DeSoto County Hospital District

Financial Report
September 30, 2022

Contents

RSM US LLP

Independent Auditor's Report

Board of Directors
DeSoto County Hospital District

Opinion

We have audited the financial statements of DeSoto County Hospital District (the District), which comprise the statement of net position as of September 30, 2022, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

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

Basis for Opinion

We conducted our audit 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As explained in Note 8 to the financial statements, the District adopted GASB Statement No. 87, *Leases*, which is applied retroactively by restating balances in the financial statements as of October 1, 2021. Our opinion is not modified with respect to this matter.

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 within one year after the date that the financial statements are issued or available to be issued.

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.

RSM US LLP

Davenport, Iowa
February 28, 2023

DeSoto County Hospital District

Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2022

State law requires every Florida special district to publish within nine months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended September 30, 2022.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance the financial statements are free of any material misstatements.

RSM US LLP, Certified Public Accountants, has audited the DeSoto County Hospital District's financial statements for the years ended September 30, 2022 and 2021. The independent auditor's report is located on pages 1-2 of this report.

As management of the DeSoto County Hospital District (the District), we offer the readers of our financial statements this discussion and analysis as an overview of the financial activities of the District for the years ended September 30, 2022 and 2021. Readers are encouraged to consider the information presented herein in conjunction with the accompanying financial statements and related footnote disclosures.

Background
Located in Arcadia, Florida, the District is a special-purpose government, as defined by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* engaged only in business-type activities and has no other material operations. The District includes in its financial statements all organizations for which it is financially accountable (component units), as defined by the accounting standards, and as further described in this section.

Using This Report
This annual report includes the financial statements of the District, including the operations of DeSoto Memorial Hospital (the Hospital) and its three component units, of which the District is the sole member: (1) DCHD Health Care Professionals, LLC (Professionals), exists for the sole purpose of employing such health care professionals and physicians needed to staff the Hospital and other locations: (2) DMH Real Estate Holdings, Inc. (Holdings), a nonprofit corporation to hold title to property for the exclusive use of the District: and, (3) The Apothecary at DeSoto Memorial Hospital, LLC (Apothecary), a retail pharmacy with a current location within the Hospital, which opened in March 2022 (collectively, the Blended Component Units). The financial statements of these entities have been reported as activities of the Hospital because of their relatively small financial impact on overall operations, or they provide services solely to the Hospital. See Note 1 to the audited financial statements for further description of the component units.

The enclosed financial statements are designed to provide readers with an overview of the District's finances. The statement of net position presents information on the District's assets, liabilities and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information indicating how the District's net position changed during the fiscal year. All changes in net position are reported when the event causing the change occurs, regardless of when related cash is given or received. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, which reflects the accrual basis of accounting.

The final required statement is the statement of cash flows. This statement reports cash receipts, payments, and net changes in cash resulting from operating activities, noncapital financing activities, capital and related financing activities and investing activities. This statement highlights the sources and uses of cash and changes in cash balance over the reporting period.

In addition, the aforementioned statements contain notes to provide additional information integral to a full understanding of the information provided in the financial statements. These notes explain organizational matters about the District, its accounting policies and their application, and further detailed information about the components of the basic financial statements.

Profile of the District

The District provides a continuum of health care services to the community through a network of organizations. The District currently owns and operates 49 acute-care beds as a designated rural sole community hospital, a home health agency, and a hospital-based physician group. This network is commonly referred to as the Hospital. The Hospital provides services in southwest Florida, primarily in medically underserved areas, as classified by the United States Department of Agriculture, of DeSoto County and Hardee County.

In 1965, the District was legislatively created, pursuant to the laws of Florida, to own and operate medical facilities in DeSoto County. The District continued acute health care services established by local physicians in 1912. The District is governed by five directors appointed by the Governor of the State of Florida for terms of four years each. The current enabling Act of the District was passed by a Special Act of the Florida Legislature as Chapter 2004-450, Laws of Florida (the Act), which codified all prior laws that established the District, a public body corporate and politic of the state of Florida.

In 1985, due to certain national regulatory changes and other industry factors, a tax exempt 501(c)3 organization was formed. Assets and the responsibility of operating the Hospital were transferred to this new organization. In 2010, due to various regulatory and other factors, the assets, except those accounts related to capital assets, were transferred back to the District. See Note 1 to the financial statements for additional information.

During fiscal year 2020, the state of Florida experienced an increase in the Novel Coronavirus (COVID-19) beginning in March 2020. As a result of the federal and state declaration of an emergency pandemic status, a mandate to cease elective services became effective in mid-March. Specific safety guidelines issued by the Center for Disease Control (CDC) have been implemented and maintained. The District experienced significant reductions in volume and related financial performance, primarily in April and May 2020, but volumes have returned to a more historical level since May 2020. In addition, the federal government issued the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) providing significant funds to assist in covering costs incurred and any lost revenues that occurred as a result of the pandemic. Funding under the Provider Relief Fund (PRF), covering activity between February 2020 through December 31, 2022 of approximately $5.9 million, has been received by the Hospital. The Hospital incurred additional expenses and lost revenue and reported a portion of such amounts in the PRF portal in September 2021 and will report its remaining expenses in the PRF portal before March 31, 2023, as required under the terms and conditions of the PRF program. More detailed discussion is included herein.

The District also received an advance from the Paycheck Protection Program (PPP) in fiscal year 2020, and the District submitted documentation in early January 2021 substantiating compliance with the regulations to obtain forgiveness for the PPP loan. Formal forgiveness of the PPP loan was received in fiscal year 2021, and $2.7 million of PPP loan forgiveness revenue was recognized during the year then ended.

Effective July 1, 2017, the Florida Medicaid program converted to an Ambulatory Payment Classification system. This new system had a number of processing issues during 2018, 2019 and 2020. The District reimbursement continues to be significantly below cost of services rendered. A Directed Payment Plan, through the state of Florida was made available in late 2021 to assist in offsetting some of the payment shortfall. Supplemental reimbursement under this program totaling approximately $5.1 million was received in February 2022 compared to an intergovernmental transfer payment made by the District of $1.7 million in December 2021. The state of Florida legislature has also approved the program for the state's fiscal year ending June 30, 2023.

Medicare has made a number of changes in reimbursement and reporting requirements. Centers for Medicare and Medicaid Services (CMS) emphasis on the formation of Accountable Care Organizations (ACO) to reduce services provided in a hospital setting adversely affects hospital patient volumes. Regulatory mandates relating to pricing transparency have been revised, and made effective January 1, 2021. The regulations still do not bring a clear process to explaining a patient's health plan as it relates to services provided by the District. The District now provides a price estimator on its website to assist patients in understanding the financial information related to services they seek. This allows potential patients access to data provided by their health plan regarding coverage and contractual elements as it relates to services provided by the District. Health Plans, effective July 2022, are now required to provide similar information for any providers their Member may be considering.

A number of proposed federal legislative regulations might assist the Hospital with increased subsidies. The probability of these regulations being enacted in the future is fairly low. At the state level, although a potential exists for further reductions in payments or health plan coverage for Medicaid beneficiaries for the State Fiscal Year (SFY) which began July 1, 2022 and beyond, we do not expect significant Medicaid reductions next year.

