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March 14, 2022

Mr. Vince Sica, CEO
DeSoto County Hospital District
900 North Roberts Avenue
Arcadia, FL 34266-8712

Dear Mr. Sica:

In accordance with your request, we are attaching the accompanying PDF file, which contains an electronic final version of the financial statements of DeSoto County Hospital District for the years ended September 30, 2021 and 2020. We understand that your request for the electronic copy has been made as a matter of convenience. You understand that electronic transmissions are not entirely secure and that it is possible for confidential financial information to be intercepted by others.

These financial statements and our report(s) on them are not to be modified in any manner. This final version supersedes all prior drafts. Any preliminary draft version of the financial statements previously provided to you in an electronic format should be deleted from your computer, and all printed copies of any superseded preliminary draft versions should likewise be destroyed.

Professional standards and our firm policies require that we perform certain additional procedures whenever our reports are included, or we are named as accountants, auditors or experts, in a document used in a public or private offering of equity or debt securities. Accordingly, as provided for and agreed to in the terms of our arrangement letter, DeSoto County Hospital District will not include our reports, or otherwise refer to us, in any public or private securities offering without first obtaining our consent. Any request to consent is also a matter for which separate arrangements will be necessary. After obtaining our consent, DeSoto County Hospital District also agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing, and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when DeSoto County Hospital District seeks such consent, we will be under no obligation to grant such consent or approval.

Thank you for the opportunity to serve you.

Sincerely,

Ryan J. Weber, Partner
563.888.4081

wpd
Attachment

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DeSoto County Hospital District

Financial Report
September 30, 2021

Contents

Independent auditor's report	1-2
Management's discussion and analysis (unaudited)	3-12
<hr/>	
Financial statements	
Statements of net position	13
Statements of revenues, expenses and changes in net position	14
Statements of cash flows	15-16
Notes to financial statements	17-31



RSM US LLP

Independent Auditor's Report

Board of Directors
DeSoto County Hospital District

Report on the Financial Statements

We have audited the accompanying financial statements of DeSoto County Hospital District (the District) as of and for the years ended September 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with accounting principles generally accepted in the United States of America auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2021 and 2020, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, 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 accounting principles 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.

RSM US LLP

Davenport, Iowa
March 14, 2022

DeSoto County Hospital District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2021

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, 2021.

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, 2021 and 2020. 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, 2021 and 2020. 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 January 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.

DeSoto County Hospital District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2021

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, covering activity between February 2020 through June 30, 2021 of \$3.9 million has been documented and application for retention of these funds submitted in September 2021. 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.

DeSoto County Hospital District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2021

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 Direct Payment Plan, through the State of Florida has been made available in late 2021 to assist in offsetting some of the payment shortfall. Approval to obtain this special funding has been received in January 2022.

Medicare has made a number of changes in reimbursement and reporting requirements. Continued 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 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, a probability exists of further reductions in payments or health plan coverage for Medicaid beneficiaries for the State Fiscal Year (SFY) beginning July 1, 2022. 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. With an increase in vaccinations for COVID-19 and Canadian citizens now allowed to enter the U.S., management estimates the fiscal year 2022 winter season volume to moderately increase compared to last year.

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 SFY2022. 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 2021 funds allocated are \$2,064,000. The Florida legislature has approved an allocation to the Hospital of \$2,301,000 for SFY2022 and is expected to approve a similar amount for SFY2023 if the 1155 Waiver is extended. Additional uncompensated service costs of approximately \$1,400,000 related to the provision of uncollectible accounts, generally referred to as bad debt, is 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.

DeSoto County Hospital District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2021

In 2021, the state of Florida approved a Directed Payment Program wherein CMS matches Intergovernment Transfer funds. The Hospital provided \$1,700,000 funds in December 2021 and expects to receive \$2,400,000 from the Medicaid health plans by February 2022.

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 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. Based on this years' experience, the Hospital projects the annual sales tax receipts for FY2022 to be similar to FY2021. Total Debt Service is approximately \$1.2 million per year. Collections in excess of the annual debt service are applied to the Debt Service Reserve Fund or outstanding mortgage principal balance. In FY2021 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 FY2021 will be held until the next mortgage payment due date of June 12, 2022. 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 \$3.5 million annual adverse impact on cash funds. 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 has been 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.

