

**Healthy Palm Beaches, Inc.**  
**(A Component Unit of the Health Care District  
of Palm Beach County)**

Statutory Financial Report  
With Independent Auditor's Report Thereon  
December 31, 2017 and 2016

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RSM US LLP

## Independent Auditor's Report

To the Board of Directors  
Healthy Palm Beaches, Inc.  
Palm Springs, Florida

### Report on the Financial Statements

We have audited the accompanying statutory financial statements of Healthy Palm Beaches, Inc., which comprise the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2017 and 2016, and the related statutory statements of revenues, expenses and changes in capital and surplus and cash flows for the years then ended, and the related notes to the statutory financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with the accounting practices prescribed or permitted by the Office of Insurance Regulation of the State of Florida; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of statutory 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 statutory financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory financial statements are free from material misstatement.

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

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

**Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 to the statutory financial statements, Healthy Palm Beaches, Inc. prepared these financial statements using accounting practices prescribed or permitted by the Office of Insurance Regulation of the State of Florida, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices and accounting principles generally accepted in the United States of America are described in Note 1 to the statutory financial statements.

**Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Healthy Palm Beaches, Inc. as of December 31, 2017 and 2016, or the results of its operations or its cash flows thereof for the years then ended.

**Opinion on Regulatory Basis of Accounting**

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of Healthy Palm Beaches, Inc. as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

**Emphasis of Matters**

As discussed in Note 1, the statutory financial statements of Healthy Palm Beaches, Inc. are intended to present the admitted assets, liabilities, and capital and surplus, and the related statutory revenues and expenses and changes in capital and surplus, and cash flows of Healthy Palm Beaches, Inc. They do not purport to, and do not, present fairly the financial position of the Health Care District of Palm Beach County, Florida as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the statutory financial statements, as of December 31, 2015, Healthy Palm Beaches, Inc. ceased providing health insurance coverage under its health plan.

*RSM US LLP*

West Palm Beach, Florida  
March 1, 2018

**Healthy Palm Beaches, Inc.**  
**(A Component Unit of the Health Care District of Palm Beach County)**

**Statutory Statements of Admitted Assets, Liabilities and Capital and Surplus**  
**December 31, 2017 and 2016**

	2017	2016
<b>Admitted Assets</b>		
Cash	\$ 2,929,135	\$ 2,950,299
Amounts due from parent, subsidiaries and affiliates	11,780	553
Investment income due and accrued	32,091	27,059
	<hr/>	<hr/>
<b>Total admitted assets</b>	<b>\$ 2,973,006</b>	<b>\$ 2,977,911</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities, Capital and Surplus</b>		
Liabilities:		
Claims unpaid	\$ 10,000	\$ 10,000
General expenses due or accrued	-	18,597
Amounts withheld or retained for the account of others	7,372	45,803
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>17,372</b>	<b>74,400</b>
	<hr/> <hr/>	<hr/> <hr/>
Capital and surplus:		
Gross paid-in and contributed surplus	1,500,000	1,500,000
Unassigned funds	1,455,634	1,403,511
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<b>Total capital and surplus</b>	<b>2,955,634</b>	<b>2,903,511</b>
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<b>Total liabilities, capital and surplus</b>	<b>\$ 2,973,006</b>	<b>\$ 2,977,911</b>

See notes to statutory financial statements.

**Healthy Palm Beaches, Inc.**  
**(A Component Unit of the Health Care District of Palm Beach County)**

**Statutory Statements of Revenues, Expenses and Changes in Capital and Surplus**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
Operating revenues:		
Miscellaneous income	\$ 17,112	\$ 37,288
<b>Total operating revenues</b>	<b>17,112</b>	<b>37,288</b>
Operating expenses (recoveries):		
Hospital/medical benefits	-	13,959
Other professional services	(42,386)	(47,643)
Outside referrals	-	(21,135)
Emergency room and out-of-area	-	965
Prescription drugs	-	(7)
<b>Total hospital and medical (recoveries)</b>	<b>(42,386)</b>	<b>(53,861)</b>
Claims adjustment expenses	27,595	75,789
General administrative expenses	7,268	18,838
<b>Total underwriting (recoveries) deductions</b>	<b>(7,523)</b>	<b>40,766</b>
<b>Net underwriting gain (loss)</b>	<b>24,635</b>	<b>(3,478)</b>
Net investment income earned	26,710	37,634
<b>Net income</b>	<b>\$ 51,345</b>	<b>\$ 34,156</b>
Capital and surplus, beginning of year	\$ 2,903,511	\$ 11,867,133
Net income	51,345	34,156
Distribution to Health Care District	-	(9,000,000)
Change in nonadmitted assets	778	2,222
<b>Capital and surplus, end of year</b>	<b>\$ 2,955,634</b>	<b>\$ 2,903,511</b>

See notes to statutory financial statements.

