District Clinic Holdings, Inc.

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

Financial Report
September 30, 2021

Contents

RSM US LLP

Independent Auditor's Report

Board of Directors
District Clinic Holdings, Inc.
West Palm Beach, Florida

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, as of and for the years ended September 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Clinics' 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 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 the Clinics as of September 30, 2021 and 2020, 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 schedule of changes in the total OPEB liability and related ratios be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2022, 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 the Clinics' 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 9, 2022

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

Statements of Net Position
September 30, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	**$ 11,447**	$ 654,798
Patient accounts receivable, net	**1,689,005**	1,808,773
Grant receivable	**4,232,544**	4,968,442
Prepaid expenses and other current assets	**206,852**	169,605
Total current assets	**6,139,848**	7,601,618
Capital assets:		
Depreciable capital assets, net of accumulated depreciation	**2,814,170**	3,058,863
Total assets	**$ 8,954,018**	$ 10,660,481
Deferred outflows of resources	**$ 17,936**	$ 20,199
Liabilities		
Current liabilities:		
Accounts payable	**$ 224,972**	$ 637,618
Accrued salaries and benefits	**2,186,965**	1,664,516
Due to the District	**-**	5,375,000
Unearned grant revenue	**751,715**	81,565
Current portion of accrued compensated absences	**309,613**	296,265
Current portion of deferred rent	**8,275**	5,037
Current portion of estimated self-insured liability	**2,587**	38,895
Total current liabilities	**3,484,127**	8,098,896
Accrued compensated absences, less current portion	**1,161,904**	1,111,806
Estimated self-insured liability, less current portion	**1,373**	44,672
Deferred rent, less current portion	**130,035**	138,310
Other postemployment benefits liabilities	**74,917**	64,467
Total liabilities	**$ 4,852,356**	$ 9,458,151
Deferred inflows of resources	**$ 2,177**	$ 474
Net Position		
Net investment in capital assets	**$ 2,814,170**	$ 3,058,863
Unrestricted (deficit)	**1,303,251**	(1,836,808)
Total net position	**$ 4,117,421**	$ 1,222,055

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, 2021 and 2020

	2021	2020
Operating revenues:		
Patient service revenue, net of provision for bad debts of $3,099,161 and $4,486,018 in 2021 and 2020, respectively	**$ 10,717,965**	$ 9,200,825
Other operating revenues	**78,084**	580,687
Total operating revenues	**10,796,049**	9,781,512
Operating expenses:		
Medical services	**24,226,146**	22,807,978
Fiscal and general administrative services	**11,872,465**	9,118,052
Depreciation	**378,438**	236,890
Total operating expenses	**36,477,049**	32,162,920
Operating loss	**(25,681,000)**	(22,381,408)
Nonoperating revenues (expenses):		
Grant revenue	**12,807,290**	10,565,194
Loss on disposal of capital assets	**(850)**	(2,301)
Total nonoperating revenues	**12,806,440**	10,562,893
Loss before District contributions	**(12,874,560)**	(11,818,515)
District contributions	**15,769,926**	11,249,312
Change in net position	**2,895,366**	(569,203)
Net position, beginning of year	**1,222,055**	1,791,258
Net position, end of year	**$ 4,117,421**	$ 1,222,055

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, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Receipts from patients and third-party payors	**$ 11,507,883**	$ 8,460,009
Payments to employees	**(23,625,835)**	(21,541,331)
Payments to suppliers and service providers	**(17,782,002)**	(3,685,850)
Other receipts	**78,084**	580,687
Net cash used in operating activities	**(29,821,870)**	(16,186,485)
Cash flows from noncapital financing activities:		
Grants received	**13,543,188**	6,219,675
District operating contributions	**15,769,926**	11,249,312
Net cash provided by noncapital financing activities	**29,313,114**	17,468,987
Cash flows from capital and related financing activities:		
Acquisition of capital assets	**(134,595)**	(1,354,523)
Net cash used in capital and related financing activities	**(134,595)**	(1,354,523)
Net decrease in cash and cash equivalents	**(643,351)**	(72,021)
Cash and cash equivalents, beginning of year	**654,798**	726,819
Cash and cash equivalents, end of year	**$ 11,447**	$ 654,798
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	**$ (25,681,000)**	$ (22,381,408)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Provision for bad debts	**3,099,161**	4,486,018
Depreciation expense	**378,438**	236,890
Changes in assets and liabilities:		
Patient accounts receivable	**(2,979,393)**	(5,260,179)
Prepaid expenses and other current assets	**(37,247)**	(40,159)
Accounts payable	**(412,646)**	50,198
Accrued salaries and benefits	**522,449**	812,147
Due to the District	**(5,375,000)**	5,375,000
Unearned grant revenue	**670,150**	33,345
Accrued compensated absences	**63,446**	445,738
Deferred rent	**(5,037)**	3,750
Estimated self-insured liability	**(79,607)**	43,413
Other postemployment benefits liabilities	**10,450**	28,604
Deferred inflows of resources	**1,703**	(69)
Deferred outflows of resources	**2,263**	(19,773)
Net cash used in operating activities	**$ (29,821,870)**	$ (16,186,485)

See 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.

