

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

Financial Report
September 30, 2019

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Independent Auditor's Report

Board of Directors
District Clinic Holdings, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of District Clinic Holdings, Inc. (the Clinics), a component unit of the Health Care District of Palm Beach County, Florida, which comprise the statements of net position as of September 30, 2019 and 2018, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of District Clinic Holdings, Inc. as of September 30, 2019 and 2018, 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 changes in the total other postemployment benefits liability and related ratios 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 report dated March 6, 2020 on our consideration of the Clinics' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Clinics' internal control over financial reporting and compliance.

RSM US LLP

West Palm Beach, Florida
March 6, 2020

District Clinic 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 Clinic Holdings, Inc., doing business as the C.L. Brumbach Primary Care Clinics (the Clinics), as of and for the years ended September 30, 2019 and 2018. Please read it in conjunction with the Clinics' financial statements and accompanying notes.

Background

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

Financial Highlights

- The Clinics' net position decreased by approximately \$623,000 and \$11,000 in 2019 and 2018, respectively. The decrease resulted from an increase in salaries expenses and overhead expenses. District contributions were approximately \$4,798,000 and \$2,370,000 in fiscal years 2019 and 2018, respectively.
- The Clinics reported an operating loss in 2019 of approximately \$15,934,000 compared to an operating loss of approximately \$9,692,000 in 2018. The increase of approximately \$6,242,000 in the operating loss was due to an increase in salaries and overhead expenses including office supplies and the purchase of minor equipment for the Belle Glades Clinic.
- Nonoperating revenues in 2019 and 2018 consisted of grant revenues, principally the Health Resources and Services Administration (HRSA) grant. In 2019, the Clinics received approximately \$3,216,000 more in grant funding then compared to 2018.
- Other operating revenues increased approximately \$504,000 in 2019. The increase resulted primarily from an increase of a shared revenue saving incentive payment received from an insurance provider. The shared revenue saving incentive payment was approximately \$2,378,000 and \$1,811,000 in fiscal years 2019 and 2018, respectively.
- Net patient service revenues decreased approximately \$3,828,000 in 2019. The decrease resulted primarily from the termination of the district care and uninsured subsidy program.
- The Clinics is financially dependent on the District, and, since January 2013, the District has provided working capital of approximately \$13,781,000 to the Clinics, approximately \$4,798,000 of which was in 2019 and \$2,370,000 in 2018. A substantial portion of net patient service revenue relates to the District's capitated payments and subsidies for uninsured visits, which amounted to approximately \$1,149,000 and \$4,989,000 in 2019 and 2018, respectively.

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

Management's Discussion and Analysis

Basic Financial Statements

The Clinics' basic financial statements consist of three statements—the statement of net position; statement of revenues, expenses and changes in net position; and statement of cash flows. These financial statements and related notes provide information about the activities of the Clinics for 2019 and 2018. The statements of net position include all assets/deferred outflows of resources and all liabilities/deferred inflows of resources using the accrual basis of accounting.

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

All revenues and expenses for the years ended September 30, 2019 and 2018, are accounted for in the statements of revenues, expenses and changes in net position. These statements measure annual financial results and indicate how well the Clinics recovers its costs through its net patient service revenue and other sources of operating revenues.

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

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

The Clinics' Net Position

The Clinics' net position is the difference between its total assets/deferred outflows of resources and its total liabilities/deferred inflows of resources reported in the Statement of Net Position. The Clinics' net position decreased by approximately \$623,000 in 2019, and decreased by approximately \$11,000 in 2018. Nonfinancial factors such as changes in the Clinics' patient base and measures of the quality of services it provides to the community, as well as local economic factors also helps readers assess the overall health of the Clinics.

	September 30		
	2019	2018	2017
Assets			
Current assets	\$ 2,513,800	\$ 3,781,922	\$ 3,931,375
Capital assets, net	1,943,531	682,573	498,287
Total assets	<u>\$ 4,457,331</u>	<u>\$ 4,464,495</u>	<u>\$ 4,429,662</u>
Deferred outflows of resources	<u>\$ 426</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities			
Current liabilities	\$ 1,658,194	\$ 1,252,370	\$ 1,275,352
Noncurrent liabilities	1,007,762	797,053	729,254
Total liabilities	<u>\$ 2,665,956</u>	<u>\$ 2,049,423</u>	<u>\$ 2,004,606</u>
Deferred inflows of resources	<u>\$ 543</u>	<u>\$ 612</u>	<u>\$ -</u>
Net Position			
Investment in capital assets	\$ 1,943,531	\$ 682,573	\$ 498,287
Unrestricted	(152,273)	1,731,887	1,926,769
Total net position	<u>\$ 1,791,258</u>	<u>\$ 2,414,460</u>	<u>\$ 2,425,056</u>

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

Management's Discussion and Analysis

The Clinics' net capital assets in 2019 increased by approximately \$1,261,000, attributable to approximately \$1,441,000 of additions, offset by approximately \$158,000 in depreciation of capital assets. Current liabilities for 2019 increased approximately \$406,000, compared with an approximately \$23,000 decrease in 2018, both attributable primarily to the timing of accounts payable and wages payable. Noncurrent liabilities increased approximately \$211,000 in 2019 due to increases in accrued compensated absences, compared to an increase of approximately \$68,000 in 2018.

