

THE LOWER FLORIDA KEYS HOSPITAL DISTRICT

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

DRAFT

THE LOWER FLORIDA KEYS HOSPITAL DISTRICT

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Independent Auditors' Report

The Board of Directors
The Lower Florida Keys Hospital District

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Lower Florida Keys Hospital District (the "District"), as of and for the fiscal year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of September 30, 2024, and the respective changes in financial position, and cash flows thereof for the fiscal 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of administrative services and schedule of revenues and expenses – budget and actual are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of administrative services and schedule of revenues and expenses – budget and actual are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Matter

Report on Summarized Comparative Information

The financial statements of the District as of and for the fiscal year ended September 30, 2023, were audited by Oropeza and Parks, CPA, whose report dated May 8, 2024, expressed an unmodified opinion on those financial statements. The summarized comparative information presented herein as of and for the fiscal year ended September 30, 2023 was derived from the 2023 financial statements.

Other Reporting Required by Government Auditing Standards

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

Miami, FL
June XX, 2025

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Lower Florida Keys Hospital District (the "District") offers readers of the District's financial statements this narrative overview and analysis of the District's financial activities for the fiscal year ended September 30, 2024.

Overview

Serving Monroe County, 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 has determined there are no organizations for which it is financially accountable (component units) and is required to include in its financial statements, as defined by the accounting standards.

The District was created by the legislature of the State of Florida in 1967 to establish and operate a hospital in Monroe County, Florida for the people of the District, which extends south of the Seven Mile Bridge to and including the City of Key West. The Enabling Act provides for a Board of Commissioners, appointed by the Governor, of nine (9) members to govern the District. One Board member's term expired in 2020, and another in 2019, two (2) of the Board members' terms expired in September, 2018, one Board member's term expired in September, 2017 and one Board member's term expired in September, 2016, and all continue to serve until re-appointed or successors are appointed, or unless they give notice of intent not to continue to serve. In addition, there are three vacant Board positions awaiting appointment. The board members receive no compensation for their services.

The Board of Commissioners of the District is also authorized by its Enabling Act to levy ad valorem taxes sufficient for the purposes and needs of the District. This authorization is limited to two mills per year of the county-assessed valuation of the property within the District. The District's 2024 final, before Value Adjustment Board, total taxable value was \$20,810,939,980, giving the District the ability to levy ad valorem taxes up to \$41,621,880. The Board strives to limit the economic cost of operations to the people of the District. As a result, there was no levy of ad valorem taxes during the fiscal year 2024.

In an effort to minimize the economic cost to the people of the District, and in accordance with the District's financial policy, the District has invested funds to yield the highest returns within investment guidelines established by Florida Statutes. The District has retained PFM Asset Management LLC to advise and manage its investments.

On May 1, 1999, the District entered into a 30-year lease agreement and an indigent care agreement with Key West HMA, LLC. ("HMA"), a Florida limited liability company, to lease substantially all of its real and tangible property and received a lump sum payment of \$20 million with no future payments during the 30-year term of the agreement. On January 27, 2014 Health Management Associates, Inc., the parent company of Key West HMA, LLC, was acquired by Community Health Systems, Inc.

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

In addition, under a 1999 indigent care agreement, the District agreed to provide funding for professional medical services for a primary care clinic. The maximum the District is obligated to pay is up to \$500,000 per fiscal year, until the cash and investments of the District are less than \$3,000,000, or HMA determines that the clinic becomes economically impractical to operate. If either contingent event occurs, the District's obligation to fund the Primary Care Clinic ceases.

In continuance with the District's goal to provide quality healthcare in the lower Florida Keys, the District entered into an agreement with Key West Health and Rehabilitation Center, LLC (KWHRC) to provide funds for capital improvements to the convalescent facilities located at 5860 West Junior College Road, Key West, Florida. The land at this location was owned by the State of Florida and was deeded to the District through the City of Key West, so long as the use of the property is for purposes set forth in the District's Enabling Act legislation. The District obtained a Declaratory Statement from the Circuit Court of Monroe County, Florida that the operation of convalescent facilities was within the ambit of the purposes of the Enabling Act legislation. The land and any improvements will revert back to the State if the land no longer is used for the purposes set forth in its Enabling Act, at which time the District's use of the land ceases. The District committed to provide advanced funds in prior years totaling \$2,980,000, which allowed for necessary renovations to an established long term health care provider facility. Interest accrues at a rate of 5% per annum. The completion of these renovations allowed for the reopening of the long term health care facility in the later part of 2010, and continues to rejuvenate job opportunities and convalescent medical services in the community.

On October 15, 2020, the nursing home operated by KWHRC was sold out of bankruptcy to the Portopiccolo Group LLC from New Jersey, who formed Key West FL Propco LLC (KWFLP), as part of their Florida Orchid Cove Group, to operate the facility and are doing business as Palm Vista Nursing and Rehabilitation Center. As a result of the sale, KWFLP assumed the original Advanced Rent Receivable agreement with KWHRC. As part of the Fifth Ground Lease Amendment entered into on November 1, 2022 KWFLP will continue to make monthly payments of principal and interest under the original amortization of 311 months, with an adjustment in terms to be a balloon payment due October 31, 2025.