The District receives federal grants 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 FQHC 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 FQHCs 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.

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

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

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

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. For the year ended September 30, 2021, the Clinics' policy with respect to estimating its allowance for doubtful accounts is to reserve at rates that represent historical collections which was approximately 89% of all self-pay accounts receivable. For the year ended September 30, 2020, 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. Due in part to the coronavirus pandemic during fiscal year 2020, the Clinics provided increased services to uninsured patients who have limited ability to pay. As a result, the provision for bad debts increased to $4,486,018 during the year ended September 30, 2020. The provision for bad debts subsequently decreased to $3,099,161 during the year ended September 30, 2021, due to changes in the payor mix.

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, 2021, the percentage of gross patient accounts receivable covered by Medicare and Medicaid, patients and insurance and others was approximately 33%, 48% and 19%, respectively. As of September 30, 2020, the percentage of gross patient accounts receivable covered by Medicare and Medicaid, patients and insurance and others was approximately 42%, 39% and 19%, respectively.

Grant receivable: As of September 30, 2021 and 2020, the Clinics had grant receivables of approximately $4,233,000 and $4,968,000, of which, approximately 74% and 86% was due from HRSA, respectively.

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 3 to 20 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 statements of revenues, expenses and changes in net position for the years ended September 30, 2021 and 2020.

Net position: The Clinics reports net position categories in accordance with GASB standards: 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. The Clinics has no debt related to capital assets. Restricted net position consists of assets that have constraints placed on them externally by creditors, grantors, contributors, regulations or imposed by law through constitutional provisions or enabling legislation, reduced by liabilities payable from those assets. The Clinics has no restricted net position for the years ended September 30, 2021 and 2020. 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 or restricted net position.

Net patient service revenue: The Clinics serve 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 present its provision for bad debts as a direct reduction of patient service revenue.

For the year ended September 30, 2021, the percentage of net patient service revenue covered by Medicare and Medicaid, patients and insurance and others was approximately 40%, 8% and 52%, respectively. For the year ended September 30, 2020, the percentage of net patient service revenue covered by Medicare and Medicaid, patients and insurance and others was approximately 36%, 11% and 52%, respectively. The District provided approximately 0% and 1% of net patient service revenue through capitated payments and uninsured subsidies to the Clinics for the years ended September 30, 2021 and 2020, respectively.

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.

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, 2020, the base rate was increased to $173.50. Effective January 1, 2021, the base rate was increased to $176.45.

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 $6,087,000 and $5,797,000 for the years ended September 30, 2021 and 2020, respectively.

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 statements 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, 2021 and 2020, the Clinics recorded revenues of approximately $2,723,000 and $2,988,000, respectively, and there were no assessments for both years. The receipt of future distributions is contingent upon the continued support of the program by the federal and state governments.

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

Incentive program revenues: During the year ended September 30, 2021, the Clinics recognized approximately $58,000, 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, 2020, 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, 2021, and as a result, was not able to estimate the associated incentive payment to be 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, 2020, the Clinics recognized approximately $553,000 as a result of this shared revenue saving incentive program.

Operating revenues and expenses: The Clinics' statements 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, 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, 2021.

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.

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

Recent accounting pronouncements: 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. Effective October 1, 2020, the Clinics adopted this Statement with no material effect.

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 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 Clinics beginning with its fiscal year ending September 30, 2022.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements. The requirements of this statement will be effective for the Clinics beginning with its fiscal year ending September 30, 2023.

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 Clinics' 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. During the periods ended September 30, 2021 and 2020, the Clinics was the beneficiary of this stimulus measure. The Clinics' accounting policies for the recognition of this stimulus money is described below.

CARES Act Funds: During the years ended September 30, 2021 and 2020, the Clinics received $0 and $227,362, respectively, in payments through the Public Health and Social Services Emergency Fund (the PHSSEF) in general distributions. In 2020, all of the PHSSEF payments qualified as reimbursement for lost revenue and incremental expenses and was recognized as grant revenue 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 revenue that are attributable to COVID-19. The Clinics recognizes grant payments as income when there is reasonable assurance the Clinics has complied with the conditions associated with the grant. The Clinics' 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.

