

Lakeside Medical Center



WE CARE FOR ALL.

District Hospital Holdings, Inc.
**(A Component Unit of the Health Care District
of Palm Beach County, Florida)**

Financial Report and
Required Supplementary Information
September 30, 2025

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Independent Auditor's Report

Board of Directors
District Hospital Holdings, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of District Hospital Holdings, Inc. (the Hospital), a component unit of the Health Care District of Palm Beach County, Florida, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the Hospital'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 Hospital, as of September 30, 2025, 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 (*Government Auditing Standards*). 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 Hospital, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 11 to the financial statements, the Hospital adopted the recognition and disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, as of October 1, 2024. As a result of the adoption, the Hospital restated beginning net position. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 Hospital'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 Hospital'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 schedule of changes in the total OPEB liability and related ratios be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2026, on our consideration of the Hospital'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 Hospital'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 Hospital's internal control over financial reporting and compliance.

RSM US LLP

West Palm Beach, Florida
February 26, 2026

District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Statement of Net Position
September 30, 2025

| Assets | |
|---|----------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 7,933,565 |
| Patient accounts receivable, net | 1,750,265 |
| Inventories | 634,046 |
| Estimated third-party payor receivable | 711,699 |
| Prepaid expenses and other current assets | 508,528 |
| Total current assets | 11,538,103 |
| Noncurrent assets: | |
| Capital assets and right to use leased and SBITA assets: | |
| Construction in progress | 43,344 |
| Depreciable capital assets, net of accumulated depreciation | 28,497,690 |
| Right to use leased and SBITA assets, net of accumulated amortization | 401,444 |
| Total noncurrent assets | 28,942,478 |
| Total assets | 40,480,581 |
| Deferred outflows of resources related to other post-employment benefits plan | 19,104 |
| Total assets and deferred outflows of resources | \$ 40,499,685 |
| Liabilities | |
| Current liabilities: | |
| Accounts payable | \$ 1,644,903 |
| Accrued salaries and benefits | 1,084,673 |
| Unearned revenue—grants | 76,111 |
| Current portion of accrued compensated absences | 777,429 |
| Current portion of estimated self-insured liability | 224,805 |
| Current portion of lease and SBITA payable | 107,548 |
| Total current liabilities | 3,915,469 |
| Noncurrent liabilities: | |
| Accrued compensated absences, less current portion | 1,260,714 |
| Estimated self-insured liability, less current portion | 49,579 |
| Lease and SBITA payable, less current portion | 247,413 |
| Total other postemployment benefits obligation | 84,646 |
| Total noncurrent liabilities | 1,642,352 |
| Total liabilities | 5,557,821 |
| Deferred inflows of resources related to other post-employment benefits plan | 82,047 |
| Total liabilities and deferred inflows of resources | \$ 5,639,868 |
| Net Position | |
| Net investment in capital assets | \$ 28,587,517 |
| Unrestricted | 6,272,300 |
| Total net position | \$ 34,859,817 |

See notes to financial statements.

District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Statement of Revenues, Expenses and Changes in Net Position
Fiscal Year Ended September 30, 2025

| | |
|--|----------------------|
| <hr/> | |
| Operating revenues: | |
| Patient service revenues, net of provision for bad debts of \$11,822,394 | \$ 27,801,029 |
| Other operating revenues | 203,234 |
| Total operating revenues | <u>28,004,263</u> |
| | |
| Operating expenses: | |
| Salaries and benefits | 24,707,644 |
| Purchased services | 11,333,376 |
| Administrative support charges | 9,113,817 |
| Depreciation and amortization | 2,510,605 |
| Supplies | 3,591,547 |
| Repairs and maintenance | 2,425,970 |
| Utilities | 1,327,823 |
| Other | 643,488 |
| Rentals | 480,635 |
| Total operating expenses | <u>56,134,905</u> |
| | |
| Operating loss | <u>(28,130,642)</u> |
| | |
| Nonoperating revenues (expenses): | |
| Grant revenues | 737,371 |
| Interest expense | (16,483) |
| Interest income | 65,986 |
| Loss on disposal of capital assets | (132,303) |
| Total nonoperating revenues (expenses) | <u>654,571</u> |
| | |
| Loss before district contributions | <u>(27,476,071)</u> |
| | |
| District contributions: | |
| Operating contributions | 26,128,520 |
| Capital contributions | 1,795,149 |
| Total district contributions | <u>27,923,669</u> |
| | |
| Change in net position | 447,598 |
| | |
| Net position: | |
| Beginning of year, as restated (Note 11) | <u>34,412,219</u> |
| | |
| End of year | <u>\$ 34,859,817</u> |

See notes to financial statements.

District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Statement of Cash Flows
Fiscal Year Ended September 30, 2025

| | |
|---|------------------------|
| Cash flows from operating activities: | |
| Receipts from patients and third-party payors | \$ 27,768,439 |
| Payments to employees | (25,071,864) |
| Payments to suppliers and service providers | (28,402,050) |
| Other receipts | 203,234 |
| Net cash used in operating activities | (25,502,241) |
| Cash flows from non-capital financing activities: | |
| Grants received | 797,881 |
| Operating contributions from the District | 26,128,520 |
| Net cash provided by non-capital financing activities | 26,926,401 |
| Cash flows from capital and related financing activities: | |
| Interest payments on leases and SBITAs | (16,483) |
| Principal payments on leases and SBITAs | (108,167) |
| Interest income | 65,986 |
| Net cash used in capital and related financing activities | (58,664) |
| Net increase in cash and cash equivalents | 1,365,496 |
| Cash and cash equivalents | |
| Beginning of year | 6,568,069 |
| End of year | \$ 7,933,565 |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (28,130,642) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Provision for bad debts | 11,822,394 |
| Depreciation and amortization | 2,510,605 |
| Changes in assets and liabilities: | |
| Patient accounts receivable | (11,989,750) |
| Inventories | 23,691 |
| Estimated third-party payor receivable | 134,766 |
| Prepaid expenses and other current assets | 5,629 |
| Accounts payable | 591,700 |
| Accrued salaries and benefits | (530,724) |
| Accrued compensated absences | 170,493 |
| Estimated self-insured liability | (106,414) |
| Total other postemployment benefits obligation | (3,989) |
| Net cash used in operating activities | \$ (25,502,241) |
| Supplemental disclosure of noncash capital and related financing activities: | |
| Capital assets contributed at acquisition value | \$ 1,795,149 |

See notes to financial statements.

