that do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Weekly portfolio information must be submitted to Standard & Poor's, as well as the Office of the Comptroller of Public Accounts for review.

TexPool represents that they qualify for amortized cost reporting under GASB 79. TexPool uses amortized cost rather than market value to report net position to compute share prices.

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. State investment pools are presented as investments with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. 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, TexPool, fully collateralized by certificates of deposit that mature in two years or less and fully collateralized demand deposits. At September 30, 2025 and 2024, the District's investments in TexPool were rated AAAm by S&P.

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. The District's investments in external investment pools are not exposed to credit risk.

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer. Investments in TexPool represent 100% of total investments at September 30, 2025 and 2024.

Summary of Carrying Values

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

	2025	2024
Carrying value		
Deposits	$ 2,514,578	$ 2,773,726
Investments	3,194,269	7,277,918
	$ 5,708,847	$ 10,051,644
Included in the following balance sheet captions		
Cash and cash equivalents	$ 5,708,847	$ 10,051,644

Note 4. Patient Accounts Receivable

The District grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. Patient accounts receivable consisted of the following at September 30:

	2025	2024
Medicare	$ 1,345,308	$ 1,007,732
Medicaid	851,347	812,038
Other third-party payors	2,973,545	4,024,660
Patients	3,099,366	3,597,184
	8,269,566	9,441,614
Less allowance for uncollectible accounts	4,396,000	2,568,000
	$ 3,873,566	$ 6,873,614

Note 5. Capital, Lease, and Subscription Assets

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

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
2025					
Land	$ 1,034,272	$ -	$ -	$ -	$ 1,034,272
Land improvements	1,132,042	46,478	-	-	1,178,520
Buildings and improvements	90,285,020	13,114	-	5,724,239	96,022,373
Equipment	36,328,811	1,089,480	-	242,871	37,661,162
Vehicles	274,456.00	126,550	-	-	401,006
Construction in progress	4,742,508	1,224,602	-	(5,967,110)	-
	133,797,109	2,500,224	-	-	136,297,333
Less accumulated depreciation					
Land improvements	452,270	142,656	-	-	594,926
Buildings and improvements	17,366,268	2,744,494	-	-	20,110,762
Equipment	34,412,514	1,967,920	-	-	36,380,434
	52,231,052	4,855,070	-	-	57,086,122
Capital assets, net	$ 81,566,057	$ (2,354,846)	$ -	$ -	$ 79,211,211
2024					
Land	$ 878,338	$ 155,934	$ -	$ -	$ 1,034,272
Land improvements	724,395	407,647	-	-	1,132,042
Buildings and improvements	79,636,766	118,989	-	10,529,265	90,285,020
Equipment	34,191,722	2,137,089	-	-	36,328,811
Vehicles	70,117	204,339	-	-	274,456
Construction in progress	10,805,075	4,466,698	-	(10,529,265)	4,742,508
	126,306,413	7,490,696	-	-	133,797,109
Less accumulated depreciation					
Land improvements	386,784	65,486	-	-	452,270
Buildings and improvements	14,653,594	2,712,674	-	-	17,366,268
Equipment	32,369,534	2,042,980	-	-	34,412,514
	47,409,912	4,821,140	-	-	52,231,052
Capital assets, net	$ 78,896,501	$ 2,669,556	$ -	$ -	$ 81,566,057

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

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
2025					
Equipment	$ 829,632	$ -	$ -	$ -	$ 829,632
Less accumulated amortization	632,100	158,025	-	-	790,125
Lease assets, net	$ 197,532	$ (158,025)	$ -	$ -	$ 39,507
2024					
Equipment	$ 829,632	$ -	$ -	$ -	$ 829,632
Less accumulated amortization	456,143	175,957	-	-	632,100
Lease assets, net	$ 373,489	$ (175,957)	$ -	$ -	$ 197,532

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

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
2025					
Subscription IT asset	$ 3,378,055	$ -	$ -	$ -	$ 3,378,055
Less accumulated amortization	951,511	744,958	-	-	1,696,469
Subscription assets, net	$ 2,426,544	$ (744,958)	$ -	$ -	$ 1,681,586
2024					
Subscription IT asset	$ 3,378,055	$ -	$ -	$ -	$ 3,378,055
Less accumulated amortization	206,553	744,958	-	-	951,511
Subscription assets, net	$ 3,171,502	$ (744,958)	$ -	$ -	$ 2,426,544

Note 6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities consisted of the following at September 30:

	2025	2024
Payable to suppliers and contractors	$ 1,902,197	$ 1,224,438
Payable to employees (including payroll taxes and benefits)	4,306,525	3,465,790
Payable for employee health claims	806,565	426,565
	$ 7,015,287	$ 5,116,793

Note 7. 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. These limits coincide with the malpractice insurance coverage maintained by the District. The District purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the District's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8. Employee Health Claims

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 $75,000 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. 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.