Overview of the Financial Statements

The enclosed financial statements are designed to provide readers an overview of the District's finances. The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about the District's activities.

The statement of net position presents information on the District's assets, liabilities and net position. It also provides the basis for computing rate of return, evaluating the capital structure and assessing the liquidity and financial flexibility of the District. 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 LOWER KEYS FLORIDA HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

The statement of revenues, expenses and changes in net position presents information indicating how the District's net position changed during the fiscal year. This statement measures the success of the District's operations over the past year and can be used to determine liquidity, credit worthiness and whether the District has successfully covered all its costs. All changes in net position are reported when the event causing the change occurs, regardless of when 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 the future fiscal periods, which reflect the accrual basis of accounting.

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

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

The District adopts an annual appropriated budget. A budgetary comparison statement has been provided to demonstrate compliance with this budget. In addition to the financial statements and accompanying notes, this report also presents supplementary information in the form of a report on internal control and compliance issues.

Financial Analysis of the District

Statement of Net Position. In the statement of net position presented on page 9, the District's assets total \$15,991,345, and include cash and cash equivalents, investments and amounts due from a lessee for advancement of rent. The cash and cash equivalents include cash at a local bank institution and money held by a third party custodian, as required by the District's investment policy. Investments consist of equity securities and as required by the District's investment policy, are managed by PFM Management LLC and are held by a third party custodian.

Total assets of the District, increased \$2,404,701 compared to \$13,586,644 at September 30, 2023. This was primarily due to payments received for receivables and an increase in investments due to a favorable return on investments and a favorable change in market.

The District reported a lease receivable under GASS 87 and related deferred inflow of resources related to leases of \$1,610,545 in the fiscal year ended September 30, 2024.

The District's current liabilities consist of payables for contracted services, funding for professional medical services and other at year end and total \$153,621.

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table provides a condensed comparison of the District's net position at year end for 2024 and 2023:

	2024	2023
Cash and cash equivalents	\$ 94,280	\$ 57,554
Investments	11,912,969	9,774,829
Receivables	3,623,922	3,753,552
Prepaid expenses and other current assets	360,174	709
Total Assets	\$ 15,991,345	\$ 13,586,644
Total Liabilities	\$ 153,621	\$ 141,892
Total Deferred Inflows of Resources	1,610,545	1,638,677
Net Position		
Unrestricted	14,227,179	11,806,075
Total Net Position	14,227,179	11,806,075
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 15,991,345	\$ 13,586,644

Statement of Revenues, Expenses and Changes in Net Position. The Statement of Revenues, Expenses and Changes in Net Position as presented on page 10, consisted of an operating expense of \$449,241. Total operating expense increased \$43,422, compared to the prior year primarily due to an increase in expenses relating to the administrative expenses.

Net Investment income in the Statement of Revenues, Expenses and Changes in Net Position totaled \$2,374,113. Net investment income increased \$1,291,570 compared to the prior year, in part due to overall market performance in the current year. Net investment income shown is the total of interest and dividends earned plus the current realized and unrealized gains or losses on funds invested as described in Note 2. Total fees incurred relating to investments were \$28,176. Interest income from the advancement of rent and rent were \$464,003, \$30,578, respectively.

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table provides a condensed comparison of the District's statement of revenue, expenses and changes in net position for the years ended September 30, 2024 and 2023:

	2024	2023
Operating Expenses:		
Administrative	\$ 103,053	\$ 54,095
Primary care clinic	<u>346,188</u>	<u>351,724</u>
Total Operating Expenses	<u>449,241</u>	<u>405,819</u>
Non-Operating Revenue (Expense):		
Investment income, net fees	2,374,113	1,082,543
Interest income	464,003	108,389
Land rent	30,578	28,132
Other	<u>1,651</u>	<u>1,650</u>
Total Non-Operating Revenue	<u>2,870,345</u>	<u>1,220,714</u>
Increase (Decrease) in Net Position	<u>\$ 2,421,104</u>	<u>\$ 814,895</u>

Requests for information

This financial report is designed to provide a general overview of the District's financial position and the District's finances for those with an interest in the government's finances. Questions concerning any of the information should be addressed to the Finance Committee, P.O. Box 5403, Key West, FL 33045.