**District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Reporting entity: District Hospital Holdings, Inc. (the Hospital) is a Florida nonprofit corporation formed February 25, 2004, by its sole corporate member, the Health Care District of Palm Beach County, Florida (the District), for the purpose of holding certain assets of and operating the hospital business located in Belle Glade, Florida, known as Lakeside Medical Center. Lakeside Medical Center opened on October 15, 2009, replacing Glades General Hospital, which had been operating since the 1940's. The Hospital began operations effective May 1, 2004, when the District acquired certain assets of Glades General Hospital from Province Healthcare Company, Inc.

The District was created by the Florida Legislature pursuant to Chapter 2003-326, Laws of Florida (the Health Care Act) and by the affirmative vote of the residents of Palm Beach County, Florida (the County). The District's general purpose is to provide quality health care services in a comprehensive and efficient manner throughout the County, as more fully set forth in the Health Care Act. Specifically, the Health Care Act provides for the continued presence of at least one hospital in the rural Glades area (that area of the County lying west of a line between Range 39 East and Range 40 East), and such health care facility shall be established and maintained for the preservation of the public health and for the public good. As such, the Hospital is financially dependent on the District to fund future operating losses, and the District is legally obligated to maintain the continued operations of the Hospital for the benefit of the public.

The Hospital is governed by the District's Board of Directors (the District Board) and is considered a blended component unit of the District. The Hospital continues to have a separate Lakeside Health Advisory Board, which acts in an advisory capacity.

Measurement focus and basis of accounting: The Hospital uses proprietary fund accounting and follows all relevant pronouncements of the Governmental Accounting Standards Board (GASB). Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Under this method, revenues are recorded when earned and expenses are recognized when incurred.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets/deferred outflows of resources and liabilities/deferred inflows of resources and disclosure of contingent assets/deferred outflows of resources and liabilities/deferred inflows of resources at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowances for contractual discounts and provision for bad debts, estimated third-party payor settlements and the professional liability accrual. Actual results could differ from those estimates.

Cash and cash equivalents: All of the Hospital's operating accounts are pooled into a common interest-bearing account with the District consisting of deposits with financial institutions. The Hospital considers cash, deposits with financial institutions and short-term investments with an original maturity of three months or less to be cash and cash equivalents.

**District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Patient accounts receivable: Patient accounts receivable are reported at estimated net realizable amounts due from patients, third-party payors and others for services rendered. The Hospital grants credit without collateral to its patients, most of whom are residents of western Palm Beach County. Throughout the year, management assesses the adequacy of the Hospital's estimates, including those related to bad debt and contractual discounts. The accounting policies related to the Hospital's overall determination of net patient accounts receivable are described in the paragraphs that follow.

Allowance for doubtful accounts: The provision for bad debts is estimated based on management's assessment of historical and expected net collections, considering business and economic conditions, trends in health care coverage and other collection indicators. The primary collection risk lies with uninsured patient accounts or patient accounts for which a balance remains after primary insurance has paid. The Hospital continually monitors its accounts receivable balances and utilizes cash collections data and other analysis to support the basis for its estimates of the allowance for doubtful accounts. In addition, the Hospital performs retrospective procedures on historical collection and write-off experience for the prior six months to determine the reasonableness of its policy for estimating the allowance for doubtful accounts. The Hospital does not pursue collection of amounts related to patients that qualify for charity care under its guidelines. As such, charity care accounts do not affect the allowance for doubtful accounts. Significant changes in the payor mix, business office operations or deterioration in aging accounts receivable could result in a significant increase in the allowance for doubtful accounts.

Allowance for contractual discounts: The Hospital estimates the allowance for contractual discounts on a payor-specific basis, given its interpretation of the applicable regulations or contract terms. The Hospital continually monitors its accounts receivable balances and utilizes cash collections data and other analysis to support the basis for its estimates of the allowance for contractual discounts. In addition, the Hospital performs retrospective procedures on historical collection and write-off experience for the prior six months to determine the reasonableness of its policy for estimating the allowance for contractual discounts. However, the services authorized and provided and the resulting reimbursement are often subject to interpretation. These interpretations sometimes result in payments that differ from the Hospital's estimates. Additionally, updated regulations and contract negotiations occur frequently, necessitating the continual review and assessment of the estimation process.

Inventories: Inventories consist primarily of pharmaceuticals and medical supplies and are stated at the lower of cost or blended market rate on a first-in, first-out basis for pharmaceuticals and average-cost basis for medical supplies.

District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Capital assets: Capital assets are recorded at acquisition cost. Capital assets contributed by the District are recorded at the District's carrying value. Assets contributed by others are recorded at their estimated acquisition value on the date contributed. Capital assets include buildings and improvements, furniture, fixtures and equipment, vehicles and right to use leased assets. The Hospital defines capital assets as assets with an initial cost of at least \$5,000 and an estimated useful life of at least one year. Capital assets used in operations are depreciated over the estimated useful lives of the respective assets on the straight-line basis. Amortization expense of right to use leased and Subscription Based Information Technology Arrangements (SBITA) assets, is included in depreciation and amortization expense. Gains and losses on dispositions of capital assets are recorded in the period of disposal. The estimated useful lives generally conform to those recommended by the American Hospital Association as follows:

| <u>Asset Type</u> | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings and improvements | 15-30 |
| Furniture, fixtures and equipment | 3-20 |
| Vehicles | 3-5 |

The Hospital evaluates capital assets regularly for impairment. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of the assets. An impairment charge is recorded on those assets for which the estimated fair value is below the carrying amount. No impairment was recorded in fiscal year 2025.