Activity in the District's accrued employee health claims liability is summarized as follows during 2025, 2024, and 2023:

	2025	2024	2023
Balance, beginning of year	$ 426,565	$ 426,565	$ 426,565
Current year claims incurred and changes in estimates for claims incurred in prior years	(4,567,183)	4,247,856	4,163,409
Claims and expenses paid	4,947,183	(4,247,856)	(4,163,409)
Balance, end of year	$ 806,565	$ 426,565	$ 426,565

Note 9. Long-Term Obligations

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

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
2025					
Long-term debt					
General Obligation Bonds					
Series 2021	$ 19,495,000	$ -	$ (2,040,000)	$ 17,455,000	$ 2,145,000
Series 2014	1,635,000	-	(480,000)	1,155,000	500,000
Bond premium	3,003,062	-	(375,383)	2,627,679	-
Total long-term debt	24,133,062	-	(2,895,383)	21,237,679	2,645,000
Other long-term liabilities					
Lease liabilities	210,575	-	(158,065)	52,510	52,510
Subscription liabilities	2,477,778	-	(746,777)	1,731,001	587,433
Total other long-term liabilities	2,688,353	-	(904,842)	1,783,511	639,943
Total long-term obligations	$ 26,821,415	$ -	$ (3,800,225)	$ 23,021,190	$ 3,284,943
2024					
Long-term debt					
General Obligation Bonds					
Series 2021	$ 21,440,000	$ -	$ (1,945,000)	$ 19,495,000	$ 2,040,000
Series 2014	2,095,000	-	(460,000)	1,635,000	480,000
Bond premium	3,378,445	-	(375,383)	3,003,062	-
Total long-term debt	26,913,445	-	(2,780,383)	24,133,062	2,520,000
Other long-term liabilities					
Lease liabilities	373,448	-	(162,873)	210,575	158,065
Subscription liabilities	3,195,960		(718,182)	2,477,778	746,777
Total other long-term liabilities	3,569,408	-	(881,055)	2,688,353	904,842
Total long-term obligations	$ 30,482,853	$ -	$ (3,661,438)	$ 26,821,415	$ 3,424,842

General Obligation Bonds, Series 2014

The Series 2014 general obligation bonds (2014 Bonds), payable in the original amount of $9,500,000, dated September 25, 2014, bear interest at 3.39%. The 2014 Bonds are payable in annual installments in amounts ranging from $345,000 to $3,295,000 through March 15, 2029, with interest payable semi-annually. All of the 2014 Bonds outstanding may be redeemed at the District's option on or after March 15, 2023, at par plus any accrued interest. The 2014 Bonds are secured by the ad valorem taxes levied annually by the District and are not payable from the operating revenues of the District. The proceeds were used for the construction and equipping of a replacement hospital facility.

Revenue Refunding Bonds, Series 2021

The District issued the Andrews County Hospital District General Obligation Refunding Bonds, Series 2021 (Series 2021 Bonds) in the original amount of $23,480,000 dated December 2021, which bear interest at varying rates ranging from 3% to 5%. The bonds were issued to refund a portion of the Series 2012 and Series 2013 Bonds. The

Series 2021 Bonds are payable in annual installments ranging from $2,490,000 to $2,850,000 through March 2032, with interest payable semi-annually. All of the 2021 Bonds outstanding may be redeemed at the District's option on or after September 15, 2030, at par plus any accrued interest. The 2021 Bonds are secured by the ad valorem taxes levied annually by the District and are not payable from the operating revenues of the District. The Series 2021 Bonds were issued at a premium of $4,054,134. The premium is being amortized by the effective interest method over the term of the debt.

