DeSoto County Hospital District

Financial Report
September 30, 2024

Contents

RSM US LLP

Independent Auditor's Report

Board of Directors
DeSoto County Hospital District

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of the business-type activities of DeSoto County Hospital District (the District), as of and for the year ended September 30, 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 business-type activities of the District as of September 30, 2024, and the changes in financial position 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) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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 one year and beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2025 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

RSM US LLP

Fort Lauderdale, Florida
February 26, 2025

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, 2024.

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 year ended September 30, 2024. 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 year ended September 30, 2024. 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 2008-270, 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 a Florida change to state retirement coverage, a tax exempt 501(c)3 organization was formed, with the District as the Sole Member. 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.

The hospital is primarily utilized by patients who are covered under Medicare, Medicare, or uninsured. Under Medicare, hospitals are paid based on the inpatient prospective payment system (IPPS). Each inpatient receives a diagnosis related group (DRG) with a payment weight assigned to measure the average resources used to treat the patient with that diagnosis. A hospital can qualify for a Disproportionate Share Hospital payment (DSH) for treating a high percentage of low income patients. The payment is a percentage add on to the Medicare payment. Hospitals can also qualify for an outlier payment for patients with unusually high DRGs. The outpatient prospective payment system (OPPS) works essentially the same way in that diagnostic testing, surgeries, therapies and other treatments are set based on an average of resources used for the patient. Each year the payment system is reviewed and adjusted to align with goals for improving transparency and promoting patient centered care. The DSH payments are reviewed as a part of the maximum allowed through the DSH cost limit cap that includes LIP, DPP, and Medicaid shortfalls from Cost Report submissions.

Medicare has made a number of changes in reimbursement and reporting requirements. The District 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. Similar information is now being made available through patients' health plans. The hospital is known to be lower cost to patients as compared to other hospital facilities in Southwest Florida.

As of 2024, Florida has not implemented the Medicaid expansion for low income patients under the Affordable Care Act. Current political advocates have been working on a Florida Medicaid Expansion Initiative which is being reviewed for the ballot in 2026. A Directed Payment Plan (DPP), through the state of Florida was made available for the first time in 2021 to assist in offsetting some of the payment shortfall from Medicaid Managed Care. Supplemental reimbursement under this program totaling approximately $4.773 million was received from each Medicaid Health plan in 2024 compared to an intergovernmental transfer payment, used by the State to generate Federal matching funds, made by the District of approximately $2.199 million in December 2023. The state of Florida legislature is expected to approved the program for the state's fiscal year ending June 30, 2025. The hospital will receive 94% of the funds after all hospital in the Region 8 designation send their intergovernmental payment. The remaining 6% is allocated based on clinical criteria being met by all of the hospitals in the Region. 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.

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. In March of 2023 Medicaid coverage enacted during the pandemic ended and all recipients were required to re-enroll. The rules for eligibility changed and DMH saw a decrease in our Medicaid patients and an increase in uninsured patients.

In 2002, Florida approved the utilization of Section 1115 Waivers and receives matching funds from the federal government. The Agency for Health Care Administration reached an agreement with CMS to extend the 1115 Managed Medical Assistance waiver through June 30, 2030. This allows for the continuation of the Low Income Pool funding. The LIP funds are computed on the cost of charity care rendered by health care providers, primarily acute care hospitals. For the Hospital, the state fiscal year 2024 funds allocated were approximately $2.833 million. The Florida legislature has approved an allocation to the Hospital of approximately $2.920 million for state fiscal year 2025. These funds help to offset the provision for charity care not covered by any subsidies or programs.

Medicare supports Disproportionate Share Hospital's (DSH) Bad Debt and Charity Care patients (uncompensated services), primarily through a National Funding Account covering hospitals who meet specific criteria. 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. Medicare also supplies funds due to the low volume of Traditional Medicare Inpatient Discharges. The current add-on is approximately 22% of the Medicare Inpatient Base Rate.