THE LOWER FLORIDA LEYS HOSPITAL DISTRICT

STATEMENT OF NET POSITION

SEPTEMBER 30, 2024

(WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2023)

	2024	2023
Assets		
Current Assets		
Cash and cash equivalents	\$ 94,280	\$ 57,554
Advanced rent receivable - Key West FL Propco LLC	107,135	93,231
Current portion lease receivable	28,132	28,132
Prepaid expenses and other current assets	<u>360,174</u>	<u>709</u>
Total Current Assets	589,721	179,626
Non-Current Assets		
Advanced rent receivable - Key West FL Propco LLC	1,906,242	2,021,644
Lease receivable	1,582,413	1,610,545
Investments	<u>11,912,969</u>	<u>9,774,829</u>
Total Non-Current Assets	<u>15,401,624</u>	<u>13,407,018</u>
Total Assets	<u>\$ 15,991,345</u>	<u>\$ 13,586,644</u>
Liabilities		
Current Liabilities		
Due to Key West FL Propco LLC	\$ 4,654	\$ 4,654
Due to Key West HMA	107,224	109,099
Other liabilities	<u>41,743</u>	<u>28,139</u>
Total Liabilities	<u>153,621</u>	<u>141,892</u>
Reconciliation of Operating Loss to Net Cash		
Deferred inflows related to lease	<u>1,610,545</u>	<u>1,638,677</u>
Net Position		
Unrestricted	<u>14,227,179</u>	<u>11,806,075</u>
Total Net Position	<u>\$ 14,227,179</u>	<u>\$ 11,806,075</u>

The accompanying notes are an integral part of these financial statements.

THE LOWER FLORIDA LEYS HOSPITAL DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023)

	2024	2023
Operating Expenses		
Administrative services	\$ 103,053	\$ 54,095
Primary care clinic expense	346,188	351,724
Total Operating Expenses	449,241	405,819
Loss From Operations	(449,241)	(405,819)
Non-Operating Revenues and (Expenses)		
Custodial fees	(2,759)	(2,590)
Investment advisor fees and custodial fees	(25,417)	(26,883)
Investment income	2,402,289	1,112,016
Interest income - Key West FL Propco LLC	464,003	108,389
Land rent	30,578	28,132
Other revenues	1,651	1,650
Total Non-Operating Revenues and Expenses	2,870,345	1,220,714
Change in Net Position	2,421,104	814,895
Net Position - Beginning	11,806,075	10,991,180
Net Position - Ending	\$ 14,227,179	\$ 11,806,075

The accompanying notes are an integral part of these financial statements.

THE LOWER FLORIDA LEYS HOSPITAL DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2024

	2024
Cash Flows From Operating Activities	
Payments for administrative services	\$ (89,449)
Payments for primary care clinic	<u>(348,063)</u>
Net Cash Used in Operating Activities	<u>(437,512)</u>
Cash Flows from Investing Activities	
Interest income - Key West FL Propco LLC	206,036
Investment income	2,374,113
Other cash received	1,651
Land rent received	30,578
Purchase of investments	(3,250,987)
Proceeds from sale and maturities of investments	<u>1,112,847</u>
Net Cash Provided By Investing Activities	<u>474,238</u>
Net Increase in Cash	36,726
Cash and Cash Equivalents - Beginning	<u>57,554</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 94,280</u></u>
Reconciliation of Operating Loss to Net Cash	
Used in Operating Activities	
Operating Loss	\$ (449,241)
Changes in assets, liabilities and deferred inflows:	
(Decrease) increase in	
Due to Key West HMA	(1,875)
Other liabilities	<u>13,604</u>
Net Cash Used In Operating Activities	<u><u>\$ (437,512)</u></u>

The accompanying notes are an integral part of these financial statements.

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lower Florida Keys Hospital District ("District") was created August 4, 1967, and became a political subdivision in Monroe County, Florida by the legislature of the State of Florida for the purpose of establishing and maintaining a hospital for the people of the District. The District boundaries include the area of the southern end of the Seven Mile Bridge continuing south to, and including, the City of Key West. The District currently operates pursuant to Chapter 2003-307, Laws of Florida, which is a re-codification of its original special act, being Chapter 67.1724, Laws of Florida and all amendments thereto. The legislation provides for a Board of Commissioners to govern the District. The Board consists of nine (9) members, all residents living within the boundaries of the District and appointed by the Governor. One Board member's term expired in 2020 and another in 2019, two (2) of the Board members' terms expired in September, 2018, one Board member's term expired in September, 2017 and one Board member's term expired in September, 2016, and all continue to serve until re-appointed or successors are appointed, or unless they give notice of intent not to continue to serve. In addition, there are three vacant Board positions awaiting appointment. The board members receive no compensation for their services.

The Board of Commissioners of the District is authorized by its Enabling Act of the State of Florida to levy ad valorem taxes sufficient for the purposes and needs of the District. This authorization is limited to two mills per year of the county-assessed valuation of the property within the boundaries of the District.