Operating Results and Changes in the Clinics' Net Position

In 2019, the Clinics' net position decreased by approximately \$623,000 compared to 2018. The decrease resulted from grant revenue of approximately \$10,527,000 and operating contributions from the District of approximately \$4,798,000 for 2019, reduced by an operating loss of approximately \$15,934,000 for 2019. In 2019, net position was approximately \$1,791,000.

In 2018, the Clinics' net position decreased by approximately \$11,000 compared to 2017. The decrease resulted from grant revenue of approximately \$7,311,000 and operating contributions from the District of \$2,370,000 for 2018, reduced by an operating loss of approximately \$9,692,000 for 2018. In 2018, net position was approximately \$2,414,000.

	Years Ended September 30		
	2019	2018	2017
Operating revenues:			
Net patient service revenue	\$ 11,368,076	\$ 15,195,818	\$ 12,319,919
Other revenue	2,433,884	1,929,418	691,685
Total operating revenues	<u>13,801,960</u>	<u>17,125,236</u>	<u>13,011,604</u>
Operating expenses:			
Medical services	22,134,266	20,523,921	17,509,286
Fiscal and administrative services	7,442,811	6,091,012	4,635,781
Depreciation	158,465	201,814	195,951
Total operating expenses	<u>29,735,542</u>	<u>26,816,747</u>	<u>22,341,018</u>
Operating loss	<u>(15,933,582)</u>	<u>(9,691,511)</u>	<u>(9,329,414)</u>
Nonoperating revenues (expenses):			
Grant revenue	10,526,621	7,310,915	6,665,845
Other nonoperating revenues	-	-	1,378
Loss on disposal of capital assets	(14,694)	-	-
Total nonoperating revenues	<u>10,511,927</u>	<u>7,310,915</u>	<u>6,667,223</u>
District contributions:			
Operating contributions	4,798,453	2,370,000	3,300,000
Change in net position	<u>(623,202)</u>	<u>(10,596)</u>	<u>637,809</u>
Net position, beginning of year	2,414,460	2,425,056	1,787,247
Net position, end of year	<u>\$ 1,791,258</u>	<u>\$ 2,414,460</u>	<u>\$ 2,425,056</u>

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

Management's Discussion and Analysis

Operating Losses

The first component of the overall change in the Clinics' net position is its operating loss—generally, the difference between net patient service revenue and the expenses incurred to perform those services. During 2019 and 2018, the Clinics reported an operating loss of approximately \$15.9 million and \$9.7 million, respectively. The Clinics' operations with the District began in 2013, when it was agreed that the District would assume control of certain primary care clinics operated by the Florida Department of Health of Palm Beach County (the Health Department), and thereby maintain the clinics for the County's lower income residents. The major components of the operating losses are as follows:

- Net patient service revenue in 2019 and 2018 was approximately \$11,368,000 and \$15,196,000, respectively, which is net of contractual discounts of approximately \$13,552,000 and \$14,322,000 and provision for bad debts of approximately \$2,908,000 and \$2,298,000, respectively.
- Medical services expense in 2019 and 2018 were approximately \$22,134,000 and \$20,524,000, respectively, which, in addition to salaries and benefits, includes physician fees, pharmaceuticals, clinic facility costs, and other purchased services, such as laboratory, security and other services. The increase of approximately \$1,610,000 relates primarily to increase in salaries and benefits.
- Fiscal and general administration services expense in 2019 and 2018 were approximately \$7,443,000 and \$6,091,000, respectively, which, in addition to salaries and benefits, includes office supplies and expenses and allocated administration costs from the District. The increase of \$1,352,000 is related primarily to an increase in overhead expenses and the purchases of minor equipment for the Belle Glade Clinic.

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

Cash Flow

The substantial operating losses of the Clinics generally result in significant cash flow deficiencies from operating activities which totaled approximately \$15,364,000 and \$9,119,000 for 2019 and 2018, respectively. These operating cash flow deficiencies were financed primarily by the HRSA grant revenues of approximately \$10,527,000 and \$7,311,000 for 2019 and 2018, respectively, and by the District's operating contributions to the Clinics of approximately \$4,798,000 and \$2,370,000 for 2019 and 2018, respectively.