Florida also enacted a requirement of Medicaid recipients to ask patients about their immigration status. Under the law, hospitals report the information quarterly to the Florida Agency for Health Care Administration.

Continuing challenges facing the District and the rural 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.

On November 4, 2014, the community approved a sales tax increase, effective January 1, 2015, designated solely for payment of Hospital 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 $2.5 million in proceeds in fiscal year 2023 and $2.6 million in fiscal year 2024. 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 fiscal year 2022 the Debt Service Reserve Fund requirement had been fulfilled. The excess funds attained in fiscal year 2024 will be held until the next mortgage payment due date of June 12, 2025. 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.

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 and the Florida Freedom First Budget for fiscal year 2022-2023 requiring Medicaid providers to pay a minimum wage of $15.00 per hour for employees and independent contractors. Industry experts expect the labor shortage to continue for the foreseeable future. The District has implemented various initiatives to better position itself to attract and retain qualified nursing, and other clinical professionals while trying to improve productivity and manage labor-cost pressures. Hospital Administration continues to utilize creative collaborations with our physician groups and telemedicine for physician coverage.

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 continues to work with the Federal Emergency Management Agency and AC Disaster Consulting to receive funds for repairs and mitigation of damages. Funds are expected in 2025 to cover repair and remediation of damages incurred. Several hurricanes were experienced in 2024 with very small damage to the facility.

The District is exploring various avenues to cover adverse financial and regulatory requirements. 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 and strategy for the districts future.

The following are condensed statements of net position as of September 30, 2024 and 2023.

	2024	2023
Assets		
Current assets	$ 15,109,486	$ 12,666,820
Noncurrent assets	20,688,763	23,192,597
Total assets	$ 35,798,249	$ 35,859,417
Liabilities		
Current liabilities	$ 8,113,624	$ 8,152,069
Noncurrent liabilities:		
Other	591,600	600,960
SBITA liabilities, net	1,876,005	2,615,219
Long-term debt, net	14,861,458	15,949,398
Total liabilities	25,442,687	27,317,646
Net position	10,355,562	8,541,771
Total liabilities and net position	$ 35,798,249	$ 35,859,417

The following are condensed statements of revenues, expenses and changes in net position for the years ended September 30, 2024 and 2023:

	2024	2023
Operating revenues	$ 44,454,323	$ 43,115,496
Operating expenses:		
Labor expense	23,668,119	25,382,303
Physician fees	2,521,379	2,539,601
Supplies	5,482,466	5,788,948
Other	9,692,797	9,518,600
Depreciation and amortization	3,627,994	3,536,943
Total operating expenses	44,992,755	46,766,395
Operating loss	(538,432)	(3,650,899)
Nonoperating revenues, net	2,352,223	1,507,245
Increase (decrease) in net position	$ 1,813,791	$ (2,143,654)

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 not material and are not reported in separate funds.

In fiscal year 2024, inpatient volumes decreased approximately 11%, observation days decreased 5% and outpatient services increased approximately 4%. In fiscal year 2023, inpatient volumes increased approximately 15%, observation days increased 15% and outpatient services increased approximately 9%. Overall outpatient volumes increased due to increases in radiology, lab and emergency services.

In fiscal year 2024 net patient service revenue increased approximately $1,252,000 or 3% compared to 2023. In fiscal year 2023 net patient service revenue increased approximately $4,422,000 or 11% compared to 2022.

For fiscal year 2024, salaries, wages, and employee benefits (including contract labor) decreased approximately $1,714,000 or 7% as compared to 2023. For fiscal year 2023, salaries, wages, and employee benefits (including contract labor) increased approximately $298,000 or 1% as compared to 2022.

For fiscal year 2024, physician fees had minimal change (approximately $18,000) and other fees decreased 1% (approximately $84,000) from 2023. For fiscal year 2023, physician fees increased 11% (approximately $243,000) and other fees increased 13% (approximately $753,000) from 2022.