On December 13, 1989, the Florida Legislature approved the lease of hospital facilities to a newly formed Florida not-for-profit corporation, The Lower Florida Keys Health System, Inc. (Health System). The District has the right to appoint four members of the Board of Directors of Health System. In addition, Health System acquired the operations of the District's hospital facilities and those of a private for-profit hospital facility located in Key West including contracts, leases and inventory of these facilities. The District signed a lease consolidation agreement on December 5, 1989. The lease of the District's hospital facilities, contracts and other selected assets occurred on May 1, 1990. On May 1, 1999 the District and Health System voluntarily terminated their lease dated May 1, 1990 and the related Indigent Care Agreement. The District simultaneously, on May 1, 1999, entered into a 30-year lease agreement and Indigent Care Agreement with Key West HMA, LLC ("HMA"), a Florida limited liability company covering substantially the same real and tangible property previously leased to Health System. The District received a lump-sum payment of \$20,000,000 upon signing the lease with no future payments due from HMA during the 30-year term of the lease. On April 15, 2002, the District and HMA entered into an agreement retroactive to October 1, 2001 to amend the 30-year lease and indigent care agreement, to amend and clarify certain aspects of the lease agreement regarding the operations of the Clinic and the funding obligations of the District. On January 27, 2014 Health Management Associates, Inc., the parent company of Key West HMA, LLC, was acquired by Community Health Systems, Inc.

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under the 1999 indigent care agreement, the District contracted with HMA to provide indigent care for the District for 30 years, which, during the first 10 years of the agreement, the District will pay a maximum of \$1,500,000 per year from a restricted escrow account for indigent care costs incurred by HMA. In accordance with the lease agreement, \$15,000,000 was placed in a separate escrow account to fund indigent care. The terms of this agreement were fulfilled as of April 30, 2009.

The District also has an obligation to provide funding for professional medical services for a primary care clinic. The maximum the District is obligated to pay is \$500,000 per fiscal year, until the cash and investments of the District are less than \$3,000,000, or if HMA determines that the clinic becomes economically impractical to operate, the District's obligation ceases.

The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The District complies with generally accepted accounting principles and applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements. In addition, the District applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

FINANCIAL REPORTING ENTITY

The District complies with GASB Statements defining the financial reporting entity. This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the officials of the primary government are financially accountable and there is a benefit or burden relationship and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the District's financial statements.

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The District is reported as a single enterprise fund, which is the type of fund used to account for services provided to the public and financed through charges to the users of such services. As such it employs an economic resources measurement focus. The goal of the District's financial statements is similar to that of private business enterprises, which is to assess the change in its total economic resources over a period of time. This goal is accomplished through the use of the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded when the associated liabilities are incurred, regardless of the timing of cash receipts and disbursements.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The District's enterprise fund does not have any principal operating revenue. Operating expenses for the District's enterprise fund include the administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

BUDGETS

Annual budgets are legally adopted by the District. The budget is adopted on a basis consistent with generally accepted accounting principles in the United States of America, except no amounts are provided for depreciation.

CASH AND INVESTMENTS

For purposes of the statement of cash flows, the District considers all highly liquid investments including cash on hand, demand deposits, time deposits, and short-term investments with original maturities of three months or less from the date of acquisition to be cash and cash equivalents.

Investments are stated at fair value, based upon quoted market prices. Additional cash and investment disclosures are presented in Note 2.

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS

Capital assets are recorded at cost of items purchased or constructed and at fair market value on the date donated for items contributed. For financial reporting purposes, it is the policy of the District to provide depreciation based on the estimated useful lives of the individual units using the straight-line method of depreciation.

The estimated useful life of the principal class of assets is as follows:

<u>Classification</u>	<u>Years</u>
Office equipment	5

There were no purchases of capital assets in the current year. During the current year, no obsolete or fully depreciated items were removed and there was no addition to accumulated depreciation - office equipment. At September 30, 2024, total capital assets consisted of fully depreciated office equipment with a cost of \$2,259.

LEASE RECEIVABLE

The District has a ground lease agreement. The District recognized a lease receivable and a deferred inflow of resources under this lease agreement. At the commencement of the lease, the District initially measured the lease receivable and the deferred inflow of resources at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments made. Key estimates related to the lease include the discount rate used to discount the expected lease payments to present value, lease term and renewals and lease payments. The District estimated the incremental borrowing rate as the discount rate. The District monitors changes in circumstances that would require a remeasurement of the lease and will remeasure a lease receivable and deferred inflows if certain changes occur that are expected to significantly affect the amount of the lease receivable.

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET POSITION

Net position is classified as net position and displayed in three components:

Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings and net of deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets.

Restricted — Assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation, net of related liabilities.

Unrestricted — Residual amounts that do not meet the definition of the two categories above.

NET POSITION FLOW ASSUMPTION

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

USE OF ESTIMATES

The preparation of financial statements in conformity with 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 expenditures during the reporting period. Actual results could differ from those estimates.

REVENUES AND EXPENSES

Operating revenue and expenses for proprietary funds are those that result from providing services and producing and delivering goods and services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the statement of financial position and fund financial statements report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows of resources relates to the unamortized portion of the lease receivable.

IMPLEMENTATION OF GASB STATEMENTS

The District considered the new accounting standards which effective dates are applicable for the fiscal year ended September 30, 2024. The implementation of GASB Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*, did not have a significant impact on the District's financial statements.

