District Hospital Holdings, Inc.

(A Component Unit of the Health Care District of Palm Beach County, Florida)

Financial Report
September 30, 2017

Contents

RSM US LLP

Independent Auditor's Report

To the Board of Directors
District Hospital Holdings, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of District Hospital Holdings, Inc. (the Hospital), a nonprofit organization and 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 statements of 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 Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of District Hospital 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 February 1, 2018 and January 30, 2017, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of 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 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 Hospital's internal control over financial reporting and compliance.

RSM US LLP

West Palm Beach, Florida
February 1, 2018

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

Management's Discussion and Analysis

Introduction

Management's Discussion and Analysis provides an overview of the financial activities of District Hospital Holdings, Inc. (the Hospital) as of and for the years ended September 30, 2017 and 2016. Please read it in conjunction with the Hospital's financial statements.

Background

The Hospital is a nonprofit corporation, whose sole corporate member has been the Health Care District of Palm Beach County, Florida (the District) since May 1, 2004. 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 entity's relationship with the primary government. The Hospital is governed by the District's Board of Commissioners and is considered a blended component unit of the District.

Financial Highlights

The Hospital's net position increased in 2017 by approximately $2,200,000 compared to a decrease in net position of approximately $45,000 in 2016. The significant change from 2017 to 2016 resulted from an increase in operating contributions from the District of $2,550,000.

The Hospital reported an operating loss in 2017 of approximately $14,679,000 compared to approximately $14,064,000 in 2016. The increase of approximately $616,000 in the operating loss was principally due to the fact that in 2017 net operating revenues decreased by approximately $403,000 from 2016.

Non-operating revenues in 2017 and 2016 consisted principally of grant revenues. In 2017, the Hospital received approximately $407,600 less in grants as compared to 2016. In 2017, the Hospital received capital contributions from the District of approximately $1,804,000 as compared to $1,108,000 in 2016.

The District provided $14,600,000 in operating contributions and approximately $1,804,000 in capital contributions to the Hospital in 2017, compared to $12,050,000 and approximately $1,108,000, respectively in 2016. The Hospital is financially dependent on the District and since May 2004, the District has provided cumulative operating contributions of approximately $96.9 million and capital contributions of approximately $65.3 million to the Hospital.

Basic Financial Statements

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

The Hospital's net position—the difference between total assets and total liabilities—is a measure of the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's 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 Hospital recovers its costs through its net patient service revenue and other sources of operating revenues.

The statements 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.

In addition, the basic financial statements include notes that provide information to assist users in understanding the basic financial statements.

The Hospital's Net Position

The Hospital's net position is the difference between its total assets and total liabilities reported in the statements of net position. The Hospital did not have any transactions to report as deferred outflows or deferred inflows of resources. The Hospital's net position increased by approximately $2,200,000 and decreased by approximately $45,000 in 2017 and 2016, respectively.

TABLE 1—Statement of Net Position Summary

	September 30		
	2017	2016	2015
Assets:			
Current assets	$ 11,728,515	$ 7,094,332	$ 5,387,127
Capital assets, net	41,874,725	43,435,691	45,746,476
Total assets	$ 53,603,240	$ 50,530,023	$ 51,133,603
Liabilities:			
Current liabilities	$ 5,481,531	$ 4,912,500	$ 5,727,540
Noncurrent liabilities	1,917,955	1,616,884	1,360,539
Total liabilities	$ 7,399,486	$ 6,529,384	$ 7,088,079
Net Position:			
Net investment in capital assets	$ 41,874,725	$ 43,435,691	$ 45,746,476
Unrestricted (deficit)	4,329,029	564,948	(1,700,952)
Total net position	$ 46,203,754	$ 44,000,639	$ 44,045,524

The most significant change in the Hospital's assets for 2017 was a decrease in net capital assets of approximately $1,560,000 primarily attributable to depreciation expense of approximately $3,355,000 net of capital asset acquisitions of approximately $1,804,000. The other significant change was an increase in cash and cash equivalents of approximately $3,948,000. Current liabilities for 2017 increased approximately $569,000, principally due to an increase in estimated third-party payor settlements by approximately $47,000; an increase in accounts payable by approximately $713,000; a decrease in salary and benefit related accruals by approximately $14,000; an increase in the current portion of estimated self-insurance liabilities by approximately $77,000. Noncurrent liabilities increased approximately $301,000 primarily to increases in accrued compensated absences and the long-term portion of the estimated self-insurance liability.

The most significant change in the Hospital's assets for 2016 was a decrease in net capital assets of approximately $2,311,000 primarily attributable to depreciation expense of approximately $3,401,000 net of capital asset acquisitions of approximately $1,108,000 The other significant change was a decrease in net patient accounts receivable of approximately $1,701,000. Current liabilities for 2016 decreased approximately $815,000, principally due to a decrease in estimated third-party payor settlements by approximately $1,947,000; an increase in accounts payable by approximately $168,000; an increase in salary and benefit related accruals by approximately $194 000; an increase in the current portion of estimated self-insurance liabilities by approximately $475,000 and an overpayment of LIP/DSH grant funds by ACHA of approximately $276,000. Noncurrent liabilities increased approximately $256,000 primarily to increases in accrued compensated absences and the long-term portion of the estimated self-insurance liability.