For fiscal year 2024, supplies decreased approximately $306,000 or 5% compared to fiscal year 2023. For fiscal year 2023, supplies increased approximately $221,000 or 4% compared to fiscal year 2022.

For fiscal year 2024, net nonoperating revenue increased 56% (approximately $845,000) from 2023. For fiscal year 2023, net nonoperating revenue decreased 109% (approximately $1,635,000) from 2022.

Operating Statistics

The table below sets forth certain selected historical operating statistics for the District for the years ended September 30, 2024 and 2023:

	2024	2023
Net patient service revenue	$ 44,137,323	$ 42,884,965
Net patient service revenue per adjusted admission	8,075	7,716
Net patient expense per adjusted admission	8,231	8,414
Acute Admissions	791	886
Surgery cases	502	621
Admissions through emergency services	623	620
Adjusted admissions (1)	5,466	5,558
Case mix index—all inpatients (2)	1.219	1.319

(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. This decrease was greatly impacted with the decision to stop Obstetric and Gynecological services. The 340B status would have allowed the Hospital to save on pharmacy supply costs for outpatient drugs. In 2024, Medicare paid under the Medicare Part B for cost of drugs at the average sales price plus 6%. Hospitals qualify based on the high volume of care to patients with low income. The formula to determine participation status is based upon inpatient days of Medicare/ SSI and Medicaid patients. Changes between inpatient and observation patient classifications also impacts 340B status. Although the Hospital's case management team continues to work with insurance carriers to ensure proper patient classification, we currently believe the district would teeter qualifying for the program. The District's DSH status is also 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.

For next fiscal year, management believes, based on constant review of federal government rate changes for rural hospitals and state Medicaid subsidies, Medicare plan rates will only increase in line with inflationary cost. The state Medicaid reimbursement is very volatile and we rely on the Florida Hospital Association to engage our state representatives.

Many managed care 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 State has renewed all Medicaid Health Plans. These new Plans will become effective February 1, 2025. Medicare 'replacement Plans are being required to be more in line with Traditional Plans in 2025. We expect these changes will allow hospitals to more efficiently process patients with these Replacement Plans.

The percentage of patient service revenue related to Medicare, Medicaid, discounted arrangements and other, follows for the years ended September 30, 2024 and 2023:

	2024	2023
Medicare	48%	49%
Medicaid	14%	17%
Insurance (primarily Blue Cross)	26%	23%
Self-pay	12%	11%

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 $17,985,000 and $15,103,000 and bad debts of approximately $4,680,000 and $4,613,000 for the years ended September 30, 2024 and 2023, respectively. These patients represent approximately 12% of total gross patient revenues for the fiscal years 2024 and 2023, 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.

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 $4,050,000 and $1,824,000 as of September 30, 2024 and 2023, respectively.

As of September 30, 2024, the District's current ratio, which compares current assets to current liabilities, was 1.9 compared to 1.6 as of September 30, 2023. The District's days net patient service revenue in accounts receivable of 28 as of September 30, 2024 decreased from 32 days as of September 30, 2023. Capital asset additions totaled approximately $1,167,000 in 2024.

At September 30, 2024, the District had approximately $11,174,000 outstanding in a mortgage payable to the USDA for a 2008 facility expansion/renovation. The District also had another approximately $4,038,000 and $3,962,000 outstanding on leases and SBITAs 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 66% 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, continue to 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.

Providing Care

In the United States, one third of the clinical workforce left their positions. Experts estimate that there will be a shortage of approximately 300,000 physicians and nurses over the next 10 years to meet the needs of our aging population. Information technology to modernization linking clinical data from medical records to claims processing and standardizing clinical data collections could save billions per year. Hospitals are struggling to receive proper reimbursement from all payer sources and regulatory requirements have added stresses in keeping those funds. The Federal Administration and the U.S. Congress as well as our Florida legislatures may seek to modify, health care legislation. The continuing development of implementing regulations and interpretive guidance and legal challenges has contributed to the uncertainty of financial stability in providing healthcare. Rural hospitals have been struggling with these issues for decades. We are a key component of providing healthcare to some of the most vulnerable patients. The District continues to seek innovative ways to provide safe medical treatment with high standards.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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, 2024