**Healthy Palm Beaches, Inc.**  
**(A Component Unit of the Health Care District of Palm Beach County)**

**Statutory Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
Cash from operations:		
Net investment income	\$ 21,678	\$ 32,586
Miscellaneous income	17,112	37,288
<b>Total</b>	<b>38,790</b>	69,874
Less:		
Benefits and loss-related payments (recoveries)	(42,386)	976,413
Commissions, expenses paid and aggregate write-ins for deductions	53,460	187,424
<b>Total</b>	<b>11,074</b>	1,163,837
<b>Net cash provided by (used in) operations</b>	<b>27,716</b>	(1,093,963)
Cash from financing and other miscellaneous sources:		
Distribution to Health Care District	-	(9,000,000)
Other cash (used in) provided by	(48,880)	58,561
<b>Net cash used in financing and miscellaneous sources</b>	<b>(48,880)</b>	(8,941,439)
<b>Net decrease in cash</b>	<b>(21,164)</b>	(10,035,402)
Cash, beginning of year	2,950,299	12,985,701
Cash, end of year	<b>\$ 2,929,135</b>	<b>\$ 2,950,299</b>

See notes to statutory financial statements.

**Healthy Palm Beaches, Inc.**  
**(A Component Unit of the Health Care District of Palm Beach County)**

**Notes to the Statutory Financial Statements**

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

**Organization:** Healthy Palm Beaches, Inc. (HPB) is a governmental organization that was incorporated under the laws of the State of Florida on July 8, 1994. HPB received a Certificate of Authority to operate a Health Maintenance Organization in the State of Florida, pursuant to Chapter 641, Part I, Florida Statutes, on November 21, 1996. A Health Care Provider Certificate was issued to HPB by the Florida Agency for Health Care Administration (AHCA) on October 29, 1996.

HPB was created by and is a blended component unit of the Health Care District of Palm Beach County (the District), as HPB is governed by a board consisting of all of the members of the District's Board of Commissioners. The District is a political subdivision of the State of Florida created to provide health care for medically needy residents, as well as comprehensive planning, funding and coordination of general health and trauma services delivered in Palm Beach County.

HPB offered Vita Health, a shared premium program launched in June 2006. Vita Health offered members health care benefits that included hospitalization, emergency room services, outpatient surgery, diagnostic services, primary care services and prescription drugs. Vita Health ended new enrollment in October 2013 to coincide with the implementation of the Affordable Care Act. Vita Health ended coverage to its members on December 31, 2015. Throughout 2015, the District helped remaining Vita Health members apply for coverage through the Health Insurance Marketplace.

**Accounting practices:** The accompanying statutory financial statements of Healthy Palm Beaches, Inc. (HPB) are prepared in conformity with accounting practices prescribed or permitted by the Florida Office of Insurance Regulation (OIR), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). OIR recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under state law. The National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual (NAIC SAP) has been adopted by the State of Florida as a component of its prescribed or permitted practices. There are no practices employed by HPB that depart from statutory accounting practices and NAIC SAP, nor were any transactions recorded that are not addressed by statutory accounting practices. Policies and disclosures that are not applicable to HPB are not included in these statutory financial statements. There were no differences in HPB's net income and capital and surplus between NAIC SAP and practices prescribed and permitted by OIR as of and for the years ended December 31, 2017 and 2016.

**Accounting standards:** When they are not in conflict with the statutory accounting standards previously described, HPB has elected to apply the provisions of all relevant pronouncements of the Governmental Accounting Standards Board (GASB).

**Healthy Palm Beaches, Inc.**  
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**Notes to the Statutory Financial Statements**

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

The principal difference between HPB's statements as presented on the statutory basis and those prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by GASB relates to the treatment of assets. As described in Statement of Statutory Accounting Principles No. 4, Assets and Nonadmitted Assets, assets that do not represent resources that can be used to pay claims are generally deemed nonadmitted under the statutory basis of accounting and are not recognized in the statements of admitted assets, liabilities, and capital and surplus. The effect of this difference on the financial statements was to reduce assets by \$2,217 and \$2,995 at December 31, 2017 and 2016, respectively, representing prepaid expenses. Also, the statutory financial statements are not prepared in the format required by GAAP, including no presentation of a reconciliation of net income to cash flows from operating activities.