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). 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).

DeSoto County Hospital District

**Management's Discussion and Analysis (Unaudited)
Year Ended September 30, 2021**

The following are condensed statements of net position as of September 30, 2021, 2020 and 2019:

	2021	2020	2019
Assets			
Current assets	\$ 18,177,604	\$ 17,058,708	\$ 10,250,966
Noncurrent assets	16,635,673	17,166,642	16,794,363
Total assets	\$ 34,813,277	\$ 34,225,350	\$ 27,045,329
Liabilities			
Current liabilities	\$ 6,314,762	\$ 8,564,182	\$ 4,321,878
Noncurrent liabilities:			
Other	547,626	3,107,565	449,315
Long-term debt	14,057,595	14,913,758	15,187,051
Total liabilities	20,919,983	26,585,505	19,958,244
Net position	13,893,294	7,639,845	7,087,085
Total liabilities and net position	\$ 34,813,277	\$ 34,225,350	\$ 27,045,329

The following are condensed statements of revenues, expenses and changes in net position for the years ended September 30, 2021, 2020 and 2019:

	2021	2020	2019
Operating revenues	\$ 41,735,284	\$ 38,596,730	\$ 33,984,481
Operating expenses:			
Labor expense	22,527,255	19,147,283	17,306,900
Physician fees	2,253,516	1,980,982	2,010,664
Supplies	6,166,904	4,640,875	4,459,048
Other	11,396,185	12,116,001	9,005,409
Depreciation	1,855,179	1,804,201	1,684,490
Total operating expenses	44,199,039	39,689,342	34,466,511
Operating (loss)	(2,463,755)	(1,092,612)	(482,030)
Nonoperating revenues, net	8,717,204	1,645,372	1,049,012
Increase in net position	\$ 6,253,449	\$ 552,760	\$ 566,982

DeSoto County Hospital District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2021

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 mid-March 2020, a national emergency related to the COVID-19 pandemic issued mandates to cease all elective services. This primarily impacted outpatient surgery and ancillary services. Elective services were allowed to return in May 2020. Various components of the CARES Act allowed federal funds to be used to cover payroll expenses for an eight-week period ending June 23, 2020, and funds to cover lost revenues and incremental COVID-19 related expenses through June 2021. A total of \$7.2 million in funds have been received. A loan forgiveness of \$2.7 million was received in fiscal year 2021. The District expects to fulfill the various requirements to retain the majority of the funds.

In fiscal year 2021, inpatient volumes increased approximately 5% and outpatient services increased approximately 13%. Overall outpatient volumes increased due to increases in physical therapy, lab and wound care services. In fiscal year 2020, 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. These increases were slightly offset by a decrease of 6% in radiology outpatient services, primarily due to continued impact of COVID-19 on the local population.

In fiscal year 2021, net patient service revenue increased approximately \$6,177,000 or 17% compared to 2020. In fiscal year 2020 net patient service revenue increased approximately \$1,562,000 or 5% compared to 2019. In fiscal year 2019, net patient service revenue increased approximately \$2,033,000 or 6% compared to 2018.

For fiscal year 2021, salaries, wages, and employee benefits (including contract labor) increased \$883,000 or 6% as compared to 2020. For fiscal year 2020, salaries, wages, and employee benefits (including contract labor) increased \$1,840,000 or 11% as compared to 2019. For fiscal year 2019, labor costs remained consistent as compared to 2018 (decrease of 1%).

For fiscal year 2021, physician fees increased 14% (\$273,000) from 2020 and other fees decreased 3% (\$185,000) from 2020. For fiscal year 2020, physician fees remained consistent with 2019 and other fees increased 5% from 2019. For fiscal year 2019, physician fees remained consistent with 2018 and other fees increased 19% (\$848,000) from the prior year due to the addition of the wound care services.

For fiscal year 2021, supplies increased \$1,526,000 or 33% from 2020 primarily related 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 2020, supplies increased 4% from 2019.

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. For fiscal year 2020, net nonoperating revenue increased 57% (\$596,000) from 2019 due to increased sales tax revenue and provider relief fund revenue. For fiscal year 2019, net nonoperating revenue increased 9% (\$90,000) from 2018 primarily due to increased sales tax revenue.