Assets		
Current assets:		
Cash and cash equivalents	$	3,249,630
Investments		800,000
Patient accounts receivable, net of allowances for contractual adjustments and doubtful accounts of $12,949,916		2,979,518
Other receivables, net of allowances of $153,801		379,200
Inventories		881,301
Prepaid expenses		509,720
Due from third-party payors		442,106
Assets limited as to use:		
Restricted for debt service (Note 6)		5,662,755
Self-insurance reserves (Note 4)		205,256
Total current assets		15,109,486
Capital assets (Note 5):		
Nondepreciable		650,694
Depreciable		16,101,981
Capital assets, net		16,752,675
Right-to-use assets, net (Note 5)		3,936,088
Total assets	$	35,798,249
Liabilities and Net Position		
Current liabilities:		
Accounts payable	$	3,059,120
Accrued payroll and benefits		1,660,698
Current portion of professional liability accrual (Note 4)		372,915
Other current liabilities		584,585
Current portion of SBITA liabilities (Note 7)		666,392
Current portion of long-term debt (Note 6)		1,769,914
Total current liabilities		8,113,624
Professional liability accrual, net of current portion (Note 4)		591,600
SBITA liabilities, net of current portion (Note 7)		1,876,005
Long-term debt, net of current portion (Note 6)		14,861,458
Total liabilities		25,442,687
Commitments and contingencies (Note 9)		
Net position:		
Net investment in capital assets		1,514,994
Restricted by debt agreement		6,016,580
Unrestricted		2,823,988
Total net position		10,355,562
Total liabilities and net position	$	35,798,249

See notes to financial statements.

DeSoto County Hospital District

Statement of Revenues, Expenses and Changes in Net Position
Fiscal Year Ended September 30, 2024

Operating revenues:	
Net patient service revenue, net of provision for bad debts of $4,680,462	$ 44,137,323
Other revenue	317,000
Total operating revenues	44,454,323
Operating expenses:	
Salaries and wages	17,209,782
Benefits	4,556,674
Contract labor	1,901,663
Fees—physician	2,521,379
Fees—other	6,272,526
Supplies	5,482,466
Utilities	1,046,392
Repairs and maintenance	911,333
Rentals and leases	247,254
Insurance	481,169
Other expenses	734,123
Depreciation	2,230,226
Amortization	1,397,768
Total operating expenses	44,992,755
Operating loss	(538,432)
Nonoperating revenues (expenses):	
Sales tax revenue	2,594,958
Noncapital grants and contributions	717,615
Investment income	104,906
Other	51,527
Interest expense	(1,116,783)
Total nonoperating revenues, net	2,352,223
Increase in net position	1,813,791
Net position, beginning of year	8,541,771
Net position, end of year	$ 10,355,562

See notes to financial statements.

DeSoto County Hospital District

Statement of Cash Flows
Fiscal Year Ended September 30, 2024

Cash flows from operating activities:	
Cash received from third-party payors, patients and other	$ 45,676,041
Cash paid to employees	(21,548,696)
Cash paid for supplies, purchased services and other	(19,757,715)
Net cash provided by operating activities	4,369,630
Cash flows from noncapital financing activities:	
Sales tax proceeds received	2,569,958
Noncapital grants, contributions and other revenue received	769,142
Net cash provided by noncapital financing activities	3,339,100
Cash flows from capital and related financing activities:	
Purchase of capital assets	(562,774)
Principal payments on long-term debt	(1,794,603)
Principal payments on SBITAs	(729,861)
Interest payments on long-term liabilities	(1,124,052)
Net cash used in capital and related financing activities	(4,211,290)
Cash flows from investing activities:	
Increase in assets limited as to use	(1,376,244)
Investment income	104,906
Net cash used in investing activities	(1,271,338)
Net change in cash and cash equivalents	2,226,102
Cash and cash equivalents:	
Beginning	1,023,528
Ending	$ 3,249,630