Most Florida Medicaid beneficiaries are now covered by commercial managed care organizations (Managed Medical Assistance program) and Medicare beneficiaries continue to steadily convert to Medicare Replacement Plans. These plans often have narrow physician networks or utilize non-hospital resources for plan beneficiary medical care. The Hospital services used by winter residents primarily have Medicare Health Plans. In fiscal year 2021, the Hospital saw an increase in vaccinations for COVID-19 and Canadian citizens allowed to enter the U.S. COVID-19 vaccinations tapered off during fiscal year 2022, and we anticipate that pandemic related Medicaid coverage will end during fiscal year 2023.

Continuing challenges facing the District and the health care industry include providing high-quality patient care in a competitive environment, contending with significant increases in complex regulatory requirements, attaining reasonable reimbursement rates for services provided, and managing costs. In 2021, Florida legislative action again declined the federal program to expand Medicaid plan benefits to a larger segment of the low-income uninsured/underinsured population. We estimate acceptance of this program would have increased cash flow to the District by approximately $2,500,000 to $3,000,000. The state of Florida receives matching funds from the federal government under Section 1115 Waivers, commonly referred to as the Low-Income Pool Program (LIP), to assist health care facilities who experience high levels of uncompensated care. The current waiver provides funding for a four-year period through SFY 2022. An extension of this program is expected. Expanding the coverage to low-income residents would most likely decrease the LIP fund allocation.

The LIP funds are computed on the cost of charity care rendered by health care providers, primarily acute care hospitals. For the Hospital, the SFY 2022 funds allocated were approximately $2,301,000. The Florida legislature has approved an allocation to the Hospital of $3,000,000 for SFY 2023. Additional uncompensated service costs of approximately $2,882,000 related to the provision of uncollectible accounts for fiscal year 2022, generally referred to as bad debt, are not covered by any subsidies or other programs. A significant portion of bad debt accounts are incurred due to the inability to obtain proper documentation from patients who would otherwise be eligible to be classified as charity care services. The majority of these patients incur emergency services, wherein the Emergency Medical Treatment and Labor Act (EMTALA) is applicable.

As previously mentioned, in 2022, the state of Florida approved a Directed Payment Program (DPP) for SFY 2022-2023. The DPP provides funding based on Medicaid managed care patients. Although the program has been approved for SFY 2022-2023, the calculations are unknown at this time. The District continues to work with Florida Hospital Association (FHA) to understand the computations and expects the DPP receivable will be included in the Disproportionate Share Hospital (DSH) cap allowance.

On November 4, 2014, the community approved a sales tax increase, effective January 1, 2015, designated solely for payment of debt outstanding as of August 12, 2014. The Hospital Board (the Board) directed these funds to be designated for funding the USDA Mortgage Debt Service. The Hospital receives monthly cash transfers from the county to the Designated Debt Service Account. The Hospital received $1.8 million in proceeds in FY2021 and $2.3 million in FY2022. Total debt service is approximately $1.2 million per year. District management works with the Board of Directors to decide when to apply the collections in excess of annual debt service requirements to the principal. Because the District's labor costs were increasing, the excess funds were held and to be reviewed at a later date. In FY2022 the Debt Service Reserve Fund requirement has been fulfilled. Due to the uncertainty of volumes while the nation is still under pandemic designation, the excess funds attained in FY2022 will be held until the next mortgage payment due date of June 12, 2023. At that time, a decision will be made as to potential extra payments on the principal outstanding. The increased sales tax segment may be terminated at any time by majority vote of the county commissioners.

Although the sales tax assistance provides significant financial relief, the decreased Medicare reimbursement as defined in the Patient Protection and Affordable Care Act (ACA) and the state of Florida not participating in the expanded Medicaid benefit plan has over a $3.3 million annual adverse impact on cash funds. Over the course of the pandemic, the Hospital's Medicaid population grew by 1%. The end of the pandemic coverage for these patients will increase our charity care and provision for bad debts. The District is exploring various avenues to cover this adverse financial situation. Continued discussion with various governmental agencies and entities, as well as with larger tertiary facilities and national health care systems, will be used to formulate options to this funding shortfall.

Another significant challenge facing the District and the industry is the ongoing increase in labor costs due to shortage of nurses and other skilled health care professionals, especially in rural areas. This shortage was extremely amplified during the COVID-19 pandemic. Industry experts expect the labor shortage to continue for the foreseeable future and future impacts from the pandemic have not been established. The District has implemented various initiatives to better position itself to attract and retain qualified physician, nursing, and other personnel, improve productivity and manage labor-cost pressures. The Hospital has meticulously followed the CDC guidelines related to the COVID-19 pandemic. As a result, an extremely safe working environment has been achieved and maintained since February 2020. Provided an increase in COVID-19 positivity levels does not occur, the Hospital does not foresee any reductions from historical service volumes.

In late September 2022, Hurricane Ian made landfall in Florida and DeSoto Memorial Hospital fell in the direct path of the storm, which caused minimal damages and additional expenses related to on-call staffing. The District is working with the Federal Emergency Management Agency and AC Disaster Consulting to assist in repairs and mitigation.

The Hospital continues to upgrade components of its clinical electronic information system. The Hospital has fulfilled all requirements contained in the Health Information Technology for Economic and Clinical Health Act (HITECH), part of the American Recovery and Reinvestment Act (ARRA) of 2009. The requirements continue to be upgraded under the Office of the National Coordinator of Health Information Technology (ONC). In the 2022 reporting period, CMS has continued to streamline the requirements to promote interoperability and exchange of health care information. The Hospital has continued to meet these requirements and has not been adversely affected through its Medicare payments. We expect to fulfill all present and future CMS requirements. Failure to meet these requirements could lead to a 4% reduction in all Medicare reimbursement (approximately $600,000 annual impact).

The following are condensed statements of net position as of September 30, 2022 and 2021:

	2022	2021
Assets		
Current assets	$ 12,815,435	$ 18,177,604
Noncurrent assets	18,660,710	16,635,673
Total assets	$ 31,476,145	$ 34,813,277
Liabilities		
Current liabilities	$ 5,625,927	$ 6,314,762
Noncurrent liabilities:		
Other	554,365	547,626
Long-term debt	14,610,428	14,057,595
Total liabilities	20,790,720	20,919,983
Net position	10,685,425	13,893,294
Total liabilities and net position	$ 31,476,145	$ 34,813,277

The following are condensed statements of revenues, expenses and changes in net position for the years ended September 30, 2022 and 2021:

	2022	2021
Operating revenues	$ 38,626,733	$ 41,735,284
Operating expenses:		
Labor expense	25,084,550	22,527,255
Physician fees	2,296,231	2,253,516
Supplies	5,567,605	6,166,904
Other	9,818,370	11,396,185
Depreciation	2,210,123	1,855,179
Total operating expenses	44,976,879	44,199,039
Operating (loss)	(6,350,146)	(2,463,755)
Nonoperating revenues, net	3,142,277	8,717,204
(Decrease) Increase in net position	$ (3,207,869)	$ 6,253,449

Business Type Activities

The primary business activity of the District is the operation of the Hospital and other health care services, which is considered business-type activity and accounted for in a single proprietary fund. Other activities of the District are immaterial and are not reported in separate funds.

