

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

Financial Report  
September 30, 2017

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RSM US LLP

## Independent Auditor's Report

To the Board of Directors  
District Clinic Holdings, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of District Clinic Holdings, Inc. (the Clinics), a component unit of the Health Care District of Palm Beach County, Florida, which comprise the statements of net position as of September 30, 2017 and 2016, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Clinics' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Clinics' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of District Clinic Holdings, Inc. as of September 30, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Required Supplementary Information**

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 1, 2018 and March 1, 2017, on our consideration of the Clinics' 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 those reports 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 Clinics' internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Clinics' internal control over financial reporting and compliance.

*RSM US LLP*

West Palm Beach, Florida  
March 1, 2018

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

**Management's Discussion and Analysis**

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**Introduction**

Management's Discussion and Analysis provides an overview of the financial activities of District Clinic Holdings, Inc., doing business as the C.L. Brumback Primary Care Clinics (the Clinics), as of and for the years ended September 30, 2017 and 2016. Please read it in conjunction with the Clinics' financial statements and accompanying notes.

**Background**

The Clinics is a nonprofit corporation, which was created on July 24, 2012, by its sole corporate member, the Health Care District of Palm Beach County, Florida (the District). In accordance with the Governmental Accounting Standards Board (GASB) Codification, component units are legally separate entities for which the primary government is financially accountable and are classified as either blended component units or discretely presented component units, depending on the nature of the Clinics' relationship with the primary government. The Clinics' operations are financially dependent on the District, and the District provides all administrative functions for the Clinics. Accordingly, the Clinics is considered a blended component unit of the District.

**Financial Highlights**

- The Clinics' net position increased by approximately \$638,000 in 2017 and decreased by approximately \$210,000 in 2016. The increase is principally due to the increase in operating contributions received from the District in the current year. District contributions were approximately \$3,300,000 and \$1,883,000 in fiscal years 2017 and 2016, respectively.
- The Clinics reported an operating loss in 2017 of approximately \$9,329,000, compared to an operating loss of approximately \$8,408,000 in 2016. The increase of approximately \$922,000 in the operating loss was principally due to the significant expenses incurred for new locations that are not yet supported by a mature revenue stream.
- Nonoperating revenues in 2017 and 2016 consisted of grant revenues, principally the Health Resources and Services Administration (HRSA) grant. In 2017, the Clinics received approximately \$343,000 more in grant funding than compared to 2016.
- Other operating revenues increased approximately \$499,000 in 2017 as a result of a shared revenue saving incentive payment received from an insurance provider.
- The Clinics is financially dependent on the District, and, since January 2013, the District has provided working capital of approximately \$6,613,000 to the Clinics, approximately \$3,300,000 of which was in 2017 and \$1,883,000 in 2016. A substantial portion of net patient service revenue relates to the District's capitated payments and subsidies for uninsured visits, which amounted to approximately \$6,033,000 and \$6,174,000 in 2017 and 2016, respectively.

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

**Management's Discussion and Analysis**

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**Basic Financial Statements**

The Clinics' basic financial statements consist of three statements—the statement of net position; statement of revenues, expenses and changes in net position; and statement of cash flows. These financial statements and related notes provide information about the activities of the Clinics for 2017 and 2016. The statements of net position include all assets and all liabilities using the accrual basis of accounting.

The Clinics' net position—the difference between total assets and total liabilities—is a measure of the Clinics' financial health or financial position. Over time, increases or decreases in the Clinics' net position is an indicator of whether its financial health is improving or deteriorating.

All revenues and expenses for the years ended September 30, 2017 and 2016, are accounted for in the statements of revenues, expenses and changes in net position. These statements measure annual financial results and indicate how well the Clinics recovers its costs through its net patient service revenue and other sources of operating revenues.

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, capital and non-capital financing, and investing activities. This statement highlights the sources and uses of cash and changes in cash balances over the reporting period.

The basic financial statements also include notes that provide information to assist users in understanding the basic financial statements.

**The Clinics' Net Position**

The Clinics' net position is the difference between its total assets and its total liabilities reported in the Statement of Net Position. The Clinics' net position increased by approximately \$638,000 in 2017 and decreased by approximately \$210,000 in 2016. Nonfinancial factors such as changes in the Clinics' patient base and measures of the quality of services it provides to the community, as well as local economic factors also helps readers assess the overall health of the Clinics.

	September 30		
	2017	2016	2015
<b>Assets</b>			
Current assets	\$ 3,931,375	\$ 2,414,549	\$ 2,400,736
Capital assets, net	498,287	614,166	768,441
Total assets	<u>\$ 4,429,662</u>	<u>\$ 3,028,715</u>	<u>\$ 3,169,177</u>
<b>Liabilities</b>			
Current liabilities	\$ 1,275,352	\$ 797,759	\$ 910,382
Noncurrent liabilities	729,254	443,709	261,549
Total liabilities	<u>\$ 2,004,606</u>	<u>\$ 1,241,468</u>	<u>\$ 1,171,931</u>
<b>Net Position</b>			
Investment in capital assets	\$ 498,287	\$ 614,166	\$ 768,441
Unrestricted	1,926,769	1,173,081	1,228,805
Total net position	<u>\$ 2,425,056</u>	<u>\$ 1,787,247</u>	<u>\$ 1,997,246</u>

**District Clinic Holdings, Inc.**  
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**Management's Discussion and Analysis**

The most significant change in the Clinics' assets for 2017 was an increase in grants receivable of approximately \$1,540,000, partly due to the timing of HRSA drawdowns. The Clinics' net capital assets in 2017 decreased by approximately \$116,000, attributable to approximately \$196,000 in depreciation of capital asset, offset by additions of approximately \$80,000. Current liabilities for 2017 increased approximately \$478,000, compared with an approximately \$113,000 decrease in 2016 over 2015, both attributable primarily to changes in borrowing from the Health Care District and the timing of accounts payable. Noncurrent liabilities increased approximately \$286,000 in 2017 due to increases in accrued compensated absences, compared to an increase of approximately \$182,000 in 2016 over 2015.