Operating Results and Changes in the Hospital's Net Position

In 2017, the Hospital's net position increased by approximately $2,200,000 as summarized in Table 2 below:

TABLE 2—Operating Results and Changes in Net Position

	2017	2016	2015
Operating revenues:			
Net patient service revenue	$ 29,823,108	$ 29,058,785	$ 32,898,472
Other revenue	176,229	1,343,722	1,340,955
Total operating revenue	29,999,337	30,402,507	34,239,427
Operating expenses:			
Salaries and benefits	22,739,855	22,086,162	21,759,792
Purchased services	7,723,801	8,516,713	8,218,061
Supplies	2,706,404	3,062,648	3,277,103
Other operating expenses	8,153,979	7,399,458	7,177,709
Depreciation	3,354,769	3,401,105	3,389,324
Total operating expenses	44,678,808	44,466,086	43,821,989
Operating loss	(14,679,471)	(14,063,579)	(9,582,562)
Nonoperating revenues (expenses):			
Grant revenue	470,085	877,698	1,076,749
Interest income	5,920	676	-
Gain (loss) on disposal of capital assets	2,250	(17,465)	(4,872)
Total nonoperating revenues	478,255	860,909	1,071,877
Loss before District contributions	(14,201,216)	(13,202,670)	(8,510,685)
District contributions:			
Operating contributions	14,600,000	12,050,000	7,600,000
Capital contributions	1,804,331	1,107,785	792,454
Total District contributions	16,404,331	13,157,785	8,392,454
Change in net position	2,203,115	(44,885)	(118,231)
Net position, beginning of year	44,000,639	44,045,524	44,163,755
Net position, end of year	$ 46,203,754	$ 44,000,639	$ 44,045,524

Operating Losses

The first component of the overall change in the Hospital's net position is its operating loss—generally, the difference between net patient service revenue and the expenses incurred to perform those services. During 2017, 2016, and 2015, the Hospital reported an operating loss of approximately $14.7 million, $14.1 million and $9.6 million, respectively. This is consistent with the Hospital's historical operating history. The Hospital's operations began in the 1940s as a community hospital, when it was agreed that a portion of its costs would be subsidized by property tax revenue, making the facility more affordable for the Western County's lower income residents. The major components of the operating losses are as follows:

- Net patient service revenue in 2017, 2016 and 2015 was approximately $29,823,000, $29,059,000 and $32,898,000, respectively, which is net of contractual discounts of approximately $84,917,000, $87,466,000 and $77,918,000 and a provision for bad debts of approximately $14,296,000, $12,772,000 and $12,748,000, respectively.

- Patient service revenues from the Disproportionate Share Hospital (DSH) and Low Income Pool (LIP) programs were approximately $730,000, $3,600,000, and $3,400,000 for the fiscal years ended September 30, 2017, 2016, and 2015, respectively. In fiscal year 2017, the State did not provide LIP funding for tier 4 hospitals such as Lakeside Medical.

- Salaries and benefits in 2017, 2016 and 2015 were approximately $22,740,000, $22,086,000 and $21,760,000, respectively; which, in addition to salaries, includes overtime of approximately $842,000, $525,000 and $481,000, respectively; paid time off of approximately $1,498,000, $1,395,000 and $1,593,000, respectively; and health and pension benefits of approximately $3,466,000, $3,425,000 and $3,430,000, respectively.

- Purchased services in 2017, 2016 and 2015 were approximately $7,724,000, $8,517,000 and $8,218,000, respectively; which includes physician fees of approximately $4,431,000, $4,808,000 and $5,326,000, respectively; and other purchased services such as laboratory, radiology, security, physical therapy and others.

- Operating expenses increased in 2017 over 2016 by approximately $213,000. The increase was attributed to salary and benefit expenses and to overhead costs allocated to Hospital operating units by the District

The Hospital often provides care for patients who have little or no health insurance or other means of repayment. As discussed above, this service to the community is consistent with the goals established for the Hospital since it was first opened. The level of charity services provided to these patients based on charges was approximately $2,208,000, $2,108,000 and $1,267,000 during 2017, 2016, and 2015, respectively. Because there is no expectation of repayment, charity care is not included in net patient service revenue of the Hospital.

Cash Flow

The substantial operating losses of the Hospital generally result in significant cash flow deficiencies from operating activities, which totaled approximately $(11,140,000), $(9,727,000) and $(7,972,000) for 2017, 2016 and 2015, respectively. These operating cash flow deficiencies were financed by the District's operating contributions to the Hospital of $14,600,000, $12,050,000 and $7,600,000 in 2017, 2016 and 2015, respectively.

Capital Assets

As shown in Table 3 below, the Hospital acquired approximately $1,804,000 in capital assets during 2017. During 2016, the Hospital acquired approximately $1,108,000 in capital assets.

