




Medina County Hospital District d.b.a. Medina Regional Hospital

Independent Auditor's Report and Financial Statements

September 30, 2025 and 2024



Medina County Hospital District d.b.a. Medina Regional Hospital
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September 30, 2025 and 2024

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Independent Auditor's Report

Board of Directors
Medina County Hospital District
d.b.a. Medina Regional Hospital
Hondo, Texas

Opinion

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

Forvis Mazars, LLP

**Waco, Texas
March 3, 2026**

**Medina County Hospital District d.b.a. Medina Regional Hospital
Management's Discussion and Analysis
September 30, 2025 and 2024**

Introduction

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

Financial Highlights

- Unrestricted cash and certificates of deposit increased in 2025 by \$10,793,170, or 19%, and increased in 2024 by \$9,559,518, or 20%.
- The District reported operating income of \$5,337,134 in 2025 and \$3,698,584 in 2024.
- Net nonoperating revenues increased by \$270,983, or 3%, in 2025 compared to 2024 and decreased by \$1,052,194, or 11%, in 2024 compared to 2023.
- The District's net position increased in 2025 by \$14,252,430, or 17%, and increased by \$12,342,897, or 17%, in 2024.

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 and all liabilities 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 assets and liabilities—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 assets and liabilities reported in the balance sheets. The District's net position increased in 2025 by \$14,252,430 and increased in 2024 by \$12,342,897. Net position increased in 2023 by \$12,219,862.

**Medina County Hospital District d.b.a. Medina Regional Hospital
Management's Discussion and Analysis
September 30, 2025 and 2024**

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Assets			
Cash and cash equivalents	\$ 44,788,815	\$ 35,036,132	\$ 31,313,430
Certificates of deposit	24,193,462	23,152,975	17,316,159
Patient accounts receivable, net	7,716,928	7,303,372	7,908,751
Other current assets	12,003,755	7,017,372	5,726,112
Capital assets, net	25,259,317	21,611,357	20,482,867
Lease assets, net	28,056	34,470	21,500
Subscription assets, net	166,709	325,718	340,871
Total Assets	<u>\$ 114,157,042</u>	<u>\$ 94,481,396</u>	<u>\$ 83,109,690</u>
Liabilities			
Accounts payable	\$ 11,230,960	\$ 6,411,899	\$ 7,670,518
Other current and noncurrent liabilities	5,191,899	4,587,744	4,300,316
Total Liabilities	<u>16,422,859</u>	<u>10,999,643</u>	<u>11,970,834</u>
Net Position			
Net investment in capital assets	24,753,164	21,621,925	20,466,172
Unrestricted	72,981,019	61,859,828	50,672,684
Total Net Position	<u>97,734,183</u>	<u>83,481,753</u>	<u>71,138,856</u>
Total Liabilities and Net Position	<u>\$ 114,157,042</u>	<u>\$ 94,481,396</u>	<u>\$ 83,109,690</u>

Significant changes in the District's cash and investments in 2025 and 2024 were principally driven by the increase in net position.

Operating Results and Changes in the District's Net Position

In 2025, the District's net position increased by \$14,252,430, as shown in Table 2. This is made up of several different components and represents an increase of \$1,909,533 compared with the increase in net position for 2024 of \$12,342,897. The District's change in net position increased \$123,035 in 2024 compared to 2023.

**Medina County Hospital District d.b.a. Medina Regional Hospital
Management's Discussion and Analysis
September 30, 2025 and 2024**