**Operating Results and Changes in the Clinics' Net Position**

In 2017, the Clinics' net position increased by approximately \$638,000 (36 percent) compared to 2016. The increase resulted from grant revenue of approximately \$6,666,000 and operating contributions of \$3,300,000 for 2017, reduced by an operating loss of approximately \$9,329,000 for 2017. In 2017, net position was approximately \$2,425,000.

In 2016, the Clinics' net position decreased by approximately \$210,000 (11 percent) compared to 2015. The decrease was the result of an operating loss of approximately \$8,408,000 for 2016, reduced by nonoperating revenues of approximately \$6,314,000 and operating contributions of approximately \$1,883,000. In 2016, net position was approximately \$1,787,000.

	Years Ended September 30		
	2017	2016	2015
Operating revenues:			
Net patient service revenue	\$ 12,319,919	\$ 10,430,936	\$ 9,326,727
Other revenue	691,685	193,000	147,001
Total operating revenues	<u>13,011,604</u>	<u>10,623,936</u>	<u>9,473,728</u>
Operating expenses:			
Medical services	17,509,286	14,429,296	9,693,137
Fiscal and administrative services	4,635,781	4,322,194	3,407,050
Depreciation	195,951	280,056	184,989
Total operating expenses	<u>22,341,018</u>	<u>19,031,546</u>	<u>13,285,176</u>
Operating loss	<u>(9,329,414)</u>	<u>(8,407,610)</u>	<u>(3,811,448)</u>
Nonoperating revenues (expenses):			
Grant revenue	6,665,845	6,322,438	5,461,794
Other nonoperating revenues (expenses)	1,378	(8,160)	-
Total nonoperating revenues	<u>6,667,223</u>	<u>6,314,278</u>	<u>5,461,794</u>
District contributions:			
Operating contributions	<u>3,300,000</u>	<u>1,883,333</u>	<u>-</u>
Change in net position	637,809	(209,999)	1,650,346
Net position, beginning of year	1,787,247	1,997,246	346,900
Net position, end of year	<u>\$ 2,425,056</u>	<u>\$ 1,787,247</u>	<u>\$ 1,997,246</u>

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

**Management's Discussion and Analysis**

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**Operating Losses**

The first component of the overall change in the Clinics' net position is its operating loss—generally, the difference between net patient service revenue and the expenses incurred to perform those services. During 2017 and 2016, the Clinics reported an operating loss of approximately \$9.3 million and \$8.4 million, respectively. The Clinics' operations with the District began in 2013, when it was agreed that the District would assume control of certain primary care clinics operated by the Florida Department of Health Palm Beach County (the Health Department), and thereby maintain the clinics for the County's lower income residents. The major components of the operating losses are as follows:

- Net patient service revenue in 2017 and 2016 was approximately \$12,320,000 and \$10,431,000, respectively, which is net of contractual discounts and provision for bad debts of approximately \$12,500,000 and \$11,019,000, respectively.
- Medical services in 2017 and 2016 were approximately \$17,509,000 and \$14,429,000, respectively, which, in addition to salaries and benefits, includes physician fees, pharmaceuticals, clinic facility costs, and other purchased services, such as laboratory, security, and other services. The increase of approximately \$3,080,000 relates primarily to increase in salaries and benefits.
- General administrative services expense in 2017 and 2016 were approximately \$4,636,000 and \$4,322,000, respectively, which, in addition to salaries and benefits, includes office supplies and expenses and allocated administration costs from the District.

The Clinics often provides care for patients who have little or no health insurance or other means of repayment. As discussed previously, this service to the community is consistent with the goals established for the Clinics, since it was first opened under the Health Department. The Clinics began dental operations in July 2015.

**Cash Flow**

The substantial operating losses of the Clinics generally result in significant cash flow deficiencies from operating activities which totaled approximately \$8,995,000 and \$8,019,000 for 2017 and 2016, respectively. These operating cash flow deficiencies were financed primarily by the HRSA grant revenues of approximately \$6,666,000 and \$6,322,000 for 2017 and 2016, respectively, and by the District's operating contributions to the Clinics of approximately \$3,300,000 and \$1,883,000 for 2017 and 2016, respectively.

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

**Management's Discussion and Analysis**

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**Capital Assets**

As shown within the table below, the Clinics acquired approximately \$92,000 in capital assets during 2017, as compared to approximately \$134,000 and \$579,000 in 2016 and 2015, respectively. The capital asset purchases in 2017, 2016, and 2015 consisted principally of major movable equipment purchases.