NOTE 2 – CASH AND INVESTMENTS

DEPOSITS

The District's cash balances were entirely covered by federal depository insurance or by a collateral pool pledged to the State Treasurer. Florida Statutes Chapter 280, "Florida Security for Public Deposits Act", requires all qualified depositories to deposit with the Treasurer or another banking institution eligible collateral equal to various percentages of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. Governmental and agency securities, state or local government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

INVESTMENTS

The District has adopted an investment policy in accordance with Florida Statutes, Chapter 218.415(16), such that the District's investment objectives for operational cash are to provide safety, liquidity and yield. Operational cash is considered to be funds that will need to be accessed during the fiscal year for operational and program expenses. The Finance Committee will recommend to the Board an appropriate amount. Operating cash needed for daily operations will be deposited in a local financial institution. Funds not required for daily operations may be segregated and invested for 0-3 years in the following securities.

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

INVESTMENTS (CONTINUED)

- a. Non-negotiable interest-bearing time certificates of deposit or interest bearing accounts in financial institutions organized under the laws of the United States and doing business and situated in the State of Florida, provided that any such deposits are secured by the Federal Deposit Insurance Corporation. Additionally, the financial institution shall not be listed with any recognized credit watch information service.
- b. United States Treasury Securities: maximum of 100% of the portfolio
- c. Federal Instrumentality Securities: maximum of 100% of the portfolio
- d. Government Agency Securities: maximum of 50% of the portfolio
- e. Corporate Bonds: maximum of 25% of the portfolio, maximum of 5% per issuer. Issuers must have a long term debt rating, at the time of purchase, at a minimum "A" category by Moody's or a minimum long term debt rating of "A" category by Standard & Poor's.
- f. Municipal Securities: maximum 50% of the portfolio, maximum 10% per issuer. Issuers must be rated at least a minimum "A" category by Moody's or a minimum long term debt rating of "A" category by Standard & Poor's for long-term debt, or rated at least "VMIG2" by Moody's or "A-2" by Standard & Poor's or equivalent rating by another nationally recognized statistical rating organization ("NRSRO") for short-term debt.
- g. Money Market Mutual Funds: maximum 50% of the portfolio. Funds must be AAAM rated by Standard & Poor's and registered with the SEC.

It is anticipated that any investments that do not provide daily liquidity will be held to maturity in order to avoid having to sell securities at a market price that will result in recognizing a loss.

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

INVESTMENTS (CONTINUED)

1. Interest Rate Risk - The District's investment objectives are based on an average 3-10 year investment horizon. Interim fluctuations should be viewed with appropriate perspective. The District's Board has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. Investment shall be diversified with the intent to minimize the risk of investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, sectors, countries, governments, or industries.
2. Credit Risk - The District's Policy permits for investments in fixed income securities and cash equivalents that are limited to credit quality ratings from nationally recognized rating agencies as follows:

Pooled Vehicles - Every effort shall be made, to the extent practical, prudent and appropriate, to select commingled funds and/or mutual funds that have investment objectives and policies that are consistent with the Policy. However, given the nature of commingled funds and mutual funds, it is recognized that there may be deviations between the Policy and the objectives of these pooled vehicles. A commingled fund or mutual fund will not be included in the District portfolio unless it complies with the Investment Company Act of 1940's diversification requirement.

Cash Equivalents - Cash equivalents shall be held in funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

Equities - Pooled equity vehicles, including mutual funds, shall comply with the diversification rules outlined in the Investment Company Act of 1940. No more than 5% of the total stock portfolio valued at market may be invested in the common stock of any one corporation. Ownership of the shares of one company shall not exceed 2% of those outstanding. Not more than 25% of stock valued at market may be held in any one industry category. Other than these constraints, there are no quantitative guidelines suggested as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the Investment Managers.

The overall non-U.S. equity allocation should include a diverse global mix that is comprised of the stocks of companies from multiple regions and sectors. The emerging markets exposure as defined by Morgan Stanley Capital International Inc. ("MSCI") should be limited to 35% of the non-U.S. portion of the portfolio.

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

INVESTMENTS (CONTINUED)

In order to maintain an effective money management structure that is style neutral, the target growth to value allocation in all market capitalizations is one-to-one. However, in no case will the growth value allocation for market capitalizations exceed two-to-one. Conversely, value shall not exceed growth by the same ratio.

Fixed Income - Fixed income investments shall be high quality pooled vehicles with a preponderance of the investments in (1) U.S. Treasury, federal agencies and U.S. Government guaranteed obligations, (2) investment grade corporate issues including convertibles, and (3) sovereign debt of foreign countries.

Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other federal agencies. The overall rating of the aggregate fixed income assets shall be at least "A", based on the rating of one of the three rating agencies (Fitch, Moody's or Standard & Poor's). In cases where the yield spread adequately compensates for additional risk, high yield securities (BB+ or lower), can be purchased or held up to a maximum of 20% of the total market value of fixed income securities of the Fund.