**Risks and uncertainties:** Certain risks and uncertainties are inherent in HPB's day-to-day operations and in the process of preparing its statutory financial statements. The more significant of those risks and uncertainties are presented below and throughout the notes to statutory financial statements.

**Management estimates:** The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires the disclosure of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenue and expenses during the period, as well as amounts disclosed in the notes to statutory financial statements. Actual results could differ from those estimates.

**Risk-based capital:** The NAIC has developed risk-based capital (RBC) standards that relate an insurer's reported statutory capital and surplus to the risks inherent in its overall operations. The RBC formula uses the statutory annual statement to calculate the minimum indicated capital level to protect HPB from the various risks that it faces. The NAIC model law calls for various levels of regulatory action based on the magnitude of an indicated RBC capital deficiency, if any. HPB continues to monitor its internal capital requirements and the NAIC's RBC requirements. HPB has determined that its capital levels are in excess of the minimum capital requirements for all RBC action levels. Management believes that HPB's capital levels are sufficient to support the level of risk inherent in its operations.

**Legal/regulatory risk:** Legal/regulatory risk is the risk that changes in the legal or regulatory environment in which an insurer operates will occur and create additional costs or expenses not anticipated by the insurer in pricing its products. That is, regulatory initiatives designed to reduce insurer profits or new legal theories may create costs for the insurer beyond those currently recorded in the statutory financial statements.

**Healthy Palm Beaches, Inc.**  
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**Notes to the Statutory Financial Statements**

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

**Cash and cash equivalents and short-term investments:** HPB considers demand deposits, money market accounts and highly liquid investments with an original maturity of three months or less to be cash and cash equivalents. Short-term investments include investments with an original maturity of greater than three months and less than one year. At December 31, 2017 and 2016, the amounts consisted entirely of demand deposits and amounts held by the State of Florida, and HPB held no cash equivalents or short-term investments. At December 31, 2017 and 2016, HPB's bank balances of deposits with financial institutions were entirely covered by federal depository insurance and by 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 of Florida. Qualified Public Depositories are required to pledge collateral to the State Treasurer with a fair 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.

**Liabilities for losses and loss/claim adjustment expense:** The recorded liabilities for unpaid claims and claims adjustment expenses consist of estimates of incurred claims, both reported and unreported. The recorded liabilities are based on assumptions and estimates and, while HPB believes the recorded amount to be adequate, actual losses when known may be greater or less than the amount provided. Incurred but Not Reported (IBNR) liabilities were determined in accordance with the Actuarial Standard of Practice No. 5, *Incurred Health Claim Liabilities*, as established by the American Academy of Actuaries.

**Distribution to Health Care District:** The amount of distributions, if any, to be paid to the Health Care District of Palm Beach County, is determined annually by the Board of Directors of HPB. The amount of the distributions represents a return of capital to the District, determined while also performing a review as to the appropriate level of statutory surplus to be retained by HPB (see Note 4).

**Healthy Palm Beaches, Inc.**  
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**Notes to the Statutory Financial Statements**

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

**Employment and post-employment related costs:** No accruals are made by HPB for employment and postemployment costs, because HPB has no employees.

**Insurance:** HPB carries general and managed care professional liability insurance insuring HPB against any liability for claims for professional injury and wrongful acts committed in the managed care business operations up to \$1,000,000 per occurrence and \$1,000,000 aggregate. HPB's insurance is maintained on a claims made basis. There were no significant reductions in insurance coverage or settlements that exceeded insurance coverage for any of the prior three years.

**Income taxes:** HPB was created by and is controlled by the District. It 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.

**Subsequent events:** All of the effects of subsequent events that provide additional evidence about conditions that existed at the date of the statutory statement of admitted assets, liabilities, and capital and surplus, including the estimates inherent in the process of preparing the statutory financial statements, are recognized in the statutory financial statements. HPB does not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statutory statement of admitted assets, liabilities, and capital and surplus but arose after, but before the statutory financial statements were available to be issued. In some cases, subsequent events are disclosed to keep the statutory financial statements from being misleading.

HPB has evaluated subsequent events through March 1, 2018, the date these statutory financial statements were available to be issued.

**Note 2. Cash**

HPB's cash was as follows at December 31, 2017 and 2016:

	2017		2016	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Deposits with financial institutions	\$ 2,209,683	\$ 2,209,683	\$ 2,233,288	\$ 2,233,288
Restricted deposits with State of Florida agencies and financial institutions	719,452	719,452	717,011	717,011
	<u>\$ 2,929,135</u>	<u>\$ 2,929,135</u>	<u>\$ 2,950,299</u>	<u>\$ 2,950,299</u>

**Healthy Palm Beaches, Inc.**  
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**Notes to the Statutory Financial Statements**

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**Note 2. Cash (Continued)**

HPB monitors the following 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 term to maturity, the greater the exposure to interest rate risk. HPB had no investments and was not subject to interest rate risk.