	Year Ended September 30, 2017			
	Beginning Balance	Increases	Decreases	Ending Balance
Construction in progress (nondepreciable)	\$ 4,718	\$ -	\$ -	\$ 4,718
Furniture, fixtures, and equipment	1,277,065	80,072	-	1,357,137
Less depreciation	(667,617)	(195,951)	-	(863,568)
Capital assets, net	<u>\$ 614,166</u>	<u>\$ (115,879)</u>	<u>\$ -</u>	<u>\$ 498,287</u>

  

	Year Ended September 30, 2016			
	Beginning Balance	Increases	Decreases	Ending Balance
Construction in progress (nondepreciable)	\$ -	\$ 4,718	\$ -	\$ 4,718
Furniture, fixtures, and equipment	1,176,722	129,514	(29,171)	1,277,065
Less depreciation	(408,281)	(280,056)	20,720	(667,617)
Capital assets, net	<u>\$ 768,441</u>	<u>\$ (145,824)</u>	<u>\$ (8,451)</u>	<u>\$ 614,166</u>

**Debt**

The Clinics had no debt outstanding at September 30, 2017 and 2016. The noncurrent liabilities are comprised of accrued compensated absences, estimated self-insured liability, deferred rent and OPEB obligations.

**Economic Factors and Next Year's Budget**

In response to the increased demand for dental services in Palm Beach County, the Clinics are in the process of adding dental services at our existing locations in Lake Worth and Boca Raton in 2018. The two new sites will focus on pediatric services.

The Health Care District is purchasing a mobile medical van in order to meet the healthcare needs of the chronically homeless in Palm Beach County. The van will provide services weekly at the locations of 3 to 4 community partners who feed, bathe, clothe, and/or provide other services to this population. Staffing for the mobile van will include an ARNP and an LCSW, who will treat the patients at those selected sites.

Our Women's Health Services Group recently added a second full time OB/GYN physician at our Boca Raton Clinic, and will be adding another part time provider to the Lake Worth Site, as demand for services continues to increase. We anticipate steady growth in this area.

Demand for Behavioral Health Services continues to grow. In order to reach more patients and have a more meaningful impact on patient care, we are increasing group therapy sessions and will introduce true integrated Behavioral Health at all of our sites. Our Medication Assisted Treatment Program will be expanding this year, and we now have two full-time psychiatrists on staff.

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

**Management's Discussion and Analysis**

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**Contacting the Clinics' Financial Management**

The Clinics' financial statements are designed to present users with a general overview of the Clinics' finances and to demonstrate the Clinics' accountability for the money it receives. Should you have questions about this report or need additional financial information, please contact the Health Care District of Palm Beach County, Florida's Finance Department at 1515 N. Flagler Drive, Suite 101, West Palm Beach, Florida 33401; telephone 561.659.1270; or visit us on the web at [www.hcdpbc.org](http://www.hcdpbc.org).

## **FINANCIAL STATEMENTS**

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

**Statements of Net Position**  
**September 30, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 531,799	\$ 1,179,396
Patient accounts receivable, net of allowance for doubtful accounts of \$635,085 and \$461,983 in 2017 and 2016, respectively	1,059,344	570,559
Grant receivable	2,114,753	575,210
Prepaid expenses and other current assets	225,479	89,384
<b>Total current assets</b>	<b>3,931,375</b>	<b>2,414,549</b>
Capital assets:		
Construction in progress	4,718	4,718
Depreciable capital assets, net of accumulated depreciation	493,569	609,448
<b>Total assets</b>	<b>\$ 4,429,662</b>	<b>\$ 3,028,715</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 218,999	\$ 176,429
Accrued salaries and benefits	665,131	549,379
Due to other governments	216,369	-
Unearned grant revenue	68,152	-
Current portion of accrued compensated absences	102,322	64,741
Current portion of deferred rent	4,379	7,210
<b>Total current liabilities</b>	<b>1,275,352</b>	<b>797,759</b>
Accrued compensated absences, less current portion	579,827	366,867
Estimated self-insured liability	20,681	57,393
Deferred rent, less current portion	115,612	12,907
Other postemployment benefits obligation	13,134	6,542
<b>Total liabilities</b>	<b>\$ 2,004,606</b>	<b>\$ 1,241,468</b>
<b>Net Position</b>		
Net investment in capital assets	\$ 498,287	\$ 614,166
Unrestricted	1,926,769	1,173,081
<b>Total net position</b>	<b>\$ 2,425,056</b>	<b>\$ 1,787,247</b>

See notes to financial statements.

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

**Statements of Revenues, Expenses and Changes in Net Position**  
**Fiscal Years Ended September 30, 2017 and 2016**

	2017	2016
Operating revenues:		
Patient service revenue, net of provision for bad debts of \$1,450,969 and \$1,125,500 in 2017 and 2016, respectively	\$ 12,319,919	\$ 10,430,936
Other operating revenues	691,685	193,000
<b>Total operating revenues</b>	<b>13,011,604</b>	<b>10,623,936</b>
Operating expenses:		
Medical services	17,509,286	14,429,296
General administrative services	4,635,781	4,322,194
Depreciation	195,951	280,056
<b>Total operating expenses</b>	<b>22,341,018</b>	<b>19,031,546</b>
<b>Operating loss</b>	<b>(9,329,414)</b>	<b>(8,407,610)</b>
Nonoperating revenues (expenses):		
Grant revenue	6,665,845	6,322,438
Interest income	1,378	291
Loss on disposal of capital assets	-	(8,451)
<b>Total nonoperating revenues</b>	<b>6,667,223</b>	<b>6,314,278</b>
<b>Loss before District contributions</b>	<b>(2,662,191)</b>	<b>(2,093,332)</b>
District contributions:		
Operating contributions	3,300,000	1,883,333
<b>Change in net position</b>	<b>637,809</b>	<b>(209,999)</b>
Net position, beginning of year	1,787,247	1,997,246
Net position, end of year	<b>\$ 2,425,056</b>	<b>\$ 1,787,247</b>

See notes to financial statements.

