

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

Financial Report  
September 30, 2020

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RSM US LLP

## Independent Auditor's Report

Board of Directors  
District Hospital Holdings, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of District Hospital Holdings, Inc. (the Hospital), a component unit of the Health Care District of Palm Beach County, Florida, as of and for the years ended September 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2020 and 2019, 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 May 18, 2021, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of 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 Hospital's internal control over financial reporting and compliance.

*RSM US LLP*

West Palm Beach, Florida  
May 18, 2021

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

**Management's Discussion and Analysis**

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**Introduction**

Management's Discussion and Analysis provides an overview of the financial activities of District Hospital Holdings, Inc. (the Hospital) as of and for the years ended September 30, 2020 and 2019. Please read it in conjunction with the Hospital's financial statements.

**Background**

The Hospital is a nonprofit corporation, whose sole corporate member has been the Health Care District of Palm Beach County, Florida (the District) since May 1, 2004. In accordance with the Governmental Accounting Standards Board (GASB) Codification, component units are legally separate entities for which the primary government is financially accountable and are classified as either blended component units or discretely presented component units, depending on the nature of the entity's relationship with the primary government. The Hospital is governed by the District's Board of Commissioners and is considered a blended component unit of the District.

**Financial Highlights**

The Hospital's net position decreased in 2020 by approximately \$7,890,000 compared to a decrease in net position of approximately \$2,306,000 in 2019. The significant change from 2019 to 2020 resulted from a decrease in District operating contributions of approximately \$16,154,000 offset by approximately \$9,012,000 of CARES Act funding received as non-operating revenue.

The Hospital reported an operating loss in 2020 of approximately \$29,774,000 compared to approximately \$29,864,000 in 2019. The decrease of approximately \$90,000 in the operating loss was principally due to an increase in net operating revenues of approximately \$1,102,000 and an increase in operating expenses of approximately \$1,012,000 in 2020.

Non-operating revenues in 2020 and 2019 consisted principally of grant revenues and CARES Act funding. In 2020, the Hospital received approximately \$10,206,000 more in grants and CARES Act funding as compared to 2019. In 2020, the Hospital received capital contributions from the District of approximately \$2,118,000 as compared to \$1,804,000 in 2019.

The District provided approximately \$8,969,000 in operating contributions and approximately \$2,118,000 in capital contributions to the Hospital in 2020, compared to approximately \$25,123,000 and approximately \$1,804,000, respectively in 2019. The Hospital is financially dependent on the District and since May 2004, the District has provided cumulative operating contributions of approximately \$146.9 million and capital contributions of approximately \$69.0 million to the Hospital.

**Basic Financial Statements**

The Hospital's basic financial statements consist of three statements—the statements of net position; statements of revenues, expenses and changes in net position; and statements of cash flows. These financial statements and related notes provide information about the activities of the Hospital for 2020 and 2019. The statements of net position include all assets and all liabilities using the accrual basis of accounting.

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

**District Hospital Holdings, Inc.**  
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**Management’s Discussion and Analysis**

All revenues and expenses for the years ended September 30, 2020 and 2019 are accounted for in the statements of revenues, expenses and changes in net position. These statements measure annual financial results and indicate how well the Hospital recovers its costs through its net patient service revenues and other sources of operating revenues.

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

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

**The Hospital’s Net Position**

The Hospital’s net position is the difference between its total assets/deferred outflows of resources and total liabilities/deferred inflows of resources reported in the statements of net position. The Hospital’s net position decreased by approximately \$7,890,000 in 2020 and decreased by approximately \$2,306,000 in 2019.

**TABLE 1—Statements of Net Position Summary**

	September 30		
	2020	2019	2018
Assets:			
Current assets	\$ 19,035,593	\$ 8,560,102	\$ 9,534,140
Capital assets, net	36,416,260	37,386,819	38,964,563
Total assets	<u>\$ 55,451,853</u>	<u>\$ 45,946,921</u>	<u>\$ 48,498,703</u>
Deferred outflows related to OPEB	<u>\$ 13,243</u>	<u>\$ 1,707</u>	<u>\$ -</u>
Liabilities:			
Current liabilities	\$ 22,341,018	\$ 5,140,438	\$ 5,229,581
Noncurrent liabilities	2,175,583	1,980,917	2,135,423
Total liabilities	<u>\$ 24,516,601</u>	<u>\$ 7,121,355</u>	<u>\$ 7,365,004</u>
Deferred inflows related to OPEB	<u>\$ 13,627</u>	<u>\$ 2,090</u>	<u>\$ 2,357</u>
Net position:			
Net investment in capital assets	\$ 36,387,852	\$ 37,348,632	\$ 38,917,210
Unrestricted deficit	(5,452,984)	1,476,551	2,214,132
Total net position	<u>\$ 30,934,868</u>	<u>\$ 38,825,183</u>	<u>\$ 41,131,342</u>

The most significant change in the Hospital’s assets for 2020 was a decrease in net capital assets of approximately \$971,000 primarily attributable to depreciation expense of approximately \$3,088,000 net of capital asset acquisitions of approximately \$2,118,000. The other significant change was an increase in cash and cash equivalents of approximately \$10,047,000. Current liabilities for 2020 increased approximately \$17,201,000, principally due to an increase in unearned revenue – CARES Act funding by approximately \$16,597,000 and a decrease in accounts payable by approximately \$297,000. Noncurrent liabilities increased approximately \$195,000 primarily due to decreases in estimated self-insured liability offset by increases in compensated absences.

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

**Management's Discussion and Analysis**

**Operating Results and Changes in the Hospital's Net Position**

As summarized in Table 2 below, the Hospital's net position decreased by approximately \$7,890,000 and \$2,306,000 during 2020 and 2019, respectively.