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

Management's Discussion and Analysis

Capital Assets

As shown within the table below, the Clinics acquired approximately \$1,441,000 in capital assets during 2019, as compared to approximately \$386,000 in 2018, respectively. The capital asset purchases in 2019 and 2018 consisted principally of major movable equipment purchases as well as relocation costs of the Belle Glade medical and dental clinics to the Lakeside Medical Center facility.

	Year Ended September 30, 2019			
	Beginning Balance	Increases	Decreases	Ending Balance
Construction in progress (nondepreciable)	\$ 78,358	\$ 1,415,020	\$ -	\$ 1,493,378
Furniture, fixtures and equipment	1,673,849	26,064	(94,857)	1,605,056
Less depreciation	(1,069,634)	(158,465)	73,196	(1,154,903)
Capital assets, net	<u>\$ 682,573</u>	<u>\$ 1,282,619</u>	<u>\$ (21,661)</u>	<u>\$ 1,943,531</u>

	Year Ended September 30, 2018			
	Beginning Balance	Increases	Decreases	Ending Balance
Construction in progress (nondepreciable)	\$ 4,718	\$ 78,358	\$ (4,718)	\$ 78,358
Furniture, fixtures and equipment	1,357,137	307,742	8,970	1,673,849
Less depreciation	(863,568)	(201,814)	(4,252)	(1,069,634)
Capital assets, net	<u>\$ 498,287</u>	<u>\$ 184,286</u>	<u>\$ -</u>	<u>\$ 682,573</u>

Debt

The Clinics had no debt outstanding at September 30, 2019 and 2018. The noncurrent liabilities are comprised of accrued compensated absences, estimated self-insured liability, deferred rent and other post-employment benefit liabilities.

Economic Factors and Next Year's Budget

The Health Care District purchased a mobile medical van in order to meet the healthcare needs of the chronically homeless in Palm Beach County. The van will provide services weekly at the locations of more than five community partners who feed, bathe, clothe, and/or provide other services to this population. Staffing for the mobile van will include an Advanced Registered Nurse Practitioner, a Registered Nurse, a Licensed Clinical Social Worker and a bus driver who also acts as our registrar, who will treat the patients at those selected sites.

Our Women's Health Services Group added a second full time obstetrician-gynecologist physician at our Boca Raton Clinic and a part time provider to the Lake Worth Site, as demand for services continues to increase. We anticipate steady growth in this area.

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

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

Management's Discussion and Analysis

Contacting the Clinics' Financial Management

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

FINANCIAL STATEMENTS

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

Statements of Net Position
September 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 726,819	\$ 764,351
Patient accounts receivable, net of allowance for doubtful accounts of \$2,006,335 and \$1,379,152 in 2019 and 2018, respectively	1,034,612	720,576
Grant receivable	622,923	2,057,948
Prepaid expenses and other current assets	129,446	239,047
Total current assets	2,513,800	3,781,922
Capital assets:		
Construction in progress	1,493,378	78,358
Depreciable capital assets, net of accumulated depreciation	450,153	604,215
Total assets	\$ 4,457,331	\$ 4,464,495
Deferred outflows of resources	\$ 426	\$ -
Liabilities		
Current liabilities:		
Accounts payable	\$ 587,420	\$ 320,744
Accrued salaries and benefits	852,369	717,316
Unearned grant revenue	48,220	98,769
Current portion of accrued compensated absences	145,705	112,427
Current portion of deferred rent	6,783	1,351
Current portion of estimated self-insured liability	17,697	1,763
Total current liabilities	1,658,194	1,252,370
Accrued compensated absences, less current portion	816,628	628,042
Estimated self-insured liability, less current portion	22,457	25,671
Deferred rent, less current portion	132,814	114,521
Other post-employment benefits liabilities	35,863	28,819
Total liabilities	\$ 2,665,956	\$ 2,049,423
Deferred inflows of resources	\$ 543	\$ 612
Net Position		
Net investment in capital assets	\$ 1,943,531	\$ 682,573
Unrestricted	(152,273)	1,731,887
Total net position	\$ 1,791,258	\$ 2,414,460

See notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2019 and 2018

	2019	2018
Operating revenues:		
Patient service revenue, net of provision for bad debts of \$2,908,423 and \$2,298,001 in 2019 and 2018, respectively	\$ 11,368,076	\$ 15,195,818
Other operating revenues	2,433,884	1,929,418
Total operating revenues	13,801,960	17,125,236
Operating expenses:		
Medical services	22,134,266	20,523,921
Fiscal and general administrative services	7,442,811	6,091,012
Depreciation	158,465	201,814
Total operating expenses	29,735,542	26,816,747
Operating loss	(15,933,582)	(9,691,511)
Nonoperating revenues (expenses):		
Grant revenue	10,526,621	7,310,915
Loss on disposal of capital assets	(14,694)	-
Total nonoperating revenues	10,511,927	7,310,915
Loss before District contributions	(5,421,655)	(2,380,596)
District contributions:		
Operating contributions	4,798,453	2,370,000
Change in net position	(623,202)	(10,596)
Net position, beginning of year	2,414,460	2,425,056
Net position, end of year	\$ 1,791,258	\$ 2,414,460

See notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Receipts from patients and third-party payors	\$ 11,003,491	\$ 15,565,203
Payments to employees	(21,770,800)	(20,397,119)
Payments to suppliers and service providers	(7,030,089)	(6,216,570)
Other receipts	2,433,884	1,929,418
Net cash used in operating activities	(15,363,514)	(9,119,068)
Cash flows from noncapital financing activities:		
Grants received	11,961,646	7,367,720
District operating contributions	4,798,453	2,370,000
Net cash provided by noncapital financing activities	16,760,099	9,737,720
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(1,441,084)	(386,100)
Proceeds from sales of capital assets	6,967	-
Net cash used in capital and related financing activities	(1,434,117)	(386,100)
Net (decrease) increase in cash and cash equivalents	(37,532)	232,552
Cash and cash equivalents, beginning of year	764,351	531,799
Cash and cash equivalents, end of year	\$ 726,819	\$ 764,351
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (15,933,582)	\$ (9,691,511)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Provision for bad debts	2,908,423	2,298,001
Depreciation expense	158,465	201,814
Changes in assets and liabilities:		
Patient accounts receivable	(3,222,459)	(1,959,233)
Prepaid expenses and other current assets	109,601	(13,568)
Accounts payable	266,676	101,745
Accrued salaries and benefits	135,053	52,185
Due to other governments	-	(216,369)
Unearned grant revenue	(50,549)	30,617
Accrued compensated absences	221,864	58,320
Deferred rent	23,725	(4,119)
Estimated self-insured liability	12,720	6,753
Other post-employment benefits liabilities	7,044	15,685
Deferred inflows of resources	(69)	612
Deferred outflows of resources	(426)	-
Net cash used in operating activities	\$ (15,363,514)	\$ (9,119,068)

See notes to financial statements.

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

Notes to Financial Statements

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

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

The Clinics' four initial locations in Belle Glade, Lantana/Lake Worth, Delray Beach and West Palm Beach were operated by the Florida Department of Health of Palm Beach County (the Health Department) until the operations were assumed by the District in June 2013. The Clinics later expanded their footprint to include ten locations and have expanded services, including dental services. Additional locations added included the Palm Beach Lakes High School Clinic (RAMS Clinic; 2014), Lewis Center (2015), Jerome Golden Center (2015), Lake Worth Clinic (2015), West Boca Raton (2017) and Jupiter (2017). The RAMS (2017) and Jerome Golden (2018) locations were later closed. A mobile van was purchased in 2018 to provide access to the homeless population.

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

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

The District is the sole corporate member of the Clinics therefore, the Clinics is considered a blended component unit of the District. The District was created by the Florida Legislature pursuant to Chapter 2003-326, Laws of Florida (the Health Care Act), and by the affirmative vote of the residents of Palm Beach County, Florida. The District's general purpose is to provide quality health care services in a comprehensive and efficient manner throughout Palm Beach County, as more fully set forth in the Health Care Act.

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

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowances for contractual discounts and doubtful accounts. Actual results could differ from those estimates.

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

Notes to Financial Statements

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

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

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

Allowance for doubtful accounts: The Clinics' ability to collect outstanding receivables from patients, third-party payors and others is critical to its operating performance and cash flows. The primary collection risk lies with uninsured patient accounts or patient accounts for which a balance remains after government payors or primary insurance has paid. The Clinics' policy with respect to estimating its allowance for doubtful accounts is to reserve 95% of all self-pay accounts receivable. The Clinics continually monitors its accounts receivable balances and utilizes cash collections data and other analysis to support the basis for its estimates of the allowance for doubtful accounts.

The Clinics does not pursue collection of amounts related to patients who qualify for charity care under its guidelines. As such, charity care accounts do not affect the allowance for doubtful accounts. Significant changes in the payor mix, business office operations or deterioration in aging accounts receivable could result in a significant increase in this allowance.

Allowance for contractual discounts: The Clinics estimates the allowance for contractual discounts on a payor-specific basis, given its interpretation of the applicable regulations or contract terms. It is additionally estimated based on management's assessment of historical collections, considering business and economic conditions, trends in health care coverage and other collection indicators. However, the services authorized and provided and the resulting reimbursement are often subject to interpretation. These interpretations sometimes result in payments that differ from the Clinics' estimates. Additionally, updated regulations and contract negotiations occur periodically, necessitating regular review and assessment of the estimation process.

As of September 30, 2019, the percentage of gross patient accounts receivable provided by Medicare and Medicaid, patients and insurance and others was approximately 40%, 41% and 19%, respectively. As of September 30, 2018, the percentage of gross patient accounts receivable provided by Medicare and Medicaid, patients and insurance and others was approximately 50%, 35% and 15%, respectively.

