District Clinic Holdings, Inc.

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

Financial Report and
Required Supplementary Information
September 30, 2023

Contents

RSM US LLP

Independent Auditor's Report

Board of Directors
District Clinic Holdings, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited 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, 2023, and the related notes to the financial statements, which collectively comprise the Clinics' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Clinics, as of September 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Clinics, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Clinics' ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Clinics' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

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 GAAS, 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 the 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 8, 2024, 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 8, 2024

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

Statement of Net Position
September 30, 2023

Assets	
Current assets:	
Cash and cash equivalents	$ 386,417
Patient accounts receivable, net	2,239,828
Grant receivable	2,036,263
Prepaid expenses and other current assets	280,536
Total current assets	4,943,044
Capital assets and right-to-use leased and SBITA assets:	
Construction in progress	500,000
Depreciable capital assets, net of accumulated depreciation	2,940,234
Right-to-use leased and SBITA assets, net of accumulated amortization	4,764,043
Total assets	13,147,321
Deferred outflows of resources related to other post-employment benefit plan	46,336
Total assets and deferred outflows of resources	$ 13,193,657
Liabilities	
Current liabilities:	
Accounts payable	$ 586,540
Accrued salaries and benefits	1,548,290
Accrued interest payable	21,408
Unearned grant revenue	2,170
Current portion of accrued compensated absences	281,088
Current portion of estimated self-insured liability	3,215
Current portion of lease and SBITA payable	647,264
Total current liabilities	3,089,975
Accrued compensated absences, less current portion	1,054,854
Estimated self-insured liability, less current portion	1,426
Lease and SBITA payable, less current portion	4,404,018
Other postemployment benefits liabilities	105,296
Total liabilities	8,655,569
Deferred inflows of resources related to other post-employment benefit plan	30,757
Total liabilities and deferred inflows of resources	$ 8,686,326
Net Position	
Net investment in capital assets	$ 3,152,995
Unrestricted	1,354,336
Total net position	4,507,331
Total net position, liabilities and deferred inflows of resources	$ 13,193,657

See notes to financial statements.

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

Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2023

Operating revenues:	
Patient service revenue, net of provision for bad debts of $4,076,188	$ 10,616,790
Other operating revenues	268,108
Total operating revenues	10,884,898
Operating expenses:	
Medical services	25,547,106
Fiscal and general administrative services	15,088,331
Depreciation and amortization	820,305
Total operating expenses	41,455,742
Operating loss	(30,570,844)
Nonoperating revenues (expenses):	
CARES Act funding	738,414
Grant revenue	11,227,758
Loss on disposal of capital assets	(11,581)
Interest expense on leases and SBITA	(159,134)
Interest income	2,063
Total nonoperating revenues	11,797,520
Loss before District contributions	(18,773,324)
District contributions:	
Operating contributions	18,565,824
Capital contributions	986,971
Total District contributions	19,552,795
Change in net position	779,471
Net position, beginning of year	3,727,860
Net position, end of year	$ 4,507,331

See notes to financial statements.

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

Statement of Cash Flows
Year Ended September 30, 2023

Cash flows from operating activities:	
Receipts from patients and third-party payors	$ 9,031,006
Payments to employees	(25,421,111)
Payments to suppliers and service providers	(14,988,169)
Other receipts	268,108
Net cash used in operating activities	(31,110,166)
Cash flows from noncapital financing activities:	
Grants received	11,946,729
District operating contributions	18,565,824
Net cash provided by noncapital financing activities	30,512,553
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(243,506)
Interest payments on leases	(159,134)
Principal payments on leases and SBITA	(242,776)
Net cash used in capital and related financing activities	(645,416)
Net decrease in cash and cash equivalents	(1,243,029)
Cash and cash equivalents, beginning of year	1,629,446
Cash and cash equivalents, end of year	$ 386,417
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (30,570,844)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Provision for bad debts	4,076,188
Depreciation and amortization expense	820,305
Changes in assets and liabilities:	
Patient accounts receivable	(4,877,506)
Prepaid expenses and other current assets	(30,426)
Accounts payable	130,747
Accrued salaries and benefits	185,340
Unearned grant revenue	(784,466)
Accrued compensated absences	(75,865)
Estimated self-insured liability	(159)
Other postemployment benefits liabilities	13,222
Deferred inflows of resources	(2,899)
Deferred outflows of resources	6,197
Net cash used in operating activities	$ (31,110,166)

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, behavior health 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 and behavior health 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), Jupiter (2017), Mangonia Park (2019) and St. Ann Place (2021). The RAMS (2017) and Jerome Golden (2018) locations were later closed. Two mobile vans were purchased in 2020 to provide services during the COVID-19 pandemic and are currently being used 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 the District Clinic Holdings, Inc. Board of Directors who are 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. District Clinic Holdings, Inc. is an affiliate entity of the District. 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, 2023, the Clinics' policy with respect to estimating its allowance for doubtful accounts is to reserve at rates that represent historical collections which was approximately 90.9% of all self-pay accounts receivable. The Clinics continually monitors its accounts receivable balances and utilizes cash collections data and other analysis to support the basis for its estimates of the allowance for doubtful accounts.