In fiscal year 2022, inpatient volumes decreased approximately 6%, observation days increased 3% and outpatient services decreased approximately 11%. In fiscal year 2021, inpatient volumes increased approximately 20% and outpatient services increased approximately 1%. Overall outpatient volumes increased due to increases in physical therapy, lab and wound care services.

In fiscal year 2022, net patient service revenue decreased approximately $3,219,000 or 8% compared to 2021. In fiscal year 2021 net patient service revenue increased approximately $6,177,000 or 17% compared to 2020.

For fiscal year 2022, salaries, wages, and employee benefits (including contract labor) increased $2,557,000 or 11% as compared to 2021. For fiscal year 2021, salaries, wages, and employee benefits (including contract labor) increased $883,000 or 6% as compared to 2020.

For fiscal year 2022, physician fees increased 2% ($43,000) from 2021 and other fees increased 4% ($209,000) from 2021. For fiscal year 2021, physician fees increased 14% ($273,000) and other fees decreased 3% ($185,000) from 2020.

For fiscal year 2022, supplies decreased $599,000 or 10% from 2021 primarily related to the high demand for personal protective equipment in 2021 caused by the COVID-19 pandemic combined with overall reduction in inpatient volumes. For fiscal year 2021, supplies increased 33% from 2020 primarily relating to the high demand for personal protective equipment caused by the COVID-19 pandemic combined with overall inflation and supply chain challenges nationwide.

For fiscal year 2022, net nonoperating revenue decreased $5,575,000 or 64% from 2021 due to a decrease in provider relief fund revenue and no PPP loan forgiveness income in 2022. For fiscal year 2021, net nonoperating revenue increased 430% ($7,072,000) from 2020 due to increased sales tax revenue, PPP loan forgiveness and provider relief fund revenue.

Operating Statistics

The table below sets forth certain selected historical operating statistics for the District for the years ended September 30, 2022 and 2021:

	2022	2021
Net patient service revenue	$ 38,462,665	$ 41,681,581
Net patient service revenue per adjusted admission	8,033	9,365
Net patient expense per adjusted admission	9,394	9,930
Admissions	603	903
Surgery cases	609	480
Admissions through emergency services	402	680
Adjusted admissions (1)	4,788	4,451
Case mix index—all inpatients (2)	1.449	1.423

(1) Adjusted admissions is an equivalency metric representing patient hospital admissions adjusted to include outpatient and emergency room services by multiplying inpatient admissions by the sum of gross inpatient revenues and outpatient revenues and dividing the result by gross inpatient revenues.

(2) Case mix index represents the acuity level of inpatient services rendered. Changes generally reflect the level of resources required. For Medicare and certain commercial insurance payors, this relative value weighting system directly affects the reimbursement level.

Revenue and Volume Trends

The District's revenues depend upon inpatient occupancy levels, ancillary services volume, mix of services provided and reimbursement rates for such services. The District has agreements with third-party payors, including government programs and managed-care health plans, whereby the District is paid based upon predetermined rates per diagnosis, fixed per diem inpatient rates or discounts from established charges. Although efforts continue toward improving reimbursement rates with contracted payors, there are no assurances the District will continue to achieve increases in the future. The District believes it will realize rate increases from commercial payors approximately equal to inflationary cost increases. Given budget concerns at both the federal and state levels, further government plan rate reductions are highly probable and would be a significant financial detriment.

In addition, the District receives funding through several distinct programs related to maintaining Disproportionate Share Hospital and Sole Community Hospital status. During fiscal year 2020, the Hospital became aware that the volume of low-income patients with governmental health plan coverage decreased below the threshold for maintaining 340B status to obtain outpatient drugs through the Medicaid Group Purchasing network. The 340B status would have allowed the Hospital to save on pharmacy supply costs for outpatient drugs. The formula to determine participation status is based upon inpatient days of Medicare, SSI and Medicaid patients. Inpatient volumes have been volatile over the last several years and as a result of mandatory cessation of elective services due to the COVID-19 emergency pandemic regulations, starting in March 2020 inpatient volumes decreased significantly over three months, with a significant decrease in government plan inpatients. Changes between inpatient and observation patient classifications also impacts 340B status. The Hospital's case management team continues to work with insurance carriers to ensure proper patient classification. The District DSH status is susceptible due to the inpatient day volatility and its impact on the threshold calculation. With the addition of the DPP, funds received under the DSH program will be limited based on a DSH cap calculation. Medicaid coverage for the underinsured is expected to end with the pandemic changes during 2023.

For next fiscal year, management believes, based on specific federal government rate changes for rural hospitals and state Medicaid subsidies, Medicare plan rates will increase in line with inflationary cost. The state Medicaid reimbursement is expected to decrease from current levels. Most of the Medicaid population moved to privatized HMO vendors and many of these vendors make utilization of hospital services very difficult to obtain. Based upon current federal legislative actions and discussions, significant adverse changes in Medicaid plan reimbursement are very likely to continue into ensuing years, especially in areas where aggressive managed care is utilized.

The percentage of patient service revenue related to Medicare, Medicaid, discounted arrangements and other, follows for the years ended September 30, 2022 and 2021:

	2022	2021
Medicare	49%	50%
Medicaid	18%	17%
Insurance (primarily Blue Cross)	23%	23%
Self-pay	10%	10%

The District provides significant health care to the indigent population within its primary service area. Uncompensated charges for care provided to this population included charity care of approximately $14,914,000 and $11,718,000 and bad debts of approximately $2,822,000 and $4,206,000 for the years ended September 30, 2022 and 2021, respectively. These patients represent approximately 11% and 10% of total gross patient revenues for the fiscal years 2022 and 2021, respectively. Management's projection for the ensuing year is to decrease uncompensated services as a percentage of total services through continued thorough credit reviews at the time of service and to increase service volume to patients covered by commercial and government health care reimbursement plans. The impact that federal legislative action and continuation of the pandemic into the spring of 2023 will have on the local economic environment and ability of residents to obtain health plan coverage is unknown.

Liquidity and Capital Resources
The District's cash and investment accounts are held in Qualified Public Depositories and Local Government Surplus Trust Fund Investment Pools, as allowed by Florida Statute. Cash, cash equivalents and current unrestricted investments totaled approximately $3,650,000 and $6,562,000 as of September 30, 2022 and 2021, respectively.

As of September 30, 2022, the District's current ratio, which compares current assets to current liabilities, was 2.3 compared to 2.9 as of September 30, 2021. The District's days net patient service revenue in accounts receivable of 26 decreased 13% from 2021. Capital asset additions totaled approximately $4,262,000 and $1,324,000 in 2022 and 2021, respectively. The majority of acquired capital is related to the purchase of Mindray monitoring equipment and ventilators. The District also adopted GASB Statement No. 87 which resulted in the addition of right-to-use assets totaling approximately $2.2 million during fiscal year 2022.