DeSoto County Hospital District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2021

Operating Statistics

The table below sets forth certain selected historical operating statistics for the District for the years ended September 30, 2021, 2020 and 2019:

	2021	2020	2019
Net patient service revenue	\$ 41,681,581	\$ 35,514,804	\$ 33,952,795
Net patient service revenue per adjusted admission	9,365	7,496	7,357
Net patient expense per adjusted admission	9,930	8,377	7,465
Admissions	903	1,051	877
Surgery cases	480	620	621
Admissions through emergency services	680	762	651
Adjusted admissions (1)	4,451	4,738	4,615
Case mix index—all inpatients (2)	1.423	1.390	1.273

- (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 340(b) status to obtain outpatient drugs through the Medicaid Group Purchasing network. Loss of this status will increase annual pharmacy supply costs by \$400,000. 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. The District DSH status is susceptible due to the inpatient day volatility and its impact on the threshold calculation and loss of this status would reduce funding by approximately \$1.2 million.

DeSoto County Hospital District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2021

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 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, 2021, 2020 and 2019:

	2021	2020	2019
Medicare	50%	51%	55%
Medicaid	17%	17%	15%
Insurance (primarily Blue Cross)	23%	20%	20%
Self-pay	10%	12%	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 \$11,718,000, \$12,444,000 and \$9,651,000 and bad debts of approximately \$4,206,000, \$5,128,000 and \$5,885,000 for the years ended September 30, 2021, 2020 and 2019, respectively. These patients represent approximately 10%, 12% and 10% of total patient revenues for the fiscal years 2021, 2020 and 2019, respectively. Increases compared to 2019 appear to be related to the pandemic conditions beginning in March 2020. 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 next year 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 \$6,562,000 and \$9,661,000 as of September 30, 2021 and 2020, respectively.

As of September 30, 2021, the District's current ratio, which compares current assets to current liabilities, was 2.9 compared to 2.0 as of September 30, 2020. The District's days net patient service revenue in accounts receivable of 30 increased 7% from 2020. The increase is due to more stringent health plan requirements. Capital asset additions totaled approximately \$1,324,000 and \$2,183,000 in 2021 and 2020, respectively. The majority of acquired capital is related to the renovations of fluoroscopic rooms and various equipment.

At September 30, 2021, the District had approximately \$13,244,000 outstanding in a mortgage payable to the USDA for a 2008 facility expansion/renovation and \$1,604,000 outstanding on leases payable and other debt. Maturities and other information regarding the current bond obligations are presented in Note 6 to the District's financial statements.

DeSoto County Hospital District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2021

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.

DeSoto County Hospital District

Management's Discussion and Analysis (Unaudited) Year Ended September 30, 2021

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

**Statements of Net Position
September 30, 2021 and 2020**

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,562,085	\$ 8,660,587
Certificates of deposit	1,000,000	1,000,000
Patient accounts receivable, net of allowances for contractual adjustments and doubtful accounts of 2021 \$11,298,000; 2020 \$8,956,000	3,415,303	2,747,359
Other receivables	1,067,887	1,022,509
Inventories	986,421	1,118,262
Prepaid expenses	584,996	677,289
Due from third-party payors	916,919	149,597
Medicaid Directed Payment Program receivable	2,413,880	-
Assets limited as to use:		
Restricted for debt service (Note 6)	1,991,896	1,445,957
Self-insurance trust fund (Note 4)	238,217	237,148
Total current assets	18,177,604	17,058,708
Capital assets (Note 5):		
Nondepreciable	499,697	279,463
Depreciable	16,135,976	16,887,179
Capital assets, net	16,635,673	17,166,642
Total assets	\$ 34,813,277	\$ 34,225,350
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 1,131,997	\$ 1,115,435
Accrued payroll and benefits	1,216,876	1,471,224
Current portion of professional liability accrual (Note 4)	317,000	309,000
Other current liabilities	540,568	431,758
Medicaid Directed Payment Program payable	1,704,635	-
Unearned provider relief fund revenue (Note 9)	-	3,985,259
Current portion of long-term debt (Note 6)	1,403,686	1,251,506
Total current liabilities	6,314,762	8,564,182
Professional liability accrual, net of current portion (Note 4)	547,626	407,565
Refundable advance—Paycheck Protection Program	-	2,700,000
Long-term debt, net of current portion (Note 6)	14,057,595	14,913,758
Total liabilities	20,919,983	26,585,505
Commitments and contingencies (Note 7)		
Net position:		
Invested in capital assets, net of related debt	1,174,392	1,001,378
Restricted	2,217,543	1,602,875
Unrestricted	10,501,359	5,035,592
Total net position	13,893,294	7,639,845
Total liabilities and net position	\$ 34,813,277	\$ 34,225,350