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

**Statements of Cash Flows**  
**Fiscal Years Ended September 30, 2017 and 2016**

	2017	2016
Cash flows from operating activities:		
Receipts from patients and third-party payors	\$ 11,899,286	\$ 10,465,544
Payments to employees	(17,136,401)	(13,018,422)
Payments to suppliers and service providers	(4,449,775)	(5,659,317)
Other receipts	691,685	193,000
<b>Net cash used in operating activities</b>	<b>(8,995,205)</b>	<b>(8,019,195)</b>
Cash flows from noncapital financing activities:		
Grants received	5,126,302	6,213,153
District operating contributions	3,300,000	1,883,333
<b>Net cash provided by noncapital financing activities</b>	<b>8,426,302</b>	<b>8,096,486</b>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(80,072)	(134,232)
<b>Net cash used in capital and related financing activities</b>	<b>(80,072)</b>	<b>(134,232)</b>
Cash flows from investing activities:		
Interest income received	1,378	291
<b>Net cash provided by investing activities</b>	<b>1,378</b>	<b>291</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(647,597)</b>	<b>(56,650)</b>
Cash and cash equivalents, beginning of year	1,179,396	1,236,046
Cash and cash equivalents, end of year	\$ 531,799	\$ 1,179,396
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (9,329,414)	\$ (8,407,610)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Provision for bad debts	1,450,969	1,125,500
Depreciation expense	195,951	280,056
Changes in assets and liabilities:		
Patient accounts receivable	(1,939,754)	(1,090,892)
Prepaid expenses and other current assets	(136,095)	4,214
Accounts payable	42,570	(367,439)
Accrued salaries and benefits	115,752	225,586
Due to other governments	216,369	-
Unearned grant revenue	68,152	-
Accrued compensated absences	250,541	146,800
Deferred lease expense	99,874	20,117
Estimated self-insured liability	(36,712)	57,393
Other postemployment benefits obligation	6,592	(12,920)
<b>Net cash used in operating activities</b>	<b>\$ (8,995,205)</b>	<b>\$ (8,019,195)</b>

See notes to financial statements.

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

**Notes to Financial Statements**

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

**Organization:** District Clinic Holdings, Inc., doing business as C.L. Brumback Primary Care Clinics (the Clinics), is a Florida, nonprofit corporation created on July 24, 2012, by the Health Care District of Palm Beach County, Florida (the District) for purposes of operating primary care and dental clinics in Palm Beach County, Florida.

The Clinics' four initial locations in Belle Glade, Lantana/Lake Worth, Delray Beach and West Palm Beach were operated by the Florida Department of Health Palm Beach County (the Health Department) until the operations were assumed by the District in June 2013. The Clinics have since expanded their footprint to include ten locations and have expanded services, including dental services. Additional locations added include the Palm Beach Lakes High School Clinic (RAMS Clinic; 2014), Lewis Center (2015), Jerome Golden Center (2015), Lake Worth Clinic (2015), West Boca Raton (2017) and Jupiter (2017).

In January 2013, the District received a federal grant from the Health Resources and Services Administration (HRSA) to operate the Clinics as Federally Qualified Health Center Primary Care Clinics. Federally Qualified Health Centers (FQHCs) include all organizations receiving grants under Section 330 of the Public Health Service Act (PHS). FQHCs qualify for enhanced reimbursement from Medicare and Medicaid, as well as other benefits. FQHCs must serve an underserved area or population, offer a sliding fee scale, provide comprehensive services, have an ongoing quality assurance program and have a governing board of directors. The main purpose of the FQHC Program is to be a "safety net" provider and enhance the provision of primary care services in underserved urban and rural communities.

The governing board of the FQHC is legally responsible for ensuring that the health center complies with federal, state, and local laws and regulations and is financially viable. The board must include a majority (at least 51%) of active, registered users of the health center(s) who are representative of the populations served by the center(s). The governing board ensures that the FQHCs are community based and responsive to the community's health care needs. The Clinics are governed by a ten-member Board of Directors responsible for administering and managing the operations of the FQHCs of the Clinics in accordance with Section 330 of the PHS. The District's governing board retains fiscal and personnel policy authority for the Clinics.

The Clinics is considered a blended component unit of the District. 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. The District's general purpose is to provide quality health care services in a comprehensive and efficient manner throughout Palm Beach County, as more fully set forth in the Health Care Act.

**Basis of accounting:** The Clinics 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 (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowances for contractual discounts and doubtful accounts. Actual results could differ from those estimates.

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

**Notes to Financial Statements**

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

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

**Patient accounts receivable:** Patient accounts receivable are reported at estimated net realizable amounts due from patients, third-party payors, and others for medical and dental services rendered. Throughout the year, management assesses the adequacy of the Clinics' estimates, including those related to contractual discounts and doubtful accounts. Patient accounts receivable are reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered by the Clinics. The following accounting policies relate to the Clinics' overall determination of net patient accounts receivable:

**Allowance for doubtful accounts:** The Clinics' ability to collect outstanding receivables from patients, third-party payors and others is critical to its operating performance and cash flows. The primary collection risk lies with uninsured patient accounts or patient accounts for which a balance remains after government payors or primary insurance has paid. The Clinics' policy with respect to estimating its allowance for doubtful accounts is to reserve 90% of all self-pay accounts receivable. The Clinics 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.

The Clinics does not pursue collection of amounts related to patients who 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 this allowance.

**Allowance for contractual discounts:** The Clinics estimates the allowance for contractual discounts on a payor-specific basis, given its interpretation of the applicable regulations or contract terms. It is additionally estimated based on management's assessment of historical collections, considering business and economic conditions, trends in health care coverage and other collection indicators. 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 Clinics' estimates. Additionally, updated regulations and contract negotiations occur periodically, necessitating regular review and assessment of the estimation process.