Leases and SBITAs: The Hospital is a lessee for noncancellable leases of building and has entered into SBITAs to use vendor provided information technology intangible assets (thereafter leases). The Hospital recognizes a lease liability, and an intangible right-to-use leased and SBITA asset (lease asset) on the financial statements.

At the commencement of the lease, the Hospital initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgements related to leases include how the Hospital determines: (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The Hospital uses estimated incremental borrowing rates, which is the estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and a purchase option price that the Hospital is reasonably certain to exercise.

The Hospital is currently not a lessor in any transactions.

District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The Hospital monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets and SBITA are reported as right to use leased and SBITA assets on the statement of net position. The related lease liabilities are reported as lease and SBITA payables on the statement of net position.

Net position: In accordance with GASB standards, the Hospital classifies net position in three components: net investment in capital assets, restricted and unrestricted net position. Net investment in capital assets consists of right to use, SBITA and capital assets net of accumulated depreciation and amortization, reduced by the balance of any outstanding debt (including lease and SBITA payables) used to finance the purchase or construction of those assets. The Hospital does not have any restricted net position. Unrestricted net position consists of remaining assets/deferred outflows of resources less liabilities/deferred inflows of resources that do not meet the definition of investment in capital assets or restricted net position.

Restricted resources: When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use the restricted resources before unrestricted resources. At year end, the Hospital reported no restricted resources.

Net patient service revenues: The Hospital serves patients whose medical costs are not paid at established rates. These include patients sponsored under government programs, such as Medicare and Medicaid, patients sponsored under private contractual agreements, and uninsured patients who have limited ability to pay. Contractual adjustments under third-party reimbursement programs represent the difference between the established rates for services and amounts reimbursed by third-party payors and are included as a reduction of patient service revenues. The Hospital presents its provision for bad debts as a direct reduction of patient service revenues.

A summary of the basis of reimbursement with major third-party payors is as follows:

Medicare: Inpatient acute care services rendered to Medicare beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services, outpatient services and defined capital costs related to Medicare beneficiaries are primarily reimbursed on a prospective payment system, which is complex, subject to frequent change and subject to interpretation. As part of operating under these programs, there is a possibility that governmental authorities may review the Hospital's compliance with these laws and regulations. Such review may result in adjustments to reimbursements previously received and subject the Hospital to fines and penalties. Although no assurances can be given, management believes they have complied with the requirements of these programs. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Medicaid: Payments under All Patient Refined Diagnostic Related Groups methodology (APR DRG) assignments are made on a per case basis and are not subject to retrospective rate adjustments.

Commercial providers: The Hospital also has reimbursement agreements with commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined per diem rates and capitation. Certain provider contracts provide for review of paid claims for compliance with the terms of the contract and may result in retroactive settlements with providers. In management's opinion, such settlements, when reached, will not vary significantly from the estimated amounts that are recorded in the accompanying financial statements.

Charity care: The Hospital's mission is to provide high quality, affordable health care to the greater Glades area community. In pursuing its commitment to serve all members of the community, the Hospital provides services to the financially disadvantaged, despite the lack or adequacy of payment for its services. The Hospital maintains records to identify and report the level of charity care it provides to the community. These records include the amount of charges foregone for health care services and supplies furnished under the Hospital's charity care guidelines. The Hospital provides care to patients who meet certain criteria under its charity care guidelines without charge or at amounts less than its established rates. Because the Hospital does not anticipate payment when services are rendered and does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. Charges foregone, based on the Hospital's established rates, and excluded from revenue under the Hospital's charity care guidelines were approximately \$5,553,000 for the year ended September 30, 2025. Using the Hospital's average ratio of cost to charges, the cost of the charity care provided was approximately \$2,689,000 and the percentage of charity care charges to all patient charges was 4.8% for the year ended September 30, 2025.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods when adjustments become known or as years are no longer subject to audits, reviews or investigations.

Net patient service revenue: The Hospital's gross patient charges, charity care adjustments, provision for doubtful accounts, and contractual adjustments for the year ended September 30, 2025, are as follows:

| | |
|---|----------------------|
| Gross patient charges, before charity care adjustment | \$ 123,626,291 |
| Charity care adjustment | (5,552,814) |
| Gross patient charges | 118,073,477 |
| Provision for doubtful accounts | (11,822,394) |
| Contractual adjustment | (78,450,054) |
| Net patient service revenue | <u>\$ 27,801,029</u> |

District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Public Medical Assistance Trust Fund: The State of Florida (the State) has established the Public Medical Assistance Trust Fund to provide a method for funding the provision of health care services to indigent persons. Hospitals in the State are required to pay assessments to the trust fund equal to 1.5% of each hospital's prior-year net inpatient revenue and 1.0% of each hospital's prior-year net outpatient revenue. The assessments are distributed under various programs to hospitals in the State that serve Medicaid patients and uninsured charity care patients. The Hospital received funding for patients under the Disproportionate Share Hospital (DSH) and the Low Income Pool (LIP) programs. The DSH program provides payments to hospitals that serve a disproportionate number of Medicaid and uninsured charity care patients. The LIP program distributes funding to the Hospital to support coverage for Medicaid, uninsured and underinsured patients. The LIP program is a federal matching program that provides the State with the opportunity to receive additional federal distributions based on a capped annual allotment, which is distributed by the State to participating health care providers for eligible services. Local governments, such as counties, hospital districts and the Florida Department of Health, provide funding for the non-federal share of the LIP distributions. Revenues from the DSH and LIP programs were approximately \$959,000 for the fiscal year ended September 30, 2025, and are reported as net patient service revenues in the accompanying statement of revenues, expenses and changes in net position, net of the required quarterly assessments owed by the Hospital, which are accrued in the fiscal year for which the assessments are made. The receipt of future distributions is contingent upon the continued support of the program by the federal and state governments. The total estimated liability recorded at September 30, 2025, related to Medicaid DSH payments is \$0.