**TABLE 2—Operating Results and Changes in Net Position**

	2020	2019	2018
Operating revenues:			
Net patient service revenues	\$ 24,519,989	\$ 23,575,277	\$ 26,853,321
Other revenue	172,100	15,202	-
Total operating revenue	<u>24,692,089</u>	<u>23,590,479</u>	<u>26,853,321</u>
Operating expenses:			
Salaries and benefits	25,661,847	24,148,926	23,692,841
Purchased services	12,084,296	13,706,023	11,032,550
Supplies	4,002,452	3,117,784	2,762,373
Other operating expenses	9,629,886	9,115,250	7,885,170
Depreciation	3,087,696	3,366,053	3,456,177
Total operating expenses	<u>54,466,177</u>	<u>53,454,036</u>	<u>48,829,111</u>
Operating loss	<u>(29,774,088)</u>	<u>(29,863,557)</u>	<u>(21,975,790)</u>
Nonoperating revenues:			
CARES Act funding	9,012,429	-	-
Grant revenues	1,773,841	580,280	440,796
Interest income	11,044	65,863	14,345
(Loss) gain on disposal of capital assets	(862)	(15,953)	5,000
Total nonoperating revenues	<u>10,796,452</u>	<u>630,190</u>	<u>460,141</u>
Loss before District contributions	<u>(18,977,636)</u>	<u>(29,233,367)</u>	<u>(21,515,649)</u>
District contributions:			
Operating contributions	8,969,322	25,122,945	15,944,083
Capital contributions	2,117,999	1,804,263	499,154
Total District contributions	<u>11,087,321</u>	<u>26,927,208</u>	<u>16,443,237</u>
Change in net position	(7,890,315)	(2,306,159)	(5,072,412)
Net position, beginning of year	38,825,183	41,131,342	46,203,754
Net position, end of year	<u>\$ 30,934,868</u>	<u>\$ 38,825,183</u>	<u>\$ 41,131,342</u>

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

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**Operating Losses**

The first component of the overall change in the Hospital's net position is its operating loss—generally, the difference between net patient service revenues and the expenses incurred to perform those services. During 2020, 2019, and 2018, the Hospital reported an operating loss of approximately \$29.8 million, \$29.9 million and \$22.0 million, respectively. This is consistent with the Hospital's historical operating history. The Hospital's operations began in the 1940s as a community hospital, when it was agreed that a portion of its costs would be subsidized by property tax revenue, making the facility more affordable for the Western County's lower income residents. The major components of the operating losses are as follows:

- Net patient service revenues in 2020, 2019, and 2018 was approximately \$24,520,000, \$23,575,000 and \$26,853,000, respectively, which is net of contractual discounts of approximately \$90,544,000, \$91,292,000 and \$88,922,000 and a provision for bad debts of approximately \$15,224,000, \$13,832,000 and \$14,250,000, respectively.
- Patient service revenues from the Disproportionate Share Hospital (DSH) and Low Income Pool (LIP) programs were approximately \$1,522,000, \$1,538,000 and \$2,248,000 for the fiscal years ended September 30, 2020, 2019 and 2018, respectively.
- Salaries and benefits in 2020, 2019, and 2018 were approximately \$25,662,000, \$24,149,000 and \$23,693,000, respectively; which, in addition to salaries, includes overtime of approximately \$708,000, \$731,000 and \$725,000, respectively; paid time off of approximately \$1,900,000, \$1,790,000 and \$1,655,000, respectively; and health and pension benefits of approximately \$3,523,000, \$3,547,000 and \$3,434,000, respectively.
- Purchased services in 2020, 2019, and 2018 were approximately \$12,084,000, \$13,706,000 and \$11,033,000, respectively; which includes physician fees of approximately \$8,703,000, \$10,119,000 and \$7,916,000, respectively; and other purchased services such as laboratory, radiology, security, physical therapy and others.
- Operating expenses increased in 2020 over 2019 by approximately \$1,012,000, primarily as a result of an increase in salaries and benefits of approximately \$1,513,000 in the current year. Operating expenses increased in 2019 over 2018 by approximately \$4,625,000, primarily as a result of an increase in contracted physician fees (purchased services) of approximately \$2,203,000 as well as an increase in salaries and benefits of approximately \$456,000 in 2019.

The Hospital often provides care for patients who have little or no health insurance or other means of repayment. As discussed above, this service to the community is consistent with the goals established for the Hospital since it was first opened. The level of charity services provided to these patients based on charges was approximately \$4,928,000, \$3,793,000 and \$2,705,000 during 2020, 2019, and 2018, respectively. Because there is no expectation of repayment, charity care is not included in net patient service revenues of the Hospital.

**Cash Flow**

The substantial operating losses of the Hospital generally result in significant cash flow deficiencies from operating activities, which totaled approximately \$(26,411,000), \$(26,866,000) and \$(18,513,000) for 2020, 2019 and 2018, respectively. These operating cash flow deficiencies were financed by the District's operating contributions to the Hospital of approximately \$8,969,000, \$25,123,000 and \$15,944,000 in 2020, 2019 and 2018, respectively and the CARES Act funding received of approximately \$25,609,000 in 2020.



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

**Capital Assets**

As shown in Table 3 below, the Hospital acquired approximately \$2,118,000 and \$1,804,000 in capital assets (net of transfers from construction in progress) during 2020 and 2019, respectively.

**TABLE 3—Capital Assets**

	September 30, 2020			
	Beginning	Increases	Decreases	Balance
	September 30, 2019	and Transfers	and Transfers	September 30, 2020
Construction in progress (nondepreciable)	\$ 56,849	\$ 701,573	\$ -	\$ 758,422
Buildings and improvements	61,644,695	803,610	-	62,448,305
Furniture, fixtures and equipment	11,249,155	612,816	(31,965)	11,830,006
Total cost	72,950,699	2,117,999	(31,965)	75,036,733
Less accumulated depreciation for:				
Buildings and improvements	(27,698,230)	(2,330,339)	-	(30,028,569)
Furniture, fixtures and equipment	(7,865,650)	(757,357)	31,103	(8,591,904)
Total accumulated depreciation	(35,563,880)	(3,087,696)	31,103	(38,620,473)
Capital assets, net	\$ 37,386,819	\$ (969,697)	\$ (862)	\$ 36,416,260

  

	September 30, 2019			
	Beginning	Increases	Decreases	Balance
	September 30, 2018	and Transfers	and Transfers	September 30, 2019
Construction in progress (nondepreciable)	\$ 52,127	\$ 4,722	\$ -	\$ 56,849
Buildings and improvements	61,369,142	275,553	-	61,644,695
Furniture, fixtures and equipment	10,952,469	1,523,988	(1,227,302)	11,249,155
Total cost	72,373,738	1,804,263	(1,227,302)	72,950,699
Less accumulated depreciation for:				
Buildings and improvements	(24,964,854)	(2,733,376)	-	(27,698,230)
Furniture, fixtures and equipment	(8,444,321)	(632,677)	1,211,348	(7,865,650)
Total accumulated depreciation	(33,409,175)	(3,366,053)	1,211,348	(35,563,880)
Capital assets, net	\$ 38,964,563	\$ (1,561,790)	\$ (15,954)	\$ 37,386,819