**Capital assets:** Capital assets are recorded at historical cost. Capital assets contributed by the District are recorded at the District's carrying value. Assets contributed by others are recorded at acquisition value on the date contributed. Capital assets include computer software and furniture, fixtures, and equipment. The Clinics defines capital assets as assets with an initial cost of at least \$1,000 and an estimated useful life of one year or greater. Capital assets used in operations are depreciated over the estimated useful lives of the respective assets on a straight-line basis. Gains and losses on dispositions of capital assets are recorded in the period of disposal. The estimated useful lives for computer software range from three to ten years and for furniture, fixtures, and equipment range from three to twenty years, and generally conform to those recommended by the American Hospital Association.

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

**Notes to Financial Statements**

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

The Clinics 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 or groups of assets for which the estimated fair value is below its carrying amount. The Clinics has not recorded any impairment charges in the accompanying statement of revenues, expenses and changes in net position for the years ended September 30, 2017 and 2016.

**Net position:** The Clinics reports net position in components in accordance with GASB standards: Net investment in capital assets and unrestricted net position. Net investment in capital assets consists of capital assets net of accumulated depreciation. The Clinics has no debt related to capital assets. Unrestricted net position consists of remaining assets less liabilities that do not meet the definition of net investment in capital assets.

**Net patient service revenue:** The Clinics 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 discounts 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 revenue. The Clinics presents its provision for bad debts as a direct reduction of patient service revenue.

For the year ended September 30, 2017, the percentage of total revenue provided by Medicare and Medicaid, patients and insurance and others was approximately 20%, 6% and 25%, respectively. The District provided the balance in 2017 of approximately 49% of net patient service revenue through capitated payments and uninsured subsidies to the Clinics. For the year ended September 30, 2016, the percentage of total revenue provided by Medicare and Medicaid, patients and insurance and others was approximately 21%, 7% and 13%, respectively. The District provided the balance in 2016 of approximately 59% of net patient service revenue through capitated payments and uninsured subsidies to the Clinics.

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, and investigations.

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

**Medicare:** Payments to the Clinics for Medicare patients changed to a prospective payment system (PPS) effective October 1, 2014, as mandated by the Affordable Care Act of 2010. CMS established a new base rate as of October 1, 2014, at \$158.85. A Geographic Adjustment Factor (GAF) will be applied to the base rate based on where the services are provided. In addition, the GAF-adjusted rate may also be affected by additional adjustment factors, such as new patients. Generally, the Medicare PPS payment to the Clinics will be based on 80 percent of the lesser of the Clinics' charges or the PPS rate, with the remaining 20 percent being coinsurance. Effective January 1, 2017 and through December 31, 2017, the base rate was increased to \$163.49, to which a GAF of 1.010 was applied to result in a reimbursement rate of \$165.13.

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

**Notes to Financial Statements**

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

**Medicaid:** Services rendered to Medicaid beneficiaries are paid primarily based upon the Clinics' FQHC Medicaid encounter rate, adjusted effective October 1 of each year by percentage increases in the Medicare Economic Index.

**Commercial providers:** The Clinics also has reimbursement agreements with certain commercial insurance carriers and health maintenance 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. Settlements are not expected to vary materially from the estimated amounts recorded in the accompanying financial statements.

**Charity care:** The Clinics' mission is to provide high quality, affordable health care to the greater Palm Beach County community. In pursuing its commitment to serve all members of the community, the Clinics provides services to the financially disadvantaged, despite the lack or adequacy of payment for its services. The Clinics 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 Clinics' charity care guidelines.

The Clinics 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 Clinics does not anticipate payment and does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. The cost of providing this care, determined by applying the Uniform Data System (UDS)-calculated cost per medical or dental visit times the number of applicable charity care visits, was approximately \$3,884,000 and \$3,268,000 for the years ended September 30, 2017 and 2016, respectively. The increase from the prior year was due to an increase in the cost per visit, an increase in the number of visits for patients who qualified for charity care, and the expansion of the Clinics that resulted in more services being provided overall.

**Disproportionate share distributions:** The Low Income Pool (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 nonfederal share of the LIP distributions. Revenues from the LIP program are reported as net patient service revenue in the accompanying statement of revenues, expenses and changes in net position, net of the required quarterly assessments owed by the Clinics, which are accrued in the fiscal year for which the assessments are made. For the years ended September 30, 2017 and 2016, the Clinics recorded revenues of approximately \$204,000 and \$281,000, and assessments of approximately \$8,600 and \$8,400, respectively. The receipt of future distributions is contingent upon the continued support of the program by the federal and state governments (see Note 8).

**Operating revenues and expenses:** The Clinics' statement of revenues, expenses and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Clinics' principal activity. Nonexchange revenues, including interest income, gifts, grants, contributions and other unrestricted revenues are reported as non-operating 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.

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

**Notes to Financial Statements**

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

**Grant revenue:** Grant revenue is recorded when allowable expenses are incurred and all applicable requirements have been met. Grant funds received in advance of meeting all requirements are reported as unearned grant revenue.

**Compensated absences:** The Clinics' employees earn paid time off (with no distinction between holiday, vacation, personal days and other absences) at varying rates depending on years of service and position. Employees may accumulate a maximum of 400 hours of paid time off. Upon termination, employees are paid all time off accrued but not used at the current rate of pay. The estimated amount of paid time off available as termination payments is reported as a liability. The Clinics' estimates amount due within one year based upon historical trends.