See notes to financial statements.

DeSoto County Hospital District

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2021 and 2020

	2021	2020
Operating revenues:		
Net patient service revenue, net of provision for bad debts 2021 \$4,206,000; 2020 \$5,128,000	\$ 41,681,581	\$ 35,514,804
Other revenue	53,703	3,081,926
Total operating revenues	41,735,284	38,596,730
Operating expenses:		
Salaries and wages	15,251,522	14,368,158
Benefits	4,467,595	3,378,590
Contract labor	2,808,138	1,400,535
Fees—physician	2,253,516	1,980,982
Fees—other	5,394,637	5,579,615
Supplies	6,166,904	4,640,875
Utilities	783,676	762,746
Repairs and maintenance	1,245,857	1,293,366
Rentals and leases	891,580	995,144
Insurance (Note 4)	501,821	302,349
Other expenses	2,578,614	3,182,781
Depreciation	1,855,179	1,804,201
Total operating expenses	44,199,039	39,689,342
Operating (loss)	(2,463,755)	(1,092,612)
Nonoperating revenues (expenses):		
Sales tax revenue	1,817,267	1,607,505
Provider relief fund revenue (Note 9)	3,985,259	527,912
Paycheck Protection Program loan forgiveness	2,700,000	-
Noncapital grants and contributions	156,559	67,011
Investment income	43,204	39,385
Other	694,692	135,548
Interest expense	(679,777)	(731,989)
Total nonoperating revenues, net	8,717,204	1,645,372
Increase in net position	6,253,449	552,760
Net position, beginning of year	7,639,845	7,087,085
Net position, end of year	\$ 13,893,294	\$ 7,639,845

See notes to financial statements.

DeSoto County Hospital District

**Statements of Cash Flows
Years Ended September 30, 2021 and 2020**

	2021	2020
Cash flows from operating activities:		
Cash received from third-party payors, patients and other	\$ 39,607,418	\$ 40,840,244
Cash paid to employees	(19,973,465)	(17,798,345)
Cash paid for supplies, purchased services and other	(22,047,467)	(20,177,628)
Net cash (used in) provided by operating activities	(2,413,514)	2,864,271
Cash flows from noncapital financing activities:		
Sales tax proceeds	1,755,244	1,306,185
Provider relief funds received	-	4,513,171
Noncapital grants, contributions and other revenue received	851,251	202,559
Net cash provided by noncapital financing activities	2,606,495	6,021,915
Cash flows from capital and related financing activities:		
Purchase of capital assets	(795,197)	(2,157,467)
Principal payments on long-term debt	(1,305,999)	(1,201,675)
Proceeds from issuance of long-term debt	-	1,000,000
Cash paid for interest	(686,483)	(738,428)
Net cash used in capital and related financing activities	(2,787,679)	(3,097,570)
Cash flows from investing activities:		
Increase in assets limited as to use	(547,008)	(360,173)
Investment income received	43,204	39,385
Net cash used in investing activities	(503,804)	(320,788)
Net change in cash and cash equivalents	(3,098,502)	5,467,828
Cash and cash equivalents:		
Beginning	8,660,587	3,192,759
Ending	\$ 5,562,085	\$ 8,660,587

(Continued)