**Risk Factors**

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

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

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

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

**Management's Discussion and Analysis**

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- The laws and regulations governing the Medicare and Medicaid programs are complex and subject to change. Due to the significant amount of payments to the Hospital from Medicare and Medicaid, changes to these programs could have a significant effect on the financial operations of the Hospital.
- Like most governments in recent years, the State of Florida (the State) has experienced budget pressures and may institute further changes in laws and regulations that could significantly reduce payments. The potential impact on the Hospital would be reduced reimbursements/revenues.
- The federal government previously passed extensive legislation and accompanying regulations that will significantly restructure the health care system nationwide. The ultimate effects of national health care reform continue to have an undeterminable impact on the future operations of the Hospital as the program rules are implemented and modified by the federal government.
- The Hospital should continue to benefit from additional payments made to disproportionate share hospitals. The State has received an extension from the federal government for the Medicaid waiver that supports these payments to the Hospital. The State is considering the future of LIP funding as directed by Centers for Medicare and Medicaid Services (CMS), and future funding is uncertain.
- The health care industry is subject to voluminous and complex laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, anti-kickback and anti-referral laws, false claims prohibitions and Medicare and Medicaid fraud and abuse. In addition, as a tax-exempt entity, the Hospital is also subject to the laws and regulations related to its tax exemption. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions that are unknown or unasserted at this time. Violations of these laws and regulations could result in significant fines and penalties, including repayments for patient services previously reimbursed. Management believes that the Hospital has generally complied with applicable laws and regulations that could have a material impact on the financial statements of the Hospital and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing or noncompliance.
- On March 9, 2020, the Governor of the State of Florida declared a state of emergency in the State of Florida related to the Coronavirus pandemic and subsequently issued numerous executive orders in an effort to reduce community spread of the virus and protect Florida's most vulnerable citizens. The Hospital experienced lower patient volumes while also dealing with increased costs associated with personal protective equipment and managing the pandemic. The future impact of COVID-19 on the Hospital is uncertain.

**Contacting the Hospital's Financial Management**

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

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

**Statements of Net Position**  
**September 30, 2020 and 2019**

	2020	2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 14,589,494	\$ 4,542,063
Patient accounts receivable, net of allowance for doubtful accounts of \$16,032,010 and \$4,357,016 in 2020 and 2019, respectively	3,182,452	2,713,638
Due from other governments	102,193	204,386
Inventories	666,280	716,359
Prepaid expenses and other current assets	495,174	383,656
<b>Total current assets</b>	<b>19,035,593</b>	<b>8,560,102</b>
Capital assets:		
Construction in progress	758,422	56,849
Depreciable capital assets, net of accumulated depreciation	35,657,838	37,329,970
<b>Total assets</b>	<b>\$ 55,451,853</b>	<b>\$ 45,946,921</b>
<b>Deferred outflows related to other post-employment benefits plan</b>	<b>\$ 13,243</b>	<b>\$ 1,707</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 1,435,256	\$ 1,732,254
Accrued salaries and benefits	1,655,750	861,222
Unearned revenue - grants	15,601	13,275
Unearned revenue - CARES Act funding	16,596,860	-
Estimated third-party payor settlements	1,839,953	1,936,647
Current portion of accrued compensated absences	411,649	233,048
Current portion of estimated self-insured liability	383,438	360,114
Other current liabilities	2,511	3,878
<b>Total current liabilities</b>	<b>22,341,018</b>	<b>5,140,438</b>
Accrued compensated absences, less current portion	1,544,820	1,320,605
Estimated self-insured liability, less current portion	440,399	455,258
Other postemployment benefits obligation	161,956	166,867
Capital lease	28,408	38,187
<b>Total liabilities</b>	<b>\$ 24,516,601</b>	<b>\$ 7,121,355</b>
<b>Deferred inflows related to other post-employment benefits plan</b>	<b>\$ 13,627</b>	<b>\$ 2,090</b>
<b>Net Position</b>		
Net investment in capital assets	\$ 36,387,852	\$ 37,348,632
Unrestricted (deficit)	(5,452,984)	1,476,551
<b>Total net position</b>	<b>\$ 30,934,868</b>	<b>\$ 38,825,183</b>

See notes to financial statements.

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

**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended September 30, 2020 and 2019**

	2020	2019
Operating revenues:		
Patient service revenues, net of provision for bad debts of \$15,224,452 and \$13,832,387 in 2020 and 2019, respectively	\$ 24,519,989	\$ 23,575,277
Other operating revenues	172,100	15,202
<b>Total operating revenues</b>	<b>24,692,089</b>	<b>23,590,479</b>
Operating expenses:		
Salaries and benefits	25,661,847	24,148,926
Purchased services	12,084,296	13,706,023
Supplies	4,002,452	3,117,784
Depreciation	3,087,696	3,366,053
Repairs and maintenance	1,784,487	1,900,925
Utilities	957,875	982,497
Rentals and lease	704,369	679,677
Other	6,183,155	5,552,151
<b>Total operating expenses</b>	<b>54,466,177</b>	<b>53,454,036</b>
<b>Operating loss</b>	<b>(29,774,088)</b>	<b>(29,863,557)</b>
Non-operating revenues (expenses):		
CARES Act funding	9,012,429	-
Grant revenues	1,773,841	580,280
Interest income	11,044	65,864
Loss on disposal of capital assets	(862)	(15,954)
<b>Total non-operating revenues</b>	<b>10,796,452</b>	<b>630,190</b>
<b>Loss before District contributions</b>	<b>(18,977,636)</b>	<b>(29,233,367)</b>
District contributions:		
Operating contributions	8,969,322	25,122,945
Capital contributions	2,117,999	1,804,263
<b>Total District contributions</b>	<b>11,087,321</b>	<b>26,927,208</b>
<b>Decrease in net position</b>	<b>(7,890,315)</b>	<b>(2,306,159)</b>
Net position, beginning of year	38,825,183	41,131,342
Net position, end of year	<b>\$ 30,934,868</b>	<b>\$ 38,825,183</b>

See notes to financial statements.