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

Notes to Financial Statements

Note 1. Nature of Organization and 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 acquisition value on the date contributed. Capital assets include computer software and furniture, fixtures, and equipment. The Clinics defines capital assets as assets with an initial cost of at least \$5,000 and an estimated useful life of one year or greater. Capital assets used in operations are depreciated over the estimated useful lives of the respective assets on a straight-line basis. Gains and losses on dispositions of capital assets are recorded in the period of disposal. The estimated useful lives for computer software range from 3 to 10 years and for furniture, fixtures and equipment range from three to twenty years, and generally conform to those recommended by the American Hospital Association.

The Clinics evaluates capital assets regularly for impairment. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of the assets. An impairment charge is recorded on those assets or groups of assets for which the estimated fair value is below its carrying amount. The Clinics has not recorded any impairment charges in the accompanying statement of revenues, expenses and changes in net position for the years ended September 30, 2019 and 2018.

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

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

For the year ended September 30, 2019, the percentage of net patient service revenue provided by Medicare and Medicaid, patients and insurance and others was approximately 40%, 9% and 41%, respectively. The District provided the balance in 2019 of approximately 10% of net patient service revenue through capitated payments and uninsured subsidies to the Clinics. For the year ended September 30, 2018, the percentage of net patient service revenue provided by Medicare and Medicaid, patients and insurance and others was approximately 27%, 6% and 34%, respectively. The District provided the balance in 2018 of approximately 33% of net patient service revenue through capitated payments and uninsured subsidies to the Clinics.

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

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

Notes to Financial Statements

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

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

Medicare: Payments to the Clinics for Medicare patients changed to a prospective payment system (PPS) effective October 1, 2014, as mandated by the Affordable Care Act of 2010. The Centers for Medicare and Medicaid Services (CMS) established a base rate as of October 1, 2014 of \$158.85. A Geographic Adjustment Factor (GAF) is applied to the base rate based on where the services are provided. In addition, the GAF-adjusted rate may also be affected by additional adjustment factors, such as new patients. Generally, the Medicare PPS payment to the Clinics is equal to 80% of the lesser of the Clinics' charges or the PPS rate. The remaining 20% is the responsibility of the patient and/or the patients coinsurance. Effective January 1, 2019 the base rate was increased to \$169.77.

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

Commercial providers: The Clinics also has reimbursement agreements with certain commercial insurance carriers and health maintenance organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined per diem rates and capitation. Settlements are not expected to vary materially from the estimated amounts recorded in the accompanying financial statements.

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

The Clinics provides care to patients who meet certain criteria under its charity care guidelines without charge or at amounts less than its established rates. Because the Clinics does not anticipate payment and does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. The cost of providing this care, determined by applying the Uniform Data System (UDS)-calculated cost per medical or dental visit times the number of applicable charity care visits, was approximately \$6,420,000 and \$4,445,000 for the years ended September 30, 2019 and 2018, respectively. The increase from the prior year was due to an increase in the number of visits for patients who qualified for charity care, and the expansion of the Clinics that resulted in more services being provided overall.

Disproportionate share distributions: The Low Income Pool (LIP) program is a federal matching program that provides the State with the opportunity to receive additional federal distributions based on a capped annual allotment, which is distributed by the State to participating health care providers for eligible services. Local governments, such as counties, hospital districts, and the Florida Department of Health provide funding for the nonfederal share of the LIP distributions. Revenues from the LIP program are reported as net patient service revenue in the accompanying statement of revenues, expenses and changes in net position, net of the required quarterly assessments owed by the Clinics, which are accrued in the fiscal year for which the assessments are made. For the years ended September 30, 2019 and 2018, the Clinics recorded revenues of approximately \$2,642,000 and \$2,508,000, and assessments of approximately \$0 and \$11,500, respectively. The receipt of future distributions is contingent upon the continued support of the program by the federal and state governments.

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

Notes to Financial Statements

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

Incentive program revenues: During the year ended September 30, 2019, the Clinics recognized approximately \$2,378,000, which is reported within other operating revenues, as a result of a shared revenue saving incentive program with an insurance payor. The incentive payment was associated with patient activity from the calendar year ended December 31, 2018, and was calculated using a targeted medical loss ratio. The Clinics were not able to estimate the targeted medical loss ratio for the nine month period ended September 30, 2019 and as a result, was not unable to estimate the associated incentive payment that was received, if any. The shared revenue saving incentive program does not subject the Clinics to the potential to repay amounts already received from patient services. During the year ended September 30, 2018, the Clinics recognized approximately \$1,811,000 as a result of the shared revenue saving incentive program.