3. Custodial Risk Credit - All securities, with the exception of certificates of deposits, shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by; the District should be properly designated as an asset of the District. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Section 658.12, Florida Statutes, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida. Certificates of deposits will be placed in the provider's safekeeping department for the term of the deposit.

The Finance Committee will execute on behalf of the District, third party custodial agreement(s) with its bank(s) and depository institution(s). Such agreements may include letters of authority from the District, details as to the responsibilities of each party, method of notification of security purchases, sales, delivery, procedures related to repurchase agreements and wire transfers, safekeeping and transaction costs, procedures in case of wire failure or other unforeseen mishaps and describing the liability of each party.

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

INVESTMENTS (CONTINUED)

The custodian shall accept transaction instructions only from those persons who have been duly authorized by the Finance Committee and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made from safekeeping, shall be permitted unless by such a duly authorized person.

The custodian shall provide the District with safekeeping receipts that provide detail information on the securities held by the custodian. Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Securities held as collateral shall be held free and clear of any liens.

As of September 30, 2024, all Districts' assets were held by a third-party custodian, U.S. Bank N.A., as required by the District's Policy.

4. Concentration of Credit Risk - The District's Board believes that to achieve the greatest likelihood of meeting the District's investment objectives and the best balance between risk and return for optimal diversification, the investment assets will be invested in accordance with the targets for each asset class as follows:

<u>Investment Assets</u>	<u>Asset Weightings</u>		
	Range	Target	Actual
Domestic Equity	36% - 56%	46%	46.5%
International Equity	14% - 34%	24%	24.2%
Other	0% - 15%	0%	0.0%
Fixed Income	10% - 50%	30%	29.0%
Cash Equivalent	0% - 20%	0%	0.3%

5. Foreign Currency Risk - The District's Policy allows for non-U.S. investments through the use of commingled funds and/or mutual funds. All of the District's assets are invested in mutual funds denominated in U.S. Dollars. There is no direct foreign currency risk; however, underlying securities of these funds may be denominated in currencies other than the U.S. Dollar. It is at the discretion of the investment advisor of each mutual fund to determine whether the foreign currency risk(s) of their respective fund should be hedged.

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

FAIR VALUE HIERARCHY

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 - Investments' fair values based on prices quoted in active markets for identical assets.

Level 2 - Investments' fair values based on observable inputs for the assets either directly or indirectly, other than those considered Level 1 inputs, which may include quoted prices for identical assets in markets that are not considered to be active, and quoted prices of similar assets in active or inactive markets.

Level 3 - Investments' fair values based upon unobservable inputs.

The following is a description of the fair value techniques for the District's investments. Level 1 and 2 prices are obtained from various pricing sources by the District's custodian bank:

Debt & equities securities classified in Level 2 of the fair value hierarchy are valued using pricing inputs that reflect the assumptions market participants would use to price an asset or liability and are developed based on market data obtained from sources independent of the reporting entity. This includes mutual funds.

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

The following is a summary of the fair value hierarchy of investments as of September 30, 2024:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
September 30, 2024				
Investments by Fair Value Level				
Debt securities:				
Mutual funds - fixed income	\$ 3,460,102	\$ --	\$ 3,460,102	\$ --
Total debt securities	<u>3,460,102</u>	<u>--</u>	<u>3,460,102</u>	<u>--</u>
Equity securities:				
Mutual funds - domestic equity	5,536,830	--	5,536,830	--
Mutual funds - international equity	<u>2,882,438</u>	<u>--</u>	<u>2,882,438</u>	<u>--</u>
Total equity securities	<u>8,419,268</u>	<u>--</u>	<u>8,419,268</u>	<u>--</u>
Total investments by fair value level	<u>11,879,370</u>	<u>\$ --</u>	<u>\$ 11,879,370</u>	<u>\$ --</u>
Money market funds (exempt)	<u>33,599</u>			
Total investments	<u>\$ 11,912,969</u>			

NOTE 3 – ACCOUNTS RECEIVABLE

ADVANCED RENT RECEIVABLE - PALM VISTA HEALTH AND REHABILITATION CENTER

On February 24, 2010, the District entered into an amendment to the Ground Lease Agreement with Key West Health and Rehabilitation Center, LLC (KWHRC) in which the District advanced funds, not to exceed \$2.98 million, for remediation, renovation and capital improvement of the building located at 5860 West Junior College Road, Key West, Florida. The advanced funds will accrue interest at a rate of five percent (5.0%) per annum.

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

NOTE 3 – ACCOUNTS RECEIVABLE

ADVANCED RENT RECEIVABLE - PALM VISTA HEALTH AND REHABILITATION CENTER (CONTINUED)

For repayment of the advanced funds not to exceed \$2.98 million, commencing on June 1, 2012, and on the first date of each month thereafter, KWHRC shall remit to the District, as additional rent, an amount of amortized principal and interest over a term of 311 months. The repayment of advanced funds is secondary to a monthly mortgage obligation that KWHRC has with HUD. In the event KWHRC refinances the building, the remaining balance of any outstanding advance funds and accrued interest shall be due at closing.