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

**Statements of Cash Flows**  
**Years Ended September 30, 2020 and 2019**

	2020	2019
Cash flows from operating activities:		
Receipts from patients and third-party payors	\$ 23,954,481	\$ 23,380,724
Payments to employees	(24,469,413)	(23,928,864)
Payments to suppliers and service providers	(26,067,973)	(26,332,871)
Other receipts	172,100	15,202
<b>Net cash used in operating activities</b>	<b>(26,410,805)</b>	<b>(26,865,809)</b>
Cash flows from non-capital financing activities:		
Grants received	1,878,360	387,133
CARES Act funding	25,609,289	-
Operating contributions from the District	8,969,322	25,122,945
<b>Net cash provided by non-capital financing activities</b>	<b>36,456,971</b>	<b>25,510,078</b>
Cash flows from capital and related financing activities:		
Payments of principal and interest on capital leases	(9,779)	(9,167)
<b>Net cash used in capital and related financing activities</b>	<b>(9,779)</b>	<b>(9,167)</b>
Cash flows provided by investing activities:		
Interest income received	11,044	65,864
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>10,047,431</b>	<b>(1,299,034)</b>
Cash and cash equivalents, beginning of year	4,542,063	5,841,097
Cash and cash equivalents, end of year	\$ 14,589,494	\$ 4,542,063
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (29,774,088)	\$ (29,863,557)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Provision for bad debts	15,224,452	13,832,387
Depreciation	3,087,696	3,366,053
Changes in assets and liabilities:		
Patient accounts receivable	(15,693,266)	(14,036,632)
Inventories	50,079	69,411
Prepaid expenses and other current assets	(111,518)	6,436
Accounts payable	(296,998)	(398,947)
Accrued salaries and benefits	794,528	46,504
Other current liabilities	(1,367)	1,497
Estimated third-party payor settlements	(96,694)	9,692
Accrued compensated absences	402,816	174,892
Estimated self-insured liability	8,465	(72,211)
Other postemployment benefits obligation	(4,910)	(1,334)
<b>Net cash used in operating activities</b>	<b>\$ (26,410,805)</b>	<b>\$ (26,865,809)</b>
Supplemental disclosure of noncash capital and related financing activities:		
Capital assets contributed	\$ 2,117,999	\$ 1,804,263

See notes to financial statements.

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

**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies**

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

The District was created by the Florida Legislature pursuant to Chapter 2003-326, Laws of Florida (the Health Care Act) and by the affirmative vote of the residents of Palm Beach County, Florida (the County). The District's general purpose is to provide quality health care services in a comprehensive and efficient manner throughout the County, as more fully set forth in the Health Care Act. Specifically, the Health Care Act provides for the continued presence of at least one hospital in the rural Glades area (that area of the County lying west of a line between Range 39 East and Range 40 East), and such health care facility shall be established and maintained for the preservation of the public health and for the public good. As such, the Hospital is financially dependent on the District to fund future operating losses, and the District is legally obligated to maintain the continued operations of the Hospital for the benefit of the public. Since May 1, 2004, the District has provided cumulative operating contributions of approximately \$156,900,000 and capital contributions of approximately \$69,000,000 in the form of new hospital facilities and contributed capital assets.

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

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

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

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

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

**Notes to Financial Statements**

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

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

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

**Allowance for doubtful accounts:** The provision for bad debts is estimated based on management's assessment of historical and expected net collections, considering business and economic conditions, trends in health care coverage and other collection indicators. The primary collection risk lies with uninsured patient accounts or patient accounts for which a balance remains after primary insurance has paid. The Hospital's policy with respect to estimating its allowance for doubtful accounts is to reserve 99% of self-pay patient balances up to 180 days and 100% of all self-pay, Medicare, Medicaid and other insurance payors' accounts receivable over 180 days. The Hospital continually monitors its accounts receivable balances and utilizes cash collections data and other analysis to support the basis for its estimates of the allowance for doubtful accounts. In addition, the Hospital performs retrospective procedures on historical collection and write-off experience for the prior six months to determine the reasonableness of its policy for estimating the allowance for doubtful accounts. The Hospital does not pursue collection of amounts related to patients that qualify for charity care under its guidelines. As such, charity care accounts do not affect the allowance for doubtful accounts. Significant changes in the payor mix, business office operations or deterioration in aging accounts receivable could result in a significant increase in the allowance for doubtful accounts.

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

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

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

**Notes to Financial Statements**

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

**Capital assets:** Capital assets are recorded at acquisition cost. Capital assets contributed by the District are recorded at the District's carrying value. Assets contributed by others are recorded at their estimated acquisition value on the date contributed. Capital assets include buildings and improvements, furniture, fixtures and equipment, computer software and vehicles. The Hospital defines capital assets as assets with an initial cost of at least \$5,000 and an estimated useful life of at least one year. Capital assets used in operations are depreciated over the estimated useful lives of the respective assets on the straight-line basis. Amortization expense of capital assets held under capital leases, when applicable, is included in depreciation expense. Gains and losses on dispositions of capital assets are recorded in the period of disposal. The estimated useful lives generally conform to those recommended by the American Hospital Association as follows:

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

The Hospital evaluates capital assets regularly for impairment. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of the assets. An impairment charge is recorded on those assets for which the estimated fair value is below the carrying amount. No impairment was recorded in 2020 and 2019.

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

**Restricted resources:** When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use the restricted resources before unrestricted resources. The Hospital presently has no restricted resources with the exception of the CARES Act funding received, which is to be used to prevent, prepare for and respond to COVID-19.

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



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

**Notes to Financial Statements**

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

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

**Medicare:** Inpatient acute care services rendered to Medicare beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services, outpatient services, and defined capital costs related to Medicare beneficiaries are primarily reimbursed on a prospective programs operate are complex, subject to frequent change and subject to interpretation. As part of operating under these programs, there is a possibility that governmental authorities may review the Hospital's compliance with these laws and regulations. Such review may result in adjustments to reimbursements previously received and subject the Hospital to fines and penalties. Although no assurances can be given, management believes they have complied with the requirements of these programs. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Medicare cost reports through September 30, 2016, have been audited by the Medicare Administrative Contractor.