TABLE 3—Capital Assets

	September 30, 2017			
	Beginning September 30, 2016	Increases and Transfers	Decreases and Transfers	Balance September 30, 2017
Construction in progress (nondepreciable)	$ 757,251	$ 111,669	$ (743,441)	$ 125,479
Buildings and improvements	60,136,951	1,208,186	-	61,345,137
Furniture, fixtures and equipment	10,568,401	1,227,916	(182,453)	11,613,864
Total cost	71,462,603	2,547,771	(925,894)	73,084,480
Less depreciation for				
Buildings and improvements	(19,540,601)	(2,697,895)	-	(22,238,496)
Furniture, fixtures and equipment	(8,486,311)	(656,874)	171,926	(8,971,259)
Total accumulated depreciation	(28,026,912)	(3,354,769)	171,926	(31,209,755)
Capital assets, net	$ 43,435,691	$ (806,998)	$ (753,968)	$ 41,874,725

	September 30, 2016			
	Beginning September 30, 2015	Increases and Transfers	Decreases and Transfers	Balance September 30, 2016
Construction in progress (nondepreciable)	$ -	$ 757,251	$ -	$ 757,251
Buildings and improvements	60,128,942	8,009	-	60,136,951
Furniture, fixtures and equipment	10,373,310	342,522	(147,431)	10,568,401
Total cost	70,502,252	1,107,782	(147,431)	71,462,603
Less depreciation for				
Buildings and improvements	(16,871,344)	(2,669,257)	-	(19,540,601)
Furniture, fixtures and equipment	(7,884,432)	(731,848)	129,969	(8,486,311)
Total accumulated depreciation	(24,755,776)	(3,401,105)	129,969	(28,026,912)
Capital assets, net	$ 45,746,476	$ (2,293,323)	$ (17,462)	$ 43,435,691

Risk Factors

The health care industry is highly dependent upon a number of factors that could have a significant effect on the future operations and financial condition of the Hospital. These factors include, but are not limited to, federal and state regulatory agencies, Medicare and Medicaid laws and regulations, health care reform initiatives, environmental laws, technology changes, changes in demand for health care services, demographic changes, and managed care contract terms and conditions.

As of the date of this report, there are no known facts, decisions, or conditions that are expected to have a significant effect on the net position or the results of operations, other than the following:

- Salaries in the health care industry continue to be very competitive due to the increased costs of attracting and retaining and/or the decreased availability of a sufficient number of physicians, registered nurses and other health care professionals.

- The laws and regulations governing the Medicare and Medicaid programs are complex and subject to change. Due to the significant amount of payments to the Hospital from Medicare and Medicaid, changes to these programs could have a significant effect on the financial operations of the Hospital.

- Like most governments in recent years, the State of Florida has experienced budget pressures and may institute further changes in laws and regulations that could significantly reduce payments. The potential impact on the Hospital would be reduced reimbursements.

- The federal government has passed extensive legislation and accompanying regulations that will significantly restructure the health care system nationwide. The ultimate effects of national health care reform continue to have an undeterminable impact on the future operations of the Hospital as the program rules are implemented and modified by the federal government.

- The Hospital should continue to benefit from additional payments made to disproportionate share hospitals. The State of Florida has received an extension from the federal government for the Medicaid waiver that supports these payments to the Hospital. The State is considering the future of Low Income Pool (LIP) funding as directed by Centers for Medicare and Medicaid Services (CMS), and future funding is uncertain.

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

Contacting the Hospital's Financial Management

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's 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 1515 N Flagler Drive, West Palm Beach, FL 33401, telephone 561.659.1270; or visit us on the web at www.hcdpbc.org and www.lakesidemedical.org.

District Hospital 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
Assets		
Current assets:		
Cash and cash equivalents	**$ 7,953,263**	$ 4,005,252
Patient accounts receivable, net of allowance for doubtful accounts of $4,247,286 and $3,730,898 in 2017 and 2016, respectively	**2,770,643**	2,436,762
Inventories	**722,681**	260,980
Prepaid expenses and other current assets	**281,928**	391,338
Total current assets	**11,728,515**	7,094,332
Capital assets:		
Construction in progress	**125,479**	757,251
Depreciable capital assets, net of accumulated depreciation	**41,749,246**	42,678,440
Total assets	**$ 53,603,240**	$ 50,530,023
Liabilities		
Current liabilities:		
Accounts payable	**$ 1,654,109**	$ 943,617
Accrued salaries and benefits	**784,969**	798,600
Unearned grant revenue	**5,625**	6,075
Estimated third-party payor settlements	**2,216,433**	2,169,805
Current portion of accrued compensated absences	**191,663**	164,352
Current portion of estimated self-insured liability	**626,452**	550,000
Other current liabilities	**2,280**	280,051
Total current liabilities	**5,481,531**	4,912,500
Accrued compensated absences, less current portion	**1,086,091**	931,326
Estimated self-insured liability, less current portion	**744,986**	609,704
Other postemployment benefits obligation	**86,878**	75,854
Total liabilities	**$ 7,399,486**	$ 6,529,384
Net Position		
Net investment in capital assets	**$ 41,874,725**	$ 43,435,691
Unrestricted	**4,329,029**	564,948
Total net position	**$ 46,203,754**	$ 44,000,639

See notes to financial statements.

District Hospital 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 $14,296,404 and $12,771,635 in 2017 and 2016, respectively	**$ 29,823,108**	$ 29,058,785
Other operating revenues	**176,229**	1,343,722
Total operating revenues	**29,999,337**	30,402,507
Operating expenses:		
Salaries and benefits	**22,739,855**	22,086,162
Purchased services	**7,723,801**	8,516,713
Supplies	**2,706,404**	3,062,648
Depreciation	**3,354,769**	3,401,105
Repairs and maintenance	**1,432,144**	1,616,207
Utilities	**1,234,009**	1,038,165
Rentals and lease	**729,310**	527,607
Other	**4,758,516**	4,217,479
Total operating expenses	**44,678,808**	44,466,086
Operating loss	**(14,679,471)**	(14,063,579)
Nonoperating revenues (expenses):		
Grant revenue	**470,085**	877,698
Interest income	**5,920**	676
Gain (loss) on disposal of capital assets	**2,250**	(17,465)
Total nonoperating revenues	**478,255**	860,909
Loss before District contributions	**(14,201,216)**	(13,202,670)
District contributions:		
Operating contributions	**14,600,000**	12,050,000
Capital contributions	**1,804,331**	1,107,785
Total District contributions	**16,404,331**	13,157,785
Increase (decrease) in net position	**2,203,115**	(44,885)
Net position, beginning of year	**44,000,639**	44,045,524
Net position, end of year	**$ 46,203,754**	$ 44,000,639

See notes to financial statements.