At September 30, 2022, the District had approximately $12,572,000 outstanding in a mortgage payable to the USDA for a 2008 facility expansion/renovation. The District also had another $1,955,000 and $1,882,000 outstanding on leases payable and other debt, respectively. Maturities and other information regarding the current bond obligations are presented in Note 6 to the District's financial statements.

Effects of Inflation and Changing Prices
Various federal and state laws have been enacted, severely limiting the amount the District will receive for patient care. Revenues for acute-care hospital services rendered to Medicare patients are established under the federal government's prospective payment system. Medicare periodically updates hospital rates based upon specific cost report years. The last update for the Hospital was in 2006. At the state level, revenues for outpatient services rendered to Medicaid patients are now based on a statewide cost-based reimbursement program set by the state and can be modified based on the state's current budgetary conditions. Florida legislative action in 2017 moved Medicaid cost-based outpatient reimbursement to an average payment method. In 2018, Medicaid inpatient reimbursement was reduced by about 20%. These both have had a significant adverse impact on district reimbursement. Patients covered by government plans constitute approximately 70% of the District's services provided to the community. Commercial Health Plans continue to either deny or place heavy financial out-of-pocket burdens on plan members for services performed in a hospital setting.

Management believes hospital industry operating margins have been, and will continue to be, under significant pressure because of changes in health plan benefit design, reimbursement rates, and growth in operating expenses. Recent federal legislation regarding Medicare payments and impact on access to health plan coverage due to changes in the federal tax regulations, will have a negative financial impact on the Hospital. As a result of increasing regulatory and competitive pressures, including additional measures being considered under various federal health care reform proposals, the District's ability to maintain operating margins through price increases to nongovernmental payors and patients is extremely limited. Post pandemic changes in regulations will most likely decrease reimbursement to hospital facilities.

Health Care Reform

In the United States, significant changes have occurred in the health care system as a result of the Health Care Reform Act of 2010 and subsequent acts. Substantially all of the key provisions of the Health Care Reform Act are now effective. While federal agencies have published interim and final regulations with respect to certain requirements, many issues remain uncertain.

The Federal Administration and the U.S. Congress may seek to modify, repeal or replace all or part of this health care reform legislation. The continuing development of implementing regulations and interpretive guidance and legal challenges has contributed to this uncertainty. Regulatory changes post pandemic are likely to impact hospital operations. Effective COVID-19 vaccines are available and national inoculation efforts are underway. At this time, the Hospital is unable to predict how these events will develop and what impact they will have on the various acts impacting health care, and in turn, on the Hospital.

Contact Information

DeSoto County Hospital District
Attn: Administration
900 North Roberts Avenue
Arcadia, FL 34266
www.dmh.org

DeSoto County Hospital District

Statement of Net Position
September 30, 2022

Assets		
Current assets:		
Cash and cash equivalents	$	2,649,580
Certificates of deposit		1,000,000
Patient accounts receivable, net of allowances for contractual adjustments and doubtful accounts of $10,575,000		2,750,964
Other receivables		467,597
Inventories		979,558
Prepaid expenses		722,113
Due from third-party payors		1,015,661
Assets limited as to use:		
Restricted for debt service (Note 6)		3,026,543
Self-insurance trust fund (Note 4)		203,419
Total current assets		12,815,435
Capital assets (Note 5):		
Nondepreciable		1,163,328
Depreciable		15,302,586
Capital assets, net		16,465,914
Right-to-use assets, net (Note 5)		2,194,796
Total assets	$	31,476,145
Liabilities and Net Position		
Current liabilities:		
Accounts payable	$	1,720,343
Accrued payroll and benefits		1,419,401
Current portion of professional liability accrual (Note 4)		312,000
Other current liabilities		374,113
Current portion of long-term debt (Note 6)		1,800,070
Total current liabilities		5,625,927
Professional liability accrual, net of current portion (Note 4)		554,365
Long-term debt, net of current portion (Note 6)		14,610,428
Total liabilities		20,790,720
Commitments and contingencies (Note 7)		
Net position:		
Invested in capital assets and right-to-use assets, net of related debt		2,250,212
Restricted		3,305,422
Unrestricted		5,129,791
Total net position		10,685,425
Total liabilities and net position	$	31,476,145

See notes to financial statements.

DeSoto County Hospital District

Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2022

Operating revenues:	
Net patient service revenue, net of provision for bad debts of $2,882,000	$ 38,462,665
Other revenue	164,068
Total operating revenues	38,626,733
Operating expenses:	
Salaries and wages	16,648,952
Benefits	3,797,129
Contract labor	4,638,469
Fees—physician	2,296,231
Fees—other	5,603,698
Supplies	5,567,605
Utilities	1,036,179
Repairs and maintenance	1,211,225
Rentals and leases	399,090
Insurance (Note 4)	671,154
Other expenses	897,024
Depreciation and amortization	2,210,123
Total operating expenses	44,976,879
Operating loss	(6,350,146)
Nonoperating revenues (expenses):	
Sales tax revenue	2,286,812
Provider relief fund revenue (Note 9)	1,353,082
Noncapital grants and contributions	65,336
Investment income	31,589
Other	84,866
Interest expense	(679,408)
Total nonoperating revenues, net	3,142,277
Decrease in net position	(3,207,869)
Net position, beginning of year	13,893,294
Net position, end of year	$ 10,685,425

See notes to financial statements.

DeSoto County Hospital District

Statement of Cash Flows
Year Ended September 30, 2022

Cash flows from operating activities:	
Cash received from third-party payors, patients and other	$ 40,548,115
Cash paid to employees	(20,243,556)
Cash paid for supplies, purchased services and other	(22,327,124)
Net cash used in operating activities	(2,022,565)
Cash flows from noncapital financing activities:	
Sales tax proceeds	2,240,562
Provider relief funds received	1,353,082
Noncapital grants, contributions and other revenue received	150,202
Net cash provided by noncapital financing activities	3,743,846
Cash flows from capital and related financing activities:	
Purchase of capital assets	(993,189)
Principal payments on long-term debt	(1,985,947)
Cash paid for interest	(686,390)
Net cash used in capital and related financing activities	(3,665,526)
Cash flows from investing activities:	
Increase in assets limited as to use	(999,849)
Investment income received	31,589
Net cash used in investing activities	(968,260)
Net change in cash and cash equivalents	(2,912,505)
Cash and cash equivalents:	
Beginning	5,562,085
Ending	$ 2,649,580

(Continued)

DeSoto County Hospital District

Statement of Cash Flows (Continued)
Year Ended September 30, 2022

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (6,350,146)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	2,210,123
Changes in assets and liabilities:	
Patient accounts receivable, net	664,339
Other receivables	646,540
Inventories and prepaid expenses	(130,254)
Accounts payable	281,539
Accrued payroll and benefits	202,525
Due from third-party payors	(98,742)
Medicaid Directed Payment Program receivable/payable	709,245
Other current liabilities	(159,473)
Professional liability insurance accrual	1,739
Net cash used in operating activities	$ (2,022,565)
Supplemental schedule of noncash capital and related financing activities:	
Right-of-use obligation incurred for purchase of equipment	$ 2,135,164
Other long-term debt incurred for purchase of equipment	$ 800,000
Increase in accounts payable for purchase of equipment	$ 306,807

See notes to financial statements.