Note 2. Cash and Cash Equivalents

At September 30, 2021 and 2020, the Clinics' cash and cash equivalents balances were as follows:

	2021	2020
Carrying amount:		
Deposits with financial institutions	$ 7,347	$ 650,698
Petty cash	4,100	4,100
	$ 11,447	$ 654,798

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, 2021 and 2020. 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.

Note 3. Patient Accounts Receivable

Patient accounts receivable, reported as current assets by the Clinics at September 30, 2021 and 2020, consist of the following amounts:

	2021	2020
Patient accounts receivable:		
Medicare and Medicaid	$ 1,733,892	$ 1,865,909
Self-pay patients	2,532,698	1,731,946
Insurance and others	997,481	823,786
Total patient accounts receivable	5,264,071	4,421,641
Less allowance for contractual discounts	(1,232,636)	(1,013,889)
Less allowance for doubtful accounts	(2,342,430)	(1,598,979)
Patient accounts receivable, net	$ 1,689,005	$ 1,808,773

Note 4. Capital Assets

Capital asset activity for the years ended September 30, 2021 and 2020, follows:

	Balance October 1, 2020	Transfers and Additions	Transfers and Deletions	Balance September 30, 2021
Capital assets:				
Furniture, fixtures and equipment	$ 4,436,483	$ 134,595	$ (9,452)	$ 4,561,626
Less accumulated depreciation:				
Furniture, fixtures and equipment	(1,377,620)	(378,438)	8,602	(1,747,456)
Capital assets, net	$ 3,058,863	$ (243,843)	$ (850)	$ 2,814,170

	Balance October 1, 2019	Transfers and Additions	Transfers and Deletions	Balance September 30, 2020
Capital assets:				
Construction in progress (nondepreciable)	$ 1,493,378	$ -	$ (1,493,378)	$ -
Furniture, fixtures and equipment	1,605,056	2,847,901	(16,474)	4,436,483
Total cost	3,098,434	2,847,901	(1,509,852)	4,436,483
Less accumulated depreciation:				
Furniture, fixtures and equipment	(1,154,903)	(236,890)	14,173	(1,377,620)
Capital assets, net	$ 1,943,531	$ 2,611,011	$ (1,495,679)	$ 3,058,863

Note 5. Accrued Compensated Absences

Compensated absences liability activity for the years ended September 30, 2021 and 2020, follows:

	Balance October 1, 2020	Additions	Deletions	Balance September 30, 2021	Amount Due Within One Year
Accrued compensated absences	$ 1,408,071	$ 2,096,202	$ (2,032,756)	$ 1,471,517	$ 309,613

	Balance October 1, 2019	Additions	Deletions	Balance September 30, 2020	Amount Due Within One Year
Accrued compensated absences	$ 962,333	$ 1,993,126	$ (1,547,388)	$ 1,408,071	$ 296,265

Note 6. Related Party Transactions

The Clinics' operations were financially dependent on the District. In 2020, 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 $88,545 of net patient service revenue for the year ended September 30, 2020. The District did not pay the Clinics capitated payments and uninsured subsidies during 2021. The Clinics also received approximately $15,770,000 and $11,249,000 in operating contributions from the District in fiscal years 2021 and 2020, respectively.

Note 6. Related Party Transactions (Continued)

The District allocated certain support department costs to the Clinics, including personnel, purchasing, information technology, legal and administrative costs. Beginning in fiscal year 2021, the District began allocating Epic implementation costs to the Clinics which resulted in additional overhead and supporting information technology costs. The total District allocated costs charged to expense by the Clinics were approximately $7,787,000 and $4,535,000 for the years ended September 30, 2021 and 2020, respectively. At September 30, 2021 and 2020, the Clinics owed the District approximately $0 and $5,375,000, 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, 2021 and 2020, the Clinics contributed $1,022,804 and $959,257, respectively, 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 $19,500 of eligible compensation annually. No contributions are required of the District. Contribution rates and benefits of the 457(b) Plan are established by and may be amended by the District Board.

Note 8. Commitments and Contingencies

Operating leases: The Clinics is committed under several noncancelable operating leases for clinic facilities. The leases expire in various years through April 2026. Rent expense for the years ended September 30, 2021 and 2020, was approximately $1,226,000 and $1,248,000, respectively. The approximate future minimum operating lease payments at September 30, 2021, follows:

	Operating Leases
Years ending September 30:	
2022	$ 734,703
2023	279,138
2024	279,138
2025	279,140
2026	279,140
	$ 1,851,259

Note 8. Commitments and Contingencies (Continued)

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, 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. The agreement was extended through June 30, 2022.