District Hospital 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	**$ 29,535,855**	$ 28,813,320
Payments to employees	**(22,560,386)**	(21,750,958)
Payments to suppliers and service providers	**(18,292,020)**	(18,133,275)
Other receipts	**176,229**	1,343,722
Net cash used in operating activities	**(11,140,322)**	(9,727,191)
Cash flows from noncapital financing activities:		
Grants received	**469,635**	882,248
Operating contributions from the District	**14,600,000**	12,050,000
Net cash provided by noncapital financing activities	**15,069,635**	12,932,248
Cash flows from capital and related financing activities:		
Proceeds from sales of capital assets	**12,778**	-
Cash flows from investing activities:		
Interest income received	**5,920**	676
Net increase in cash and cash equivalents	**3,948,011**	**3,205,733**
Cash and cash equivalents, beginning of year	**4,005,252**	799,519
Cash and cash equivalents, end of year	**$ 7,953,263**	$ 4,005,252
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	**$ (14,679,471)**	$ (14,063,579)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Provision for bad debts	**14,296,404**	12,771,635
Depreciation	**3,354,769**	3,401,105
Changes in assets and liabilities:		
Patient accounts receivable	**(14,630,285)**	(11,070,399)
Inventories	**(461,701)**	(19,895)
Prepaid expenses and other current assets	**109,410**	(182,813)
Accounts payable	**710,492**	167,633
Accrued salaries and benefits	**(13,631)**	194,193
Other current liabilities	**(277,771)**	270,914
Estimated third-party payor settlements	**46,628**	(1,946,701)
Accrued compensated absences	**182,076**	129,140
Estimated self-insured liability	**211,734**	609,704
Other postemployment benefits obligation	**11,024**	11,872
Net cash used in operating activities	**$ (11,140,322)**	$ (9,727,191)
Supplemental disclosure of noncash capital and related financing activities:		
Capital assets contributed	**$ 1,804,331**	$ 1,107,785

See notes to financial statements.

Note 1. Summary of Significant Accounting Policies

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

The District was created by the Florida Legislature pursuant to Chapter 2003-326, Laws of Florida (the Health Care Act) and by the affirmative vote of the residents of Palm Beach County, Florida (the County). The District's general purpose is to provide quality health care services in a comprehensive and efficient manner throughout Palm Beach County, as more fully set forth in the Health Care Act. Specifically, the Health Care Act provides for the continued presence of at least one hospital in the rural Glades area (that area of the County lying west of a line between Range 39 East and Range 40 East), and such health care facility shall be established and maintained for the preservation of the public health and for the public good. As such, the Hospital is financially dependent on the District to fund future operating losses, and the District is legally obligated to maintain the continued operations of the Hospital for the benefit of the public. Since May 1, 2004, the District has provided cumulative operating contributions of approximately $96,900,000 and capital contributions of approximately $65,300,000 in the form of new hospital facilities and contributed capital assets.

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

Measurement focus and basis of accounting: The Hospital uses proprietary fund accounting and follows all relevant pronouncements of the 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.

Budgetary basis: The District's enabling legislation requires the District Board to approve an annual operating budget and establish a millage rate in accordance with Chapter 200, Florida Statutes. As part of this process, the Hospital adopts an annual budget for each fiscal year beginning October 1st and ending September 30th. Budgets for the Hospital are prepared on an accrual basis of accounting based upon annual estimates of revenues and expenses. Budget transfers within the fund may be approved by management without District Board approval, up to a specified amount.

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, estimated third-party payor settlements and the professional liability accrual. Actual results could differ from those estimates.

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Allowance for doubtful accounts: The provision for bad debts is estimated based on management's assessment of historical and expected net collections, considering business and economic conditions, trends in health care coverage and other collection indicators. The primary collection risk lies with uninsured patient accounts or patient accounts for which a balance remains after primary insurance has paid. The Hospital's policy with respect to estimating its allowance for doubtful accounts is to reserve 97% of self-pay patient balances up to 180 days and 100% of all self-pay, Medicare, Medicaid, and other insurance payers' accounts receivable over 180 days. The Hospital continually monitors its accounts receivable balances and utilizes cash collections data and other analysis to support the basis for its estimates of the allowance for doubtful accounts. In addition, the Hospital performs retrospective procedures on historical collection and write-off experience for the prior six months to determine the reasonableness of its policy for estimating the allowance for doubtful accounts. The Hospital does not pursue collection of amounts related to patients that qualify for charity care under its guidelines. As such, charity care accounts do not affect the allowance for doubtful accounts. Significant changes in the payor mix, business office operations or deterioration in aging accounts receivable could result in a significant increase in the allowance for doubtful accounts.

