

Health Care District of Palm Beach County, Florida

Management's Discussion and Analysis

This section of the comprehensive annual financial report provides a narrative overview and analysis of the financial activities of the Health Care District of Palm Beach County, Florida (the District) for the fiscal year ended September 30, 2021. This information is to be considered alongside that in the letter of transmittal and the District's basic financial statements and notes to the financial statements. The financial analysis within the management's discussion and analysis includes the District's primary government operations. It excludes the operations and results of the District's discretely presented component unit, Good Health Foundation, Inc. (Foundation).

FINANCIAL HIGHLIGHTS

- The District's total assets and deferred outflows of resources exceeded its total liabilities and deferred inflows of resources for the primary government at September 30, 2021 by approximately \$249 million, a increase of approximately \$31 million from the September 30, 2020, balance.
- The net position of the District's governmental activities was approximately \$188 million, a increase over the prior-year balance of approximately \$24.2 million or 15%. Total net position for business-type activities was approximately \$60.9 million, a increase over the prior year's balance of approximately \$7 million or 13%.
- Fiscal year 2021 revenues for all activities (excluding transfers) were approximately \$277 million, which represents an increase of approximately \$9 million or 12% from 2020. Total expenses decreased by approximately \$5 million or 2%, to approximately \$243 million.
- The General Fund's unassigned fund balance at September 30, 2021 was approximately \$85 million. Approximately \$52 million was assigned to the subsequent year's budget and \$5 million related to non-spendable items such as inventories and prepaid expenses.
- The Medicaid Match Fund has assigned fund balance of approximately \$609,000 as of September 30, 2021.
- At September 30, 2021, the District's Capital Projects Fund had approximately \$5 million assigned to equipment and capital replacement projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the District using the reporting model prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. A key feature of the model is the combination of financial statements designed to present the financial position and activities of the organization at two levels. The first set of statements, the government-wide financial statements, is intended to present the District as a whole. A second set, on the fund level, is intended to provide more detailed information on the separate significant funds of the District. These basic financial statements also include notes to explain and provide further detail on the materials presented in the financial statements. This portion of management's discussion and analysis is intended to explain the structure and content of these statements.

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Government-Wide Financial Statements

The government-wide financial statements provide a broad overview of the District's combined financial position and activity in a manner similar to a business enterprise.

The *statement of net position* presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increasing net position could indicate an improving financial condition, while a decrease could indicate a deteriorating condition. Such a decrease could also be the result of a decision to intentionally reduce net position.

The *statement of activities* presents information to explain the change in net position that occurred during the year. All changes are reported when the event causing the change occurs, regardless of when any related cash is given or received.

Government-wide financial statements distinguish between governmental and business-type activities based on the nature of their funding. Governmental activities are those funded principally by taxes and intergovernmental revenues, while business-type activities are those funded by fees and charges paid by users. The District's governmental activities consist principally of those related to its general government, special revenue fund and capital projects funds. The business-type activities are related to the operations of the Edward J. Healey Rehabilitation and Nursing Center (the Healey Center); Healthy Palm Beaches, Inc. (HPB); Lakeside Medical Center via its entity, District Hospital Holdings, Inc. (Lakeside); and the C. L. Brumback Primary Care Clinics via their entity, District Clinic Holdings, Inc. (the Clinics). Although legally separate nonprofit corporations, HPB, Lakeside, and the Clinics all function for practical purposes as departments of the District and, therefore, are included as an integral part of the primary government. HPB and Lakeside have the same governing board as the District, and, while the Clinics have a separate governing board, they are financially dependent on the District. In addition, the District provides administrative support functions for its enterprise funds, including those operating as separate legal entities.

The government-wide financial statements include not only the District itself (the primary government), but also a legally separate foundation. The Foundation is a nonprofit corporation organized and operated under the laws of the State of Florida. The mission of the Foundation has been in recent years to help provide funding for the new Lakeside Medical Center and then support the health care needs in the western region of Palm Beach County, Florida. Financial information for this component unit is reported separately from financial information presented for the primary government itself. The Foundation also issues an independent audited financial report.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's individual funds, which can be classified as one of three types: governmental, proprietary and fiduciary.