The Hospital recognized approximately \$4,330,000 of patient service revenues under the Medicaid supplemental financing initiative called the Hospital Directed Payment Program (DPP) for the year ended September 30, 2025. DPP is administered regionally and is intended to bridge the difference between Medicaid reimbursement rates and the costs of providing the care. Florida's DPP provides a financial incentive for all hospitals to engage in quality initiatives with the Medicaid managed care plans in their region. Hospitals that participate in a DPP receive their DPP funding through their local Medicaid managed care plans. The DPP funds are recognized as net patient service revenues in the accompanying statement of revenues, expenses and changes in net position. The Hospital also recognized net patient service revenues from the Indirect Medical Education (IME) program of approximately \$2,197,000 for the year ended September 30, 2025.

The State receives matching funds from the federal government under Section 1115 Waivers. The current waiver provides funding for a four-year period through June 2030. The program is subject to changes and if funding for the Hospital is reduced, the funds will be replaced by additional operating contributions from the District.

Operating revenues and expenses: The Hospital'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 Hospital's principal activity. Nonexchange revenues, including interest income, gifts, grants, contributions and other unrestricted revenues, are reported as nonoperating revenues. Gifts, grants and contributions of capital assets, or such amounts restricted by donors for the acquisition of capital assets, are reported as capital contributions. Operating expenses include all expenses incurred to provide health care services, other than financing costs.

Grant revenues: Grant revenues are recorded when the related expenses are incurred and the eligibility and time requirements have been met. Grant funds received in advance of meeting eligibility requirements are reported as unearned grant revenues.

District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Compensated absences: The Hospital's employees earn paid time off (holiday, vacation, personal days, sick time and other absences) at varying rates depending on years of service and position. Employees accumulate hours of paid time off subject to certain limits. Upon termination, employees are paid for time off (except sick time) accrued but not used at their current rate of pay, subject to certain limits. In accordance with GASB Statement No. 101, *Compensated Absences*, accumulated time off is estimated and accrued as liabilities on the financial statements to the extent that it is more likely than not that the leave will be used for time off or otherwise paid in cash or settled through noncash means. See Note 11 for further information on the implementation of GASB Statement No. 101.

Risk management: The Hospital is exposed to various risks of loss from torts, theft of, damage to and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, natural disasters, medical malpractice and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters to the extent such claims are not covered by sovereign immunity (see Note 10). Settled claims have not exceeded the Hospital's commercial coverage over the last three years.

Income taxes: The Hospital is a wholly owned subsidiary, controlled by the District, which is the sole corporate member. The Hospital is exempt from federal and state income taxes as a governmental entity and is not required under the Internal Revenue Code to file tax returns.

Recent accounting pronouncements: GASB Statement No. 101, *Compensated Absences* was issued in June 2022. The statement improves the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement were effective for the Hospital beginning October 1, 2024. See Note 11 for further information on the implementation of this GASB statement.

GASB issued Statement No. 102, *Certain Risk Disclosures* was issued in December 2023. The requirements of this statement are effective for reporting periods beginning after June 15, 2024 and require state and local governments to disclose information about concentrations and constraints that make them vulnerable to a significant adverse impact. The adoption of the statement in the current year did not have a material impact on the financial statements for the year ended.

GASB Statement No. 103, *Financial Reporting Model Improvements*, was issued in April 2024 and will be effective for the Hospital in fiscal year 2026. The objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues. The Hospital has elected not to implement the requirements of this statement early and is still evaluating the potential impacts.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, was issued in September 2024 and will be effective for the Hospital in fiscal year 2026. The objective of this statement is to provide the users of government financial statements with essential information about certain types of capital assets. This statement requires certain types of capital assets to be disclosed separately in the capital asset note disclosures required by GASB Statement No. 34, *Basic Financial Statements and Management Discussions and Analysis for State and Local Governments*. This statement also requires additional disclosures for capital assets held for sale. The Hospital has elected not to implement the requirements of this statement early and is still evaluating the potential impacts.

District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

GASB issued Statement No. 105, *Subsequent Events* was issued in December 2025 and will be effective for the Hospital in fiscal year 2027. The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. This Statement defines subsequent events, as well as outlines when such events should be disclosed. The Hospital has elected not to implement the requirements of this statement early and is still evaluating the potential impacts.

Note 2. Cash and Cash Equivalents

At September 30, 2025, cash and cash equivalents included in the Hospital's statement of net position consisted of the following:

Carrying amount:

| | |
|--------------------------------------|---------------------|
| Deposits with financial institutions | \$ 7,932,965 |
| Petty cash | 600 |
| | <u>\$ 7,933,565</u> |

The District is responsible for all treasury functions, and pools all cash and investments, except for cash and investment accounts required by specific agreements to be maintained under legal restrictions in separate bank accounts. The Hospital's equity share of the total pooled cash and investments is included in the accompanying statement of net position as cash and cash equivalents.

See the District's Annual Financial Report for disclosures relating to its interest rate risk, credit risk, custodial credit risk, concentration of credit risk and related fair value measurement disclosures required by GASB.

Note 3. Patient Accounts Receivable

Patient accounts receivable, reported as current assets by the Hospital at September 30, 2025, consist of the following amounts:

| | |
|--|---------------------|
| Receivable from patients | \$ 6,135,302 |
| Receivable from patients' insurance carriers | 8,370,673 |
| Receivable from Medicare | 617,566 |
| Receivable from Medicaid | 643,019 |
| Total patient accounts receivable | <u>15,766,560</u> |
| Less allowance for contractual discounts | (7,707,970) |
| Less allowance for doubtful accounts | (6,308,325) |
| Total allowances | <u>(14,016,295)</u> |
| Patient accounts receivable, net | <u>\$ 1,750,265</u> |

District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Notes to Financial Statements