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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 their estimated acquisition value on the date contributed. Capital assets include buildings and improvements; furniture, fixtures and equipment; computer software; and vehicles. The Hospital defines capital assets as assets with an initial cost of at least $1,000 and an estimated useful life of at least one year. Capital assets used in operations are depreciated over the estimated useful lives of the respective assets on the straight-line basis. Amortization expense of capital assets held under capital leases, when applicable, is included in depreciation expense. Gains and losses on dispositions of capital assets are recorded in the period of disposal. The estimated useful lives generally conform to those recommended by the American Hospital Association as follows:

Asset Type	Years
Buildings and improvements	15-30
Furniture, fixtures and equipment	3-20
Computer software	3-10
Vehicles	3-5

The Hospital evaluates capital assets regularly for impairment. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of the assets. An impairment charge is recorded on those assets for which the estimated fair value is below the carrying amount. No impairment was recorded in 2017 and 2016.

Net position: In accordance with GASB standards, the Hospital reports net position in three components: net investment in capital assets, restricted net position and unrestricted net position. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the balance of any outstanding debt used to finance the purchase or construction of those assets. The Hospital does not have any debt as of 2017 and 2016. Restricted net position is assets less liabilities that have constraints placed on them externally by creditors, grantors, contributors or laws and regulations. The Hospital does not have any restricted net position. Unrestricted net position consists of remaining assets less liabilities that do not meet the definition of investment in capital assets or restricted net position.

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

Medicare: Inpatient acute care services rendered to Medicare beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services, outpatient services, and defined capital costs related to Medicare beneficiaries are primarily reimbursed on a prospective reimbursement methodology. The laws and regulations under which the Medicare and Medical Assistance programs operate are complex, subject to frequent change and subject to interpretation. As part of operating under these programs, there is a possibility that governmental authorities may review the Hospital's compliance with these laws and regulations. Such review may result in adjustments to reimbursements previously received and subject the Hospital to fines and penalties. Although no assurances can be given, management believes they have complied with the requirements of these programs. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Medicare cost reports through September 30, 2015, were reviewed by the MAC.

Medicaid: Inpatient and outpatient services rendered to Medicaid beneficiaries were reimbursed under a prospective rate methodology based upon prior year cost reimbursement, whereby the Hospital was paid at a tentative rate based upon the most recent cost report available at the time of rate-setting. Following submission of annual cost reports by the Hospital, a final settlement is determined after audit by the Medicaid fiscal intermediary. Effective July 1, 2013, the Hospital is reimbursed under an inpatient payment method that utilizes Diagnosis Related Groups (DRGs). Payments under DRG assignment are made on a per case basis and are not subject to retrospective rate adjustments. For outpatient services, the Hospital reimbursement continues to be based on the prospective rate methodology used in prior years. The Hospital's Medicaid cost reports were audited by the Medicaid fiscal intermediary through September 30, 2015.

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

Electronic health record payments: The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period.

Note 1. Summary of Significant Accounting Policies (Continued)

The Hospital is entitled to receive Medicare and Medicaid incentive payments for the adoption of certified EHR technology, as the Hospital has satisfied the statutory and regulatory requirements. The Hospital accounts for HITECH incentive payments as a gain contingency. Income from Medicare and Medicaid incentive payments is recognized as revenue after the Hospital has demonstrated that it complied with the meaningful use criteria over the entire applicable compliance period. The Hospital recognized revenue from Medicare incentive payments totaling approximately $176,000 and $1,344,000 for the years ended September 30, 2017 and 2016, respectively. The incentive payments are included in other operating revenue in the statements of revenues, expenses and changes in net position. The Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated.

Charity care: The Hospital's mission is to provide high quality, affordable health care to the greater Glades area community. In pursuing its commitment to serve all members of the community, the Hospital provides services to the financially disadvantaged, despite the lack or adequacy of payment for its services. The Hospital maintains records to identify and report the level of charity care it provides to the community. These records include the amount of charges foregone for health care services and supplies furnished under the Hospital's charity care guidelines.

The Hospital provides care to patients who meet certain criteria under its charity care guidelines without charge or at amounts less than its established rates. Because the Hospital does not anticipate payment when services are rendered and does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. Charges foregone, based on the Hospital's established rates, and excluded from revenue under the Hospital's charity care guidelines were approximately $2,208,000 and $2,108,000 for the years ended September 30, 2017 and 2016, respectively. Using the Hospital's average ratio of cost to charges, the cost of the charity care provided was approximately $750,000 and $733,000, and the percentage of charity care charges to all patient charges was 1.7% for each of the years ended September 30, 2017 and 2016.

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.

Subsequent year changes in estimates of third-party payor settlements increased net patient service revenue by approximately $0 and $2,408,000 for the years ended September 30, 2017 and 2016, respectively (see Note 9).

Public Medical Assistance Trust Fund: The State of Florida (the State) has established the Public Medical Assistance Trust Fund to provide a method for funding the provision of health care services to indigent persons. Hospitals in the State are required to pay assessments to the trust fund equal to 1.5% of each hospital's prior year net inpatient revenue and 1.0% of each hospital's prior year net outpatient revenue. The assessments are distributed under various programs to hospitals in the State that serve Medicaid patients and uninsured charity care patients. The Hospital received funding for patients under the Disproportionate Share Hospital (DSH) and the Low Income Pool (LIP) programs. The DSH program provides payments to hospitals that serve a disproportionate number of Medicaid and uninsured charity care patients. The LIP program distributes funding to the Hospital to support coverage for Medicaid, uninsured and underinsured patients.