DeSoto County Hospital District

**Statements of Cash Flows (Continued)
Years Ended September 30, 2021 and 2020**

	2021	2020
Reconciliation of operating (loss) to net cash (used in) provided by operating activities:		
Operating (loss)	\$ (2,463,755)	\$ (1,092,612)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	1,855,179	1,804,201
Loss on disposal of capital assets	-	6,902
Changes in assets and liabilities:		
Patient accounts receivable, net	(667,944)	21,592
Other receivables	16,645	(450,690)
Inventories and prepaid expenses	224,134	(221,935)
Accounts payable	89,565	132,576
Accrued payroll and benefits	(254,348)	(51,597)
Due to/from third-party payors	(767,322)	(27,388)
Medicaid Directed Payment Program receivable/payable	(709,245)	-
Other current liabilities	115,516	44,972
Refundable advance—Paycheck Protection Program	-	2,700,000
Professional liability insurance accrual	148,061	(1,750)
Net cash (used in) provided by operating activities	\$ (2,413,514)	\$ 2,864,271
Supplemental schedules of noncash capital and related financing activities:		
Capital lease obligation incurred for purchase of equipment	\$ 392,399	\$ -
Other long-term debt incurred for purchase of equipment	\$ 209,617	\$ 70,000
Decrease in accounts payable for purchase of equipment	\$ (73,003)	\$ (44,085)
Noncash noncapital financing activity, forgiveness of Paycheck Protection Program loan	\$ 2,700,000	\$ -

See notes to financial statements.

DeSoto County Hospital District

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 2021 or 2020.

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 a capital lease.

The District is the sole member of The Apothecary at Desoto Memorial Hospital, LLC (Apothecary), which is a newly created entity during fiscal year 2021 that was formed to operate a retail pharmacy from a current location within the Hospital. The Apothecary began operations in January 2022 and therefore the financial results for the year ended September 30, 2021 are immaterial to these financial statements.

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.

DeSoto County Hospital District

Notes to Financial Statements

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, 2021 and 2020, the carrying amount of the cash deposits, including the certificates of deposit, was approximately \$8,792,000 and \$11,344,000 and the bank balance was approximately \$10,382,000 and \$11,885,000, respectively.

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.

DeSoto County Hospital District

Notes to Financial Statements

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, 2021 and 2020, estimated allowances for contractual adjustments were approximately \$10,327,000 and \$8,158,000, respectively, and allowances for doubtful accounts were approximately \$971,000 and \$798,000, respectively.

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, 2021 and 2020, the accounts receivable sold to the third party were approximately \$154,000 and \$90,000, respectively, and the estimated recourse liability recorded by the Hospital was approximately \$62,000 and \$37,000, respectively, 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 statements 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. 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:

	<u>Life</u>
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 2021 or 2020.

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 statements of net position.

DeSoto County Hospital District

Notes to Financial Statements

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

Refundable advances: The refundable advance represents funding received pursuant to the Paycheck Protection Program (PPP) created by Section 1102 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. By participating in the PPP, the District agreed that the advance shall be interpreted and construed to be consistent with the PPP requirements. Management of the District determined that the District incurred expenses qualifying for forgiveness and filed for forgiveness. The notice of forgiveness was received from the Small Business Administration in June 2021, at which time the amount was recorded as nonoperating revenue. The District believes it has complied with all terms and conditions of the program.

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.

Net patient service revenue is reported net of contractual adjustments and provision for bad debts for the years ended September 30, 2021 and 2020, as follows:

	2021	2020
Gross patient charges	\$ 157,538,106	\$ 141,408,868
Charity adjustments	11,717,982	12,443,528
Contractual adjustments	99,932,245	88,322,938
Net patient service revenue before provision for bad debts	45,887,879	40,642,402
Provision for bad debts	4,206,298	5,127,598
Net patient service revenue	<u>\$ 41,681,581</u>	<u>\$ 35,514,804</u>

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 and forgiveness of the Paycheck Protection Program loan, are reported as nonoperating revenues.

DeSoto County Hospital District

Notes to Financial Statements

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

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 years ended September 30, 2021 and 2020, are approximately \$363,000 and \$301,000, respectively, and are 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.

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, 2021 and 2020.

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, 2017, and prior.

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

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

DeSoto County Hospital District

Notes to Financial Statements

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.