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

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

As of September 30, 2023, the percentage of gross patient accounts receivable covered by Medicare & Medicaid, patients, and insurance & others was approximately 38%, 34% and 28%, respectively.

Grant receivable: As of September 30, 2023, the Clinics had grant receivables of approximately $2,036,000, of which, approximately 62% was due from HRSA.

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, furniture, fixtures, equipment and right-to-use leased and Subscription Based Information Technology Arrangements (SBITA) assets. 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. Amortization expense of right-to-use leased and SBITA assets, is included in depreciation and amortization expense. 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 year ended.

Leases: The Clinics is a lessee for noncancellable leases of equipment and building space. The Clinics recognizes a lease liability and an intangible right-to-use leased asset (lease asset) on the financial statements.

At the commencement of the lease, the Clinics initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgements related to leases include how the Clinics determines: (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Clinics uses estimated incremental borrowing rates, which is the estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term.

- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and the purchase option price that the Clinics is reasonably certain to exercise.

The Clinics is not a lessor in any transaction.

The Clinics monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets and SBITA are reported as right-to-use leased and SBITA assets on the statement of net position. The related lease liabilities are reported as lease and SBITA payables on the statement of net position.

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

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 right-to-use, SBITA and capital assets net of accumulated depreciation and amortization, reduced by the balance of any outstanding debt (including lease and SBITA payables) used to finance the purchase or construction of those 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 year ended. 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, 2023, the percentage of net patient service revenue covered by Medicare & Medicaid, patients, and insurance & others was approximately 13%, 42% and 45%, 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.

Net patient service revenue: The Clinics' gross patient charges, charity adjustments, provision for doubtful account, and contractual adjustments for the year ended, are as follows:

Patient revenue:	
Medicare and Medicaid	$ 4,658,753
Self-pay patients	15,463,884
Insurance and others	16,378,646
Total patient revenue	36,501,283
Contractual adjustment	(10,068,061)
Charity care adjustment	(11,740,244)
Provision for doubtful accounts	(4,076,188)
Total net patient revenue	$ 10,616,790

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

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, 2023, the base rate was increased to $187.19.

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 $11,740,244 for the year ended.

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 year ended September 30, 2023, the Clinics recorded revenues of approximately $2,321,000 and there were no assessments. 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, 2023, the Clinics recognized approximately $258,000, 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, 2022 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, 2023, 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.

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 9). Settled claims have not exceeded the Clinics' commercial coverage from inception through September 30, 2023.

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.

Recent accounting pronouncements: In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62.* The statement improves the accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this statement will be effective for the Clinics beginning with its fiscal year ending September 30, 2024.

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

In June 2022, the GASB issued Statement No. 101, *Compensated Absences.* The statement improves the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement will be effective for the Clinics beginning with its fiscal year ending September 30, 2025.

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. For the year ended September 30, 2023, 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 year ended September 30, 2023, the Clinics received $738,414 in payments through the Public Health and Social Services Emergency Fund (the PHSSEF) in general distributions. The Clinics recognized grant revenues of $738,414 for the year ended September 30, 2023. The Clinics recognizes grant payments as income when there is reasonable assurance the Clinics has complied with the conditions and requirements associated with the grant.

Note 2. Cash and Cash Equivalents

At September 30, 2023, the Clinics' cash and cash equivalents balances were as follows:

Carrying amount:		
Deposits with financial institutions	$	381,917
Petty cash		4,500
	$	386,417

The Clinics has pooled cash with the District's common interest-bearing concentration account, as well as maintains three separate bank accounts for the year ended. 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 year-end consist of the following amounts:

Patient accounts receivable:	
Medicare and Medicaid	$ 2,600,111
Self-pay patients	2,292,108
Insurance and others	1,944,651
Total patient accounts receivable	6,836,870
Less allowance for contractual discounts	(2,058,810)
Less allowance for doubtful accounts	(2,538,232)
Patient accounts receivable, net	$ 2,239,828

Note 4. Capital Assets

Capital asset activity for the year ended follows:

	Balance September 30, 2022	Transfers and Additions	Transfers and Deletions	Balance September 30, 2023
Capital assets:				
Construction in progress (nondepreciable)	$ -	$ 674,537	$ (174,537)	$ 500,000
Furniture, fixtures and equipment	4,207,045	730,477	(351,852)	4,585,670
Total cost	4,207,045	1,405,014	(526,389)	5,085,670
Less accumulated depreciation:				
Furniture, fixtures and equipment	(1,508,084)	(320,552)	183,200	(1,645,436)
Capital assets, net	$ 2,698,961	$ 1,084,462	$ (343,189)	$ 3,440,234

Note 5. Right-to-Use and SBITA Assets and Liabilities

The Clinic is a lessee for various noncancellable leases for buildings and has entered into SBITA to use vendor-provided information technology intangible assets. The Clinics utilizes SBITA to provide specific social and healthcare services to patients.