Note 1. Summary of Significant Accounting Policies (Continued)

The LIP program is a federal matching program that provides the State with the opportunity to receive additional federal distributions based on a capped annual allotment, which is distributed by the State to participating health care providers for eligible services. Local governments, such as counties, hospital districts and the Florida Department of Health, provide funding for the non-federal share of the LIP distributions. Revenues from the DSH and LIP programs were approximately $730,000 and $3.6 million for the fiscal years ended September 30, 2017 and 2016, respectively, and are reported as net patient service revenue in the accompanying statements of revenues, expenses and changes in net position, net of the required quarterly assessments owed by the Hospital, which are accrued in the fiscal year for which the assessments are made. For the years ended September 30, 2017 and 2016, the Hospital recorded assessments of approximately $0 and $328,000, respectively. The receipt of future distributions is contingent upon the continued support of the program by the federal and state governments (see Note 9).

The State is considering the future of LIP funding as directed by CMS, and future funding is uncertain. Management expects any loss of Federal or State funding for the Hospital will be replaced by additional operating contributions from the District.

Operating revenues and expenses: The Hospital's statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including interest income, gifts, grants, contributions and other unrestricted revenues are reported as nonoperating revenues. Gifts, grants and contributions of capital assets, or such amounts restricted by donors for the acquisition of capital assets, are reported as capital contributions. Operating expenses include all expenses incurred to provide health care services, other than financing costs.

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

Compensated absences: The Hospital's 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 Hospital estimates amounts due within one year based on historical trends.

Risk management: The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters to the extent such claims are not covered by sovereign immunity (see Note 10). Settled claims have not exceeded the Hospital's commercial coverage from inception through September 30, 2017.

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

Note 1. Summary of Significant Accounting Policies (Continued)

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 Hospital.

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 Hospital 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 Hospital 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 Hospital beginning with its fiscal year ending September 30, 2021.

Subsequent events: The Hospital has considered subsequent events through February 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.

Note 2. Cash and Cash Equivalents

At September 30, 2017 and 2016, cash and cash equivalents included in the Hospital's statements of net position consisted of the following:

	2017	2016
Carrying amount:		
Deposits with financial institutions	$ 7,952,313	$ 4,004,302
Petty cash	950	950
	$ 7,953,263	$ 4,005,252

All of the Hospital's 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 Hospital had no investments subject to interest rate risk.

Credit risk: Credit risk is the risk that an issuer will not fulfill its obligations. The Hospital 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.

Note 2. Cash and Cash Equivalents (Continued)

Custodial credit risk: Custodial credit risk is defined as the risk that the Hospital 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 Hospital participated in the District's concentration account and, accordingly, did not individually hold any accounts in the name of the Hospital. 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 Qualified Public Depositories 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 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.

Note 3. Patient Account Receivable

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

	2017	2016
Receivable from patients	$ 4,303,426	$ 3,761,502
Receivable from patients' insurance carriers	3,091,817	3,241,012
Receivable from Medicare	3,881,724	3,230,176
Receivable from Medicaid	4,857,565	3,020,336
Receivable from Medicaid pending	1,751,234	1,686,668
Total patient accounts receivable	17,885,766	14,939,694
Less allowance for contractual discounts	(10,867,836)	(8,772,034)
Less allowance for doubtful accounts	(4,247,287)	(3,730,898)
Patient accounts receivable, net	$ 2,770,643	$ 2,436,762

Note 4. Capital Assets

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

	2017			
	Balance September 30, 2016	Increases and Transfers	Decreases and Transfers	Balance September 30, 2017
Capital assets:				
Construction in progress (nondepreciable)	$ 757,251	$ 111,669	$ (743,441)	$ 125,479
Buildings and improvements	60,136,951	1,208,186	-	61,345,137
Furniture, fixtures and equipment	10,568,401	1,227,916	(182,453)	11,613,864
Total cost	71,462,603	2,547,771	(925,894)	73,084,480
Less accumulated depreciation:				
Buildings and improvements	(19,540,601)	(2,697,895)	-	(22,238,496)
Furniture, fixtures and equipment	(8,486,311)	(656,874)	171,926	(8,971,259)
Total accumulated depreciation	(28,026,912)	(3,354,769)	171,926	(31,209,755)
Capital assets, net	$ 43,435,691	$ (806,998)	$ (753,968)	$ 41,874,725

	2016			
	Balance September 30, 2015	Increases and Transfers	Decreases and Transfers	Balance September 30, 2016
Capital assets:				
Construction in progress (nondepreciable)	$ -	$ 757,251	$ -	$ 757,251
Buildings and improvements	60,128,942	8,009	-	60,136,951
Furniture, fixtures and equipment	10,373,310	342,525	(147,434)	10,568,401
Total cost	70,502,252	1,107,785	(147,434)	71,462,603
Less accumulated depreciation:				
Buildings and improvements	(16,871,344)	(2,669,257)	-	(19,540,601)
Furniture, fixtures and equipment	(7,884,432)	(731,848)	129,969	(8,486,311)
Total accumulated depreciation	(24,755,776)	(3,401,105)	129,969	(28,026,912)
Capital assets, net	$ 45,746,476	$ (2,293,320)	$ (17,465)	$ 43,435,691

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

Note 5. Compensated Absences

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

	2017				
	Balance September 30, 2016	Additions	Reductions	Balance September 30, 2017	Amounts Due Within One Year
Accrued compensated absences	$ 1,095,678	$ 1,679,727	$ (1,497,651)	$ 1,277,754	$ 191,663

	2016				
	Balance September 30, 2015	Additions	Reductions	Balance September 30, 2016	Amounts Due Within One Year
Accrued compensated absences	$ 966,538	$ 1,631,151	$ (1,502,011)	$ 1,095,678	$ 164,352

Note 6. Other Postemployment Benefits

The Hospital follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB Statement No. 45) for financial reporting and disclosure for its OPEB Plan.