Table 2: Operating Results and Changes in Net Position

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Operating Revenues			
Net patient service revenue	\$ 46,464,117	\$ 41,051,463	\$ 39,471,801
Net nursing facility patient service revenue	61,030,887	52,588,150	60,013,359
Other	1,865,331	1,070,381	588,080
Total Operating Revenues	<u>109,360,335</u>	<u>94,709,994</u>	<u>100,073,240</u>
Operating Expenses			
Salaries, wages, and employee benefits	22,240,059	19,768,296	18,518,519
Purchased services and professional fees	12,207,542	10,968,929	10,353,596
Supplies and other	7,838,737	7,668,190	7,383,753
Nursing facility expenses	58,988,583	50,179,370	59,122,775
Depreciation and amortization	2,748,280	2,426,625	2,171,242
Total Operating Expenses	<u>104,023,201</u>	<u>91,011,410</u>	<u>97,549,885</u>
Operating Income	<u>5,337,134</u>	<u>3,698,584</u>	<u>2,523,355</u>
Nonoperating Revenues (Expenses)			
Property taxes	6,576,608	5,816,862	4,924,391
Investment income	2,242,783	2,209,095	1,675,348
Interest expense	(34,576)	(33,417)	(165,406)
Noncapital grants and gifts	130,481	651,773	3,262,174
Total Nonoperating Revenues	<u>8,915,296</u>	<u>8,644,313</u>	<u>9,696,507</u>
Increase in Net Position	<u>\$ 14,252,430</u>	<u>\$ 12,342,897</u>	<u>\$ 12,219,862</u>

Operating Income

The first component of the overall change in the District's net position is its operating income—generally, the difference between net patient service revenue and the expenses incurred to perform those services. Operating income in 2025 represents an increase of \$1,638,550, or 44%, from the operating income reported in 2024. Operating income in 2024 increased by \$1,175,229, or 47%, from the operating income reported in 2023.

The primary components of the increased 2025 operating income are:

- An increase in net patient service revenue of \$5,412,654, or 13%, due to increased volume.
- An increase in salaries, wages and employee benefits expense of \$2,471,763, or 13%, and an increase in purchased services and professional fees expense of \$1,238,613, or 11%, due to staffing needs in response to the increased volume noted above.

The primary components of the increased 2024 operating income are:

- An increase in net patient service revenue of \$1,579,662, or 4%, due to increased volume.

**Medina County Hospital District d.b.a. Medina Regional Hospital
Management's Discussion and Analysis
September 30, 2025 and 2024**

- An increase in salaries, wages and employee benefits expense of \$1,249,777, or 7%, and an increase in purchased services and professional fees expense of \$615,333, or 6%, due to staffing needs in response to the increased volume noted above.
- An increase in supplies and other expenses of \$284,437, or 4%, due to challenges with inflationary pressures.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) primarily consists of property taxes levied by the District, investment income, and noncapital grants and gifts. Property tax revenue increased from \$5,816,862 in 2024 to \$6,576,608 in 2025. Noncapital grants and gifts revenue was \$130,481 and \$651,773 in 2025 and 2024, respectively.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in balance sheet amounts, operating results, and nonoperating revenues and expenses for 2025, 2024, and 2023 discussed earlier.

Capital, Lease, and Subscription Assets and Related Obligations

Capital Assets

At September 30, 2025 and 2024, the District had \$25,454,082 and \$21,971,545, respectively, invested in capital, lease and subscription assets, net of accumulated depreciation and amortization, as detailed in Note 6 to the financial statements.

Lease and Subscription Obligations

At September 30, 2025 and 2024, the District had \$255,063 and \$349,620, respectively, in outstanding lease and subscription obligations as detailed in Note 9 to 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 District Business Administration at 830.426.7898.

Medina County Hospital District d.b.a. Medina Regional Hospital
Balance Sheets
September 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 44,788,815	\$ 35,036,132
Certificates of deposit	24,193,462	23,152,975
Patient accounts receivable, net of allowance; 2025 – \$9,770,000, 2024 – \$10,270,000	7,716,928	7,303,372
Estimated amounts due from third-party payors	37,639	6,220
Medicaid supplemental program receivable	303,047	310,236
Other receivables	9,476,391	4,731,289
Supplies	817,324	869,745
Property tax receivable	461,519	402,834
Prepaid expenses and other	907,835	697,048
Total Current Assets	<u>88,702,960</u>	<u>72,509,851</u>
Capital Assets, Net	25,259,317	21,611,357
Lease Assets, Net	28,056	34,470
Subscription Assets, Net	<u>166,709</u>	<u>325,718</u>
Total Assets	<u><u>\$ 114,157,042</u></u>	<u><u>\$ 94,481,396</u></u>

Medina County Hospital District d.b.a. Medina Regional Hospital
Balance Sheets
September 30, 2025 and 2024

(Continued)