**Medicaid:** Beginning July 1, 2014, the State of Florida assigned substantially all Medicaid beneficiaries to certain managed care organizations. Florida Medicaid implemented a prospective inpatient reimbursement based on All Patient Refined Diagnostic Related Groups methodology (APR DRG) effective in 2013. Payments under APR DRG assignment are made on a per case basis and are not subject to retrospective rate adjustments. Florida Medicaid implemented a prospective reimbursement methodology for outpatient services using Enhanced Ambulatory Payment Group (EAPG) effective July 1, 2017. Prior to that date, outpatient services were paid based upon a cost reimbursement methodology using a per revenue code line item published rate. Outpatient payments prior to July 2017 are subject to retrospective rate adjustments. All rate periods through June 30, 2017 have been settled.

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

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

The Hospital provides care to patients who meet certain criteria under its charity care guidelines without charge or at amounts less than its established rates. Because the Hospital does not anticipate payment when services are rendered and does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. Charges foregone, based on the Hospital's established rates, and excluded from revenue under the Hospital's charity care guidelines were approximately \$4,928,000 and \$3,793,000 for the years ended September 30, 2020 and 2019, respectively. Using the Hospital's average ratio of cost to charges, the cost of the charity care provided was approximately \$2,008,000 and \$1,549,000, and the percentage of charity care charges to all patient charges was 3.7% and 2.9% for each of the years ended September 30, 2020 and 2019, respectively.

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

**Notes to Financial Statements**

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

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 or investigations.

**Public Medical Assistance Trust Fund:** The State of Florida (the State) has established the Public Medical Assistance Trust Fund to provide a method for funding the provision of health care services to indigent persons. Hospitals in the State are required to pay assessments to the trust fund equal to 1.5% of each hospital's prior year net inpatient revenue and 1.0% of each hospital's prior year net outpatient revenue. The assessments are distributed under various programs to hospitals in the State that serve Medicaid patients and uninsured charity care patients. The Hospital received funding for patients under the Disproportionate Share Hospital (DSH) and the Low Income Pool (LIP) programs. The DSH program provides payments to hospitals that serve a disproportionate number of Medicaid and uninsured charity care patients. The LIP program distributes funding to the Hospital to support coverage for Medicaid, uninsured and underinsured patients. The total estimated liability recorded at September 30, 2020 and 2019, related to Medicaid DSH payments is approximately \$2,492,000.

The LIP program is a federal matching program that provides the State with the opportunity to receive additional federal distributions based on a capped annual allotment, which is distributed by the State to participating health care providers for eligible services. Local governments, such as counties, hospital districts and the Florida Department of Health, provide funding for the non-federal share of the LIP distributions. Revenues from the DSH and LIP programs were approximately \$1,522,000 and \$1,538,000 for the fiscal years ended September 30, 2020 and 2019, respectively, and are reported as net patient service revenues in the accompanying statements of revenues, expenses and changes in net position, net of the required quarterly assessments owed by the Hospital, which are accrued in the fiscal year for which the assessments are made. For the years ended September 30, 2020 and 2019, the Hospital was not assessed for these programs. The receipt of future distributions is contingent upon the continued support of the program by the federal and state governments (see Note 9).

The State receives matching funds from the federal government under Section 1115 Waivers. The current waiver provides funding for a four-year period through June 2022. The program is subject to changes and if funding for the Hospital is reduced, the funds will be replaced by additional operating contributions from the District.

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

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

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

**Notes to Financial Statements**

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

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

**Risk management:** The Hospital is exposed to various risks of loss from torts, theft of, damage to and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, natural disasters, medical malpractice, and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters to the extent such claims are not covered by sovereign immunity (see Note 10). Settled claims have not exceeded the Hospital's commercial coverage from inception through September 30, 2020.

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

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

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this statement will be effective for the Hospital beginning with its fiscal year ending September 30, 2021.

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement improves the accounting and financial reporting for leases by governments. The requirements of this statement will be effective for the Hospital beginning with its fiscal year ending September 30, 2022.

**COVID-19 pandemic:** In January 2020, the Secretary of the U.S. Department of Health and Human Services (HHS) declared a national public health emergency due to a novel strain of coronavirus (COVID-19). In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. The resulting measures to contain the spread and impact of COVID-19 have adversely affected the Hospital's results of operations. As a result of the COVID-19 pandemic, federal and state governments have passed legislation, promulgated regulations and taken other administrative actions intended to assist health care providers in providing care to COVID-19 and other patients during the public health emergency. Sources of relief include the Coronavirus Aid, Relief and Economic Security Act (the CARES Act), which was enacted on March 27, 2020, and the Paycheck Protection Program and Health Care Enhancement Act (the PPPHCE Act), which was enacted on April 24, 2020. During the period ended September 30, 2020, the Hospital was the beneficiary of these stimulus measures. The Hospital's accounting policies for the recognition of these stimulus monies are described below.

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

**Notes to Financial Statements**

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

**CARES Act and PPPHCE Act Funds:** During the year ended September 30, 2020, the Hospital received approximately \$25,609,000 in payments through the Public Health and Social Services Emergency Fund (the PHSSEF) in both general and targeted distributions. Approximately \$9,012,000 of the PHSSEF payments qualified as reimbursement for lost operating margin and incremental expenses and was recognized as CARES Act funding in the statements of revenues, expenses and changes in net position. The recognition of amounts received is conditioned upon the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, certification that payment will be used to prevent, prepare for and respond to COVID-19 and shall reimburse the recipient only for health care-related expenses or lost operating margin that are attributable to COVID-19, and receipt of the funds. The Hospital recognizes grant payments as income when there is reasonable assurance the Hospital has complied with the conditions associated with the grant. The Hospital's estimates could change materially in the future based on operating performance or COVID-19 activities at individual locations, as well as the evolving grant compliance guidance provided by the government. The approximately \$16,597,000 that has not been recognized as revenue or that has not been refunded to HHS as of September 30, 2020, is reflected within unearned revenue – CARES Act funding in the statements of net position. Such unrecognized amounts may be recognized as revenue in future periods if the underlying conditions for recognition are met.

**Subsequent events:** The Hospital has considered subsequent events through May 18, 2021, the date the financial statements were available to be issued, in preparing the financial statements and notes thereto. There were no subsequent events requiring recognition or disclosure in the financial statements.