(Continued)

DeSoto County Hospital District

Statement of Cash Flows (Continued)
Fiscal Year Ended September 30, 2024

Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(538,432)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization		3,627,994
Changes in assets and liabilities:		
Patient accounts receivable, net		767,337
Other receivables		141,913
Inventories and prepaid expenses		(37,038)
Accounts payable		(93,532)
Accrued payroll and benefits		217,760
Due from third-party payors		312,468
Other current liabilities		2,605
Professional liability insurance accrual		(31,445)
Net cash provided by operating activities	$	4,369,630
Supplemental schedule of noncash capital and related financing activities:		
SBITA and Lease obligations incurred for right-to-use equipment	$	669,640
Other long-term debt incurred for purchase of equipment	$	151,145
Change in capital purchases included in accounts payable	$	(112,852)
Change in SBITAs from termination	$	(146,547)

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 DeSoto County Hospital District (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 2024.

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 not significant to the overall District. 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.

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 Governmental Accounting Standard Board (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 securities 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, 2024, the carrying amount of the cash deposits was approximately $9,118,000 and the bank balance was approximately $9,977,000.

Investments: Investments include certificates of deposits with maturity dates less than 12 months. 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, 2024, the carrying amount of the certificates of deposit was approximately $800,000 and the bank balance was approximately $800,000.

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

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.

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, 2024, estimated allowances for contractual adjustments and doubtful accounts totaled approximately $12,950,000.

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, 2024, the accounts receivable sold to the third party were approximately $213,600, and the estimated recourse liability recorded by the Hospital was approximately $82,000, 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 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 acquisition 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. 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 2024.

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 terms or useful life of the underlying asset.

Leases in which the District is the lessee, are included as right-to-use assets, net of 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 on the present value of lease payments or receipts, respectively, over the course of the lease and is re-measured whenever there is a change or modification of the lease terms. The current and long-term lease liabilities are recorded within long-term debt 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 0.32% to 7.31%.

Subscription-Based Information Technology Arrangements: Subscription-Based Information Technology Arrangements (SBITA) are defined as contracts that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. A SBITA is included as a right to use asset and corresponding SBITA liability in accordance with GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96).

For SBITAs recorded, the rates are based upon the incremental borrowing rate and vary based on inception date and terms of the contract. Current rates are 8%.

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.

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.

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.

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

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 and noncapital contributions and grants 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.

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, 2024, is approximately $470,000 and is recorded in other receivables on the statement of net position.

Income taxes: As a governmental entity, the District is not subject to federal or state income taxes. Holdings (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.

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 nor recorded as a liability as of September 30, 2024.

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, 2019, and prior.

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

Net Investment in capital assets: 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.

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

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.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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.

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, 2020.

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, 2024, the State of Florida legislature authorized the hospital Directed Payment Program (DPP) in the state fiscal year 2023-2024 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, 2024, the Hospital recognized $2,660,000 of revenue related to the DPP for the state fiscal year 2023-2024. 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, 2024.

Note 2. Patient Service Revenue (Continued)

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, 2024, bad-debt adjustments of approximately $4,680,000 were recognized as a reduction of patient service revenue.

Net patient service revenue and accounts receivable as of and for the year ended September 30, 2024, include amounts from the following payors:

	Net Patient Service Revenue	Net Patient Accounts Receivables
Medicare	48%	42%
Medicaid	14%	10%
Insurance	26%	35%
Self-pay	12%	13%
Total	100%	100%

A summary of net patient service revenue for the years ended September 30, 2024, is as follows:

Gross patient charges	$ 191,185,214
Charity adjustments	17,985,214
Contractual adjustments	124,382,215
Net patient service revenue before provision for bad debts	48,817,785
Provision for bad debts	4,680,462
Net patient service revenue	$ 44,137,323

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 $17,985,000 for the year ended September 30, 2024.