The debt service requirements related to bond obligations are as follows as of September 30, 2025:

Year Ending September 30,	Total to Be Paid	Principal	Interest
2026	$ 3,442,213	$ 2,645,000	$ 797,213
2027	3,438,213	2,770,000	668,213
2028	3,045,431	2,505,000	540,431
2029	2,906,400	2,490,000	416,400
2030	2,903,775	2,615,000	288,775
2031–2032	5,810,700	5,585,000	225,700
	$ 21,546,731	$ 18,610,000	$ 2,936,731

Subscription Liabilities

The District has various SBITAs, the terms of which expire in various years through 2028. The subscriptions were measured at the present value of subscription payments expected to be made during the SBITA term. Variable payments based upon the use of the underlying asset are not included in the subscription liability because they are not fixed in substance. During the years ended September 30, 2025 and 2024, the District recognized approximately $147,000 and $125,000, respectively, of subscription expense for variable payments, short-term, and cancellable leases that are not included in the measurement of the subscription liability.

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

Year Ending September 30,	Total to Be Paid	Principal	Interest
2026	$ 631,103	$ 587,433	$ 43,670
2027	614,708	588,448	26,260
2028	563,481	555,120	8,361
	$ 1,809,292	$ 1,731,001	$ 78,291

Note 10. 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, they are not reported in net patient service revenue. Charges excluded from revenue under the District's charity care policy were approximately $3,330,000 and $7,548,000 for the years ended September 30, 2025 and 2024, respectively. The costs associated with the District's charity care program were approximately

$2,113,000 and $5,051,000 for the years ended September 30, 2025 and 2024, respectively. The cost of charity care is estimated by applying the overall ratio of the District's cost to charges to the gross charges related to services provided to patients qualifying for the District's charity care program.

In addition, the District provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

Uncompensated charges relating to these services are as follows:

	2025	2024
Charity allowances	$ 3,330,049	$ 7,548,302
State Medicaid and other public aid programs	3,695,076	5,942,582
	$ 7,025,125	$ 13,490,884

Note 11. Pension Plan

Plan Description

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

Benefits Provided

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

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

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

	2024	2023
Inactive employees or beneficiaries currently receiving benefits	157	150
Inactive employees entitled to but not yet receiving benefits	827	795
Active employees	415	399
	1,399	1,344

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 fiscal years ended September 30, 2025 and 2024, employees contributed $2,079,796 and $1,999,824, or 7.00%, and the District contributed $2,922,865 and $2,840,795, or 9.84% and 9.94%, of annual pay to the Plan, respectively.

Net Pension Asset

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

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

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

In the 2024 and 2023 actuarial valuations, assumed life expectancies use projection scale of 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.

The actuarial assumptions used in the December 31, 2024 and 2023 valuations were based on the results of an actuarial experience study over the years 2017-2020.

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
Cash equivalents	2.0%	1.10%
Equities		
U.S. Equities	11.5%	5.35%
International Equities – Developed	5.0%	4.75%
International Equities – Emerging	6.0%	4.75%
Global Equities	2.5%	5.15%
Hedge Funds	6.0%	3.60%
High-Yield Investments		
Strategic Credit	9.0%	3.70%
Distressed Debt	4.0%	6.80%
Direct Lending	16.0%	6.85%
Private Equity	25.0%	8.15%
Real Assets		
REITs	2.0%	3.95%
Private Real Estate Partnerships	6.0%	5.75%
Master Limited Partnerships	2.0%	4.95%
Investment-Grade Bonds	3.0%	2.55%
Total	100%	

Discount Rate

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

Changes in the total pension liability, plan fiduciary net position, and the net pension asset are presented below for the years ended September 30.

	2025		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at beginning of year	$ 87,880,941	$ 88,593,925	$ (712,984)
Changes for the year			
Service cost	3,864,627	-	3,864,627
Interest on total pension liability	6,861,517	-	6,861,517
Effect of economic/demographic gains or losses	1,054,932	-	1,054,932
Refund of contributions	(221,430)	(221,430)	-
Benefit payments	(2,758,020)	(2,758,020)	-
Administrative expenses	-	(54,247)	54,247
Member contributions	-	2,021,694	(2,021,694)
Net investment income	-	9,071,091	(9,071,091)
Employer contributions	-	2,867,917	(2,867,917)
Other changes	-	131,365	(131,365)
Net changes	8,801,626	11,058,370	(2,256,744)
Balances at end of year	$ 96,682,567	$ 99,652,295	$ (2,969,728)

	2024		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at beginning of year	$ 80,576,382	$ 78,075,696	$ 2,500,686
Changes for the year			
Service cost	3,613,079	-	3,613,079
Interest on total pension liability	6,293,851	-	6,293,851
Effect of economic/demographic gains or losses	200,212	-	200,212
Refund of contributions	(329,268)	(329,268)	-
Benefit payments	(2,473,314)	(2,473,314)	-
Administrative expenses	-	(46,261)	46,261
Member contributions	-	1,913,652	(1,913,652)
Net investment income	-	8,598,830	(8,598,830)
Employer contributions	-	2,731,055	(2,731,055)
Other changes	-	123,536	(123,536)
Net changes	7,304,560	10,518,230	(3,213,670)
Balances at end of year	$ 87,880,941	$ 88,593,925	$ (712,984)