**Note 2. Cash and Cash Equivalents**

At September 30, 2020 and 2019, cash and cash equivalents included in the Hospital's statements of net position consisted of the following:

	2020	2019
Carrying amount:		
Deposits with financial institutions	\$ 14,588,294	\$ 4,540,863
Petty cash	1,200	1,200
	\$ 14,589,494	\$ 4,542,063

The District is responsible for all treasury functions, and pools all cash and investments, except for cash and investment accounts required by specific agreements to be maintained under legal restrictions in separate bank accounts. The Hospital's equity share of the total pooled cash and investments is included in the accompanying statement of net position as "Cash and cash equivalents". For fiscal years 2020 and 2019, the carrying amounts of the Hospital's pooled cash and cash equivalent balances are \$14.6 million and 4.5 million, respectively.

See the District's Annual Financial Report for disclosures relating to its interest rate risk, credit risk, custodial credit risk, concentration of credit risk and related fair value measurement disclosures required by GASB.

**District Hospital 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 Hospital at September 30, consist of the following amounts:

	2020	2019
Receivable from patients	\$ 15,058,588	\$ 4,081,976
Receivable from patients' insurance carriers	6,602,372	3,688,510
Receivable from Medicare	6,603,982	5,451,976
Receivable from Medicaid	5,353,262	3,845,729
Receivable from Medicaid pending	1,030,635	1,668,916
Total patient accounts receivable	<u>34,648,839</u>	<u>18,737,107</u>
Less allowance for contractual discounts	(15,434,377)	(11,666,453)
Less allowance for doubtful accounts	(16,032,010)	(4,357,016)
Total allowance for contractual discounts	<u>(31,466,387)</u>	<u>(16,023,469)</u>
Patient accounts receivable, net	<u>\$ 3,182,452</u>	<u>\$ 2,713,638</u>

**Note 4. Capital Assets**

Capital asset activity for the years ended September 30, 2020 and 2019, is summarized as follows:

	2020			
	Balance	Increases	Decreases	Balance
	September 30, 2019	and Transfers	and Transfers	September 30, 2020
Capital assets:				
Construction in progress (nondepreciable)	\$ 56,849	\$ 701,573	\$ -	\$ 758,422
Buildings and improvements	61,644,695	803,610	-	62,448,305
Furniture, fixtures and equipment	11,249,155	612,816	(31,965)	11,830,006
Total cost	<u>72,950,699</u>	<u>2,117,999</u>	<u>(31,965)</u>	<u>75,036,733</u>
Less accumulated depreciation:				
Buildings and improvements	(27,698,230)	(2,330,339)	-	(30,028,569)
Furniture, fixtures and equipment	(7,865,650)	(757,357)	31,103	(8,591,904)
Total accumulated depreciation	<u>(35,563,880)</u>	<u>(3,087,696)</u>	<u>31,103</u>	<u>(38,620,473)</u>
Capital assets, net	<u>\$ 37,386,819</u>	<u>\$ (969,697)</u>	<u>\$ (862)</u>	<u>\$ 36,416,260</u>
	2019			
	Balance	Increases	Decreases	Balance
	September 30, 2018	and Transfers	and Transfers	September 30, 2019
Capital assets:				
Construction in progress (nondepreciable)	\$ 52,127	\$ 4,722	\$ -	\$ 56,849
Buildings and improvements	61,369,142	275,553	-	61,644,695
Furniture, fixtures and equipment	10,952,469	1,523,988	(1,227,302)	11,249,155
Total cost	<u>72,373,738</u>	<u>1,804,263</u>	<u>(1,227,302)</u>	<u>72,950,699</u>
Less accumulated depreciation:				
Buildings and improvements	(24,964,854)	(2,733,376)	-	(27,698,230)
Furniture, fixtures and equipment	(8,444,321)	(632,677)	1,211,348	(7,865,650)
Total accumulated depreciation	<u>(33,409,175)</u>	<u>(3,366,053)</u>	<u>1,211,348</u>	<u>(35,563,880)</u>
Capital assets, net	<u>\$ 38,964,563</u>	<u>\$ (1,561,790)</u>	<u>\$ (15,954)</u>	<u>\$ 37,386,819</u>

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

**Notes to Financial Statements**

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**Note 4. Capital Assets (Continued)**

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

**Note 5. Compensated Absences**

Compensated absences for the years ended September 30, 2020 and 2019, are summarized as follows:

	2020				
	Balance September 30, 2019	Additions	Reductions/ Payments	Balance September 30, 2020	Amounts Due Within One Year
Accrued compensated absences	\$ 1,553,653	\$ 2,212,632	\$ (1,809,816)	\$ 1,956,469	\$ 411,649

	2019				
	Balance September 30, 2018	Additions	Reductions/ Payments	Balance September 30, 2019	Amounts Due Within One Year
Accrued compensated absences	\$ 1,378,761	\$ 1,965,014	\$ (1,790,122)	\$ 1,553,653	\$ 233,048

**Note 6. Other Postemployment Benefits**

The Hospital follows GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for financial reporting and disclosure for its other postemployment benefits plan (OPEB Plan).

**Plan description:** The Hospital 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 Hospital is required by Florida Statutes, Section 112.0801 to allow retirees to buy health care coverage at the same group insurance rates that current employees are charged, resulting in an implicit health care benefit. Florida law prohibits the OPEB Plan from separately rating retirees and active employees. The OPEB Plan therefore charges both groups an equal, blended rate premium for health insurance. Although both groups are charged the same blended rate premium, U.S. GAAP requires the actuarial figures to be calculated using age-adjusted premiums approximating claim costs for retirees separately from active employees. The use of age-adjusted premiums results in the addition of the implicit rate subsidy into the actuarial accrued liability. Plan members receiving benefits contribute 100% of the monthly medical premium, which currently ranges from a minimum of \$559 to a maximum of \$1,726.

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

**Notes to Financial Statements**

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**Note 6. Other Postemployment Benefits (Continued)**

**District employees covered by benefit terms:** At October 1, 2019, there were eleven retirees and 880 active plan members covered by the benefit terms for the overall District.

**Total OPEB liability:** The Hospital's allocated proportionate share of the District's total OPEB liability was \$161,956 and \$166,867 for the years ended September 30, 2020 and 2019, respectively. The September 30, 2020 total OPEB liability was measured based on an actuarial valuation as of October 1, 2019. The September 30, 2019 total OPEB liability was measured based on an actuarial valuation as of October 1, 2017.