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

Organization: DeSoto County Hospital District (the District) was originally formed as a special tax district in order to provide comprehensive health care for the citizens of DeSoto County, which included the operation of DeSoto Memorial Hospital (the Hospital). On September 25, 1985, a nonprofit organization, DeSoto Memorial Hospital, Inc. (DMHI) was formed, and on December 20, 1985, the assets and the responsibility for the operation of the Hospital were transferred from the District to DMHI, while the District remained in existence to assume responsibility for any new undertakings compatible with its enabling legislation pursuant to Chapter 65-1450 of the laws of Florida. On July 1, 2010, by unanimous authorization of the governing members of both the District and DMHI, the Hospital operations and certain assets and liabilities were transferred from DMHI back to the District.

The District is governed by a five-member Board of Directors that is appointed by the governor of the state of Florida. The District established a seven-member board, the Subagency Board, to govern the Hospital. The Subagency Board consists of the five-member district Board of Directors and two members from the community. The Subagency Board has the authority to appoint the Hospital and related entities' chief executive officer, determine final action on all matters relating to medical staff membership or affiliation, and oversee hospital-related operational and patient care issues.

Also on July 1, 2010, the District formed DCHD Health Care Professionals, LLC (Professionals), of which it owns 100%. Professionals exists for the sole purpose of employing such health care professionals as deemed appropriate by the District Board of Directors, including, but not limited to, those health care professionals and physicians needed to staff the Hospital and other locations. Professionals had no operations in 2022.

In addition, the DMHI articles of incorporation and bylaws were amended to allow the District to appoint the DMHI Board of Directors. The name of DMHI was changed to DMH Real Estate Holdings, Inc. (Holdings). Holdings owns the property and equipment and is responsible for the mortgage payable (see Notes 5 and 6) that were previously held by DMHI. Holdings leases the property to the District under a long-term lease, which requires monthly payments of $101,500 through June 30, 2036, also known as the option period. The lease allows the District to acquire the property at any time during the option period for the price of full satisfaction of the mortgage payable. The District and Holdings account for this as leased assets.

The District is the sole member of The Apothecary at Desoto Memorial Hospital, LLC (Apothecary), which is an entity created during fiscal year 2021 that was formed to operate a retail pharmacy from a current location within the Hospital.

The District is a special-purpose government engaged only in business-type activities and has no other material operations. The District includes in its financial statements all organizations for which it is financially accountable (component units), as defined by the accounting standards. Holdings, Professionals and Apothecary are blended component units as the District is either the sole member of all or appoints their boards and these organizations provide benefits exclusively or almost exclusively to the District.

The District has not included the required disclosures and condensed information for component units in accordance with Government Accounting Standards Board (GASB) Statement 61, as management concluded that the nature of these activities and transactions are already transparent in these statements and amounts are immaterial. All inter-entity transactions between the Hospital and its blended component units have been eliminated in consolidation.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

The Hospital, located in Arcadia, Florida, is an acute care hospital that provides inpatient, outpatient and emergency care services for residents of the area. Admitting physicians are primarily practitioners in the local area. The Hospital is a Sole Community Hospital and a Disproportionate Share Hospital. Its Rural Health Clinics (RHC) are hospital-based clinics.

Basis of accounting: The primary purpose of the District is the provision of health care services through the Hospital, and as such, it utilizes accounting practices of health care organizations as defined in the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide, *Health Care Organizations*, and follows accounting principles generally accepted in the United States of America (U.S. GAAP). The District follows applicable GASB principles.

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP 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 and cash equivalents: Cash and cash equivalents include all cash and investments in highly liquid debt instruments purchased with an original maturity of three months or less, excluding amounts in assets limited as to use.

Deposits: The District maintains cash in checking, savings, money market savings and certificates of deposit accounts. The District maintains an investment policy in accordance with Florida Statutes, which authorizes the District to maintain its cash in Qualified Public Depositories (QPDs) covered by federal insurance or posted collateral. It may also invest surplus funds in the following:

a) The Local Government Surplus Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes

b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency

c) Interest-bearing time deposits or savings accounts in state certified QPDs as defined in Section 280.02, Florida Statutes

d) Direct obligations of the U.S. Treasury

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it in full. In accordance with the Florida Statutes, the District maintains deposits at QPDs that are covered by federal depository insurance or posted collateral. At September 30, 2022, the carrying amount of the cash deposits, including the certificates of deposit, was approximately $6,880,000 and the bank balance was approximately $7,407,000.

Patient accounts receivable: Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Patient receivables due directly from the patients are carried at the original charge for the service provided less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. Patient receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

As of September 30, 2022, estimated allowances for contractual adjustments were approximately $9,580,000, and allowances for doubtful accounts were approximately $995,000.

The Hospital has entered into a service arrangement to sell certain patient receivable balances to a third party. The balances are sold with recourse; therefore, the Hospital is obligated to repurchase any uncollected receivables after 95 days of service by the service provider. The Hospital records a liability for the estimated recourse payable for all accounts being serviced at period-end. As of September 30, 2022, the accounts receivable sold to the third party were approximately $100,000, and the estimated recourse liability recorded by the Hospital was approximately $40,000, which is included in the allowance for doubtful accounts.

Assets limited as to use: Assets limited as to use consist of certificates of deposit and money market funds (see Deposits on previous page) designated for the professional liability self-insurance trust, and designated as restricted for debt service reserve (see Note 6) as required by the terms of the mortgage payable and from a DeSoto County ordinance for use of the sales tax revenues. Amounts available to meet the related current liabilities have been classified as current assets in the statement of net position.

Inventories: Inventories, consisting primarily of medical and pharmaceutical supplies, are stated at the lower of cost or market, determined using the first-in, first-out (FIFO) method.