**Risk management:** The Clinics 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. The Clinics is deemed covered under the Federal Tort Claims Act for professional liability claims (see Note 8). Settled claims have not exceeded the Clinics' commercial coverage from inception through September 30, 2017.

**Income taxes:** The Clinics 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.

**New accounting pronouncements:** The GASB has issued new statements effective in future years. Management has not completed its analysis of the effects, if any, of these GASB statements on the financial statements of the Clinics.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement outlines reporting by governments that provide other postemployment benefits (OPEB) to their employees and for governments that finance OPEB for employees of other governments. The requirements of this statement will be effective for the Clinics for the fiscal year ending September 30, 2018.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this statement will be effective for the Clinics beginning with its fiscal year ending September 30, 2020.

In June 2017, GASB issued Statement No. 87, *Leases*. This Statement improves the accounting and financial reporting for leases by governments. The requirements of this statement will be effective for the Clinics beginning with its fiscal year ending September 30, 2021.

**Subsequent events:** The Clinics has considered subsequent events through March 1, 2018, the date the financial statements were available to be issued, in preparing the financial statements and notes thereto. There were no subsequent events requiring recognition or disclosure in the financial statements.

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

**Notes to Financial Statements**

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**Note 2. Cash and Cash Equivalents**

At September 30, 2017 and 2016, cash and cash equivalents included in the Clinics' statement of net position consisted of the following:

	<u>2017</u>	<u>2016</u>
Carrying amount:		
Deposits with financial institutions	\$ 528,199	\$ 1,176,196
Petty cash	3,600	3,200
	<u>\$ 531,799</u>	<u>\$ 1,179,396</u>

All of the Clinics' operating bank accounts were pooled into a common interest-bearing concentration account with the District for the years ended September 30, 2017 and 2016. The District monitors the following deposit and investment risks:

**Interest rate risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the time to maturity, the greater the exposure to interest rate risk. The Clinics had no investments subject to interest rate risk.

**Credit risk:** Credit risk is the risk that an issuer will not fulfill its obligations. The Clinics has historically minimized its credit risk by limiting allowable investments to deposits with a financial institution meeting the requirements of a Florida qualified public depository.

**Custodial credit risk:** Custodial credit risk is defined as the risk that the Clinics may not be able to recover cash and investments held by another party in the event of a financial failure. At September 30, 2017 and 2016, the Clinics participated in the District's concentration account and, accordingly, did not individually hold any accounts in the name of the Clinics. The District's deposits with financial institutions were entirely covered by federal depository insurance and a collateral pool pledged to the State Treasurer of Florida by financial institutions that comply with the requirements of Florida Statutes and have been designated as a qualified public depository by the State Treasurer.

Qualified public depositories are required to pledge collateral to the State Treasurer with a market value equal to a percentage of the average daily balance of all government deposits in excess of any federal deposit insurance. In the event of a default by a qualified public depository, all claims for government deposits would be satisfied by the State Treasurer from the proceeds of the federal deposit insurance, pledged collateral of the public depository in default and, if necessary, a pro rata assessment to the other qualified public depositories participating in the collateral pool. Accordingly, all deposits with financial institutions are considered fully insured.

**Concentration of credit risk:** Concentration of credit risk is defined as the risk of loss attributed to the magnitude of an investment in a single issuer. The Clinics has no investments, and all deposits with financial institutions are considered fully insured.

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

**Notes to Financial Statements**

**Note 3. Patient Accounts Receivable**

Patient accounts receivable, reported as current assets by the Clinics at September 30, 2017 and 2016, consist of the following amounts:

	2017	2016
Patient accounts receivable:		
Medicare and Medicaid	\$ 2,232,817	\$ 862,461
Patients	356,154	541,871
Insurance and others	320,847	88,449
Total patient accounts receivable	2,909,818	1,492,781
Less allowance for contractual discounts	(1,215,389)	(460,239)
Less allowance for doubtful accounts	(635,085)	(461,983)
Patient accounts receivable, net	<u>\$ 1,059,344</u>	<u>\$ 570,559</u>

**Note 4. Capital Assets**

Capital asset activity for the years ended September 30, 2017 and 2016, is summarized as follows:

	Balance October 1, 2016	Transfers and Additions	Transfers and Deletions	Balance September 30, 2017
Capital assets:				
Construction in progress (nondepreciable)	\$ 4,718	\$ -	\$ -	\$ 4,718
Furniture, fixtures and equipment	1,277,065	80,072	-	1,357,137
Total cost	1,281,783	80,072	-	1,361,855
Less accumulated depreciation:				
Furniture, fixtures and equipment	(667,617)	(195,951)	-	(863,568)
Capital assets, net	<u>\$ 614,166</u>	<u>\$ (115,879)</u>	<u>\$ -</u>	<u>\$ 498,287</u>

  

	Balance October 1, 2015	Transfers and Additions	Transfers and Deletions	Balance September 30, 2016
Capital assets:				
Construction in progress (nondepreciable)	\$ -	\$ 4,718	\$ -	\$ 4,718
Furniture, fixtures and equipment	1,176,722	129,514	(29,171)	1,277,065
Total cost	1,176,722	134,232	(29,171)	1,281,783
Less accumulated depreciation:				
Furniture, fixtures and equipment	(408,281)	(280,056)	20,720	(667,617)
Capital assets, net	<u>\$ 768,441</u>	<u>\$ (145,824)</u>	<u>\$ (8,451)</u>	<u>\$ 614,166</u>