The total OPEB liability in the October 1, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

2020	
Salary increases	3%
Investment rate of return	Not applicable. The plan is not funded.
Discount rate	2.14%
Healthcare cost trend rates	8.25% in 2020, 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-2019

The total OPEB liability in the October 1, 2017, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

2019	
Salary increases	3%
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 Hospital Holdings, Inc.**  
**(A Component Unit of the Health Care District of Palm Beach County, Florida)**

**Notes to Financial Statements**

**Note 6. Other Postemployment Benefits (Continued)**

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

	2020	2019
Beginning balance	\$ 166,867	\$ 166,227
Service cost	8,560	8,726
Interest	5,599	5,794
Difference between expected and actual experience	(13,119)	-
Changes of assumptions	13,063	1,925
Implicit benefit payments	(19,014)	(15,805)
Net changes	(4,911)	640
Ending balance	\$ 161,956	\$ 166,867

**Sensitivity of the total OPEB liability to changes in the discount rate:** The following presents the total OPEB liability of the Hospital, as well as what the Hospital's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the discount rate for the years ended September 30, 2020 and 2019:

	2020		
	Discount Rate		
	1% Decrease 1.14%	Current Discount Rate 2.14%	1% Increase 3.14%
Total OPEB Liability	\$ 169,560	\$ 161,956	\$ 153,462

  

	2019		
	Discount Rate		
	1% Decrease 2.58%	Current Discount Rate 3.58%	1% Increase 4.58%
Total OPEB Liability	\$ 176,285	\$ 166,867	\$ 158,039



**District Hospital Holdings, Inc.**  
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**Notes to Financial Statements**

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**Note 6. Other Postemployment Benefits (Continued)**

**Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates:** The following presents the total OPEB liability of the Hospital, as well as what the Hospital's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates for the years ended September 30, 2020 and 2019:

	2020		
	Trend Rate		
	1% Decrease 7.25%	Current Trend 8.25%	1% Increase 9.25%
Total OPEB Liability	\$ 148,311	\$ 161,956	\$ 176,105

  

	2019		
	Trend Rate		
	1% Decrease 7.50%	Current Trend 8.50%	1% Increase 9.50%
Total OPEB Liability	\$ 151,003	\$ 166,867	\$ 185,079

**OPEB expense and deferred inflows and outflows of resources related to OPEB:** The Hospital recognized OPEB expense of \$14,104 and \$2,080 for the years ended September 30, 2020 and 2019, respectively. At September 30, 2020, the Hospital reported deferred inflows and outflows of resources for changes in assumptions of \$13,627 and \$13,243, respectively, related to the OPEB plan. At September 30, 2019, the Hospital reported deferred inflows and outflows of resources for changes in assumptions of \$2,090 and \$1,707, respectively, 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.

**Note 7. Related-Party Transactions**

The Hospital received approximately \$8,969,000 and \$25,123,000 in operating contributions and approximately \$301,000 and \$512,000 in net patient service revenues from the District during the years ended September 30, 2020 and 2019, respectively.

The District contributed approximately \$2,118,000 and \$1,804,000 of capital assets to the Hospital for the years ended September 30, 2020 and 2019, respectively.

The District allocated certain support department costs to the Hospital, including personnel, purchasing, legal and administrative costs. The total District allocated costs charged to expense by the Hospital were approximately \$5,148,000 and \$4,759,000 for the years ended September 30, 2020 and 2019, respectively, and are recorded in other expenses in the statements of revenues, expenses and changes in net position.

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

**Notes to Financial Statements**

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**Note 8. Retirement Plans**

**Defined contribution plan:** In November 2004, the Hospital established the District Hospital Holdings 401(a) Retirement Plan (the 401(a) Plan), which is a defined contribution pension plan for Hospital employees who are 18 years of age or older and have completed one year of service. The 401(a) Plan is administered by the Variable Annuity Life Insurance Company (VALIC) and does not issue a separate financial report. Plan amendments and contribution rates are approved by the District's Board. Employees are fully vested after six years of service. The Hospital contributes 4% of eligible compensation to the 401(a) Plan and also makes matching contributions equal to 100% of the participants' elective deferrals up to 4% of eligible compensation. Effective October 1, 2015, the Hospital merged its 401(a) Plan with the Health Care District of Palm Beach County's 401(a) Plan (District 401(a) Plan). All provisions of the Hospital 401(a) Plan noted above are the same as those in the District 401(a) Plan. The Hospital contributed approximately \$1,007,000 and \$907,000 to the 401(a) Plan for the years ended September 30, 2020 and 2019, respectively.

**Deferred compensation plan:** In May 1994, the Hospital established the District Hospital Holdings 457(b) Retirement Plan (the 457(b) Plan), which is a deferred compensation plan. Under the 457(b) Plan, an employee is able to contribute pretax wage/salary dollars into a personal retirement account. The 457(b) Plan is administered by VALIC and does not issue a separate financial report. Plan amendments and contribution rates are approved by the District's Board. An employee can defer up to \$19,500 of eligible compensation annually. Contribution rates and benefits of the 457(b) Plan are established by the District Board and may be amended in the future by the District Board.

**Note 9. Settlements and Related Costs**

In December 2014, the Hospital was notified by the Agency for Health Care Administration (Florida Medicaid) that payments under the Medicaid DSH program for the State fiscal year ended June 30, 2011, exceeded the calculated Medicaid DSH Limit. The Hospital determined certain amounts received under the Medicaid DSH program for the years of 2013, 2014 and 2015 were estimated to be in excess of the Medicaid DSH Limit for those years. Accordingly, the Hospital accrued approximately \$2,517,000 for the estimated Medicaid settlements and related costs of the overpayments to the Hospital as of September 30, 2017. During 2019, the 2014 liability was reduced by \$25,000 and the 2015 liability was increased by \$518,000. The total estimated liability recorded at September 30, 2020, related to Medicaid DSH payments is approximately \$2,492,000.