Governmental funds. The District's basic services are reported in its governmental funds, which focus on how cash and other financial resources flowing into the funds have been used. The governmental fund financial statements focus on the current resources of the District's operations and the services it provides. The information they provide helps determine whether there are more or fewer financial resources available to finance District services in the near future. This differs from the information presented for governmental activities in the government-wide statements, which provide a long-term focus by considering all of the District's resources. A reconciliation is included with the fund financial statements that compare governmental activities (as reported in the statement of net position and statement of activities) and the results of governmental fund operations.

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Proprietary funds. The District accounts for the operations of the Healey Center, HPB, Lakeside and the Clinics through the use of enterprise funds, which is one type of proprietary fund. An enterprise fund accounts for activities generally as they would be accounted for by a business operating in the private sector. These funds account for the use of all of the District's resources, current and long-term. Consequently, the proprietary fund financial statements provide the same type of information as the government-wide financial statements, but generally provide a greater level of detail for the Healey Center, HPB, Lakeside and the Clinics. The District uses an internal service fund to account for and reports on the activities of the District's employee group health self-insurance program.

Fiduciary funds. Fiduciary funds are used to account for resources held by the District for the benefit of external parties. The District's fiduciary funds include the Resident Agency Fund, Local Provider Participation Fund, and the Pension Trust Funds. These funds are not reflected in the government-wide financial statements because they do not represent resources that are available to support District services.

Notes to the Financial Statements

The notes are essential to a full understanding of the material presented in the financial statements. They explain organizational matters about the District, its accounting policies and their application, and further detailed information about the components of the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Additionally, statistical information is presented to give users a better historical perspective and assist in assessing the current financial status and trends. Economic data is also presented to allow a broader understanding of the economic and social environment in which the District operates.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The net position of the District is presented in detail on the statement of net position following the *Management's Discussion and Analysis*.

Health Care District of Palm Beach County, Florida Net Position Summary

Net position over time may serve as a useful indicator of the District's financial position. The District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately \$249 million at September 30, 2021, an increase from the previous fiscal year's net position of approximately \$31 million. The largest portion (61%) of the District's net position at September 30, 2021 is unrestricted and may be used to meet the District's ongoing obligations to citizens and creditors. The next largest portion (38%) of the District's net position reflects its net investment in capital assets. The District uses these capital assets to provide services; therefore, these assets are not available for future spending. The remaining portion (1%) of the District's net position represents resources that are subject to external restrictions on their use.

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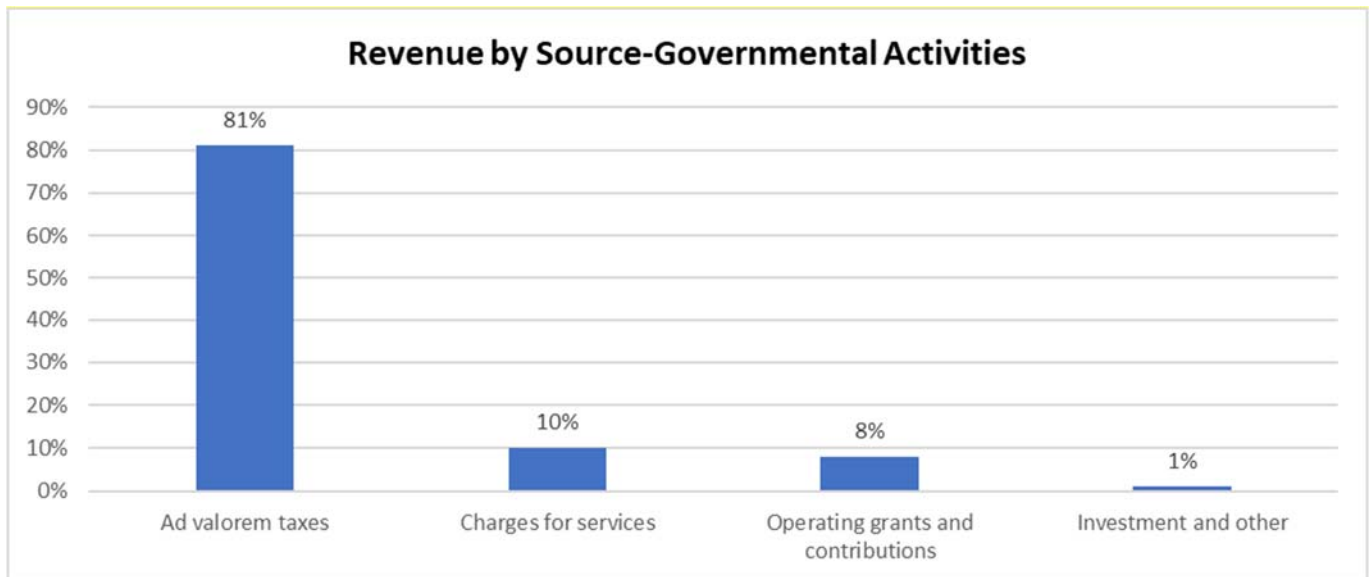
The changes in net position of the District are reported in detail in the statement of activities following the *Management's Discussion and Analysis*.