	<u>2025</u>	<u>2024</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Current portion of lease liabilities	\$ 6,470	\$ 6,278
Current portion of subscription liabilities	112,081	121,222
Accounts payable	11,230,960	6,411,899
Estimated amounts due to third-party payors – current	360,989	181,072
Patient credit balances	1,083,071	1,258,772
Accrued expenses	1,444,264	1,418,025
Unearned revenue	236,999	-
Total Current Liabilities	<u>14,474,834</u>	<u>9,397,268</u>
Other Noncurrent Liabilities		
Lease liabilities	9,627	15,796
Subscription liabilities	126,885	206,324
Estimated amounts due to third-party payors	1,811,513	1,380,255
Total Other Noncurrent Liabilities	<u>1,948,025</u>	<u>1,602,375</u>
Total Liabilities	<u>16,422,859</u>	<u>10,999,643</u>
Net Position		
Net investment in capital assets	24,753,164	21,621,925
Unrestricted	72,981,019	61,859,828
Total Net Position	<u>97,734,183</u>	<u>83,481,753</u>
Total Liabilities and Net Position	<u>\$ 114,157,042</u>	<u>\$ 94,481,396</u>

**Medina County Hospital District d.b.a. Medina Regional Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2025 and 2024**

	<u>2025</u>	<u>2024</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2025 – \$9,928,000, 2024 – \$7,106,000	\$ 46,464,117	\$ 41,051,463
Net nursing facility patient service revenue	61,030,887	52,588,150
Other	1,865,331	1,070,381
Total Operating Revenues	<u>109,360,335</u>	<u>94,709,994</u>
Operating Expenses		
Salaries, wages, and payroll taxes	19,887,430	17,754,825
Other employee benefits	2,352,629	2,013,471
Purchased services and professional fees	12,207,542	10,968,929
Supplies and other	7,838,737	7,668,190
Nursing facility expenses	58,988,583	50,179,370
Depreciation and amortization	2,748,280	2,426,625
Total Operating Expenses	<u>104,023,201</u>	<u>91,011,410</u>
Operating Income	<u>5,337,134</u>	<u>3,698,584</u>
Nonoperating Revenues (Expenses)		
Property tax revenue	6,576,608	5,816,862
Investment income	2,242,783	2,209,095
Interest expense	(34,576)	(33,417)
Noncapital grants and gifts	130,481	651,773
Total Nonoperating Revenues	<u>8,915,296</u>	<u>8,644,313</u>
Increase in Net Position	14,252,430	12,342,897
Net Position, Beginning of Year	<u>83,481,753</u>	<u>71,138,856</u>
Net Position, End of Year	<u>\$ 97,734,183</u>	<u>\$ 83,481,753</u>

Medina County Hospital District d.b.a. Medina Regional Hospital
Statements of Cash Flows
Years Ended September 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	\$ 102,847,270	\$ 93,642,335
Payments to suppliers and contractors	(74,820,022)	(70,098,978)
Payments to employees	(22,214,655)	(19,436,228)
Other receipts	1,765,651	674,356
Net Cash Provided by Operating Activities	<u>7,578,244</u>	<u>4,781,485</u>
Cash Flows From Noncapital Financing Activities		
Property taxes supporting operations	6,517,923	5,546,382
Noncapital grants and gifts	367,480	638,937
Net Cash Provided by Noncapital Financing Activities	<u>6,885,403</u>	<u>6,185,319</u>
Cash Flows From Capital and Related Financing Activities		
Principal paid on lease liabilities	(5,977)	(5,144)
Interest paid on leases liabilities	(624)	(22,012)
Principal paid on subscription liabilities	(172,091)	(186,765)
Interest paid on subscription liabilities	(33,117)	(11,959)
Purchase of capital assets	(5,701,451)	(3,390,501)
Net Cash Used in Capital and Related Financing Activities	<u>(5,913,260)</u>	<u>(3,616,381)</u>
Cash Flows From Investing Activities		
Interest income received	2,242,783	2,209,095
Purchase of certificates of deposit	(6,467,234)	(5,836,816)
Sales of certificates of deposits	5,426,747	-
Net Cash Provided by (Used in) Investing Activities	<u>1,202,296</u>	<u>(3,627,721)</u>
Increase in Cash and Cash Equivalents	9,752,683	3,722,702
Cash and Cash Equivalents, Beginning of Year	<u>35,036,132</u>	<u>31,313,430</u>
Cash and Cash Equivalents, End of Year	<u>\$ 44,788,815</u>	<u>\$ 35,036,132</u>