**Note 10. Commitments and Contingencies**

**PRIDE agreement:** The District entered into an agreement with PRIDE, an instrumentality of the State, and a lease with the State for 50 acres of land for the Lakeside Medical Center facility. The lease is for a term of 50 years ending February 1, 2057. Upon termination of the lease, all improvements on the property become the property of the State, which may also require the District to remove the Hospital facility and improvements at the District's expense. As consideration for the lease, the District entered into an agreement with PRIDE that requires the District to purchase \$4,166,667 in goods and services from PRIDE over a 30-year period ending July 12, 2036. Purchases by the District through September 30, 2020, totaled approximately \$267,000. If the purchase requirement is not met by July 12, 2036, the District must pay 18% of the unfulfilled purchase commitment on July 12, 2036. The unfulfilled purchase commitment as of September 30, 2020, is reported at net present value, discounted at a rate of 1.23% (20-year U.S. Treasury Rate), and is approximately \$774,000. The payments to PRIDE, the land lease expense of approximately \$267,000 and \$93,000 for the years ended September 30, 2020 and 2019, respectively, and the liability for the lease are recorded by the District and have not been charged to the Hospital.

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

**Notes to Financial Statements**

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**Note 10. Commitments and Contingencies (Continued)**

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

**Service contracts:** The Hospital has entered into various contracts for maintenance agreements, software licenses and other services. The remaining term of the individual service contracts at September 30, 2020, is generally one to five years.

**Physician contracts:** The Hospital has entered into various employment contracts with physicians and physician groups for services, which include payments for hourly, shift, weekend and annual salaries. The remaining term of the individual physician contracts at September 30, 2020, is generally one to three years.

**Operating leases:** The Hospital is committed under several noncancelable operating leases for equipment and office space. The leases expire in various years through fiscal year 2024. Rent and lease expense for the years ended September 30, 2020 and 2019, was approximately \$704,000 and \$680,000, respectively.

The future minimum payments for these contracts at September 30, 2020, are summarized as follows:

	Service Contracts	Physician Contracts	Operating Leases
Years ending September 30:			
2021	\$ 1,000,503	\$ 4,414,303	\$ 367,151
2022	803,105	2,345,272	194,085
2023	311,756	2,031,823	14,290
2024	154,690	24,000	5,463
2025	21,704	-	-
	<u>\$ 2,291,758</u>	<u>\$ 8,815,398</u>	<u>\$ 580,989</u>

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

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

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

**Notes to Financial Statements**

**Note 10. Commitments and Contingencies (Continued)**

The policy, with aggregate limits of \$5 million, only responds in the event a covered loss results in a claims bill that is approved by the Legislature. The Hospital's management, in consultation with legal counsel, believes all general liability claims are covered by insurance or limited under sovereign immunity and will not have any significant impact on the financial condition of the Hospital in excess of the amounts accrued at fiscal year-end.

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

	2020					
	Balance				Balance	Amounts Due
	September 30, 2019	Additions	Reductions	September 30, 2020	Within One Year	
Estimated professional and general liability claims	\$ 815,372	\$ 615,284	\$ (606,819)	\$ 823,837	\$ 383,438	

	2019					
	Balance				Balance	Amounts Due
	September 30, 2018	Additions	Reductions	September 30, 2019	Within One Year	
Estimated professional and general liability claims	\$ 887,583	\$ 469,973	\$ (542,184)	\$ 815,372	\$ 360,114	

**Medicare and Medicaid:** Revenue from the Medicare and Medicaid programs accounted for a significant portion of the Hospital's net patient service revenues for 2020 and 2019. The Hospital's Medicare and Medicaid cost reports through the year ended September 30, 2016 and September 30, 2015 respectively, have been audited.

The Hospital has recorded an estimated liability of approximately \$1,840,000 and \$1,937,000 at September 30, 2020 and 2019, respectively, for future audit settlements related to Medicare and Medicaid charges. The estimated liability balance includes the liability related to Medicaid DSH payments of approximately \$2,492,000 at both September 30, 2020 and 2019, and is net of settlement amounts due to the Hospital and amounts due from other governments. The final determination of amounts earned pursuant to the Medicare and Medicaid programs for open years is subject to review by appropriate governmental agencies or their agents.

CMS has implemented a program using recovery audit contractors (RAC) as part of the CMS efforts to assure accurate payments. The program uses the RAC to review claims for potentially improper Medicare payments that may have been made to health care providers and were not detected through existing CMS program reviews. Once an RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from, or addition to, the provider's Medicare reimbursement for the amount of the estimated overpayment or underpayment. The Hospital records an adjustment to revenue for any overpayment or underpayment at the time notice is received from the RAC and the amount can be reasonably estimated. There were no material RAC adjustments, audit recoveries or settlements for prior periods related to the Medicare and Medicaid programs during 2020 or 2019, and no liability has been recorded for estimated RAC settlements.

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

**Notes to Financial Statements**

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**Note 10. Commitments and Contingencies (Continued)**

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

## **Required Supplementary Information**

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

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

	2020	2019	2018
<b>Total OPEB liability</b>			
Service cost	\$ 8,560	\$ 8,726	\$ 88,962
Interest	5,599	5,794	5,473
Difference between expected and actual experience	(13,119)	-	-
Changes of assumptions	13,063	1,925	(2,624)
Implicit benefit payments	(19,014)	(15,805)	(12,462)
<b>Net change in total OPEB liability</b>	<b>(4,911)</b>	<b>640</b>	<b>79,349</b>
<b>Total OPEB liability – beginning</b>	<b>166,867</b>	<b>166,227</b>	<b>86,878</b>
<b>Total OPEB liability – ending</b>	<b>\$ 161,956</b>	<b>\$ 166,867</b>	<b>\$ 166,227</b>
<b>Covered payroll</b>	<b>\$ 20,003,705</b>	<b>\$ 18,737,014</b>	<b>\$ 18,548,791</b>
<b>Hospital’s total liability as a percentage of covered payroll</b>	<b>0.81%</b>	<b>0.89%</b>	<b>0.90%</b>
<b>Measurement date</b>	<b>9/30/2020</b>	<b>9/30/2019</b>	<b>9/30/2018</b>

Notes to Schedule:

(1) Assumption changes since prior valuation:

- Mortality improvement scale was modified from MP-2018 to MP-2020.
- Discount rate was lowered from 3.58% to 2.14%

(2) 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**

Board of Directors  
District Hospital Holdings, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of District Hospital Holdings, Inc. (the Hospital), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated May 18, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing 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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

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

**Compliance and Other Matters**

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



**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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  
May 18, 2021