Capital assets: Purchases of land, buildings and equipment are stated at cost, if purchased, or fair value at the date of donation, if donated. Assets under lease obligation are depreciated over the shorter of the lease term or their respective estimated useful lives, unless the District intends to purchase the asset at the end of the lease term in which case they are depreciated over the useful lives of the assets. Amortization on assets under leases is included with depreciation expense on owned capital assets. Depreciation is provided using the straight-line method, half-year convention, over the estimated useful life of each class of depreciable assets. The depreciable lives of capital assets for financial statement purposes are as follows:

	Life
Land improvements	10-20 years
Buildings and improvements	10-40 years
Fixed equipment	5-20 years
Major movable equipment	3-15 years

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. No asset impairment charges were recorded in 2022.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Leases: A lease asset is determined at inception when the control of the right to use underlying asset belongs to the entity for the term of the lease for a period of one year or greater. The term of the lease may include exercisable options when reasonably certain the option will be renewed. Right to use assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. Leases, in which the District is the lessee, are included as right to use assets, net of respective amortization, in accordance with GASB Statement No. 87, Leases (GASB 87), in the statement of net position at the present value of expected lease payments over the lease term, adjusted for lease incentives, if applicable. Lease liabilities are based initially at the present value of lease payments, over the term of the leases and are re-measured whenever there is a change or modification of the lease terms. The current and long-term lease liabilities are recorded in the statement of net position. For leases recorded, the rates are based upon the incremental borrowing rate and vary based on inception date and terms of the contract. Current rates range from 0.319% to 6.500%

Compensated absences: Paid time-off benefits are recognized as expense as the benefits are earned and the unpaid portion is included in accrued payroll and benefits within the accompanying statement of net position. The change in compensated absences for the year ended September 30, 2022, was as follows:

Beginning Balance	Additions	Payments	Ending Balance	Amounts Due in One Year
$ 851,272	$ 1,896,641	$ (1,831,528)	$ 916,385	$ 916,385

Risk management: The District is exposed to various risks of loss from theft of, damage to and destruction of assets; malpractice; workers' compensation; employee medical; and other matters for which the District has self insured a portion of, and purchased commercial insurance coverage for, the remaining risk. Settled claims have not exceeded commercial coverage in any of the three preceding years.

Provisions for estimated professional liability costs include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Net patient service revenue: The Hospital has agreements with third-party payors that provide for reimbursements to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others as services are rendered. Retroactive adjustments under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Net patient service revenue is reported net of contractual adjustments and provision for bad debts for the year ended September 30, 2022, as follows:

Gross patient charges	$ 165,188,937
Charity adjustments	14,913,972
Contractual adjustments	108,989,980
Net patient service revenue before provision for bad debts	41,284,985
Provision for bad debts	2,822,320
Net patient service revenue	$ 38,462,665

Charity care: The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collections of amounts determined to qualify as charity care, they are not reported as revenue.

Operating revenues and expenses: The District's statement of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the District's principal activity. Operating expenses are all expenses incurred to provide health care services other than financing costs. Investment income, noncapital contributions and grants, including provider relief fund revenue, are reported as nonoperating revenues.

Grant and contribution income: Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or restricted for specific operating purposes are reported as nonoperating revenues. Amounts restricted for capital purposes are reported as capital grants and contributions and are included in nonoperating revenues and expenses.

Sales tax revenue: Sales tax revenue is recognized when measurable and the underlying exchange has occurred. Revenues are restricted by county ordinance for the payment of debt service. Sales tax receivable for the year ended September 30, 2022, is approximately $410,000, and is recorded in other receivables on the statement of net position.

Provider relief fund revenue: The District recognizes the provider relief fund grant revenue when all eligibility requirements have been met and there is reasonable assurance the District has complied with the conditions associated with the grant. Management's estimates could change materially in the future based on operating performance or COVID-19 activities, as well as the evolving grant compliance guidance provided by the government.

Income taxes: As a governmental entity, the District is not subject to federal or state income taxes. Holdings (and previously DMHI) is a nonprofit corporation described in Section 501(c)(3) of the Internal Revenue Code (the Code) and under the provisions of Chapter 220.13 of the Florida Income Tax Code and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes is made in the accompanying financial statements. The Code provides for taxation of unrelated business income under certain circumstances. The District does not have any significant unrelated business income that would be subject to tax.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Holdings files a Form 990 (Return of Organization Exempt from Income Tax) annually. When the returns are filed, it is certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to health systems include such matters as the tax-exempt status of each entity and various positions relative to potential sources or amounts of unrelated business taxable income.

Tax positions are not offset or aggregated with other positions. Tax positions that meet the more likely than not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. There were no unrecognized tax benefits identified and recorded as a liability as of September 30, 2022.

Forms 990 and 990T filed by Holdings are generally subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Forms 990 and 990T filed by this entity are generally no longer subject to examination for the fiscal years ended September 30, 2018, and prior.

Net position: Net position is classified as one of three components. These classifications are defined as follows:

Invested in capital and right-to-use assets, net of related debt: This component of net position consists of capital assets and right-to-use assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted: This component of net position consists of external constraints placed on net position use by contributors due to time or use restrictions, or restrictions by grantors, creditors (such as through debt covenants), or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This component of net position consists of net position that does not meet the definition of restricted or invested in capital assets.

Subsequent events: The District has considered subsequent events through February 28, 2023, the date the financial statements were available to be issued, in preparing the financial statements and notes thereto. Other than Note 10, there were no other subsequent events requiring disclosure subsequent to year-end.

Note 2. Patient Service Revenue

The Hospital has agreements with third-party payors that provide for reimbursements to the Hospital at amounts different from its established rates. A summary of the basis of reimbursement from major third-party payors follows:

Medicare and Medicaid: Inpatient acute-care services rendered to Medicare program beneficiaries are primarily paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services and defined capital costs related to Medicare beneficiaries are paid on a prospective reimbursement. The Hospital is reimbursed on an interim basis at a tentative rate, which is recalculated and adjusted to actual claims, with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary.

Note 2. Patient Service Revenue (Continued)

The Hospital's Medicare cost reports have been audited and final settlements have been determined by the fiscal intermediary for all years through September 30, 2018.

Effective July 1, 2013, inpatient services rendered to Medicaid program beneficiaries were reimbursed under an inpatient payment method that utilizes Diagnosis-Related Groups (DRGs). For outpatient services, the Hospital reimbursement was on prospective rate setting methodology. Effective July 1, 2017, the Florida Medicaid program converted to an Ambulatory Payment Classification system.

Retroactive adjustments for Medicare and Medicaid cost report settlements are accrued on an estimated basis in the period when the related services are rendered and adjusted in future periods when final settlements are determined.

During the Hospital's year ended September 30, 2021, the state of Florida legislature authorized the hospital Directed Payment Program (DPP) in the state fiscal year 2021-2022 General Appropriations Act. The DPP provided directed payment to hospitals in an amount up to the Medicaid shortfall, or the difference between the cost of providing care to Medicaid-eligible patients and the payments received for those services. The payment arrangement directed payments, within each Medicaid region, equally to all hospitals within each class for hospital services provided by hospitals and paid by Medicaid health plans. For a region to participate in the DPP, all hospitals in at least one of the classes (private, public or cancer hospitals) had to agree to participate and be subject to an assessment to fund the state share of the DPP. During the year ended September 30, 2022, the Hospital recognized $2,636,000 of revenue related to the DPP for the state fiscal year 2021-2022. This revenue is included in net patient service revenue on the accompanying statement of revenues, expenses and changes in net position for the year ended September 30, 2022.

Other payors: The Hospital has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these arrangements includes prospectively determined rates per discharge and discounts from established charges. Some of these arrangements provide for review of paid claims for compliance with the terms of the contract and result in retroactive settlement with third parties. Retroactive adjustments for other third-party claims are recorded in the period when final settlement is determined.

The Hospital's patient acceptance policy is based on its mission statement and its charitable purposes. Accordingly, the Hospital accepts patients in immediate need of care, regardless of their ability to pay. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements.