Subsequent events: The District has considered subsequent events through March 14, 2022, the date the financial statements were available to be issued, in preparing the financial statements and notes thereto. There were no subsequent events requiring disclosure subsequent to year-end, with the exception of the receipt of additional provider relief fund distributions as disclosed in Note 9.

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, 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.

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

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.

DeSoto County Hospital District

Notes to Financial Statements

Note 2. Patient Service Revenue (Continued)

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 will provide 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 will direct 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) must agree to participate and be subject to an assessment to fund the state share of the DPP. As of September 30, 2021, the Hospital has recorded a payable totaling approximately \$1,705,000 on the accompanying statement of net position for its assessment which was paid in December 2021. The Hospital also recorded a receivable of approximately \$2,414,000 for its estimated benefit to be received from the DPP as of September 30, 2021. The assessment and benefit recorded is included in other operating expenses and net patient service revenue, respectively, on the accompanying statements of revenues, expenses and changes in net position for the year ended September 30, 2021.

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 years ended September 30, 2021 and 2020, bad-debt adjustments of \$4,206,000 and \$5,128,000, respectively, were recognized as a reduction of patient revenue.

Net patient service revenue and accounts receivable as of and for the years ended September 30, 2021 and 2020, include amounts from the following payors:

	Net Patient Service Revenue		Net Patient Receivables	
	2021	2020	2021	2020
Medicare	50%	51%	17%	22%
Medicaid	17%	17%	4%	4%
Insurance	23%	20%	73%	67%
Self-pay	10%	12%	6%	7%
Total	100%	100%	100%	100%

DeSoto County Hospital District

Notes to Financial Statements

Note 3. Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the number of charges forgone for services and supplies furnished under its charity care policy of approximately \$11,718,000 and \$12,443,000 for the years ended September 30, 2021 and 2020, respectively.

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 both 2021 and 2020 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 \$20,000 for both years ended September 30, 2021 and 2020. The self-insurance trust of the District was funded at approximately \$238,000 and \$237,000 as of September 30, 2021 and 2020, respectively.

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 \$2,449,000 and \$1,615,000 for the years ended September 30, 2021 and 2020, respectively. Group health insurance claims payable, including an estimate for incurred but not reported claims, was approximately \$275,000 and \$175,000 as of September 30, 2021 and 2020, respectively, and is reported in other current liabilities in the statements 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.

DeSoto County Hospital District

Notes to Financial Statements

Note 4. Risk Management (Continued)

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 years ended September 30, 2021 and 2020, is as follows:

	September 30, 2020	Claims Payment	Claims Expense and Change in Accrual	September 30, 2021	Amounts Due Within One Year
Professional liability	\$ 716,565	\$ (972,100)	\$ 1,120,161	\$ 864,626	\$ 317,000
Employee health liability	175,000	(2,144,280)	2,244,280	275,000	275,000
Total	<u>\$ 891,565</u>	<u>\$ (3,116,380)</u>	<u>\$ 3,364,441</u>	<u>\$ 1,139,626</u>	<u>\$ 592,000</u>

	September 30, 2019	Claims Payment	Claims Expense and Change in Accrual	September 30, 2020	Amounts Due Within One Year
Professional liability	\$ 718,315	\$ -	\$ (1,750)	\$ 716,565	\$ 309,000
Employee health liability	175,000	(987,604)	987,604	175,000	175,000
Total	<u>\$ 893,315</u>	<u>\$ (987,604)</u>	<u>\$ 985,854</u>	<u>\$ 891,565</u>	<u>\$ 484,000</u>

DeSoto County Hospital District

Notes to Financial Statements

Note 5. Capital Assets

Capital asset additions, retirements and balances for the years ended September 30, 2021 and 2020, are as follows:

	September 30, 2020	Additions/ Transfers	Retirements	September 30, 2021
Land and improvements	\$ 803,850	\$ -	\$ -	\$ 803,850
Buildings and improvements	28,361,467	-	-	28,361,467
Fixed equipment	8,604,482	97,985	-	8,702,467
Major movable equipment	12,706,801	1,005,990	(84,564)	13,628,227
Construction in process	28,770	220,235	-	249,005
Total	50,505,370	1,324,210	(84,564)	51,745,016
Less accumulated depreciation for:				
Land improvements	544,164	3,597	-	547,761
Buildings and improvements	16,455,935	597,280	-	17,053,215
Fixed equipment	6,002,332	383,795	-	6,386,127
Major movable equipment	10,336,297	870,507	(84,564)	11,122,240
Total	33,338,728	1,855,179	(84,564)	35,109,343
Capital assets, net	\$ 17,166,642	\$ (530,969)	\$ -	\$ 16,635,673
	September 30, 2019	Additions/ Transfers	Retirements	September 30, 2020
Land and improvements	\$ 803,850	\$ -	\$ -	\$ 803,850
Buildings and improvements	27,816,633	755,638	(210,804)	28,361,467
Fixed equipment	7,682,701	956,245	(34,464)	8,604,482
Major movable equipment	12,438,546	583,032	(314,777)	12,706,801
Construction in process	140,303	(111,533)	-	28,770
Total	48,882,033	2,183,382	(560,045)	50,505,370
Less accumulated depreciation for:				
Land improvements	540,567	3,597	-	544,164
Buildings and improvements	16,038,068	628,671	(210,804)	16,455,935
Fixed equipment	5,693,445	336,449	(27,562)	6,002,332
Major movable equipment	9,815,590	835,484	(314,777)	10,336,297
Total	32,087,670	1,804,201	(553,143)	33,338,728
Capital assets, net	\$ 16,794,363	\$ 379,181	\$ (6,902)	\$ 17,166,642

DeSoto County Hospital District

Notes to Financial Statements

Note 6. Long-Term Debt

A schedule of changes in long-term debt as of and for the years ended September 30, 2021 and 2020, consists of the following:

	September 30, 2020	Additions	Reductions	September 30, 2021	Amounts Due Within One Year
USDA mortgage	\$ 13,888,805	\$ -	\$ (644,902)	\$ 13,243,903	\$ 672,000
Capital leases payable	435,823	392,399	(214,820)	613,402	248,221
Other	1,840,636	209,617	(446,277)	1,603,976	483,465
Total	<u>\$ 16,165,264</u>	<u>\$ 602,016</u>	<u>\$ (1,305,999)</u>	<u>\$ 15,461,281</u>	<u>\$ 1,403,686</u>

	September 30, 2019	Additions	Reductions	September 30, 2020	Amounts Due Within One Year
USDA mortgage	\$ 14,508,159	\$ -	\$ (619,354)	\$ 13,888,805	\$ 645,000
Capital leases payable	637,846	-	(202,023)	435,823	188,978
Other	1,150,934	1,070,000	(380,298)	1,840,636	417,528
Total	<u>\$ 16,296,939</u>	<u>\$ 1,070,000</u>	<u>\$ (1,201,675)</u>	<u>\$ 16,165,264</u>	<u>\$ 1,251,506</u>

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.

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 Hospital.

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, 2021 and 2020, the balance in the reserve account was approximately \$1,218,000 and \$942,000, respectively, 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 \$774,000 and \$504,000 as of September 30, 2021 and 2020, respectively.

DeSoto County Hospital District

Notes to Financial Statements

Note 6. Long-Term Debt (Continued)

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

	Principal	Interest	Total
Years ending September 30:			
2022	\$ 672,000	\$ 559,290	\$ 1,231,290
2023	686,193	531,607	1,217,800
2024	715,040	502,760	1,217,800
2025	745,100	472,700	1,217,800
2026	776,423	441,377	1,217,800
2027-2031	4,400,036	1,688,964	6,089,000
2032-2036	5,249,111	683,002	5,932,113
	<u>\$ 13,243,903</u>	<u>\$ 4,879,700</u>	<u>\$ 18,123,603</u>

Capital leases payable: During and prior to 2021, the District had entered into capital lease obligations for medical equipment, copiers and a new voicemail software system which are payable in monthly installments of approximately \$180 to \$4,600, discounted at rates ranging from 0% to 6.5%. As of September 30, 2021 and 2020, these assets had a net book value of approximately \$694,000 and \$476,000, respectively.

The capital lease obligations, resulting from direct borrowings, contain provisions that, in the event of default, lenders may (a) declare the entire amount unpaid lease payments due and payable, (b) assess interest and late charge fees in accordance with the agreements, and (c) require the District to return the leased property.