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

**Notes to Financial Statements**

**Note 5. Accrued Compensated Absences**

Compensated absences liability activity for the years ended September 30, 2017 and 2016, is summarized as follows:

	Balance October 1, 2016	Additions	Retirements	Balance September 30, 2017	Amount Due Within One Year
Accrued compensated absences	\$ 431,608	\$ 1,371,273	\$ (1,120,732)	\$ 682,149	\$ 102,322

  

	Balance October 1, 2015	Additions	Retirements	Balance September 30, 2016	Amount Due Within One Year
Accrued compensated absences	\$ 284,808	\$ 1,150,227	\$ (1,003,427)	\$ 431,608	\$ 64,741

**Note 6. Related-Party Transactions**

The Clinics' operations are financially dependent on the District. In 2017 and 2016, the District paid the Clinics a capitated rate for members enrolled in the District's health coverage at \$40 per member per month. In addition, in 2017 and 2016, the District paid the Clinics \$60 per medical visit as an uninsured subsidy, and \$100 per uninsured dental visit. The total capitated payments and uninsured subsidies from the District were approximately \$6,032,000 and \$6,174,000 of net patient service revenue for the years ended September 30, 2017 and 2016, respectively. The Clinics also received \$3,300,000 and \$1,883,333 in operating contributions from the District in fiscal years 2017 and 2016, respectively.

The District allocated certain support department costs to the Clinics, including personnel, purchasing, legal, and administrative costs. The total District allocated costs charged to expense by the Clinics were approximately \$2,229,000 and \$1,393,000 for the years ended September 30, 2017 and 2016, respectively.

**Note 7. Retirement Plans**

**Defined contribution plan:** In October 1990, the District established the Health Care District of Palm Beach County 401(a) Retirement Plan (the Plan), a defined contribution pension plan that covers employees of the District and its wholly owned affiliates, including the Clinics' employees not participating in the Florida Retirement System (FRS) Plan who are 18 years of age or older and have completed one year of service. The Plan is administered by the Variable Annuity Life Insurance Company (VALIC). For employees hired after September 30, 2012, the District contributes 4% of eligible compensation to the Plan and also makes matching contributions equal to 100% of the participants' elective deferrals up to 4% of eligible compensation. The District contributes 15% of eligible compensation for employees hired prior to October 1, 2012. Contribution rates and benefits of the Plan are established by the District Board and may be amended by the District Board. For the fiscal years ended September 30, 2017 and 2016, the Clinics contributed \$590,682 and \$320,689, respectively, to the Plan for its employees. Employees are fully vested after six years of service.

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

**Notes to Financial Statements**

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**Note 7. Retirement Plans (Continued)**

**District deferred compensation plan:** The District also established and provides its employees, including the Clinics' employees, with access to a 457(b) deferred compensation plan named the Palm Beach County Health Care District Pension Plan (the 457(b) Plan). Under this plan, an employee is able to contribute pre-tax wage/salary dollars into a personal retirement account. The 457(b) Plan is administered by VALIC. An employee can defer up to \$18,000 of eligible compensation annually. No contributions are required of the District. Contribution rates and benefits of the 457(b) Plan are established by and may be amended by the District Board.

**Note 8. Commitments and Contingencies**

**Operating leases:** The Clinics are committed under several noncancelable operating leases for clinic facilities. The leases expire in various years through April 2025. Rent expense for the years ended September 30, 2017 and 2016, was approximately \$1,315,000 and \$1,169,000, respectively. The approximate future minimum operating lease payments at September 30, 2017, are as follows:

<u>Years ending September 30:</u>	<u>Operating Leases</u>
2018	\$ 1,065,555
2019	383,530
2020	390,883
2021	293,799
2022	372,748
Thereafter	823,110
	<u>\$ 3,329,625</u>

**District and Health Department Master Agreement:** The District entered into a Master Agreement with the Florida Department of Health Palm Beach County (the Health Department), effective October 1, 2013, and ending July 31, 2018, whereby the District assumed the financial, administrative and operational responsibility for providing adult and pediatric primary care services to patients formerly served by the Health Department through their FQHC locations in Palm Beach County.

Pursuant to the Master Agreement, the District operates the Clinic locations and accounts for all operational activities through the Clinics. Four clinic facility locations are owned by Palm Beach County (C.L. Brumback Health Center in Belle Glade; the Lantana/Lake Worth Health Center; and the Delray Beach Health Center) and the State of Florida (the West Palm Beach Health Center) and utilized by the District without rent. The District pays the Health Department for common expenses incurred by the Health Department for the facilities based on the pro rata square footage used by the District and the Health Department. The total annual common expenses, for the facilities paid by the District were approximately \$839,000 and \$832,000 for the years ended September 30, 2017 and 2016, respectively, including costs related to space for the District's pharmacy and eligibility offices. The portion of these costs allocated to the Clinics was approximately \$630,000 and \$639,000 for the years ended September 30, 2017 and 2016, respectively.

**Professional and general liability claims:** The Clinics is subject to risk of loss arising in the ordinary course of business, including claims for damages from medical malpractice, personal injuries, employment-related claims, breach of management contracts and wrongful restriction of or interference with physicians' staff privileges. In certain of these actions, plaintiffs may seek punitive or other damages against the Clinics, which are generally not covered by insurance. As an FQHC, the Clinics is deemed covered under the Federal Tort Claims Act for professional liability claims.