Note 4. Capital Assets

Capital asset activity for the year ended September 30, 2025, is summarized as follows:

| | Balance October 1, 2024 | Increases and Transfers | Decreases and Transfers | Balance September 30, 2025 |
|---|-------------------------------|----------------------------|----------------------------|----------------------------------|
| Capital assets: | | | | |
| Construction in progress (nondepreciable) | \$ 350,593 | \$ 1,189,129 | \$ (1,496,378) | \$ 43,344 |
| Buildings and improvements | 64,351,273 | 985,972 | (362,034) | 64,975,211 |
| Furniture, fixtures and equipment | 12,006,721 | 1,116,426 | (494,403) | 12,628,744 |
| Total cost | <u>76,708,587</u> | <u>3,291,527</u> | <u>(2,352,815)</u> | <u>77,647,299</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (40,015,293) | (1,413,596) | 220,471 | (41,208,418) |
| Furniture, fixtures and equipment | (7,419,772) | (981,738) | 503,663 | (7,897,847) |
| Total accumulated depreciation | <u>(47,435,065)</u> | <u>(2,395,334)</u> | <u>724,134</u> | <u>(49,106,265)</u> |
| Capital assets, net | <u>\$ 29,273,522</u> | <u>\$ 896,193</u> | <u>\$ (1,628,681)</u> | <u>\$ 28,541,034</u> |

Land: Lakeside Medical Center was constructed on 50 acres of land owned by the State of Florida (the State). The District is leasing the land from the State for a period of 50 years ending February 1, 2057. Upon termination of the lease, all improvements on the property become the property of the State, which may also require the District to remove the improvements at the District's expense. As consideration for the lease, the District entered into an agreement with Prison Rehabilitative Industries and Diversified Enterprise, Inc. (PRIDE), an instrumentality of the State, that requires the District to purchase a specified amount of goods and services from PRIDE over a 30-year period as compensation for the land lease (see Note 10).

Note 5. Right-to-Use Lease and SBITA Assets and Liabilities

The Hospital is a lessee for various non-cancellable leases for buildings and equipment with original terms of five years and interest rates of 8.5%. The Hospital has entered into SBITAs to use vendor-provided information technology intangible assets with original terms ranging from three to five years and interest rates of 3.75%.

Right-to-use lease and SBITA assets activity for the year ended September 30, 2025, are summarized as follows:

| | Balance October 1, 2024 | Increases and Transfers | Decreases and Transfers | Balance September 30, 2025 |
|---|-------------------------------|----------------------------|----------------------------|----------------------------------|
| Right-to-use leased and SBITA assets: | | | | |
| Building | \$ 20,660 | \$ - | \$ - | \$ 20,660 |
| SBITA assets | 575,288 | - | (34,187) | 541,101 |
| Total right-to-use leased assets | <u>595,948</u> | <u>-</u> | <u>(34,187)</u> | <u>561,761</u> |
| Less accumulated amortization: | | | | |
| Building | (2,807) | (4,202) | - | (7,009) |
| SBITA assets | (76,426) | (111,069) | 34,187 | (153,308) |
| Total accumulated amortization | <u>(79,233)</u> | <u>(115,271)</u> | <u>34,187</u> | <u>(160,317)</u> |
| Total right-to-use leased and SBITA assets, net | <u>\$ 516,715</u> | <u>\$ (115,271)</u> | <u>\$ -</u> | <u>\$ 401,444</u> |

District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Notes to Financial Statements

Note 5. Right-to-Use Lease and SBITA Assets and Liabilities (Continued)

Lease and SBITA liabilities activity for the year ended September 30, 2025, are summarized as follows:

| | Balance October 1, 2024 | Additions | Deletions | Balance September 30, 2025 |
|------------------------------|-------------------------------|-------------|---------------------|----------------------------------|
| Lease and SBITA payable: | | | | |
| Building lease | \$ 37,547 | \$ - | \$ (23,450) | \$ 14,097 |
| Right-to-use SBITA liability | 425,581 | - | (84,717) | 340,864 |
| Total lease payable | <u>\$ 463,128</u> | <u>\$ -</u> | <u>\$ (108,167)</u> | <u>\$ 354,961</u> |

The future principal and interest payments due on the lease and SBITA liabilities are as follows:

| Fiscal years ending September 30: | Principal | Interest | Total |
|-----------------------------------|-------------------|------------------|-------------------|
| 2026 | \$ 107,548 | \$ 14,087 | \$ 121,635 |
| 2027 | 117,679 | 9,787 | 127,466 |
| 2028 | 128,507 | 5,082 | 133,589 |
| 2029 | 1,227 | 26 | 1,253 |
| Total | <u>\$ 354,961</u> | <u>\$ 28,982</u> | <u>\$ 383,943</u> |

Note 6. Compensated Absences

Compensated absences liability for the year ended September 30, 2025, are summarized as follows:

| | Balance October 1, 2024** | Change | Balance September 30, 2025 | Amounts Due Within One Year |
|----------------------|---------------------------------|-------------------|----------------------------------|-----------------------------------|
| Compensated absences | <u>\$ 1,867,650</u> | <u>\$ 170,493</u> | <u>\$ 2,038,143</u> | <u>\$ 777,429</u> |

**The entity adopted the provisions of GASB Statement No. 101, *Compensated Absences*. Accordingly, the beginning balance was restated as of October 1, 2024. See Note 11 for further information related to the restatement.

Note 7. Other Postemployment Benefits

The Hospital follows GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for financial reporting and disclosure for its other postemployment benefits plan (OPEB Plan).

Plan description: The Hospital participates in the District's single-employer OPEB Plan that provides health care benefits to eligible retired employees and their spouses and/or beneficiaries. The District Board has the authority to establish and amend the premiums for and the benefit provisions of the OPEB Plan. The OPEB Plan is financed on a "pay as you go" basis and is not administered as a formal qualifying trust. The OPEB Plan does not issue a stand-alone publicly available financial report.