Health Care District of Palm Beach County, Florida Changes in Net Position Summary

Governmental Activities

Governmental activities decreased the District's net position by approximately \$24 million. The key elements of this decrease are as follows:

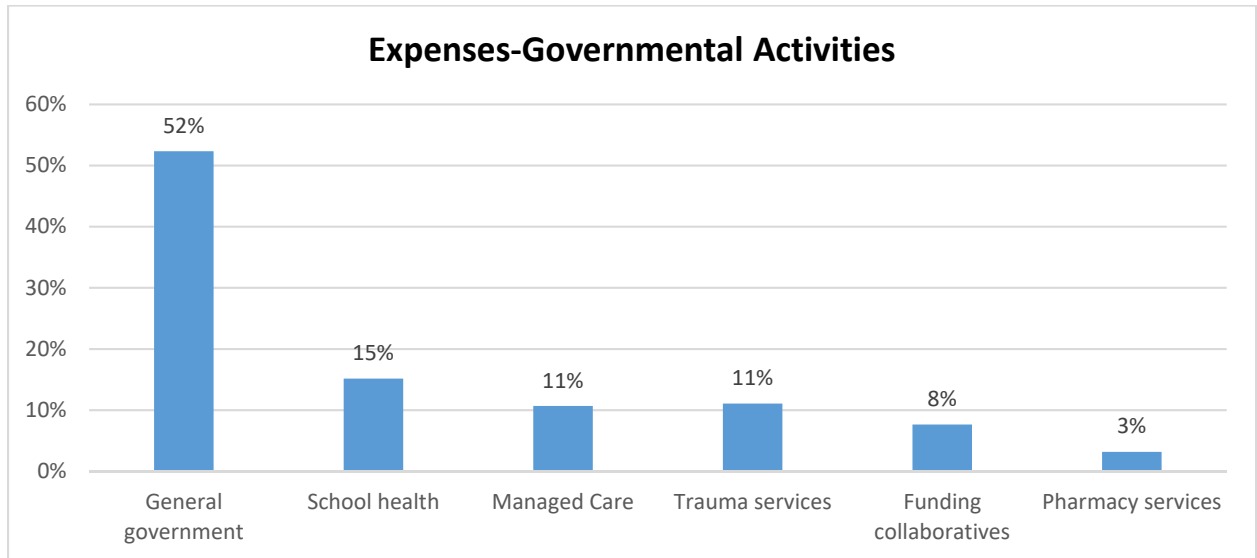
- Total revenues for 2021 increased by approximately \$12.8 million from the prior year. The net increase resulted primarily from \$8 and 6 million of increased revenue from Ad valorem taxes and Operating grants and contributions respectively. This increase was offset by a \$5 million decrease in investment and other revenues.