Right-to-use lease and SBITA assets activity for the year ended are summarized as follows:

	Balance September 30, 2022	Additions	Deletions	Lease Modifications	Balance September 30, 2023
Right-to-use leased and SBITA assets:					
Building leased	$ 3,216,500	$ 2,372,835	$ -	$ (79,605)	$ 5,509,730
SBITA assets	494,665	-	-	(300,258)	194,407
Total right-to-use leased and SBITA assets	3,711,165	2,372,835	-	(379,863)	5,704,137
Less accumulated amortization for:					
Building leased	(323,551)	(480,035)	-	31,609	(771,977)
SBITA assets	(148,399)	(19,718)	-	-	(168,117)
Total accumulated amortization	(471,950)	(499,753)	-	31,609	(940,094)
Total right-to-use leased and SBITA assets, net	$ 3,239,215	$ 1,873,082	$ -	$ (348,254)	$ 4,764,043

Note 5. Right-to-Use and SBITA Assets and Liabilities (Continued)

Right-to-use lease and SBITA liabilities activity for the year ended are summarized as follows:

	Balance September 30, 2022	Additions	Deletions	Lease Modifications	Balance September 30, 2023
Liabilities:					
Building leased	$ 2,915,074	$ 2,372,835	$ (154,327)	$ (207,130)	$ 4,926,452
SBITA	513,537	-	(88,449)	(300,258)	124,830
Total lease payable	$ 3,428,611	$ 2,372,835	$ (242,776)	$ (507,388)	$ 5,051,282

The future principal and interest payments due on the right-to-use and SBITA liabilities are as follows:

	Principal	Interest	Total
Fiscal year ending September 30:			
2024	$ 647,264	$ 218,415	$ 865,679
2025	584,510	190,422	774,932
2026	630,166	164,544	794,710
2027	535,148	138,102	673,250
2028	393,044	117,648	510,692
Thereafter	2,261,150	270,295	2,531,445
Totals	$ 5,051,282	$ 1,099,426	$ 6,150,708

Note 6. Compensated Absences

Compensated absences liability activity for the year ended follows:

	Balance October 1, 2022	Additions	Deletions	Balance September 30, 2023	Amount Due Within One Year
Compensated absences	$ 1,411,807	$ 2,563,609	$ (2,639,474)	$ 1,335,942	$ 281,088

Note 7. Related Party Transactions

The Clinics' operations are financially dependent on the District. The Clinics received approximately $18,566,000 in operating contributions and $987,000 in capital contributions from the District in fiscal year 2023.

The Clinics reported approximately $15,088,000 as fiscal and general administrative services expenses in the statement of revenues, expenses and changes in net position. The District allocated approximately $7,975,000 of support department costs to the Clinics, including personnel, purchasing, information technology, legal and administrative costs that are included in the fiscal and general administrative services expenses total for the year ended.

Note 8. 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 Empower Retirement. For employees hired after September 30, 2012, the District contributes 4% for general employees, 5% for Associate Vice Presidents and 6% for Vice Presidents of eligible compensation to the Plan and also makes matching contributions equal to 100% of the participants' elective deferrals up to 4%, 5% and 6% of eligible compensation based on job title, as listed above. 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 year ended September 30, 2023, the Clinics contributed $1,060,342, to the Plan for its employees which is recorded within medical services expense in the statement of revenues, expenses and changes in net position. Employees who terminate after December 12, 2019, are fully vested after 3 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 Health Care District of Palm Beach County Deferred Compensation 457(b) and Roth 457(b) plan. Under this plan, an employee is able to contribute pre-tax wage/salary dollars into the 457(b) account and/or post-tax wage and salary dollars into the Roth 457(b). The 457(b) Plan is administered by Empower Retirement. An employee can defer up to $22,500 of eligible compensation or $30,000 annually for employees aged 50 and over. These limits are subject to change each year. No contributions are required of the District. Contribution rates and benefits of the 457(b) and Roth 457(b) Plan are established by and may be amended by the District Board.

Note 9. Commitments and Contingencies

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, 2024.