**District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)**

Notes to Financial Statements

Note 7. Other Postemployment Benefits (Continued)

Funding policy: The Hospital is required by Florida Statutes, Section 112.0801 to allow retirees to buy health care coverage at the same group insurance rates that current employees are charged, resulting in an implicit health care benefit. Florida law prohibits the OPEB Plan from separately rating retirees and active employees. The OPEB Plan, therefore, charges both groups an equal, blended rate premium for health insurance. Although both groups are charged the same blended rate premium, U.S. GAAP requires the actuarial figures to be calculated using age-adjusted premiums approximating claim costs for retirees separately from active employees. The use of age-adjusted premiums results in the addition of the implicit rate subsidy into the actuarial accrued liability. Plan members receiving benefits contribute 100% of the monthly medical premium, which currently ranges from a minimum of \$850 to a maximum of \$2,609.

District employees covered by benefit terms: At October 1, 2023, there were four retirees and 799 active plan members covered by the benefit terms for the overall District.

Total OPEB liability: The Hospital's allocated proportionate share of the District's total OPEB liability was \$84,646 for the year ended September 30, 2025. The total OPEB liability was measured at September 30, 2025, based on an actuarial valuation as of October 1, 2023.

The total OPEB liability in the October 1, 2023, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|------------------------------|--|
| Salary increases | 3% |
| Discount rate | 4.5%; The discount rate used to measure the total OPEB liability was based on a 20-year AA/Aa tax-exempt municipal bond yield at the measurement date. |
| Health care cost trend rates | 7.25% in 2023-2024, 7.50% in 2024-2025 graded down to 4.5% by 0.25% per year |
| Mortality | Pub-2010 Headcount weighted mortality table for general, public employer, annuitant and non-annuitant, sex distinct with 2024 IRS adjusted MP-2021 |

Change in assumptions: The discount rate increased to 4.50% from 4.06% at September 30, 2024. In addition, the initial healthcare cost trend rate increased by 25 basis points.

District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Notes to Financial Statements

Note 7. Other Postemployment Benefits (Continued)

The following provides the changes to the total OPEB liability for the year ended September 30, 2025:

| | |
|---------------------------|-----------|
| Beginning balance | \$ 80,114 |
| Service cost | 5,692 |
| Interest | 3,373 |
| Changes of assumptions | (1,798) |
| Implicit benefit payments | (2,735) |
| Net changes | 4,532 |
| Ending balance | \$ 84,646 |

Sensitivity of the total OPEB liability to changes in the discount rate: The following presents the total OPEB liability of the Hospital, as well as what the Hospital's total OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the discount rate for the year ended September 30, 2025:

| | Discount Rate | | |
|----------------------|---------------|-----------------------|-------------|
| | 1% Decrease | Current Discount Rate | 1% Increase |
| Total OPEB liability | \$ 92,350 | \$ 84,646 | \$ 79,743 |

Sensitivity of the total OPEB liability to changes in the health care cost trend rates: The following presents the total OPEB liability of the Hospital, as well as what the Hospital's total OPEB liability would be if it were calculated using health care cost trend rates that are one-percentage-point lower or one-percentage-point higher than the current health care cost trend rates for the year ended September 30, 2025:

| | Trend Rate | | |
|----------------------|-------------|--------------------|-------------|
| | 1% Decrease | Current Trend Rate | 1% Increase |
| Total OPEB liability | \$ 78,291 | \$ 84,646 | \$ 93,912 |

OPEB expense and deferred inflows and outflows of resources related to OPEB: The Hospital recognized a credit to OPEB expense of (\$1,254) for the year ended September 30, 2025. At September 30, 2025, the Hospital reported deferred inflows and outflows of resources for changes in assumptions of \$82,047 and \$19,104, respectively, related to the OPEB plan.

District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Notes to Financial Statements

Note 7. Other Postemployment Benefits (Continued)

Amounts reported as deferred inflows and outflows of resources related to the OPEB plan will be recognized in OPEB expense on a straight-line basis as follows:

| | <u>Amount</u> |
|-----------------------------------|--------------------|
| Fiscal years ending September 30: | |
| 2026 | \$ (10,319) |
| 2027 | (10,310) |
| 2028 | (10,270) |
| 2029 | (10,259) |
| 2030 | (9,898) |
| Thereafter | (11,887) |
| | <u>\$ (62,943)</u> |

Note 8. Related-Party Transactions

The Hospital received approximately \$26,129,000 and \$1,795,000 in operating and capital contributions, respectively, from the District during the year ended September 30, 2025. The Hospital received approximately \$1,212,000 in net patient service revenues from the District during the year ended September 30, 2025.

The District allocated certain department support charges to the Hospital, including personnel, purchasing, information technology, legal and administrative costs. The total District allocated costs charged to expense by the Hospital were approximately \$9,114,000 for the year ended September 30, 2025. Such charges are recorded as administrative support charges in the statement of revenues, expenses and changes in net position.

Note 9. Retirement Plans

Defined contribution plan: In November 2004, the Hospital established the District Hospital Holdings 401(a) Retirement Plan (the 401(a) Plan), which is a defined contribution pension plan for Hospital employees who are 18 years of age or older and have completed one year of service. The 401(a) Plan is administered by Empower and does not issue a separate financial report. Plan amendments and contribution rates are approved by the District's Board. Employees are fully vested after three years of service. The Hospital contributes 4% of eligible compensation to the 401(a) Plan and also makes matching contributions equal to 100% of the participants' elective deferrals up to 4% of eligible compensation. Effective October 1, 2015, the Hospital merged its 401(a) Plan with the Health Care District of Palm Beach County's 401(a) Plan (District 401(a) Plan). All provisions of the Hospital 401(a) Plan noted above are the same as those in the District 401(a) Plan. The Hospital contributed approximately \$879,000 to the 401(a) Plan for the year ended September 30, 2025.