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 (asset) liability	$ 12,053,989	$ (2,969,728)	$ (15,268,201)

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

For the years ended September 30, 2025 and 2024, the District recognized pension expense of $1,211,126 and $720,391, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at September 30:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2025		
Differences between expected and actual experience	$ 770,026	$ -
Net difference between projected and actual earnings on pension plan investments	-	808,576
Contributions subsequent to the measurement date	2,246,006	-
	$ 3,016,032	$ 808,576
2024		
Differences between expected and actual experience	$ 133,475	$ 146,282
Net difference between projected and actual earnings on pension plan investments	574,210	-
Contributions subsequent to the measurement date	2,191,058	-
	$ 2,898,743	$ 146,282

At September 30, 2025, the District reported $2,246,006 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date that will be recognized as an increase in the net pension asset at September 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows as of September 30, 2025:

Year ending September 30,	
2026	$ (218,376)
2027	1,604,048
2028	(971,459)
2029	(452,763)
	$ (38,550)

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, 2024.

Deferred Compensation Plan

In June 2004, the District began a deferred compensation plan, also known as a Section 457 Plan. This plan covers substantially all employees meeting age and service requirements. Employee contributions to the plan are discretionary, and the District does not make any employer contributions.

Note 12. One Big Beautiful Bill Act

On July 3, 2025, the U.S. Congress enacted the *One Big Beautiful Bill Act* (OBBBA), a comprehensive budget reconciliation law introducing significant changes to federal healthcare programs, tax policy, and energy-related incentives. The legislation includes substantial reductions in Medicaid funding, modifications to provider tax structures, and new eligibility and cost-sharing requirements for Medicaid beneficiaries.

The OBBBA has no impact on the results of operations and financial condition as of and for the year ended September 30, 2025. The District is currently evaluating what impact the OBBBA may have on the financial results, cash flows, and financial position for future periods.

Note 13. Future Change in Accounting Principle – GASB Statement No. 103, *Financial Model Improvements*

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

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

The requirements of GASB 103 are effective for fiscal years beginning after June 15, 2025 and all reporting periods thereafter. Changes are required to be made retroactively to the earliest period presented.

Note 14. Subsequent Events

Subsequent to September 30, 2025, the District obtained a line of credit to be used for operating purposes. The line of credit is collateralized by the District's property tax revenues. The revolving line of credit is dated November 3, 2025 with an interest rate of 4.50%, has a maturity date of May 1, 2026, and has a maximum principal amount of $7,000,000.