Medina County Hospital District d.b.a. Medina Regional Hospital
Statements of Cash Flows
Years Ended September 30, 2025 and 2024

(Continued)

	<u>2025</u>	<u>2024</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 5,337,134	\$ 3,698,584
Depreciation and amortization	2,748,280	2,426,625
Provision for uncollectible accounts	9,927,530	7,105,949
Changes in operating assets and liabilities		
Patient accounts receivable	(10,341,086)	(6,500,570)
Medicaid supplemental program receivable	7,189	153,007
Estimated amounts due to/from and third-party payors	579,756	372,104
Accounts payable and accrued expenses	4,845,300	(927,073)
Other assets and liabilities	(5,525,859)	(1,547,141)
Net Cash Provided by Operating Activities	<u>\$ 7,578,244</u>	<u>\$ 4,781,485</u>
Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	\$ 445,855	\$ -
Lease obligation incurred for lease assets	\$ -	\$ 14,058
Subscription obligation incurred for subscription assets	\$ 83,511	\$ 204,534

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

Nature of Operations and Reporting Entity

Medina County Hospital District d.b.a. Medina Regional Hospital (District) was formed when the citizens of Medina County elected to create a hospital district on June 22, 2009. The District is governed by a seven-member elected board of directors. The District primarily earns revenues by providing inpatient, outpatient, and emergency care services in the Medina County area through the operation an acute care hospital located in Hondo, Texas, and several clinics throughout the surrounding area. Additionally, the District became the operator of six area nursing homes in prior years.

Basis of Accounting and Presentation

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from voluntary nonexchange transactions (principally federal and state grants) 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 (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.

Medina Healthcare Fund

The Medina Healthcare Fund (Fund) was organized in 2003 for charitable, scientific, and educational purposes, more specifically to promote healthcare in the city of Hondo and Medina County, Texas, by enabling the continuation of services at the District. Funds raised from individual contributions, grants, and gifts can be used (but are not limited to) the following: to fund renovations to existing facilities, new building projects, equipment purchases, programs, services, and/or general operating support of the District, as deemed appropriate by the board of directors of the Fund. The board consists of at least 11 members but not more than 15. The Fund is exempt from federal and state income taxes under Internal Revenue Code (IRC) Section 501(c)(3).

Although the District does not control the timing or amount of receipts from the Fund, the majority of the Fund's revenues and related income are held for the benefit of the District. However, the District does not have control over these funds. Therefore, the Fund is not considered a component unit in the District's financial statements.

Use of Estimates

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

Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2025 and 2024, cash equivalents consisted primarily of investments in the TexPool investment pool. These funds generally invest in highly liquid U.S. government and agency obligations.

Investment Income

Investment income consists of interest income from deposit accounts and investment pools.

Medina County Hospital District d.b.a. Medina Regional Hospital
Notes to Financial Statements
September 30, 2025 and 2024

Property Taxes

The District received approximately 6% in both 2025 and 2024 of its financial support from property taxes. During 2025 and 2024, 100% of these funds were used to support operations of the District.

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's ad valorem tax rate on appraised value was \$0.0929 and \$0.0898 per \$100 valuation for 2025 and 2024, respectively. Revenue from property taxes is recognized in the year for which the taxes are levied.

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

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	2–25 years
Building and improvements	5–40 years
Equipment	3–5 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 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.

Medina County Hospital District d.b.a. Medina Regional Hospital
Notes to Financial Statements
September 30, 2025 and 2024

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.

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 computed using rates in effect at that date. The estimated compensated absences liability expected to be paid more than one year after the balance sheet date is included in other long-term liabilities.

Net Position

Net position of the District is classified in two components on its balance sheets. Net investment in capital assets consists of capital, lease, and subscription assets net of accumulated depreciation and amortization and reduced by the outstanding balances of borrowings used to finance the purchase, use, or construction of those assets. Unrestricted net position is the remaining assets 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 a political subdivision under the laws of the State of Texas, and, therefore, it is generally exempt from federal and state income taxes under Section 115 of the IRC and a similar provision of state law.