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

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

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

Risk management: The Clinics is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters to the extent such claims are not covered by sovereign immunity. The Clinics is deemed covered under the Federal Tort Claims Act for professional liability claims (see Note 8). Settled claims have not exceeded the Clinics' commercial coverage from inception through September 30, 2019.

Income taxes: The Clinics is exempt from federal and state income taxes as a governmental entity and is not required under the Internal Revenue Code to file tax returns.

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

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

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

Notes to Financial Statements

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

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

Subsequent events: The Clinics has considered subsequent events through March 6, 2020, the date the financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure in the financial statements.

Note 2. Cash

At September 30, 2019 and 2018, the Clinics' cash balances were as follows:

	2019	2018
Carrying amount:		
Deposits with financial institutions	\$ 722,919	\$ 760,651
Petty cash	3,900	3,700
	<u>\$ 726,819</u>	<u>\$ 764,351</u>

The Clinics has pooled cash with the District's common interest-bearing concentration account, as well as maintains two separate bank accounts for the years ended September 30, 2019 and 2018. The District monitors the following deposit risks related to all the accounts:

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

Custodial credit risk: Custodial credit risk is defined as the risk that the Clinics may not be able to recover cash and investments held by another party in the event of a financial failure. At September 30, 2019 and 2018, the Clinics participated in the District's concentration account and, accordingly, did not individually hold any accounts in the name of the Clinics. The District's deposits with financial institutions were entirely covered by federal depository insurance and a collateral pool pledged to the State Treasurer of Florida by financial institutions that comply with the requirements of Florida Statutes and have been designated as a qualified public depository by the State Treasurer.

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

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

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

Notes to Financial Statements

Note 3. Patient Accounts Receivable

Patient accounts receivable, reported as current assets by the Clinics at September 30, 2019 and 2018, consist of the following amounts:

	2019	2018
Patient accounts receivable:		
Medicare and Medicaid	\$ 1,911,658	\$ 2,128,322
Patients	1,983,253	1,486,336
Insurance and others	918,737	655,137
Total patient accounts receivable	4,813,648	4,269,795
Less allowance for contractual discounts	(1,772,701)	(2,170,067)
Less allowance for doubtful accounts	(2,006,335)	(1,379,152)
Patient accounts receivable, net	<u>\$ 1,034,612</u>	<u>\$ 720,576</u>

Note 4. Capital Assets

Capital asset activity for the years ended September 30, 2019 and 2018, follows:

	Balance October 1, 2018	Transfers and Additions	Transfers and Deletions	Balance September 30, 2019
Capital assets:				
Construction in progress (nondepreciable)	\$ 78,358	\$ 1,415,020	\$ -	\$ 1,493,378
Furniture, fixtures and equipment	1,673,849	26,064	(94,857)	1,605,056
Total cost	1,752,207	1,441,084	(94,857)	3,098,434
Less accumulated depreciation:				
Furniture, fixtures and equipment	(1,069,634)	(158,465)	73,196	(1,154,903)
Capital assets, net	<u>\$ 682,573</u>	<u>\$ 1,282,619</u>	<u>\$ (21,661)</u>	<u>\$ 1,943,531</u>
	Balance October 1, 2017	Transfers and Additions	Transfers and Deletions	Balance September 30, 2018
Capital assets:				
Construction in progress (nondepreciable)	\$ 4,718	\$ 78,358	\$ (4,718)	\$ 78,358
Furniture, fixtures and equipment	1,357,137	307,742	8,970	1,673,849
Total cost	1,361,855	386,100	4,252	1,752,207
Less accumulated depreciation:				
Furniture, fixtures and equipment	(863,568)	(201,814)	(4,252)	(1,069,634)
Capital assets, net	<u>\$ 498,287</u>	<u>\$ 184,286</u>	<u>\$ -</u>	<u>\$ 682,573</u>

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

Notes to Financial Statements

Note 5. Accrued Compensated Absences

Compensated absences liability activity for the years ended September 30, 2019 and 2018, follows:

	Balance October 1, 2018	Additions	Retirements	Balance September 30, 2019	Amount Due Within One Year
Accrued compensated absences	\$ 740,469	\$ 1,763,311	\$ (1,541,447)	\$ 962,333	\$ 145,705
	Balance October 1, 2017	Additions	Retirements	Balance September 30, 2018	Amount Due Within One Year
Accrued compensated absences	\$ 682,149	\$ 1,619,210	\$ (1,560,890)	\$ 740,469	\$ 112,427

Note 6. Related Party Transactions

The Clinics' operations are financially dependent on the District. In 2019 and 2018, the District paid the Clinics \$60 per medical visit as an uninsured subsidy, and \$100 per uninsured dental visit. The total capitated payments and uninsured subsidies from the District were approximately \$1,149,000 and \$4,989,000 of net patient service revenue for the years ended September 30, 2019 and 2018, respectively. The Clinics also received approximately \$4,798,000 and \$2,370,000 in operating contributions from the District in fiscal years 2019 and 2018, respectively.