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 4% for 2024 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 $17,000 for the year ended September 30, 2024. The self-insurance reserves of the District was funded at approximately $205,000 as of September 30, 2024.

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 $3,148,000 for the year ended September 30, 2024. Group health insurance claims payable, including an estimate for incurred but not reported claims, was $200,000 as of September 30, 2024, 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.

Note 4. Risk Management (Continued)

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, 2024, is as follows:

	September 30, 2023	Claims Payment	Claims Expense and Change in Accrual	September 30, 2024	Amounts Due Within One Year
Professional liability	$ 995,960	$ 298,942	$ (330,387)	$ 964,515	$ 372,915
Employee health liability	200,000	1,649,203	(1,649,203)	200,000	200,000
Total	$ 1,195,960	$ 1,948,145	$ (1,979,590)	$ 1,164,515	$ 572,915

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

Capital asset activity for the year ended September 30, 2024, are as follows:

	September 30, 2023	Additions/ Transfers	Deletions/ Transfers	September 30, 2024
Capital assets not being depreciated:				
Land	$ 250,694	$ -	$ -	$ 250,694
Construction in process	15,518	384,482	-	400,000
Total non-depreciable assets	266,212	384,482	-	650,694
Capital assets being depreciated:				
Land improvements	$ 730,110	$ -	$ (4,395)	$ 725,715
Buildings and improvements	28,431,017	-	(56,374)	28,374,643
Fixed equipment	8,960,976	1,044	-	8,962,020
Major movable equipment	17,914,270	253,757	(1,917)	18,166,110
Total	56,036,373	254,801	(62,686)	56,228,488
Less accumulated depreciation for:				
Land improvements	561,784	17,256	-	579,040
Buildings and improvements	18,159,988	539,723	-	18,699,711
Fixed equipment	7,037,241	262,883	-	7,300,124
Major movable equipment	12,142,318	1,410,364	(5,050)	13,547,632
Total	37,901,331	2,230,226	(5,050)	40,126,507
Capital assets being depreciated, net	18,135,042	(1,975,425)	(57,636)	16,101,981
Capital assets, net	$ 18,401,254	$ (1,590,943)	$ (57,636)	$ 16,752,675
Right-to-use lease assets:				
Buildings under lease	$ 201,079	$ 555,470	$ -	$ 756,549
Equipment under lease	3,072,206	-	-	3,072,206
SBITAs	4,206,698	114,170	(203,912)	4,116,956
Total	7,479,983	669,640	(203,912)	7,945,711
Less accumulated amortization for:				
Buildings under lease	100,539	67,026	-	167,565
Equipment under lease	1,752,484	472,292	-	2,224,776
SBITAs	835,617	858,450	(76,785)	1,617,282
Total	2,688,640	1,397,768	(76,785)	4,009,623
Right-to-use assets, net	$ 4,791,343	$ (728,128)	$ (127,127)	$ 3,936,088

Note 6. Long-Term Debt

A schedule of changes in long-term debt as of and for the year ended September 30, 2024, consists of the following:

	September 30, 2023	Additions	Reductions	September 30, 2024	Amounts Due Within One Year
USDA mortgage	$ 11,872,823	$ -	$ (699,205)	$ 11,173,618	$ 726,704
Lease liabilities	1,319,826	555,470	(379,864)	1,495,432	376,413
Other	4,526,711	151,145	(715,534)	3,962,322	666,797
Total	$ 17,719,360	$ 706,615	$ (1,794,603)	$ 16,631,372	$ 1,769,914

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 approximately $1.2 million are required, including interest at 4.125% through June 2036.

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, 2024, the balance in the reserve account was approximately $1,234,000 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 service in the amount of approximately $4,428,000 as of September 30, 2024.