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. The Hospital is a certified by Medicare as a critical access hospital (CAH) for Medicare reimbursement purposes. As a CAH, inpatient acute care services and substantially all outpatient services provided to Medicare

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beneficiaries are paid on a cost reimbursement methodology. CAH certification imposes limitations on the Hospital's operations, including an average annual length of stay limitation of 96 hours and a limitation of 25 general acute care beds and 10 psychiatric care beds. Inpatient psychiatric services related to Medicare beneficiaries are paid on a cost reimbursement methodology and/or prospectively determined rates. The Hospital is reimbursed for certain services at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment system. Outpatient services are reimbursed under a mixture of fee schedules and cost reimbursement. The Hospital is reimbursed for certain services at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audit thereof by the Medicaid administrative contractor.

Other. Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Approximately 58% and 60% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for 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.

Supplemental Medicaid Funding

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

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). The Waiver extended existing Medicaid managed care programs and established two funding pools that assist providers with uncompensated care (UC Pool) costs and promote health system transformation (DSRIP Pool).

The Waiver was originally effective from December 12, 2011 to September 30, 2016 and extended through December 2017 as HHSC and the Centers for Medicare & Medicaid Services (CMS) negotiated a longer-term extension. On December 21, 2017, HHSC received an approved extension from CMS for the period of January 1, 2018 through September 30, 2022. Among other changes, the approved plan required a change in the methodology used to allocate UC funds and a phase out of the DSRIP program over the five-year period.

On April 22, 2022, CMS approved an extension of the Waiver through September 30, 2030. The extension provides for the continuation of the UC Pool and an expansion of directed payment programs, which transitions participating hospitals away from the DSRIP program, which ended on September 30, 2021. One of the new directed payment programs is the Comprehensive Hospital Increased Reimbursement Program (CHIRP), which replaces the existing Uniform Hospital Rate Increase Program (UHRIP). Under UHRIP, HHSC directed managed care organizations in a service delivery area to provide a uniform percentage rate increase to all hospitals within a particular class of hospitals. CHIRP also provides for rate increases similar to UHRIP but also provides for a rate enhancement above the UHRIP rate, based upon a percentage of estimated average commercial reimbursement. Participating hospitals may opt into this second component. UHRIP ended on August 31, 2021, and CHIRP began on September 1, 2021. CHIRP requires annual approval by CMS and has been approved through August 31, 2026.

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Total revenue recognized from these programs, exclusive of CHIRP and UHRIP, was approximately \$873,000 and \$565,000 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.

At September 30, 2025 and 2024, prepaid intergovernmental payments related to future CHIRP and other direct payment program years were approximately \$303,000 and \$310,000, respectively, and are included as Medicaid supplemental program receivable in the balance sheets.

The funding from the UC Pool has historically been limited by the federally determined Hospital Specific Limit calculation and is subject to recoupment based on subsequent audit results. The District recorded an expected overpayment related to these audits of approximately \$1,949,000 and \$1,380,000 as of September 30, 2025 and 2024, respectively, which is included as estimated amounts due to third-party payors in the balance sheets.

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

Note 3. Net Nursing Facility Revenue

The District also participates in the Texas Quality Incentive Payment Program for Nursing Facilities (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 this program (net of any intergovernmental transfer payments) for the years ended September 30, 2025 and 2024 was approximately \$7,795,000 and \$4,053,000, respectively, and is included in nursing facility patient service revenue in the statements of revenues, expenses, and changes in net position. At September 30, 2025 and 2024, amounts due from this program were approximately \$8,865,000 and \$4,109,000, respectively, and are included in other receivables in the balance sheets.

The program described is subject to review and scrutiny by both the Texas Legislature and CMS, and the program could be modified or terminated based on new legislation or regulation in future periods. The funding historically received may not be representative of funding that will be received in future years.

Note 4. 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. 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, the District's bank balances of \$52,208,541 and \$59,135,838, respectively, were fully insured or collateralized by assets held by the pledging financial institutions agent in the District's name.