Plan description: The Hospital 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 Hospital is required by Florida Statutes, Section 112.0801 to allow retirees to buy health care coverage at the same group insurance rates that current employees are charged, resulting in an implicit health care benefit. Florida law prohibits the OPEB Plan from separately rating retirees and active employees. The OPEB Plan therefore charges both groups an equal, blended rate premium for health insurance. Although both groups are charged the same blended rate premium, GAAP requires the actuarial figures to be calculated using age-adjusted premiums approximating claim costs for retirees separately from active employees. The use of age-adjusted premiums results in the addition of the implicit rate subsidy into the actuarial accrued liability. Plan members receiving benefits contribute 100% of the monthly medical premium, which currently ranges from a minimum of $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 No. 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.

Note 6. Other Postemployment Benefits (Continued)

The Hospital's annual OPEB cost, contributions made, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation for the year ended September 30, 2017, were based on an actuarial valuation as of October 1, 2015, and is summarized as follows:

Annual required contribution	$	13,865
Amortization of unfunded actuarial accrued liability		(4,010)
Interest on net OPEB obligation		3,033
Annual OPEB cost		12,888
Contributions made (implicit rate subsidy)		(1,864)
Increase in net OPEB obligation		11,024
Net OPEB obligation, beginning of year		75,854
Net OPEB obligation, end of year	$	86,878

Comparative trend data for the three most recent years is as follows:

Years ended September 30:	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	$ 13,499	12.3%	$ 63,982
2016	12,680	6.4%	75,854
2017	12,888	14.5%	86,878

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 OPEB Plan assets are increasing or decreasing over time relative to the actuarial liability for benefits. The Hospital has not contributed any assets to the OPEB Plan.

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 health care cost trend rate of 8.5%, reduced by decrements to an ultimate rate of 4.5% in eight years. The UAAL 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.

Note 6. Other Postemployment Benefits (Continued)

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.

Note 7. Related-Party Transactions

The Hospital received $14,600,000 and $12,050,000 in operating contributions and approximately $600,200 and $667,000 in net patient service revenue from the District during the years ended September 30, 2017 and 2016, respectively.

The District contributed approximately $1,804,000 and $1,108,000 of capital assets to the Hospital for the years ended September 30, 2017 and 2016, respectively.

The District allocated certain support department costs to the Hospital, including personnel, purchasing, legal, and administrative costs. The total District allocated costs charged to expense by the Hospital were approximately $3,646,000 and $3,511,000 for the years ended September 30, 2017 and 2016, respectively, and are recorded in other expenses in the statements of revenues, expenses and changes in net position.

Note 8. Retirement Plans

Defined contribution plan: In November 2004, the Hospital established the District Hospital Holdings 401(a) Retirement Plan (the 401(a) Plan), which is a defined contribution pension plan for hospital employees who are 18 years of age or older and have completed one year of service. The 401(a) Plan is administered by the Variable Annuity Life Insurance Company (VALIC) and does not issue a separate financial report. Plan amendments and contribution rates are approved by the District's Board. Employees are fully vested after six years of service. The Hospital contributes 4% of eligible compensation to the 401(a) Plan and also makes matching contributions equal to 100% of the participants' elective deferrals up to 4% of eligible compensation. Effective October 1, 2015, the Hospital merged its 401(a) Plan with the Health Care District of Palm Beach County's 401(a) Plan (District 401(a) Plan). All provisions of the Hospital 401(a) Plan noted above are the same as those in the District 401(a) Plan. The Hospital contributed $793,000 and $769,000 to the 401(a) Plan for the years ended September 30, 2017 and 2016, respectively.

Deferred compensation plan: In May 1994, the Hospital established the District Hospital Holdings 457(b) Retirement Plan (the 457(b) Plan), which is a deferred compensation plan. Under the 457(b) Plan, an employee is able to contribute pre- tax wage/salary dollars into a personal retirement account. The 457(b) Plan is administered by VALIC and does not issue a separate financial report. Plan amendments and contribution rates are approved by the District's Board. An employee can defer up to $18,000 of eligible compensation annually. Contribution rates and benefits of the 457(b) Plan are established by the District Board and may be amended in the future by the District Board.

Note 9. Settlements and Related Costs

In December 2014, the Hospital was notified by the Agency for Health Care Administration (Florida Medicaid) that payments under the Medicaid DSH program for the State fiscal year ended June 30, 2011, exceeded the calculated Medicaid DSH Limit. The amounts received by the Hospital in excess of the Medicaid DSH Limit for 2011 totaled approximately $1.9 million, and management expected the request for repayment of this amount. In addition, the Hospital determined certain amounts received under the Medicaid DSH program for the years of 2013, 2014 and 2015 were also estimated to be in excess of the Medicaid DSH Limit for those years. Accordingly, the Hospital accrued $5,194,000 for the estimated Medicaid settlements and related costs of the overpayments to the Hospital as of September 30, 2015. In 2016, the Hospital's 2013 DSH audit resulted in a reduction of the 2013 liability of approximately $778,000. Based on the results of that audit, the Hospital also reduced its 2014 DSH liability by approximately $1,630,000. The total estimated liability recorded at September 30, 2017, related to Medicaid DSH payments is approximately $2,786,000.