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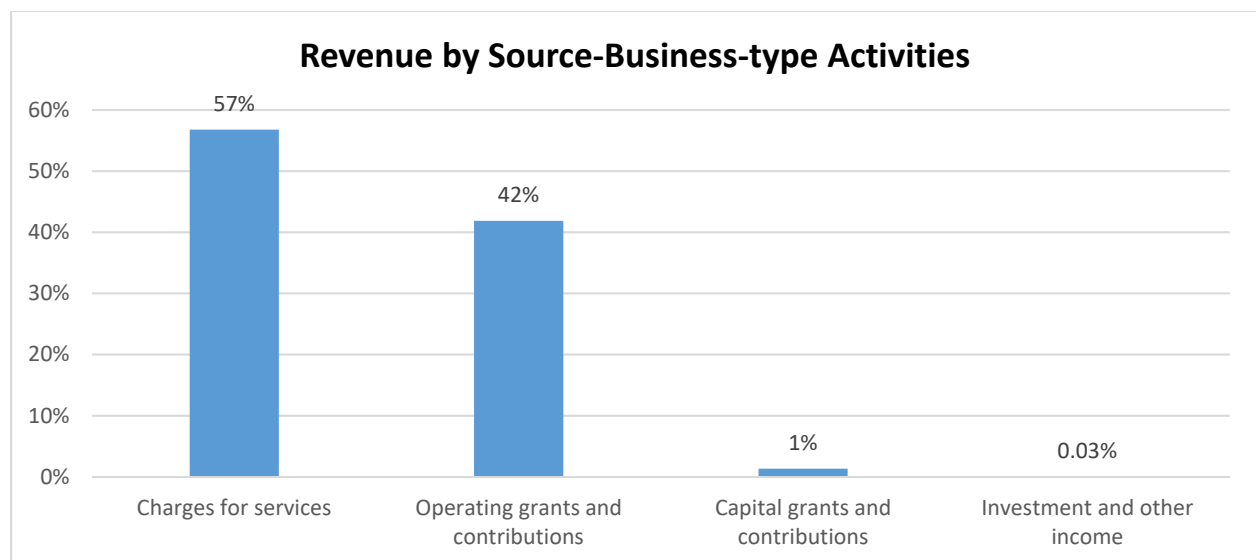
- Total expenses for 2021 decreased by approximately \$14.5 million when compared to the prior year. The decrease resulted primarily from a decrease in Trauma services of \$14.



Business-type Activities

Business-type activities increased the District's net position by approximately \$7 million. Key elements of this increase are as follows:

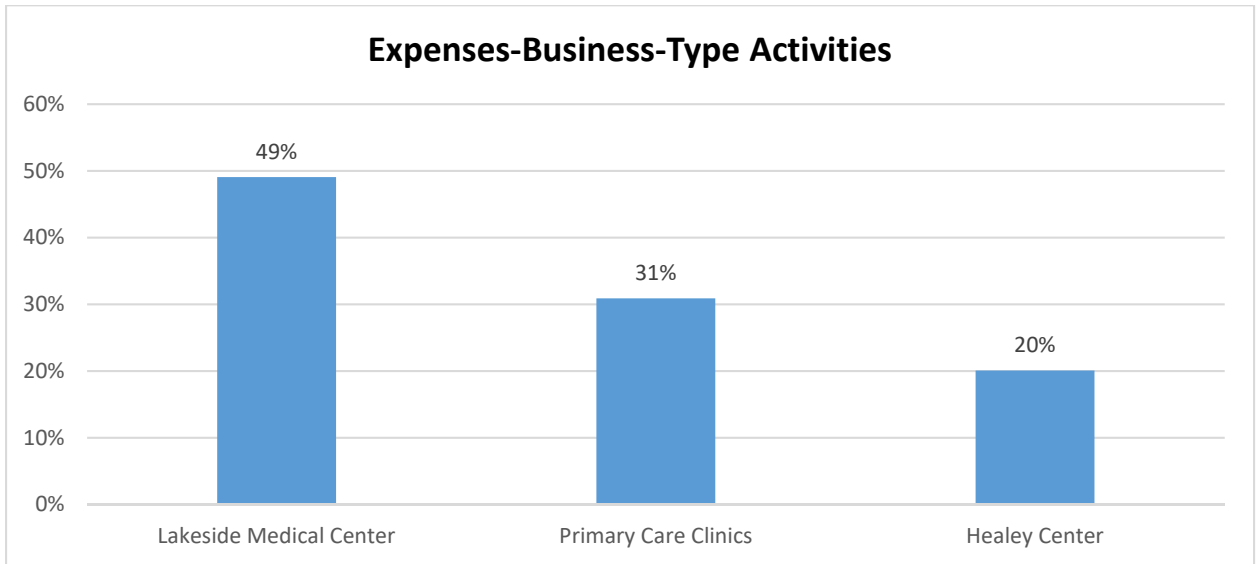
- Total revenues increased by approximately \$ 15.8 million in 2021. This was primarily due to the increase in charges for services and Operating Grants and contributions (\$9.8 million and \$7.8 million respectively).