Investments

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

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

	Amortized Cost	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
2025					
TexPool Investment Pool	\$ 17,194,740	\$ 17,194,740	\$ -	\$ -	\$ -

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 Governmental Accounting Standards Board (GASB) Statement No. 79, *Certain External Investment Pools and Pool Participants*. 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. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District invests in liquid investments necessary to pay obligations as they become due. State investment pools are presented as an investment 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. The District's investment in TexPool is guaranteed as to principal by the U.S. Treasury and the state of Texas and is rated AAAM by Standard & Poor's (S&P). TexPool only invests in investments authorized under the *Public Funds Investment Act*.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Management believes its current investments are not subject to significant credit risk.

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer.

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Summary of Carrying Values

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

	<u>2025</u>	<u>2024</u>
Carrying value		
Deposits	\$ 51,787,537	\$ 58,189,107
Investments	17,194,740	-
	<u>\$ 68,982,277</u>	<u>\$ 58,189,107</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 44,788,815	\$ 35,036,132
Certificates of deposit	24,193,462	23,152,975
	<u>\$ 68,982,277</u>	<u>\$ 58,189,107</u>

Note 5. Patient Accounts Receivable

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

	<u>2025</u>	<u>2024</u>
Hospital		
Medicare	\$ 2,608,126	\$ 2,050,824
Medicaid	974,882	628,631
Other third-party payors	2,608,600	2,468,371
Patients	7,710,194	8,926,224
	<u>13,901,802</u>	<u>14,074,050</u>
Nursing facilities		
Medicare	748,359	1,100,740
Medicaid	1,554,322	1,181,056
Other third-party payors	1,278,112	1,213,285
	<u>3,580,793</u>	<u>3,495,081</u>
Allowances for uncollectible accounts	<u>(9,765,667)</u>	<u>(10,265,759)</u>
Total patient accounts receivable	<u>\$ 7,716,928</u>	<u>\$ 7,303,372</u>

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Note 6. Capital, Lease, and Subscription Assets

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

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
2025					
Land	\$ 653,041	\$ 250,560	\$ -	\$ -	\$ 903,601
Land improvements	185,481	67,600	-	-	253,081
Buildings and improvements	28,780,904	402,367	(193,114)	1,511,519	30,501,676
Equipment	19,287,761	644,100	-	2,065,430	21,997,291
Construction in progress	425,786	4,951,552	-	(3,576,949)	1,800,389
	<u>49,332,973</u>	<u>6,316,179</u>	<u>(193,114)</u>	<u>-</u>	<u>55,456,038</u>
Less accumulated depreciation					
Land improvements	134,580	28,967	-	-	163,547
Buildings and improvements	12,944,475	1,367,998	(24,241)	-	14,288,232
Equipment	14,642,561	1,102,381	-	-	15,744,942
	<u>27,721,616</u>	<u>2,499,346</u>	<u>(24,241)</u>	<u>-</u>	<u>30,196,721</u>
Capital assets, net	<u>\$ 21,611,357</u>	<u>\$ 3,816,833</u>	<u>\$ (168,873)</u>	<u>\$ -</u>	<u>\$ 25,259,317</u>
2024					
Land	\$ 593,961	\$ -	\$ -	\$ 59,080	\$ 653,041
Land improvements	185,481	-	-	-	185,481
Buildings and improvements	27,831,382	-	-	949,522	28,780,904
Equipment	17,182,294	-	-	2,105,467	19,287,761
Construction in progress	205,483	3,334,372	-	(3,114,069)	425,786
	<u>45,998,601</u>	<u>3,334,372</u>	<u>-</u>	<u>-</u>	<u>49,332,973</u>
Less accumulated depreciation					
Land improvements	113,120	21,460	-	-	134,580
Buildings and improvements	11,598,694	1,345,781	-	-	12,944,475
Equipment	13,803,920	838,641	-	-	14,642,561
	<u>25,515,734</u>	<u>2,205,882</u>	<u>-</u>	<u>-</u>	<u>27,721,616</u>
Capital assets, net	<u>\$ 20,482,867</u>	<u>\$ 1,128,490</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,611,357</u>

Construction in progress at September 30, 2025 consists primarily of a generator upgrade with an expected future cost of approximately \$1,000,000 and numerous expansion and renovation projects currently in the planning stages that are expected to be funded from available cash.