Required Supplementary Information

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

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability										
Service cost	$ 3,864,627	$ 3,613,079	$ 3,411,515	$ 3,316,750	$ 2,900,403	$ 2,720,919	$ 2,705,331	$ 2,909,293	$ 3,023,647	$ 2,616,674
Interest on total pension liability	6,861,517	6,293,851	5,807,366	5,293,008	4,791,251	4,357,140	3,959,384	3,550,213	3,040,563	2,791,907
Effect of plan changes	-	-	-	-	-	-	-	-	-	(566,040)
Effect of assumption changes or inputs	-	-	-	159,010	4,361,838	-	-	254,366	-	519,023
Effect of economic and demographic (gains) or losses	1,054,932	200,212	(438,848)	144,741	(18,239)	(262,013)	(364,202)	(252,043)	(241,765)	(1,673,441)
Benefit payments, including refunds of employee contributions	(2,979,450)	(2,802,582)	(2,366,362)	(2,118,971)	(1,800,778)	(1,477,788)	(1,336,036)	(1,081,669)	(837,817)	(843,822)
Net change in total pension liability	8,801,626	7,304,560	6,413,670	6,794,537	10,234,475	5,338,258	4,964,477	5,380,160	4,984,627	2,844,302
Total pension liability—beginning	87,880,942	80,576,382	74,162,711	67,368,174	57,133,699	51,795,441	46,830,964	41,450,804	36,466,177	33,621,875
Total pension liability—ending (a)	$96,682,568	$87,880,942	$80,576,382	$74,162,711	$67,368,174	$57,133,699	$51,795,441	$46,830,964	$41,450,804	$36,466,177
Plan fiduciary net position										
Contributions—employer	$ 2,867,917	$ 2,731,055	$ 2,535,280	$ 1,846,115	$ 1,865,584	$ 1,703,050	$ 1,622,348	$ 1,535,159	$ 1,505,133	$ 1,522,524
Contributions—employee	2,021,694	1,913,652	1,716,340	1,562,612	1,550,961	1,460,950	1,381,562	1,363,719	1,362,992	1,343,968
Net investment income	9,071,091	8,598,830	(4,897,430)	14,438,988	5,942,929	7,867,812	(858,753)	5,793,677	2,578,669	(627,441)
Benefit payments, including refunds of employee contributions	(2,979,450)	(2,802,582)	(2,366,362)	(2,118,971)	(1,800,778)	(1,477,788)	(1,336,036)	(1,081,669)	(837,817)	(843,822)
Administrative expense	(54,247)	(46,261)	(45,754)	(43,714)	(47,606)	(43,813)	(38,490)	(31,320)	(28,059)	(24,609)
Other	131,365	123,536	332,952	54,457	55,042	64,201	54,421	24,058	230,814	(31,333)
Net change in plan fiduciary net position	11,058,370	10,518,230	(2,724,974)	15,739,488	7,566,132	9,574,412	825,052	7,603,624	4,811,732	1,339,287
Plan fiduciary net position—beginning	88,593,926	78,075,696	80,800,669	65,061,182	57,495,050	47,920,637	47,095,586	39,491,961	34,680,229	33,340,943
Plan fiduciary net position—ending (b)	$99,652,296	$88,593,926	$78,075,696	$80,800,669	$65,061,182	$57,495,050	$47,920,637	$47,095,586	$39,491,961	$34,680,229
District's net pension liability (asset)—ending (a) – (b)	$ (2,969,728)	$ (712,984)	$ 2,500,686	$(6,637,958)	$ 2,306,992	$ (361,351)	$ 3,874,804	$ (264,622)	$ 1,958,843	$ 1,785,947
Plan fiduciary net position as a percentage of the total pension liability	103.07%	100.81%	96.90%	108.95%	96.58%	100.63%	92.52%	100.57%	95.27%	95.10%
Covered payroll	$28,881,339	$27,337,885	$24,519,149	$22,323,033	$22,156,582	$20,870,712	$19,736,597	$19,481,707	$19,471,313	$19,199,543
District's net pension liability (asset) as a percentage of covered payroll	-10.28%	-2.61%	10.20%	-29.74%	10.41%	-1.73%	19.63%	-1.36%	10.06%	9.30%

Andrews County Hospital District d/b/a Permian Regional Medical Center
Schedule of District Contributions
September 30,

Year Ended September 30,	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll *(1)*	Contributions as a percentage of covered-employee payroll
2025	$ 2,922,865	$ 2,867,917	$ -	$ 29,711,366	9.7%
2024	$ 2,840,795	$ 2,731,055	$ -	$ 28,568,908	9.6%
2023	$ 2,711,840	$ 2,711,840	$ -	$ 26,931,904	10.1%
2022	$ 2,345,394	$ 2,345,394	$ -	$ 23,761,470	9.9%
2021	$ 1,844,883	$ 1,844,883	$ -	$ 22,213,268	8.3%
2020	$ 1,895,717	$ 1,895,717	$ -	$ 22,692,509	8.4%
2019	$ 1,676,989	$ 1,676,989	$ -	$ 20,511,579	8.2%
2018	$ 1,591,381	$ 1,591,381	$ -	$ 19,576,037	8.1%
2017	$ 1,533,653	$ 1,533,653	$ -	$ 19,564,053	7.8%
2016	$ 1,513,447	$ 1,513,447	$ -	$ 19,441,738	7.8%

Notes to Schedule:

(1) *TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis.*

(2) *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 contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age (level percentage of pay)
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15.8 years (based on contribution rate calculated in 12/31/24 valuation)
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary increases	Varies by age and service. 4.7% average over career including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions*	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*	2016: No changes in plan provisions were reflected in the Schedule. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2018: No changes in plan provisions were reflected in the Schedule. 2019: No changes in plan provisions were reflected in the Schedule. 2020: No changes in plan provisions were reflected in the Schedule. 2021: No changes in plan provisions were reflected in the Schedule. 2022: No changes in plan provisions were reflected in the Schedule. 2023: No changes in plan provisions were reflected in the Schedule. 2024: No changes in plan provisions were reflected in the Schedule.