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

	Principal	Interest	Total
Years ending September 30:			
2025	$ 726,704	$ 472,700	$ 1,199,404
2026	776,423	441,377	1,217,800
2027	809,063	408,737	1,217,800
2028	843,075	374,725	1,217,800
2029	878,517	339,283	1,217,800
2030-2034	4,978,608	1,110,392	6,089,000
2035-2036	2,161,228	138,829	2,300,057
	$ 11,173,618	$ 3,286,043	$ 14,459,661

Note 6. Long-Term Debt (Continued)

Lease liabilities: In connection with GASB 87, *Leases,* the District recorded lease obligations and right-to-use lease assets for agreements in which the District has the right to determine the nature and manner of an underlying assets' use for a period of one year or greater.

Future minimum lease payments are as follows:

	Principal	Interest	Total
Years ending September 30:			
2025	$ 376,413	$ 72,821	$ 449,234
2026	341,972	56,225	398,197
2027	334,551	37,921	372,472
2029	214,623	22,196	236,819
2029	216,183	8,060	224,243
Thereafter	11,690	68	11,758
	$ 1,495,432	$ 197,291	$ 1,692,723

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 7.6%. 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, 2024, are as follows:

	Principal	Interest	Total
Years ending September 30:			
2025	$ 666,797	$ 234,130	$ 900,927
2026	740,710	199,456	940,166
2027	791,104	149,063	940,167
2028	788,142	95,594	883,736
2029	718,772	45,614	764,386
2030-2031	256,797	6,352	263,149
	$ 3,962,322	$ 730,209	$ 4,692,531

Note 7. Subscription Based Information Technology Arrangements (SBITAs)

SBITA liabilities: In connection with the adoption of GASB 96, *SBITAs*, the District recognized a SBITA liability and a right to use asset for agreements in which District has the right to use another party's information technology software, alone or in combination with tangible capital assets for a period of one year or greater.

SBITA Activity for the year ended September 30, 2024, consisted of the following:

	September 30, 2023	Additions	Reductions	September 30, 2024	Amounts Due Within One Year
SBITA liabilities	$ 3,304,635	$ 114,170	$ (876,408)	$ 2,542,397	$ 666,392

Future minimum SBITA (GASB 96) payments are as follows:

	Principal	Interest	Total
Years ending September 30:			
2025	$ 666,392	$ 157,806	$ 824,198
2026	822,036	119,275	941,311
2027	964,531	51,331	1,015,862
2028	89,438	6,412	95,850
	$ 2,542,397	$ 334,824	$ 2,877,221

Note 8. Compensated Absences Liability

Compensated absences liability activity for the year ended September 30, 2024 follows:

Beginning Balance	Net Change	Ending Balance	Amounts Due in One Year
$ 920,451	$ 126,179	$ 1,046,630	$ 1,046,630

Compensated absences liability balances are reported as accrued payroll and benefits on the statement of net position.

Note 9. 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, 2024, were approximately $224,000.

Note 9. 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 10. New and Pending Accounting Guidance

In 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62.* This statement provides guidance to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement also requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature, and the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The District adopted GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*, which did not have a material impact on the District's financial statements for the year ended September 30, 2024.

In 2022, GASB issued Statement No. 101, *Compensated Absences.* This statement provides guidance updating the recognition and measurement guidance for compensated absences. The requirements of this statement are required to be adopted no later than the year ending June 30, 2025. Management has not yet determined the impact of this statement on the financial statements.

In 2022, GASB issued Statement No. 102, *Certain Risk Disclosures.* This statement provides guidance for disclosing essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The requirements of this statement are required to be adopted in fiscal years beginning after June 15, 2025. Management has not yet determined the impact of this statement on the financial statements.

In 2022, GASB issued Statement No. 103, *Financial Reporting Model Improvements.* This statement focuses on improving the financial reporting for state and local governments. The requirements of this statement are required to be adopted in fiscal years beginning after June 15, 2025. Management has not yet determined the impact of this statement on the financial statements.

In 2022, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets.* This statement provides guidance for state and local governments on how to disclose specific types of capital assets in their financial reports. The requirements of this statement are required to be adopted in fiscal years beginning after June 15, 2025. Management has not yet determined the impact of this statement on the financial statements.