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
2025					
Leased assets	\$ 35,979	\$ -	\$ -	\$ -	\$ 35,979
Less accumulated amortization	1,509	6,414	-	-	7,923
Lease assets, net	<u>\$ 34,470</u>	<u>\$ (6,414)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,056</u>
2024					
Leased assets	\$ 69,092	\$ 14,058	\$ (47,171)	\$ -	\$ 35,979
Less accumulated amortization	47,592	1,088	(47,171)	-	1,509
Lease assets, net	<u>\$ 21,500</u>	<u>\$ 12,970</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,470</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
2025					
Subscription assets	\$ 621,123	\$ 83,511	\$ (65,672)	\$ -	\$ 638,962
Less accumulated amortization	295,405	242,520	(65,672)	-	472,253
Subscription assets, net	<u>\$ 325,718</u>	<u>\$ (159,009)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 166,709</u>
2024					
Subscription assets	\$ 416,589	\$ 204,534	\$ -	\$ -	\$ 621,123
Less accumulated amortization	75,718	219,687	-	-	\$ 295,405
Subscription assets, net	<u>\$ 340,871</u>	<u>\$ (15,153)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 325,718</u>

Note 7. Accounts Payable and Accrued Expenses

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

	<u>2025</u>	<u>2024</u>
Payable to suppliers and contractors	\$ 2,351,260	\$ 1,662,489
Payable to nursing facility managers	8,926,379	4,761,229
Payable to employees (including payroll taxes and benefits)	1,397,585	1,406,206
	<u>\$ 12,675,224</u>	<u>\$ 7,829,924</u>

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Note 8. Medical Malpractice Claims

The District is a unit of government covered by the *Texas Tort Claims Acts*, which, by statute, limits its malpractice liability to \$100,000 per person and \$300,000 per claim. To cover such risks, 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 9. Long-Term Obligations

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
2025					
Estimated amounts due to third-party payors	\$ 1,561,327	\$ 611,910	\$ (735)	\$ 2,172,502	\$ 360,989
Lease liabilities	22,074	-	(5,977)	16,097	6,470
Subscription liabilities	327,546	83,511	(172,091)	238,966	112,081
	<u>\$ 1,910,947</u>	<u>\$ 695,421</u>	<u>\$ (178,803)</u>	<u>\$ 2,427,565</u>	<u>\$ 479,540</u>
2024					
Estimated amounts due to third-party payors	\$ 1,195,772	\$ 700,814	\$ (335,259)	1,561,327	\$ 181,072
Lease liabilities	13,160	14,058	(5,144)	22,074	6,278
Subscription liabilities	309,777	204,534	(186,765)	327,546	121,222
	<u>\$ 1,518,709</u>	<u>\$ 919,406</u>	<u>\$ (527,168)</u>	<u>\$ 1,910,947</u>	<u>\$ 308,572</u>

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Lease Liabilities

The District leases equipment, the terms of which expire in various years through 2029. The following is a schedule by year of payments under the leases as of September 30, 2025:

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2026	\$ 6,902	\$ 6,470	\$ 432
2027	4,984	4,740	244
2028	3,068	2,942	126
2029	1,972	1,945	27
	<u>\$ 16,926</u>	<u>\$ 16,097</u>	<u>\$ 829</u>

Subscription Liabilities

The District has various subscription arrangements, 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 subscription arrangement 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 \$1,337,000 and \$1,183,000, respectively, of subscription expense for variable payments and short-term and cancelable agreements that are not included in the measurement of the subscription liability.