The District allocated certain support department costs to the Clinics, including personnel, purchasing, legal, and administrative costs. The total District allocated costs charged to expense by the Clinics were approximately \$4,177,000 and \$3,449,000 for the years ended September 30, 2019 and 2018, respectively.

Note 7. Retirement Plans

Defined contribution plan: In October 1990, the District established the Health Care District of Palm Beach County 401(a) Retirement Plan (the Plan), a defined contribution pension plan that covers employees of the District and its wholly owned affiliates, including the Clinics' employees not participating in the Florida Retirement System (FRS) Plan who are 18 years of age or older and have completed one year of service. The Plan is administered by the Variable Annuity Life Insurance Company (VALIC). For employees hired after September 30, 2012, the District contributes 4% of eligible compensation to the Plan and also makes matching contributions equal to 100% of the participants' elective deferrals up to 4% of eligible compensation. The District contributes 15% of eligible compensation for employees hired prior to October 1, 2012. Contribution rates and benefits of the Plan are established by and may be amended by the District Board. For the fiscal years ended September 30, 2019 and 2018, the Clinics contributed \$907,690 and \$789,538 to the Plan for its employees. Employees are fully vested after 6 years of service.

District deferred compensation plan: The District also established and provides its employees, including the Clinics' employees, with access to a 457(b) deferred compensation plan named the Palm Beach County Health Care District Pension Plan (the 457(b) Plan). Under this plan, an employee is able to contribute pre-tax wage/salary dollars into a personal retirement account. The 457(b) Plan is administered by VALIC. An employee can defer up to \$19,000 of eligible compensation annually. No contributions are required of the District. Contribution rates and benefits of the 457(b) Plan are established by and may be amended by the District Board.

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

Notes to Financial Statements

Note 8. Commitments and Contingencies

Operating leases: The Clinics is committed under several noncancelable operating leases for clinic facilities. The leases expire in various years through April 2023. Rent expense for the years ended September 30, 2019 and 2018, was approximately \$1,341,000 and \$1,329,000, respectively. The approximate future minimum operating lease payments at September 30, 2019, follows:

	<u>Operating Leases</u>
Years ending September 30:	
2020	\$ 344,300
2021	260,924
2022	233,133
2023	233,132
	<u>\$ 1,071,489</u>

District and Health Department Master Agreement: The District entered into a Master Agreement with the Florida Department of Health of Palm Beach County (the Health Department), effective October 1, 2013, and ending June 30, 2020, whereby the District assumed the financial, administrative and operational responsibility for providing adult and pediatric primary care services to patients formerly served by the Health Department through their FQHC locations in Palm Beach County.

Pursuant to the Master Agreement, the District operates the Clinics locations and accounts for all operational activities through the Clinics. Four clinic facility locations are owned by Palm Beach County (C.L. Brumback Health Center in Belle Glade; the Lantana/Lake Worth Health Center; and the Delray Beach Health Center) and the State of Florida (the West Palm Beach Health Center) and are utilized by the District without rent. The District pays the Health Department for common expenses incurred by the Health Department for the facilities based on the pro rata square footage used by the District and the Health Department. The total annual common expenses, for the facilities paid by the District were approximately \$830,070 and \$833,500 for the years ended September 30, 2019 and 2018, respectively, including costs related to space for the District's pharmacy and eligibility offices. The portion of these costs allocated to the Clinics was approximately \$688,330 for each of the years ended September 30, 2019 and 2018.

Professional and general liability claims: The Clinics is subject to risk of loss arising in the ordinary course of business, including claims for damages from medical malpractice, personal injuries, employment-related claims, breach of management contracts and wrongful restriction of or interference with physicians' staff privileges. In certain of these actions, plaintiffs may seek punitive or other damages against the Clinics, which are generally not covered by insurance. As a FQHC, the Clinics is deemed covered under the Federal Tort Claims Act for professional liability claims. The Federally Supported Health Centers Assistance Act of 1992 and 1995 granted medical malpractice liability protection through the Federal Tort Claims Act to supported health centers. Under the Act, health centers are considered Federal employees and are immune from lawsuits, with the Federal government acting as their primary insurer.

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

Notes to Financial Statements

Note 8. Commitments and Contingencies (Continued)

The Clinics is entitled to sovereign immunity under Florida law. For tort actions (with claims arising on or after October 1, 2011), *Florida Statutes, Section 768.28* has a limited waiver of sovereign immunity. Therefore, the District's liability for tort is limited to \$200,000 per claim and \$300,000 in the aggregate. Additionally, on June 1, 2015, the District obtained an umbrella liability policy for coverage in excess of the self-insured retention levels of \$500,000 for professional liability exposures and \$500,000 for general liability exposures, as well as underlying insurance policies for employers liability, business automobile liability and aviation general liability exposures. Judgments may be claimed or rendered in excess of the sovereign immunity limits; however, the District cannot be liable for such excess amounts unless the claim/judgment is presented to and approved by the Florida legislature (i.e. claims bill). The umbrella policy, with aggregate limits of \$5 million, only responds in the event a covered loss results in a claims bill that is approved by the Legislature.