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 $675,140 and $718,240 for the years ended September 30, 2021 and 2020, respectively, including costs related to space for the District's pharmacy and eligibility offices. The portion of these costs allocated to the Clinics was $607,420 and $619,340 for the years ended September 30, 2021 and 2020, respectively.

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

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, 2021. At September 30, 2021 and 2020, the Clinics accrued approximately $4,000 and $84,000, respectively, for professional and general liability claims. No settlements exceeded insurance coverage during the past three fiscal years.

Note 8. Commitments and Contingencies (Continued)

Grants and other federal funding: The grant and other federal funding 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 Postemployment Benefits

The Clinics follow 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 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 October 1, 2019, there were 11 retirees and 880 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 $74,917 and $64,467 for the years ended September 30, 2021 and 2020, respectively. The September 30, 2021 and 2020 total OPEB liability was measured based on an actuarial valuation as of October 1, 2019.

Note 9. Other Postemployment Benefits (Continued)

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:

2021	
Salary increases	3%
Investment rate of return	Not applicable. The plan is not funded.
Discount rate	2.43%
Healthcare cost trend rates	8.25% in 2021, 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-2021

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

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

	2021	2020
Beginning balance	$ 64,467	$ 35,863
Service cost	11,313	5,416
Interest	1,612	1,467
Difference between expected and actual experience	-	14,971
Changes of assumptions	(1,994)	7,065
Implicit benefit payments	(481)	(315)
Net changes	10,450	28,604
Ending balance	$ 74,917	$ 64,467

Note 9. Other Postemployment Benefits (Continued)

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 or 1-percentage-point higher than the discount rate for the years ended September 30, 2021 and 2020:

2021			
	Discount Rate		
	1% Decrease 1.43%	Current Discount Rate 2.43%	1% Increase 3.43%
Total OPEB Liability	$ 78,703	$ 74,917	$ 71,352

2020			
	Discount Rate		
	1% Decrease 1.14%	Current Discount Rate 2.14%	1% Increase 3.14%
Total OPEB Liability	$ 67,781	$ 64,467	$ 61,346

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 or 1-percentage-point higher than the current healthcare cost trend rates for the years ended September 30, 2021 and 2020:

2021			
	Trend Rate		
	1% Decrease 7.25%	Current Trend 8.25%	1% Increase 9.25%
Total OPEB Liability	$ 68,242	$ 74,917	$ 82,588

2020			
	Trend Rate		
	1% Decrease 7.25%	Current Trend 8.25%	1% Increase 9.25%
Total OPEB Liability	$ 59,287	$ 64,467	$ 70,398

OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB
The Clinics recognized OPEB expense of $14,897 and $9,077 for the years ended September 30, 2021 and 2020, respectively. At September 30, 2021, the Clinics reported deferred inflows and outflows of resources for changes in assumptions of $2,177 and $17,936, respectively, related to the OPEB plan. At September 30, 2020, the Clinics reported deferred inflows and outflows of resources for changes in assumptions of $474 and $20,199, 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.

Required Supplementary Information

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

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

	2021	2020	2019	2018
Total OPEB liability				
Service cost	$ 11,313	$ 5,416	$ 5,466	$ 15,463
Interest	1,612	1,467	1,243	956
Difference between expected and actual experience	-	14,971	-	-
Changes of assumptions	(1,994)	7,065	481	(681)
Implicit benefit payments	(481)	(315)	(146)	(53)
Net change in total OPEB liability	10,450	28,604	7,044	15,685
Total OPEB liability – beginning	64,467	35,863	28,819	13,134
Total OPEB liability – ending	$ 74,917	$ 64,467	$ 35,863	$ 28,819
Covered payroll	$ 18,142,000	$ 15,960,000	$ 15,511,000	$ 14,665,000
Clinics total liability as a percentage of covered payroll	0.41%	0.40%	0.23%	0.20%
Measurement date	9/30/2021	9/30/2020	9/30/2019	9/30/2018

Notes to Schedule:

(1) Assumption changes since prior valuation:
- Mortality improvement scale was modified from MP-2019 to MP-2021.
- Discount rate was raised from 2.14% to 2.43%

(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.

RSM US LLP

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 Clinic Holdings, Inc.
West Palm Beach, Florida

We have audited, in accordance with the 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), a component unit of the Health Care District of Palm Beach County, Florida, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Clinics' basic financial statements, and have issued our report thereon dated March 9, 2022.

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) 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 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 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
March 9, 2022