**Credit risk:** Credit risk is the risk that an issuer will not fulfill its obligations. HPB 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 HPB may not be able to recover cash and investments held by another party in the event of a financial failure. At December 31, 2017 and 2016, HPB's deposits 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, except for restricted deposits with State of Florida agencies.

**Note 3. Restricted Assets**

As described in Note 6, HPB is required by the State of Florida to maintain restricted deposits of \$1,500,000. Following is a summary of the cash on deposit for this purpose, changes in the restricted deposits for the year ended December 31, 2017, and the balances at December 31, 2017 and 2016. The other restricted assets are held as part of the deposits at financial institutions. These restricted deposits are reported with cash on the statutory statements of admitted assets, liabilities, and capital and surplus.

Restricted Asset Category	Total Gross	Total Gross	Increase/ (Decrease) (1 minus 2)	Total Current	Percentage	Percentage
	Restricted	Restricted		Year	Gross	Admitted
	From Current	From Prior		Admitted	Restricted to	Total Admitted
	Year	Year		Restricted	Total Assets	Assets
On deposit with state	\$ 719,452	\$ 717,011	\$ 2,441	\$ 719,452	24%	24%
Other restricted assets	780,548	782,989	(2,441)	780,548	26%	26%
Total restricted assets	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ -</u>	<u>\$ 1,500,000</u>	<u>50%</u>	<u>50%</u>

**Note 4. Transactions with Parent, Subsidiaries, Affiliates and Other Related Parties**

**Guarantees or undertakings:** On October 22, 1997, HPB entered into a Guarantee Agreement with the District. This agreement affirms the District's financial support of HPB up to an annual maximum of \$5,000,000 to assure that neither enrolled Medicaid recipients nor AHCA will be liable for the debts or financial obligations of HPB. During January 2010, HPB entered into a similar Guarantee Agreement with the District to include the debts or financial obligations of Vita Health.

**Healthy Palm Beaches, Inc.**  
**(A Component Unit of the Health Care District of Palm Beach County)**

**Notes to the Statutory Financial Statements**

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**Note 4. Transactions with Parent, Subsidiaries, Affiliates and Other Related Parties**  
**(Continued)**

**Distributions:** During the years ended December 31, 2017 and 2016, HPB made cash distributions of \$0 and \$9,000,000 to the District, respectively, representing a return of capital and surplus that had been held in excess of amounts statutorily required.

**Amounts due from related parties:** The District owed HPB \$11,780 and \$553 at December 31, 2017 and 2016, respectively.

**Note 5. Claims Unpaid and Change in Incurred Claims and Claim Adjustment Expenses**

During the years ended December 31, 2017 and 2016, changes recorded to claims unpaid were as follows:

	2017	2016
Beginning liability	\$ 10,000	\$ 1,061,079
Paid claims, net of recoveries	42,386	(976,413)
Paid claims adjustment expense	-	(20,805)
Incurred losses (recoveries)	(42,386)	(53,861)
Ending liability	<u>\$ 10,000</u>	<u>\$ 10,000</u>

During the year ended December 31, 2017, recoveries of claims paid in prior years exceeded claims by \$42,386, resulting in a \$42,386 favorable development during 2017. During the year ended December 31, 2016, \$976,413 was paid, net of recoveries, for claims incurred in prior years. There was \$10,000 in remaining liability for prior year claims at December 31, 2016, resulting in a \$53,861 favorable development during 2016. These developments are the result of additional information on claims from prior years.

**Note 6. Minimum Net Worth**

Pursuant to Section 641.225, Florida Statutes, HPB is required to maintain in the form of cash and cash equivalents a statutory reserve based on the greater of: (1) \$1,500,000, (2) 10% of total liabilities or (3) 2% of annual premiums.

At December 31, 2017 and 2016, a contributed surplus of \$1,500,000 was assigned.

**Note 7. Commitments and Contingencies**

**Legal:** In the ordinary course of operations, HPB is subject to litigation and other dispute resolution processes regarding health benefits provided to its subscribers, contracts with service providers, and other matters that arise in the context of its business. Although the outcome of these matters cannot be determined, it is management's opinion that adequate provision has been made for losses that may result from these actions; accordingly, the outcome of these proceedings will not have a material effect on HPB's financial position or results of operations.