On October 15, 2020, the nursing home operated by KWHRC was sold out of bankruptcy to the Portopiccino Group LLC from New Jersey, who formed Key West FL Propco LLC (KWFLP), as part of their Florida Orchid Cove Group, to operate the facility and are doing business as Palm Vista Nursing and Rehabilitation Center. As a result of the sale, KWFLP assumed the original Advanced Rent Receivable agreement with KWHRC. As part of the Fifth Ground Lease Amendment entered into on November 1, 2022 KWFLP will continue to make monthly payments of principal and interest under the original amortization of 311 months, with an adjustment in terms to be a balloon payment due October 31, 2025. KWFLP paid off the HUD loan and the repayment of advanced funds is secondary to a monthly mortgage obligation that KWFLP has with Bankwell Bank (Leasehold Mortgage). In the event KWFLP refinances the building, the remaining balance of any outstanding advance funds and accrued interest shall be due at closing.

The total amount due from KWHRC at September 30, 2024 was \$2,013,377. Total interest income associated with the advanced funds for the fiscal year ending September 30, 2024 \$464,003 which included \$360,151 of accrued interest.

LEASE RECEIVABLE

The District's lease receivable is measured at the present value of lease payments expected to be received during the term of the lease, using a discount rate of 3.52% and a consistent CPI of 2.70%. The District's lease does not include any variable payments or residual guarantees. Unearned revenues are recorded for the lease at the commencement of the lease in an amount equal to the lease receivable. The unearned revenues are then amortized on a straight-line basis over the term of the lease.

On October 15, 2020, the District entered into its Fourth Amendment to its ground lease with the current assigned lessee, Key West FL Propco LLC. The original ground lease was entered into December 18, 1982 for a term of ninety-nine years. The lease receivable is measured at the present value of the future lease payments of \$3,427, with a yearly CPI increase.

During the fiscal year ending September 30, 2024, the District recognized \$30,578 in lease revenue and \$26,132 in interest revenue under the lease.

THE LOWER KEYS FLORIDA HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

NOTE 4 – PROPERTY TAXES

The tax levy for the Lower Florida Keys Hospital District is established by the District Board of Commissioners and is incorporated into the total district tax levy by the Monroe County Property Appraiser. The maximum millage rate allowable is 2.0 mills. The millage rate proposed by the Hospital District was -0- mills for the year ended September 30, 2023 and -0- mills for the year ended September 30, 2023. Actual property tax revenues received prior to September 30, 2024 were \$0, less property appraiser and tax assessor fees of \$0. Actual property tax revenues received prior to September 30, 2023 were \$0, less property appraiser and tax assessor fees of \$0. The District's tax calendar is as follows:

Valuation Date:	January 1
Levy Date:	November 1
Due Date:	March 31, succeeding year
Lien Date:	April 1, succeeding year

NOTE 5 – RISK MANAGEMENT

The District is exposed to various risks of loss related to theft and errors and omissions. The District, after a review of loss history, elected to be self-insured for general losses and transferred the risk of loss to theft, errors and omissions to insurance companies. There were no claims in excess of insurance coverage during the last three fiscal years.

NOTE 6 – PRIMARY CARE CLINIC

As part of the contract signed on May 1, 1999 with Key West HMA, LLC ("HMA"), the District is under an obligation to provide funding for professional medical services for a Primary Care Clinic ("Clinic") during the 30-year term. HMA is obligated to establish and operate such a Clinic for a minimum of one (1) year. The maximum amount the District is required to pay, in association with professional medical services provided to indigents by the Clinic, or referred directly from the Clinic, is \$500,000 per year. There shall be no carryover of unpaid reimbursable bills from year-to-year. If the services provided by the Clinic are replaced by other programs, or if the Clinic becomes economically impractical to operate as determined by HMA, or if during any fiscal year the total of cash and investments of the District are less than \$3,000,000, then the District's obligations to fund the professional medical services at the Clinic ceases. HMA started operation of the Clinic on September 13, 1999. For the fiscal year ended September 30, 2024, the District's cost for the primary care clinic was \$346,188.