The District's management, in consultation with legal counsel, believes all general liability claims are covered by insurance or limited under sovereign immunity and will not have any significant impact on the financial condition of the District in excess of the amounts accrued at September 30, 2019. At September 30, 2019 and 2018, the Clinics accrued approximately \$40,000 and \$26,000, respectively, for professional and general liability claims. No settlements exceeded insurance coverage during the past three fiscal years.

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

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

Note 9. Other Post-Employment Benefits

The Clinics follow GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions* for financial reporting and disclosure for its other post-employment benefits plan (OPEB Plan). The requirements of this statement was implemented by the Clinics beginning with the fiscal year ended September 30, 2018.

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

Notes to Financial Statements

Note 9. Other Post-employment Benefits (Continued)

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

Funding policy: The Clinics 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 liability 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.

District employees covered by benefit terms: At September 30, 2017, there were 5 retirees and 815 active plan members covered by the benefit terms for the overall District.

Total OPEB Liability: The Clinics allocated proportionate share of the District's total OPEB liability was \$35,863 and \$28,819 for the years ended September 30, 2019 and 2018, respectively. The total OPEB liability was measured as of September 30, 2019 and 2018, based on an actuarial valuation as of September 30, 2017.

The total OPEB liability for each year was based on the September 30, 2017 actuarial valuation and determined using the following actuarial assumptions and other inputs, unless otherwise specified:

Salary increases	3.00%
Investment rate of return	Not applicable. The plan is not funded.
Discount rate	3.58%
Healthcare cost trend rates	8.5% in 2018, graded down to 4.5% by 0.25% per year
Mortality	Mortality Pub-2010 Headcount weighted mortality table for general public employer, annuitant and non-annuitant, sex distinct with improvement scale MP-2018

The discount rate used to measure the total OPEB liability was based on a 20-year AA/Aa tax-exempt municipal bond yield.

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

Notes to Financial Statements

Note 9. Other Post-employment Benefits (Continued)

The following provides the changes to the total OPEB liability for the years ended:

	2019	2018
Beginning balance	\$ 28,819	\$ 13,134
Service cost	5,466	15,463
Interest	1,243	956
Changes of assumptions	481	(681)
Implicit benefit payments	(146)	(53)
Net changes	7,044	15,685
Ending balance	\$ 35,863	\$ 28,819

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Clinics, as well as what the Clinics' total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage-point higher (4.58%) than the current discount rate:

Discount Rate	1% Decrease 2.58%	Current Discount Rate, 3.58%	1% Increase 4.58%
Total OPEB Liability	\$ 37,887	\$ 35,863	\$ 33,966

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Clinics, as well as what the Clinics' total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.5% decreasing to 3.5%) or 1-percentage-point higher (9.5% decreasing to 5.5%) than the current healthcare cost trend rates:

Trend	1% Decrease 7.50%	Current Trend 8.50%	1% Increase 9.50%
Total OPEB Liability	\$ 32,453	\$ 35,863	\$ 39,777

OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

The Clinics recognized OPEB expense of \$7,401 and \$6,703 for the years ended September 30, 2019 and 2018, respectively. At September 30, 2019, the Clinics reported deferred inflows and outflows of resources for changes in assumptions of \$543 and \$426, respectively, related to the OPEB plan. At September 30, 2018, the Clinics reported deferred inflows of resources for changes in assumptions of \$612 related to the OPEB plan.

Amounts reported as deferred inflows and outflows of resources related to the OPEB plan will be recognized in OPEB expenses on a straight-line basis over the next 10 years.

Required Supplementary Information

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

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

	2019	2018
Total OPEB liability		
Service cost	\$ 5,466	\$ 15,463
Interest	1,243	956
Changes of assumptions	481	(681)
Implicit benefit payments	(146)	(53)
Net change in total OPEB liability	<u>7,044</u>	<u>15,685</u>
Total OPEB liability – beginning	28,819	13,134
Total OPEB liability – ending	<u>\$ 35,863</u>	<u>\$ 28,819</u>
Covered payroll	\$ 15,511,000	\$ 14,665,000
Clinics total liability as a percentage of covered payroll	0.23%	0.20%
Measurement date	September 30, 2019	September 30, 2018

Notes to Schedule:

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

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

Independent Auditor's Report

To the Board of Directors
District Clinic Holdings, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of District Clinic Holdings, Inc. (the Clinics), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Clinics' basic financial statements, and have issued our report thereon dated March 6, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

RSM US LLP

West Palm Beach, Florida
March 6, 2020