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

**Notes to Financial Statements**

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**Note 8. Commitments and Contingencies (Continued)**

The Clinics, by virtue of its relationship with the District as an independent special taxing district and a political subdivision of the State of Florida, is entitled to sovereign immunity under the 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. 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 liability exposures and \$500,000 for general liability exposures, as well as underlying insurance policies for employers liability, business automobile liability and aviation general liability exposures. 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). The umbrella policy, with aggregate limits of \$5 million, only responds in the event a covered loss results in a claims bill that is approved by the Legislature.

The District's management, in consultation with legal counsel, believes all general liability claims are covered by insurance or limited under sovereign immunity and will not have any significant impact on the financial condition of the District in excess of the amounts accrued at September 30, 2017. At September 30, 2017 and 2016, the Clinics accrued approximately \$21,000 and \$57,000, respectively, for professional and general liability claims. No settlements exceeded insurance coverage during the past three fiscal years.

**Grants:** The grant revenues received or receivable by the Clinics are subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already received, might constitute a liability of the Clinics for the return of those funds. Management believes that all grant expenditures were in compliance with the terms of the grant and applicable federal laws and regulations.

**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 healthcare 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 government entity, the Clinics 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 Clinics has generally complied with applicable laws and regulations that could have a material impact on the financial statements of the Clinics and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing or noncompliance.

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

**Notes to Financial Statements**

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**Note 9. Other Postemployment Benefits**

The Clinics follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB Statement 45), for financial reporting and disclosure of other postemployment benefits (OPEB).

**Plan description:** The District administers a single-employer other postemployment benefits plan (the 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 publicly available financial report.

**Funding policy:** The District is required by Florida Statute 112.0801 to allow retirees to buy healthcare coverage at the same group insurance rates that current employees are charged, resulting in an implicit healthcare 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, GAAP requires the actuarial figures to be calculated using age adjusted premiums approximating claim costs for retirees separate from active employees. The use of age-adjusted premiums results in the addition of the implicit rate subsidy into the actuarial accrued liability. OPEB Plan members receiving benefits contribute 100% of the monthly medical premium, which currently ranges from a minimum of \$559 to a maximum of \$1,726.

**Annual OPEB cost and net OPEB obligation:** The annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and the amortization of any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. District contributions for OPEB are made by the individual funds reporting an OPEB obligation.

The Clinics’ share of the District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation for the years ended September 30, 2017 and 2016, were based on an actuarial valuation as of October 1, 2015 (the most recent available). The net OPEB obligation at September 30, 2017 and 2016, is presented as follows:

	2017	2016
Annual required contribution (ARC)	\$ 6,775	\$ 6,593
Interest on net OPEB obligation	262	-
Adjustment to ARC	(346)	(19,462)
Annual OPEB cost (adjustment)	6,691	(12,869)
Contributions made	(99)	(51)
Increase (decrease) in net OPEB obligation	6,592	(12,920)
Net OPEB obligation, beginning of year	6,542	19,462
Net OPEB obligation, end of year	<u>\$ 13,134</u>	<u>\$ 6,542</u>

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

**Notes to Financial Statements**

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**Note 9. Other Postemployment Benefits (Continued)**

As this is the third year the District allocated its share of the OPEB obligation, data for only these two years is included below:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Year ended September 30:			
2015	\$ 5,048	66.1%	\$ 19,462
2016	6,593	0.4%	6,542
2017	7,037	1.5%	13,134

**Funded status and funding progress:** The schedule of funding progress presented as required supplementary information (RSI) following the notes to the financial statements presents multi-year trend information that shows whether the actuarial values of the OPEB Plan assets are increasing or decreasing over time relative to the actuarial liability for benefits.

**Actuarial methods and significant assumptions:** Projections of benefits for financial reporting purposes are based on the substantive plan (the OPEB Plan as understood by the employer and the OPEB Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and OPEB Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation for the OPEB Plan as of October 1, 2015, used the entry-age service cost actuarial method. The actuarial assumptions included a 4.0% discount rate, projected salary increases of 3.0%, and an annual healthcare cost trend rate of 8.5%, reduced by decrements to an ultimate rate of 4.5% after eight years. The unfunded actuarial accrued liability is amortized as a level percent payment on a closed basis. The remaining amortization period is 22 years. The 2015 actuarial valuation included changes in the actuarial assumptions to add a low benefit option and election percentage and to update mortality tables for 2015 longevity projections.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Although the valuation results are based on values the actuarial consultant believes are reasonable assumptions, the valuation result is only an estimate of what future costs may actually be and reflect a long-term perspective. Deviations in any of several factors, such as future interest rate discounts, medical cost inflation, Medicare coverage and changes in marital status, could result in actual costs being greater or less than estimated.

## **Required Supplementary Information**

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

**Required Supplementary Information – Unaudited**  
**Schedule of Other Postemployment Benefits (OPEB) Funding Progress**

Date of Actuarial Valuation October 1*	Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UALL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Payroll ((b-a)/c)
2013	\$ -	\$ 28,447	\$ 28,447	0.0%	\$ 1,613,323	1.8%
2015	-	16,006	16,006	0.0%	6,557,054	0.2%

\*Only two valuation years are presented, as 2013 is the first year the District began allocating its prorata share of the obligation to the Clinics.

**Independent Auditor's 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 Directors  
District Clinic Holdings, Inc.

We have audited, in accordance with 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, the financial statements of District Clinic Holdings, Inc. (the Clinics), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Clinics' basic financial statements, and have issued our report thereon dated March 1, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Clinics' internal control over financial reporting (internal control) to determine the 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 Clinics' internal control. Accordingly, we do not express an opinion on the effectiveness of the Clinics' 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 may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Clinics' 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 determination of financial statement amounts. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*RSM US LLP*

West Palm Beach, Florida  
March 1, 2018