Pursuant to the Master Agreement, the District operates the clinic locations and accounts for all operational activities through the Clinics. As of fiscal year end the Lantana/Lake Worth Health Center facility location is owned by Palm Beach County, and the West Palm Beach Health Center facility location is owned by the State of Florida. Both locations are utilized by the District without rent. The District pays the Health Department for common expenses incurred by the Health Department for the facilities based on the pro rata square footage used by the District and the Health Department. The total annual common expenses for the facilities paid by the District were approximately $506,355 for the year ended September 30, 2023, including costs related to space for the District's pharmacy and eligibility offices. The portion of the costs allocated to the Clinics was $455,565 for the year ended September 30, 2023.

Note 9. Commitments and Contingencies (Continued)

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 (FTCA) for professional liability claims. Under the Act, health centers are considered Federal entities and are immune from lawsuits, with the Federal government acting as their primary insurer. FTCA coverage is comparable to an "occurrence" policy without a monetary cap.

The Clinics, with respect to general liability and breach of contract claims, are 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 each incident or loss and $850,000 in the aggregate. The District has insurance policies for employers liability, commercial property insurance and business automobile 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 $10 million, only responds in the event a covered loss results in a claims bill that is approved by the Legislature, or the annual aggregate is met.

The Clinic'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, 2023. At September 30, 2023, the Clinics accrued approximately $4,600, for professional and general liability claims. No settlements exceeded insurance coverage during the past three fiscal years.

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 10. 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 $754 to a maximum of $2,315.

District employees covered by benefit terms: At October 1, 2022, there were 6 retirees and 980 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 $105,296 for the year ended September 30, 2023. The September 30, 2023, total OPEB liability was measured based on an actuarial valuation as of October 1, 2021 projected to September 30, 2023.

The total OPEB liability in the October 1, 2021 actuarial valuation projected to September 30, 2023 was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	3%
Investment rate of return	Not applicable. The plan is not funded.
Discount rate	4.87%
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 2023 adjusted MP-2021

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

The discount rate was increased from 4.77% for the year ended September 30, 2022 to 4.87% for the year ended September 30, 2023.

Note 10. Other Postemployment Benefits (Continued)

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

Beginning balance	$	92,074
Service cost		11,523
Interest		4,834
Changes of assumptions		(877)
Implicit benefit payments		(2,258)
Net changes		13,222
Ending balance	$	105,296

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 year ended September 30, 2023:

	Discount Rate		
	1% Decrease 3.87%	Current Discount Rate 4.87%	1% Increase 5.87%
Total OPEB Liability	$ 111,587	$ 105,296	$ 99,467

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 year ended September 30, 2023:

	Trend Rate		
	1% Decrease 7.25%	Current Trend 8.25%	1% Increase 9.25%
Total OPEB Liability	$ 95,078	$ 105,296	$ 117,046

OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB
The Clinics recognized OPEB expense of $18,778 for the year ended September 30, 2023. At September 30, 2023, the Clinics reported deferred inflows and outflows of resources for changes in assumptions and experience losses of $30,757 and $46,336, 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
Unaudited

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

Required Supplementary Information – unaudited
Other Postemployment Benefits
Schedule of Changes in the Total OPEB Liability and Related Ratios
Last Six Years

	2023	2022	2021	2020	2019	2018
Total OPEB liability						
Service cost	$ 11,523	$ 10,599	$ 11,313	$ 5,416	$ 5,466	$ 15,463
Interest	4,834	2,051	1,612	1,467	1,243	956
Difference between expected and actual experience	-	40,794	-	14,971	-	-
Changes of assumptions	(877)	(35,161)	(1,994)	7,065	481	(681)
Implicit benefit payments	(2,258)	(1,126)	(481)	(315)	(146)	(53)
Net change in total OPEB liability	13,222	17,157	10,450	28,604	7,044	15,685
Total OPEB liability – beginning	92,074	74,917	64,467	35,863	28,819	13,134
Total OPEB liability – ending	$ 105,296	$ 92,074	$ 74,917	$ 64,467	$ 35,863	$ 28,819
Covered payroll	$ 20,924,000	$ 19,068,000	$ 18,142,000	$ 15,960,000	$ 15,511,000	$ 14,665,000
Clinics total liability as a percentage of covered payroll	0.50%	0.48%	0.41%	0.40%	0.23%	0.20%
Measurement date	9/30/2023	9/30/2022	9/30/2021	9/30/2020	9/30/2019	9/30/2018

Notes to schedule:

(1) Assumption changes since prior valuation:
- Discount rate increased from 4.77% to 4.87%.

(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.

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 (*Government Auditing Standards)*, 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, 2023, and the related notes to the financial statements which collectively comprise the Clinics' basic financial statements, and have issued our report thereon dated March 8, 2024.

Report on 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 or significant deficiencies may exist that were not identified.

Report on 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 8, 2024