To the extent the Hospital realizes additional losses resulting from higher credit risk for patients that are not insured under third-party payors and not identified as meeting or do not meet the previously described charity definition, such additional losses are included in the provision for bad debts. For the year ended September 30, 2022, bad-debt adjustments of $2,822,000 were recognized as a reduction of patient revenue.

Note 2. Patient Service Revenue (Continued)

Net patient service revenue and accounts receivable as of and for the year ended September 30, 2022, include amounts from the following payors:

	Net Patient Service Revenue	Net Patient Receivables
Medicare	49%	50%
Medicaid	18%	15%
Insurance	23%	27%
Self-pay	10%	8%
Total	100%	100%

Note 3. Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy of approximately $14,914,000 for the year ended September 30, 2022.

A patient is classified as a charity patient based on established policies of the Hospital. These policies define charity services as those services for which no payment is due for all or a portion of the patient's bill from either the patient or other third parties. The Hospital utilizes an application process that includes certain financial information from the requesting patient. Under this policy, in assessing a patient's ability to pay, the patient's financial information is evaluated in comparison to federal poverty income levels as well as the relationship between the charges and the patient's income. For financial reporting purposes, such amounts are classified as charity care and excluded from patient service revenue.

Note 4. Risk Management

Professional liability: The District is a subdivision of the state of Florida and has all of the protections of sovereign immunity in tort actions. Therefore, in accordance with Florida laws, the District is not liable to pay a claim by or judgment to any individual that exceeds the sum of $200,000 or any claim and judgment, or portions thereof that, when totaled with all other claims or judgments paid by the state or its agencies and subdivisions arising out of the same incidence or occurrence, exceeds the sum of $300,000. Judgments and claims rendered in excess of these limits must be approved by the Florida legislature and the governor of the state of Florida. The District is not aware of any claims that are expected to result in payments in excess of the sovereign immunity limits.

Operations are charged with the cost of claims reported and an estimate of claims incurred but not reported. A liability for unpaid claims and the associated claim expenses, including incurred but not reported losses, is actuarially determined and reflected in the statement of net position as an accrued liability.

The District has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued malpractice losses have been discounted using a discount rate of 5% for 2022 and, in management's opinion, provide an adequate reserve for loss contingencies. The determination of such claims and expenses and the appropriateness of the related liability is continually reviewed and updated.

Expenses under the program were approximately $15,000 for the year ended September 30, 2022. The self-insurance trust of the District was funded at approximately $203,000 as of September 30, 2022.

Note 4. Risk Management (Continued)

Health insurance: The District is self-insured for employee group health insurance. The District maintains reinsurance through a commercial excess coverage policy, which covers annual individual employee claims paid in excess of $75,000.

Total gross expenses under this program amounted to approximately $1,945,000 for the year ended September 30, 2022. Group health insurance claims payable, including an estimate for incurred but not reported claims, was approximately $200,000 as of September 30, 2022, and is reported in other current liabilities in the statement of net position. Based on historical experience, management believes that the established liabilities are sufficient to cover reported claims and incurred but not reported claims.

General insurance: The District maintains premium-based insurance policies for workers' compensation, director and officer liability, property and casualty, crime, automobile, cyber-security, environmental, fiduciary and executive risk.

A schedule of changes in the estimated liabilities for professional liability and employee health claims, including those held by Holdings, for the year ended September 30, 2022, is as follows:

	September 30, 2021	Claims Payment	Claims Expense and Change in Accrual	September 30, 2022	Amounts Due Within One Year
Professional liability	$ 864,626	$ (300,251)	$ 301,990	$ 866,365	$ 312,000
Employee health liability	275,000	(1,057,581)	982,581	200,000	200,000
Total	$ 1,139,626	$ (1,357,832)	$ 1,284,571	$ 1,066,365	$ 512,000

Note 5. Capital Assets and Right-to-Use Lease Assets

Capital asset additions, retirements and balances for the year ended September 30, 2022, are as follows:

	September 30, 2021	Additions/ Transfers	Retirements	September 30, 2022
Capital assets:				
Land and improvements	$ 803,850	$ -	$ -	$ 803,850
Buildings and improvements	28,361,469	69,548	-	28,431,017
Fixed equipment	8,702,467	76,817	-	8,779,284
Major movable equipment	12,277,523	1,256,698	(20,553)	13,513,668
Construction in process	249,003	663,631	-	912,634
Total	50,394,312	2,066,694	(20,553)	52,440,453
Less accumulated depreciation for:				
Land improvements	547,761	3,597	-	551,358
Buildings and improvements	17,053,215	556,428	-	17,609,643
Fixed equipment	6,386,127	365,598	-	6,751,725
Major movable equipment	10,332,870	749,496	(20,553)	11,061,813
Total	34,319,973	1,675,119	(20,553)	35,974,539
Capital assets, net	$ 16,074,339	$ 391,575	$ -	$ 16,465,914
Right-to-use lease assets:				
Buildings under lease	$ -	$ 201,079	$ -	$ 201,079
Equipment under lease	1,350,702	1,993,867	(272,363)	3,072,206
Total	1,350,702	2,194,946	(272,363)	3,273,285
Less accumulated amortization for:				
Buildings under lease	-	33,513	-	33,513
Equipment under lease	789,368	501,491	(245,883)	1,044,976
Total	789,368	535,004	(245,883)	1,078,489
Right-to-use lease assets, net	$ 561,334	$ 1,659,942	$ (26,480)	$ 2,194,796

Note 6. Long-Term Debt

A schedule of changes in long-term debt as of and for the year ended September 30, 2022, consists of the following:

	September 30, 2021	Additions	Reductions	September 30, 2022	Amounts Due Within One Year
USDA mortgage	$ 13,243,903	$ -	$ (671,877)	$ 12,572,026	$ 700,000
Lease liabilities	613,402	2,135,164	(793,043)	1,955,523	635,694
Other	1,603,976	800,000	(521,027)	1,882,949	464,376
Total	$ 15,461,281	$ 2,935,164	$ (1,985,947)	$ 16,410,498	$ 1,800,070

USDA mortgage: The U.S. Department of Agriculture (USDA) Rural Development provided funds for a renovation and construction project, which was completed in March 2009. After project completion, a promissory note was finalized for a total of $20 million. Annual payments of $1,217,800 are made including interest at 4.125% through June 2036.

Note 6. Long-Term Debt (Continued)

The mortgage payable is secured by a first mortgage security interest on real estate, improvements, a purchase money lien on all equipment, furniture and fixtures and a first lien on all revenues and accounts receivable of the District.

The mortgage payable, resulting from direct borrowings, contains provisions that, in the event of default, the lender may (a) declare the entire amount unpaid under the note, and any indebtedness to lender, immediately due and payable, (b) declare the District incur and pay reasonable expenses for repair or maintenance of and take possession of, operate or rent the property under borrowing, (c) foreclose and sell the property and use the proceeds in accordance with the agreement, and (d) enforce any and all other rights and remedies provided within the agreement or by present or future laws.