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- Total expenses in 2021 increased from the prior year by approximately \$8 million. This was primarily due to more services being provided at Lakeside and the Clinics.
- Net transfers in from the General Fund were approximately \$31.8 and \$22.7 million in 2021 and 2020, respectively.



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Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The fund financial statements for the governmental funds are provided following the *Management's Discussion and Analysis*. The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At September 30, 2021, the District's General Fund reported an ending fund balance of approximately \$142 million, a increase of approximately \$29 million from the prior year. Approximately 40% of the General Fund's fund balance is nonspendable or assigned to indicate that it is not available for new spending and has already been allocated to the following:

- \$5.4 million that is nonspendable because it represents inventories and prepaid items
- \$51.9 million is assigned for use in the subsequent year's budget

The State's Medicaid Match program is a major governmental fund and includes intergovernmental revenue of \$5.9 million for 2021, while the related Medicaid Match program expense was \$17.3 million.

Proprietary Funds

The fund financial statements for the proprietary funds are provided following the *Management's Discussion and Analysis*. The District's proprietary funds provide the same type of information found in the government-wide financial statements, but in greater detail.

The unrestricted net positions of the Healey Center, HPB, Lakeside and the Clinics at the end of 2021 were approximately \$-39 thousand, \$1.5 million, \$2.2 million and \$1.3 million, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund expenditures were approximately \$25 million less than the budgeted amount, primarily due to the following:

- A favorable variance in managed care expenditures attributable primarily to lower than anticipated expenditures for administration, eligibility, and medical services.
- A favorable variance in trauma services expenditures attributable primarily to lower than anticipated medical services, trauma, and aeromedical expenditures.
- A favorable variance in school health programs attributable to lower than anticipated expenditures for salaries and benefits.
- A favorable variance in pharmacy services attributable primarily to lower than anticipated costs related to pharmaceutical drugs.

A favorable variance in general government resulted from salaries and wages expenditures for employee health being lower than anticipated.

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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for its governmental and business-type activities at September 30, 2021, was approximately \$95 million (net of accumulated depreciation). This investment includes land, construction in progress, buildings and improvements, and air ambulances, as well as furniture, fixtures and equipment. Governmental activities' investment in capital assets increased by approximately \$20.6 million or 100% in 2021, net of disposals and depreciation. The increase was primarily attributable to capital additions of approximately \$22 million, offset by depreciation expense and disposals.

Business-type activities' investment in capital assets, net of disposals, decreased in 2021 by approximately \$3 million or 5%. The decrease was primarily attributable to depreciation expense of \$4.5 million offset by capital additions and disposals.

A summary of capital assets at September 30, 2021 and 2020, follows. More detailed information about capital asset activity can be found in Note 6 to the financial statements.

Health Care District of Palm Beach County, Florida Capital Assets, Net of Depreciation

Debt and Noncurrent Liabilities

The District has no outstanding debt at September 30, 2021. The District's noncurrent liabilities at September 30, 2021 include compensated absences of approximately \$8.1 million and estimated self-insured liabilities of approximately \$2.8 million and other liabilities totaling \$1.5 million. More detailed information about compensated absences can be found in Note 9 to the financial statements.

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ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In Fiscal Year 2022, the District will continue to expand access to services for the residents of Palm Beach County while identifying opportunities to reduce expenditures and enhance revenue. The Mobile Health Clinic will continue to increase the number of physical sites where mobile health services are provided. Medication Assisted Treatment will be expanded through a collaborative hospital partnership.

The District plans to implement a new funding stream for its trauma network to ensure equitable payments in compliance with applicable state and federal laws. A replacement project for the two trauma helicopters will proceed. It is anticipated that orders will be placed in fiscal year 2022. Through operational changes in the Pharmacy the cost per prescription is expected to decrease due to increased utilization of 340B medications. Health care coverage through District Cares will be modified to provide additional benefits while the claims administration system will be modernized through third party contracts. FQHCs will be integrating care for medical, dental and behavioral services while coordinating services with specific community needs.

CONTACTING THE DISTRICT'S MANAGEMENT

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