Deferred compensation plan: In May 1994, the Hospital established the District Hospital Holdings 457(b) Retirement Plan (the 457(b) Plan), which is a deferred compensation plan. Under the 457(b) Plan, an employee is able to contribute pretax wage/salary dollars into a personal retirement account. The 457(b) Plan is administered by Empower and does not issue a separate financial report. Plan amendments and contribution rates are approved by the District Board. An employee can defer up to \$23,500 of eligible compensation annually or \$31,000 annually for aged 50+ or an additional \$11,250 for aged 60-63 for an annual maximum total of \$34,750. Contribution rates and benefits of the 457(b) Plan are established by the District Board and may be amended in the future by the District Board. Employees contributed approximately \$930,000 to the 457(b) Plan for the year ended September 30, 2025.

District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Notes to Financial Statements

Note 10. Commitments and Contingencies

PRIDE agreement: The District entered into an agreement with PRIDE, an instrumentality of the State of Florida (the State), and a lease with the State for 50 acres of land for the Lakeside Medical Center facility. The lease is for a term of 50 years ending February 1, 2057. Upon termination of the lease, all improvements on the property become the property of the State, which may also require the District to remove the Hospital facility and improvements at the District's expense. As consideration for the lease, the District entered into an agreement with PRIDE that requires the District to purchase \$4,166,667 in goods and services from PRIDE over a 30-year period ending July 12, 2036. Purchases by the District through September 30, 2025, totaled approximately \$283,000. If the purchase requirement is not met by July 12, 2036, the District must pay 18% of the unfulfilled purchase commitment on July 12, 2036. The unfulfilled purchase commitment as of September 30, 2025, is reported at net present value, discounted at a rate of 4.71% (20-year U.S. Treasury Rate), and is approximately \$305,000. The payments to PRIDE, the land rental expense of approximately \$32,000 for the year ended September 30, 2025, and the liability for the agreement are recorded by the District and have not been charged to the Hospital.

Contract commitments: The Hospital has entered into various contracts for services, agreements with physicians and physician groups. The provisions of those contracts are summarized as follows:

Service contracts: The Hospital has entered into various contracts for maintenance agreements and other services. The remaining term of the individual service contracts at September 30, 2025, is generally one to five years.

Physician contracts: The Hospital has entered into various employment contracts with physicians and physician groups for services, which include payments for hourly, shift, weekend and annual salaries. The remaining term of the individual physician contracts at September 30, 2025, is generally one to four years.

The future minimum payments for these contracts at September 30, 2025, are summarized as follows:

| | Service Contracts | Physician Contracts |
|----------------------------|----------------------|------------------------|
| Years ending September 30: | | |
| 2026 | \$ 1,371,511 | \$ 5,403,740 |
| 2027 | 1,326,924 | 536,507 |
| 2028 | 1,170,505 | 10,306 |
| 2029 | 838,045 | - |
| 2030 | 274,035 | - |
| | <u>\$ 4,981,020</u> | <u>\$ 5,950,553</u> |

Professional and general liability claims: The Hospital is subject to claims and lawsuits arising in the ordinary course of business, including claims for damages from medical malpractice, personal injuries, employment-related claims, breach of management contracts and for wrongful restriction of or interference with physicians' staff privileges. Except where prohibited by statute, in certain of these actions, plaintiffs may seek punitive or other damages against the Hospital, which are generally not covered by insurance.

District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Notes to Financial Statements

Note 10. Commitments and Contingencies (Continued)

The Hospital, as a result of its management and control by the District as an independent special taxing district and a political subdivision of the State, is entitled to sovereign immunity under Florida law. For tort actions (with claims arising on or after October 1, 2011), Florida has a limited waiver of sovereign immunity at section 768.28, Florida Statutes. The District's liability for tort is limited to \$200,000 per claim and \$300,000 in the aggregate. Judgments may be claimed or rendered in excess of the sovereign immunity limits; however, the District cannot be liable for such excess amounts unless the claim/judgment is presented to and approved by the Florida legislature (i.e., claims bill). Additionally, on June 1, 2015, the District obtained an umbrella liability policy for coverage in excess of the self-insured retention levels of \$500,000 for professional and general liability exposures per incident and \$850,000 in the aggregate, as well as underlying insurance policies for employers' liability, business automobile liability and aviation general liability exposures.

The excess policies, with aggregate limits of \$5 million each and \$10 million combined, only responds in the event a covered loss results in a claims bill that is approved by the Legislature. The Hospital's management, in consultation with legal counsel, believes all general and professional liability claims are covered by insurance or limited under sovereign immunity and will not have any significant impact on the financial condition of the Hospital in excess of the amounts accrued at fiscal year-end.

Estimated professional and general liability claims, which are recorded as estimated self-insured liability in the statement of net position as of September 30, 2025 and 2024, are summarized as follows:

| | Balance October 1, 2024 | Additions | Reductions | Balance September 30, 2025 | Amounts Due Within One Year |
|--|-------------------------------|------------|--------------|----------------------------------|-----------------------------------|
| Estimated professional and general liability claims | \$ 380,798 | \$ 158,267 | \$ (264,681) | \$ 274,384 | \$ 224,805 |

| | Balance October 1, 2023 | Additions | Reductions | Balance September 30, 2024 | Amounts Due Within One Year |
|--|-------------------------------|------------|--------------|----------------------------------|-----------------------------------|
| Estimated professional and general liability claims | \$ 411,178 | \$ 130,600 | \$ (160,980) | \$ 380,798 | \$ 198,879 |

Medicare and Medicaid: Revenue from the Medicare and Medicaid programs accounted for a significant portion of the Hospital's net patient service revenues for 2025. The Hospital's Medicare and Medicaid cost reports through the year ended September 30, 2021, have been audited. The Hospital's cost reports for the year ended September 30, 2025, have not been filed.

The Hospital has recorded an estimated receivable of \$711,699 at September 30, 2025, for future audit settlements related to Medicare and Medicaid charges. The final determination of amounts earned pursuant to the Medicare and Medicaid programs for open years is subject to review by appropriate governmental agencies or their agents. The Centers for Medicare & Medicaid Services (CMS) has implemented a program using recovery audit contractors (RAC) as part of the CMS efforts to assure accurate payments.