A loan resolution security agreement contains certain provisions, including a requirement that a reserve account be funded at $121,800 per annum until such reserve account has a balance the equivalent of one year's principal and interest payment of approximately $1,218,000. As of September 30, 2022, the balance in the reserve account was approximately $1,218,000, and is included in assets limited as to use; restricted for debt service on the statement of net position. The District opted to cease funding of the reserve account in July of 2014, which was allowed under terms of the agreement, but the District does fund the reserve account with any excess cash available from the sales taxes levied. Also included in assets limited as to use are the unspent proceeds of the sales tax revenues restricted for debt in the amount of approximately $1,809,000 as of September 30, 2022.

Scheduled principal and interest payments on the USDA mortgage are as follows:

Years ending September 30:	Principal	Interest	Total
2023	$ 700,000	$ 531,607	$ 1,231,607
2024	715,040	502,760	1,217,800
2025	745,100	472,700	1,217,800
2026	776,423	441,377	1,217,800
2027	809,063	408,737	1,217,800
2028-2032	4,585,008	1,503,992	6,089,000
2033-2036	4,241,392	459,238	4,700,630
	$ 12,572,026	$ 4,320,411	$ 16,892,437

Lease liabilities: During and prior to 2022, the District had entered into lease obligations for buildings, medical equipment, copiers and a new voicemail software system which are payable in monthly installments of approximately $1,500 to $23,500, discounted at rates ranging from 0.319% to 6.50%. As of September 30, 2022, the related right-to-use assets had a net book value of approximately $2,195,000.

In connection with the adoption of GASB 87, the District recorded a lease obligation and a right-to-use lease assets for agreements in which the District has the right to determine the nature and manner of an underlying asset's use for a period of one year or greater.

Note 6. Long-Term Debt (Continued)

The schedule of the future minimum lease payments under the leases together with the present value of the net minimum lease payments is as follows:

	Principal	Interest	Total
Years ending September 30:			
2023	$ 635,694	$ 68,921	$ 704,615
2024	379,868	49,856	429,724
2025	297,231	37,145	334,376
2026	243,455	25,996	269,451
2027	224,913	14,940	239,853
Thereafter	174,362	9,337	183,699
	$ 1,955,523	$ 206,195	$ 2,161,718

Other: The District has other long-term debt obligations for various equipment which are payable in monthly installments of approximately $1,800 to $13,100, including interest at an average rate of 2.8% to 6.5%. These obligations are secured by equipment.

The other long-term debt obligations resulting from direct borrowings contain provisions that, in the event of default, lenders may (a) declare the entire amount unpaid under the note and any indebtedness to lenders be immediately due and payable, (b) assess late charge fees in accordance with the agreements, (c) take possession of and sell, operate or dispose of the equipment, and (d) enforce any and all other rights and remedies provided within the agreement or by present or future laws.

Scheduled principal and interest payments on the equipment loans, which were outstanding as of September 30, 2022, are as follows:

	Principal	Interest	Total
Years ending September 30:			
2023	$ 464,376	$ 82,810	$ 547,186
2024	309,658	62,277	371,935
2025	255,926	48,023	303,949
2026	244,874	35,373	280,247
2027	257,850	14,954	272,804
2028-2030	350,265	12,428	362,693
	$ 1,882,949	$ 255,865	$ 2,138,814

Note 7. Commitments and Contingencies

Pension cost: DMHI has a defined contribution plan administered by the Variable Annuity Life Insurance Company, Inc. The plan requires annual contributions equal to 4% of eligible salaries. Effective July 1, 2010, when the Hospital was transferred to the District, this plan was frozen and the District adopted a 401(a) defined contribution plan with essentially the same provisions as the DMHI plan. Effective January 1, 2014, the contribution was changed whereby the District will match employee contributions up to 3%. Retirement costs under the plans for the year ended September 30, 2022, were approximately $247,000.

Note 7. Commitments and Contingencies (Continued)

Regulatory and compliance matters—general regulatory compliance: The health care industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and other regulations by health care providers.

Recovery audit contractor program: Recovery audit contractors (RACs) search for potentially improper Medicare payments that may have been made to health care providers and that were not detected through existing Centers for Medicare and Medicaid Services program integrity efforts. The Hospital deducts from revenue amounts assessed by RACs at the time a notice is received, until such time that estimates of net amounts due can be reasonably estimated. Future RAC assessments against the Hospital are anticipated; however, the outcome of such assessments is unknown and cannot be reasonably estimated.

Note 8. New and Pending Accounting Guidance

On October 1, 2021, the District adopted GASB Statement No. 87, *Leases*. The Statement required the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. The lease assets and liabilities are recorded as right-to-use assets and lease liabilities in the statement of net position and are recognized as inflows of resources or expenses and changes in net position. The standard required the District to record right-to-use assets and lease liabilities totaling $426,000 as a lessee in the statement of net position as of October 1, 2021.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria*, *and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—An Amendment of GASB Statements No. 14 and No. 84, and a Suppression of GASB Statement No. 32.* This Statement requires that a Section 457 plan can be classified as either a pension plan or as an other employee benefit plan dependent upon whether the plan meets the definition of a pension plan and whether those arrangements should be reported as fiduciary activities. This standard became effective and was adopted by the District for the fiscal year beginning October 1, 2021. The District determined that this statement did not materially impact its financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements.* This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement establishes that a SBITA results in a right to use subscription asset and a corresponding subscription liability. The standard is effective for the District's fiscal year that began October 1, 2022. The District is evaluating the impact of this statement on its financial statements.

Note 9. COVID-19 Pandemic CARES Act Funds

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 11, 2020, declared it to be a pandemic. The COVID-19 pandemic disrupted the health care industry. Public trust in health care facilities initially diminished patients’ desire to seek care and elective surgeries were put on hold. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic.

The District’s accounting policies for the recognition of CARES Act stimulus monies are as follows:

These funds are subject to certain terms and conditions, which primarily include the requirement for the District to demonstrate that it has incurred lost revenues or additional expenses specifically related to COVID-19. To the extent that the provider relief funds received exceed lost revenues and incremental COVID-19 related expenses, they are required to be repaid to the Department of Health and Human Services. The District has received and recognized provider relief fund grant revenue of approximately $1,353,000 in the accompanying statement of revenues, expenses and changes in net position for the year ended September 30, 2022.

Interpretive guidance related to compliance for the federal funds continues to be released. As this guidance is finalized, there may be effects on the subsequent financial statements which cannot be predicted at this time.

Note 10. Subsequent Event

During the year ended September 30, 2022, the state of Florida legislature authorized the hospital Directed Payment Program (DPP) in the state fiscal year 2022-2023 (SFY 2022-2023) General Appropriations Act. However, the District did not execute the Letter of Agreement stipulating terms and conditions of the District’s participation in the SFY 2022-2023 DPP until after September 30, 2022. In November 2022, the Hospital received a letter from the Agency for Health Care Administration estimating the amount to be paid by the District related to the SFY 2022-2023 DPP to be approximately $908,000. The amount to be received under the DPP cannot be estimated at this time but is expected to exceed the amount paid. These amounts will be recognized in the District’s fiscal year 2023 financial statements.