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

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2026	\$ 117,435	\$ 112,081	\$ 5,354
2027	128,049	126,885	1,164
	<u>\$ 245,484</u>	<u>\$ 238,966</u>	<u>\$ 6,518</u>

Estimated Amounts Due to Third-Party Payors

The estimated amounts due to third-party payors include cost report and supplemental Medicaid funding overpayments, as discussed in Note 2. The following is a schedule by year of payments due to third-party payors as of September 30, 2025:

2026	\$ 360,989
2027	1,063,534
2028	<u>747,979</u>
	<u>\$ 2,172,502</u>

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Note 10. Nursing Home Operations

The District has entered into a series of lease and management agreements with nursing home operators that resulted in the District becoming the legal operator of six nursing homes. Under the management agreements, the managers provide all services necessary to operate the homes, including employees, supplies, and other operating costs. The managers also provide all billing and collection services. All patient revenue from the facilities is paid to the District. From these collections, the District pays the managers for all facility costs and the management fees pursuant to the agreements. The management agreements renew annually. The District is obligated to pay a base management fee ranging from 4% to 5% of ordinary revenue, with potential incentive bonuses ranging from 50% to 70% of net operating income. However, District payments to the manager are generally limited to the amount of net patient revenue received from the facilities. At its option, the District may pay additional amounts to the manager above the amounts collected for patient revenue.

Note 11. Benefit Plan

The District contributes to a defined contribution benefit plan covering substantially all full-time employees meeting age and service requirements. Benefit expense is recorded for the amount of the District’s required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the District’s governing body. The plan provides retirement and death benefits to plan members and their beneficiaries, and the employees are immediately vested in the District’s contribution. Benefit provisions are contained in the plan document and were established and can be amended by action of the District’s governing body. Contribution rates expressed as a percentage of covered payroll and contributions actually made were as follows:

	2025	2024
Participant salaries	\$ 9,906,155	\$ 9,648,325
Contributions by employees	\$ 624,108	\$ 572,900
Percent of participant salaries	6.30%	5.94%
Contributions by the District	\$ 180,026	\$ 175,610
Percent of participant salaries	1.82%	1.82%

Note 12. Charity Care

Charges excluded from revenue under the District’s charity care policy were approximately \$2,400,000 and \$2,240,000 for 2025 and 2024, respectively. The costs of charity care provided under the District’s charity care policy were approximately \$861,000 and \$830,000 for 2025 and 2024, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 13. Commitments and Contingencies

General Litigation

The District is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the balance sheets, change in net position, and cash flows of the District. Events could occur that would change this estimate materially in the near term.

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Management Agreement

The District entered into a management agreement with Methodist Healthcare System, Ltd., LLP (Methodist) to develop and maintain credible management and administrative leadership personnel on site at the District; to assist in the provision of a consistent level of quality services at the lowest possible costs to patients of the District and the constituency of the District; to assist the District in operating on a sound financial basis and to maintain effective financial accounting and reporting systems; to recruit and retain physicians needed by the community to join and continue as members of the medical staff of the District; to practice medicine in Medina County and other communities served by the District; and to assist in the establishment of goals and objectives in connection with the continued operation of the District's facilities, including, without limitation, ensuring continuing access to the District, physician, and other healthcare services for Medina County residents in or near the communities where they live or work, particularly in those communities located in Medina County.

The District pays an annual management fee to Methodist and reimburses the costs of executive management employees and other related costs during the term of the agreement which remains in effect until March 31, 2027. Expenses under this agreement were approximately \$732,000 and \$840,000 for 2025 and 2024, respectively.

Note 14. Related-Party Transactions

The District occasionally conducts business with organizations that are affiliated with board members. This is often a result of a limited number of vendors in smaller communities. The District maintains bank accounts at a local bank that employs a board member. At September 30, 2025 and 2024, respectively, approximately \$6,385,000 and \$6,100,000 of the District's cash balances were held with this bank. The District has a conflict-of-interest policy, and the board members have disclosed these relationships.

Note 15. Future Change in Accounting Principle – GASB Statement No. 103, *Financial Reporting Model Improvements (GASB 103)*

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 is to eliminate diversity in practice and improve comparability. Impacted areas include management's discussion and analysis, unusual or infrequent items, and the definitions and presentation of operating and nonoperating revenues and expenses. While GASB 103 does not impact the timing of recognition and measurement of revenue, it could affect the presentation and geographical location of certain healthcare-specific revenues within the financial statements. The requirements of GASB 103 are effective for the District's fiscal year ending September 30, 2026 and all reporting periods thereafter. Changes are required to be made retroactively to the earliest period presented.

Note 16. One Big Beautiful Bill Act (OBBBA)

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