THE LOWER FLORIDA LEYS HOSPITAL DISTRICT

SCHEDULE OF ADMINISTRATIVE SERVICES

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023)

	2024	2023
Accounting contract services	\$ 6,000	\$ 6,000
Administrative contract services	14,403	13,428
Advertising expense	173	137
Audit fees	17,375	16,550
Insurance	542	449
Legal fees	63,757	17,140
Miscellaneous	608	223
Office supplies	195	168
Total	\$ 103,053	\$ 54,095

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THE LOWER FLORIDA LEYS HOSPITAL DISTRICT

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

	Original and Final Budget	Actual	Variance - Positive (Negative)
Operating Expenses:			
Accounting contract services	\$ 6,000	\$ 6,000	\$ --
Administrative contract services	13,700	14,403	(703)
Audit fees	17,700	17,375	325
Legal fees	20,000	63,757	(43,757)
Other administrative expenses	2,018	1,518	500
Primary care clinic expenses	<u>500,000</u>	<u>346,188</u>	<u>153,812</u>
Total Operating Expenses	<u>559,418</u>	<u>449,241</u>	<u>110,177</u>
Loss from Operations	559,418	449,241	110,177
Non-Operating Revenues and (Expenses)			
Land rent	55,844	30,578	(25,266)
Other nonoperating revenues and (expenses):			
Investment advisor and custodial fees	(34,800)	(28,176)	6,624
Interest income - Key West FL Propco LLC	205,349	464,003	258,654
Interest and dividend income	220,000	302,848	82,848
Net increase in the fair value of investments	--	2,099,441	2,099,441
Other revenues	<u>--</u>	<u>1,651</u>	<u>1,651</u>
Total Non-Operating Revenues	<u>446,393</u>	<u>2,870,345</u>	<u>2,423,952</u>
Excess of Revenues Over (Under) Expenses	<u>\$ (113,025)</u>	2,421,104	<u>\$ 2,534,129</u>
Adjustments:			
Depreciation		<u>--</u>	
Change in Net Position		<u>\$ 2,421,104</u>	

**Independent Auditors' 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**

To the Board of Commissioners
Lower Florida Keys Hospital District

We have audited, in accordance with the 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*"), the financial statements of the Lower Florida Keys Hospital District (the "District"), as of and for the fiscal year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June XX, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 District'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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Miami, FL

June XX, 2025

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**Management Letter in Accordance with the Rules of the
Auditor General of the State of Florida**

To the Board of Commissioners
The Lower Florida Keys Hospital District

Report on the Financial Statements

We have audited the financial statements of the Lower Florida Keys Hospital District (the “District”), as of and for the fiscal year ended September 30, 2024, and have issued our report thereon dated June XX, 2025.

Auditors’ Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.550, Rules of the Auditor General.

Other Reporting Requirements

We have issued our Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountants’ Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated June XX, 2025, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding financial audit report. There were no findings or recommendations made in the prior year audit report.

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note A to the financial statements. There were no component units related to the District.

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.b. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the District. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided same. The assessment was performed as of the fiscal year end.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Property Assessed Clean Energy (PACE) Program

Section 10.554(1)(i)6.a., Rules of the Auditor General, requires a statement as to whether a PACE program authorized pursuant to Section 163.081 or Section 163.082, Florida Statutes, did/did not operate within the District's geographical boundaries during the fiscal year under audit. During the fiscal year ended September 30, 2024, the PACE program did not operate within the District's geographical boundaries.

Special District Component Units

Section 10.554(1)(i)5.c., Rules of the Auditor General, requires, if appropriate, that we communicate failure of a special district that is a component unit of a county, municipality, or special district, to provide the financial information necessary for proper reporting of the component unit within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we did not note any special district component unit that failed to provide the necessary information for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

Specific Information

As required by Section 218.39(3)(c), Florida Statutes, and Section 10.554(1)(i)7, Rules of the Auditor General, the District reported:

- a. The total number of District employees compensated in the last pay period of the District's fiscal year as 0.
- b. The total number of independent contractors to whom nonemployee compensation was paid in the last month of the District's fiscal year as 4.
- c. All compensation earned by or awarded to employees, whether paid or accrued, regardless of contingency as \$0.
- d. All compensation earned by or awarded to nonemployee independent contractors, whether paid or accrued, regardless of contingency as \$340,449
- e. Each construction project with a total cost of at least \$65,000 approved by the District that is scheduled to begin on or after October 1 of the fiscal year being reported, together with that total expenditures for such project as \$0.

- f. A budget variance based on the budget adopted under Section 189.016(4), Florida Statutes, before beginning of the fiscal year being reported if the District amends a final adopted budget under Section 189.016(6), Florida Statutes, as \$0.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but warrants the attention of those charged with governance. In connection with our audit, we did not note any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal, and other granting agencies, Palm Beach County, and the District's Governing Board and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Miami, FL
June XX, 2025

DRAFT

**Independent Accountant's Report on Compliance Pursuant to
Section 218.415, Florida Statutes**

To the Board of Commissioners
Lower Florida Keys Hospital District

We have examined the Lower Florida Keys Hospital District's, (the "District"), compliance with Section 218.415, Florida Statutes, Local Government Investment Policies, for the fiscal year ended September 30, 2024. Management of the District is responsible for the District's compliance with the specified requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the District complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the District complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

Our examination does not provide a legal determination on the District's compliance with the specified requirements.

In our opinion, the District complied, in all material respects, with Section 218.415, Florida Statutes for the fiscal year ended September 30, 2024.

This report is intended solely to describe our testing of compliance with Section 218.415, Florida Statutes, and is not suitable for any other purpose.

Miami, Florida
June XX, 2025