District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Notes to Financial Statements

Note 10. Commitments and Contingencies (Continued)

The program uses the RAC to review claims for potentially improper Medicare payments that may have been made to health care providers and were not detected through existing CMS program reviews. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from, or addition to, the provider's Medicare reimbursement for the amount of the estimated overpayment or underpayment. The Hospital records an adjustment to revenue for any overpayment or underpayment at the time notice is received from the RAC and the amount can be reasonably estimated. There were no material RAC adjustments, audit recoveries or settlements for prior periods related to the Medicare and Medicaid programs during 2025, and no liability has been recorded for estimated RAC settlements.

Compliance with laws and regulations: The health care industry is subject to voluminous and complex laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, anti-kickback and anti-referral laws, false claims prohibitions and Medicare and Medicaid fraud and abuse. In addition, as a tax-exempt entity, the Hospital is also subject to the laws and regulations related to its tax exemption. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions that are unknown or unasserted at this time. Violations of these laws and regulations could result in significant fines and penalties, including repayments for patient services previously reimbursed. Management believes that the Hospital has generally complied with applicable laws and regulations that could have a material impact on the financial statements of the Hospital and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing or noncompliance.

Management Agreement: Effective January 1, 2025, the District, on behalf of the Hospital, entered into a five-year management services agreement with Tampa General Hospital (TGH). The agreement is structured in two phases. Phase 1 includes the appointment of a hospital administrator by TGH and focuses on improvements to revenue cycle operations, strategic planning and care coordination. Phase 2 will address information technology, physician alignment, research/graduate medical education and people and talent initiatives. Under the agreement, the Hospital pays TGH a monthly fee equal to one-twelfth of the annual estimated amount included in the approved annual budget for management services. This fee excludes anticipated incentive management fees and projected reasonable costs and expenses related to the management and operation of the Hospital. Payments are subject to adjustment based on performance, penalties for failure to meet certain benchmarks, or early termination of the agreement. For the year ended September 30, 2025, the Hospital paid TGH \$585,300 under this agreement.

Note 11. Restatement – Implementation of GASB Statement No. 101, *Compensated Absences*

Effective October 1, 2024, the Hospital implemented GASB Statement No. 101, *Compensated Absences*, which updates the recognition and measurement guidance for compensated absences and requires that liabilities for compensated absences be recognized for: (1) leave that has not been used, and (2) leave that has been used but not yet paid in cash or settled through noncash means. The implementation increased beginning compensated absences liability and decreased the beginning net position as shown below:

| | Compensated Absences | Net Position |
|---|-------------------------|----------------------|
| Balance October 1, 2024, as previously reported | \$ 1,425,675 | \$ 34,854,194 |
| Change to implement GASB 101 | 441,975 | (441,975) |
| Balance October 1, 2024, as restated | <u>\$ 1,867,650</u> | <u>\$ 34,412,219</u> |

**Required Supplementary Information
Unaudited**

District Hospital Holdings, Inc.
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Required Supplementary Information
Other Post-Employment Benefits
Schedule of Changes in the Total OPEB Liability and Related Ratios
(Unaudited Last Eight Years)

| | 2025 | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total OPEB liability: | | | | | | | | |
| Service cost | \$ 5,692 | \$ 7,539 | \$ 7,926 | \$ 10,294 | \$ 11,095 | \$ 8,560 | \$ 8,726 | \$ 88,962 |
| Interest | 3,373 | 6,263 | 5,846 | 3,498 | 3,275 | 5,599 | 5,794 | 5,473 |
| Difference between expected and actual experience | - | (60,266) | - | 15,209 | - | (13,119) | - | - |
| Changes of assumptions | (1,798) | 5,511 | (1,014) | (44,277) | (3,287) | 13,063 | 1,925 | (2,624) |
| Implicit benefit payments | (2,735) | (6,329) | (3,747) | (19,369) | (20,009) | (19,014) | (15,805) | (12,462) |
| Net change in total OPEB liability | 4,532 | (47,282) | 9,011 | (34,645) | (8,926) | (4,911) | 640 | 79,349 |
| Total OPEB liability—beginning | 80,114 | 127,396 | 118,385 | 153,030 | 161,956 | 166,867 | 166,227 | 86,878 |
| Total OPEB liability—ending | <u>\$ 84,646</u> | <u>\$ 80,114</u> | <u>\$ 127,396</u> | <u>\$ 118,385</u> | <u>\$ 153,030</u> | <u>\$ 161,956</u> | <u>\$ 166,867</u> | <u>\$ 166,227</u> |
| Covered payroll | \$ 19,767,157 | \$ 18,253,290 | \$ 18,235,760 | \$ 20,026,669 | \$ 20,185,120 | \$ 20,003,705 | \$ 18,737,014 | \$ 18,548,791 |
| Total OPEB liability as a percentage of covered payroll | 0.43% | 0.44% | 0.70% | 0.59% | 0.76% | 0.81% | 0.89% | 0.90% |
| Measurement date | 9/30/2025 | 9/30/2024 | 9/30/2023 | 9/30/2022 | 9/30/2021 | 9/30/2020 | 9/30/2019 | 9/30/2018 |

Notes to schedule:

(1) No assets are accumulated in a trust to pay plan benefits.

(2) Assumption changes since prior valuation:

- Trend rate increased by 25 basis points before trending down 25 basis points per year
- Discount rate increased from 4.06% to 4.50%

(3) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for those years for which information is available will be presented.

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Independent Auditor's Report

Board of Directors
District Hospital Holdings, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of District Hospital Holdings, Inc. (the Hospital), a component unit of the Health Care District of Palm Beach County, Florida, as of and for the year ended September 30, 2025, and the related notes to the financial statements which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated February 26, 2026. Our report included an emphasis of matter paragraph for the adoption of Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*, effective October 1, 2024. Our report is not modified with respect to this matter.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

West Palm Beach, Florida
February 26, 2026



Health Care District
OF PALM BEACH COUNTY
WE CARE FOR ALL

Financial report prepared by the Finance Department
of the Health Care District of Palm Beach County

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