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

Years ending September 30:	
2022	\$ 264,028
2023	184,646
2024	100,077
2025	76,776
2026	11,851
	<u>637,378</u>
Less amount representing interest under the capital lease obligation	<u>(23,976)</u>
Capital leases payable	<u>\$ 613,402</u>

Other: The District has other long-term debt obligations for various equipment which are payable in monthly installments of approximately \$1,800 to \$6,500, including interest at an average rate of 3.9% 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.

DeSoto County Hospital District

Notes to Financial Statements

Note 6. Long-Term Debt (Continued)

Scheduled principal and interest payments on the equipment loans, which were outstanding as of September 30, 2021, are as follows:

	Principal	Interest	Total
Years ending September 30:			
2022	\$ 483,465	\$ 69,881	\$ 553,346
2023	346,883	44,502	391,385
2024	185,366	30,864	216,230
2025	124,444	23,903	148,347
2026	105,785	18,968	124,753
2027-2030	358,033	26,467	384,500
	<u>\$ 1,603,976</u>	<u>\$ 214,585</u>	<u>\$ 1,818,561</u>

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 years ended September 30, 2021 and 2020, were approximately \$266,000 and \$221,000, respectively.

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.

Operating leases: The District leases various equipment and facilities under operating leases expiring at various dates. Total rental expense for the years ended September 30, 2021 and 2020, was approximately \$892,000 and \$995,000, respectively.

DeSoto County Hospital District

Notes to Financial Statements

Note 7. Commitments and Contingencies (Continued)

The following is a schedule of approximate future minimum lease payments under operating leases as of September 30, 2021, that have initial or remaining lease terms in excess of one year:

Years ending September 30:	
2022	\$ 139,805
2023	59,302
2024	51,628
2025	5,026
	<hr/>
	\$ 255,761
	<hr/>

Note 8. New and Pending Accounting Guidance

GASB Statement No. 84, *Fiduciary Activities* became effective for the District in the fiscal year ended September 30, 2021. The statement is designed to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The adoption of this accounting standard had no impact on the accompanying financial statements as the District determined there were no fiduciary activities required to be presented in the accompanying financial statements.

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for the District beginning with its fiscal year ending September 30, 2022, with earlier adoption encouraged. Statement No. 87 establishes a single approach to accounting for and reporting leases by state and local governments. Under this statement, a government entity that is a lessee must recognize (1) a lease liability, and (2) an intangible asset representing the lessee's right to use the leased asset. In addition, the District must report the (1) amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, (2) interest expense on the lease liability and (3) note disclosures about the lease. The statement provides exceptions from the single approach for short-term leases, financial purchases, leases of assets that are investments and certain regulated leases. This statement also addresses accounting for lease terminations and modifications, sale-leaseback transactions, nonlease components embedded in lease contracts (such as service agreements) and leases with related parties. Management is evaluating the impact that this standard will have on the financial statements.

Note 9. COVID-19 Pandemic and 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 CARES Act was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic.

DeSoto County Hospital District

Notes to Financial Statements

Note 9. COVID-19 Pandemic and CARES Act Funds (Continued)

The District's accounting policies for the recognition of these stimulus monies are as follows:

CARES Act Funds: The CARES Act invested \$100 billion into the Public Health and Social Service Emergency Fund for health care providers in April 2020. All facilities and providers that received Medicare fee-for-service (FFS) reimbursement in 2019 were eligible for the distribution. During the year ended September 30, 2020, the District received approximately \$4,513,000 from the Department of Health and Human Services (DHHS) Provider Relief Fund.

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 DHHS. The District has recognized provider relief fund grant revenue of approximately \$3,985,000 and \$528,000 in the accompanying statements of revenues, expenses and changes in net position during the years ended September 30, 2021 and 2020, respectively. The liability for unearned provider relief fund revenue, recorded on the accompanying statements of net position, is approximately \$0 and \$3,985,000 at September 30, 2021 and 2020, respectively.

In January 2022, The District received the phase 4 distribution from the provider relief funds in the amount of \$1,353,083. The District recorded these amounts as a refundable advance in fiscal year 2022 and will evaluate whether they are able to claim as revenue in 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.