Note 10. Commitments and Contingencies

PRIDE agreement: The District entered into an agreement with PRIDE, an instrumentality of the State of Florida, and a lease with the State of Florida for 50 acres of land for the Lakeside Medical Center facility. The lease is for a term of 50 years ending February 1, 2057. Upon termination of the lease, all improvements on the property become the property of the State, which may also require the District to remove the Hospital facility and improvements at the District's expense. As consideration for the lease, the District entered into an agreement with PRIDE that requires the District to purchase $4,166,667 in goods and services from PRIDE over a 30-year period ending July 12, 2036. Purchases by the District through September 30, 2017, totaled approximately $245,000. If the purchase requirement is not met by July 12, 2036, the District must pay 18% of the unfulfilled purchase commitment on July 12, 2036. The unfulfilled purchase commitment as of September 30, 2017 is reported at net present value, discounted at a rate of 2.63% (20-year U.S Treasury Rate), and is approximately $431,000. The payments to PRIDE, the 2017 land lease expense of $33,000, and the liability for the lease are recorded by the District and have not been charged to the Hospital.

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

Service contracts: The Hospital has entered into various contracts for maintenance agreements, software licenses and other services. The remaining term of the individual service contracts at September 30, 2017, is generally one to five years.

Physician contracts: The Hospital has entered into various employment contracts with physicians and physician groups for services, which include payments for hourly, shift, weekend and annual salaries. The remaining term of the individual physician contracts at September 30, 2017, is generally one to three years.

Operating leases: The Hospital is committed under several noncancelable operating leases for equipment and office space. The leases expire in various years through fiscal year 2022. Rent expense for the years ended September 30, 2017 and 2016, was approximately $729,000 and $528,000, respectively.

Note 10. Commitments and Contingencies (Continued)

The future minimum payments for these contracts at September 30, 2017, are summarized as follows:

	Service Contracts	Physician Contracts	Operating Leases
Years ending September 30:			
2018	$ 2,235,163	$ 3,545,486	$ 522,876
2019	511,894	1,089,993	568,252
2020	45,544	38,625	383,020
2021	-	-	361,689
2022	-	-	188,622
	$ 2,792,601	$ 4,674,104	$ 2,024,459

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

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

Estimated professional and general liability claims, which are recorded in estimated self-insured liability in the statements of net position, are summarized as follows:

	2017				
	Balance September 30, 2016	Additions	Reductions	Balance September 30, 2017	Amounts Due Within One Year
Estimated professional and general liability claims	$ 1,159,704	$ 468,643	$ (256,909)	$ 1,371,438	$ 626,452

Note 10. Commitments and Contingencies (Continued)

Medicare and Medicaid: Revenue from the Medicare and Medicaid programs accounted for a significant portion of the Hospital's net patient service revenue for 2017 and 2016. The Hospital's Medicare cost reports through the year ended September 30, 2014, have been settled. The Hospital's Medicaid cost reports through year ended September 30, 2015, have been settled. The Medicare fiscal year 2015 and 2016 and the Medicaid fiscal year 2016 cost reports have been filed but not settled and remain open to adjustment. The Hospital's Medicare and Medicaid cost reports have not yet been filed for the year ended September 30, 2017.

The Hospital has recorded an estimated liability of approximately $2,216,000 and $2,170,000 at September 30, 2017 and 2016, respectively, for future audit settlements related to Medicare and Medicaid charges. The estimated liability balance includes the liability related to Medicaid DSH payments of approximately $2,786,000 (see Note 9) reported for each of the years ended September 30, 2017 and 2016, and is net of settlement amounts due to the Hospital and amounts due from other governments. The final determination of amounts earned pursuant to the Medicare and Medicaid programs for open years is subject to review by appropriate governmental agencies or their agents.

CMS has implemented a program using recovery audit contractors (RACs) as part the CMS efforts to assure accurate payments. The program uses the RAC to review claims for potentially improper Medicare payments that may have been made to health care providers and were not detected through existing CMS program reviews. Once an RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to, the provider's Medicare reimbursement for the amount of the estimated overpayment or underpayment. The Hospital records an adjustment to revenue for any overpayment or underpayment at the time notice is received from the RAC and the amount can be reasonably estimated. There were no material RAC adjustments, audit recoveries or settlements for prior periods related to the Medicare and Medicaid programs during 2017 or 2016, and no liability has been recorded for estimated RAC settlements.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that the recorded estimates will change by a material amount in the near term.

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

Required Supplementary Information

District Hospital 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	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2011	$ -	$ 79,491	$ 79,491	0.0%	$ 16,268,238	0.5%
2013	-	108,580	108,580	0.0%	17,195,546	0.6%
2015	-	83,326	83,326	0.0%	16,917,874	0.5%

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 Hospital 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 Hospital Holdings, Inc. (the Hospital), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated February 1, 2018.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the 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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

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

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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
February 1, 2018