



**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Financial Statements and Supplemental Information

September 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**  
Financial Statements and Supplemental Information  
September 30, 2017 and 2016

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# SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Letter of Transmittal

(Unaudited)

## Introduction

This section of the annual financial report of the Sarasota County Public Hospital District (the District) provides background about the Sarasota Memorial Health Care System (the System or SMHCS).

## Background

Sarasota Memorial Health Care System (the System) is among the largest public health systems in Florida. The full-service organization is a regional referral center offering inpatient, outpatient and extended care services, with 33,000 inpatient visits and 960,000 outpatient and physician visits annually. The System offers a complete continuum of care, including a 829-bed acute care hospital, a freestanding emergency room, network of urgent care clinics, physician practice groups, laboratory and imaging centers, rehabilitation programs, a behavioral health hospital and a skilled nursing & rehabilitation center. It is Sarasota County's only provider of obstetrical services, pediatrics, neonatal intensive care and psychiatric services to patients of all ages. With over 5,600 staff, the System is among the region's largest employers. It also includes 920 medical staff members representing 54 specialties, more than 300 Advanced Practice Professionals and 530 volunteers.

The System is a special independent taxing District, governed by the elected and unpaid Sarasota County Public Hospital Board. Made up of nine residents who represent specific areas of the community as well as the District as a whole, the Board members are charged with serving as good stewards of scarce financial resources. The Board derives its authority to levy property taxes from a special law passed by the Florida Legislature and ratified by voters. Tax revenues are spent within Sarasota County on programs, services, facilities and equipment based on the community's evolving needs. The Board sets the annual tax rate in a transparent process that includes advertised public hearings that are open to the community.

The District consists of Sarasota Memorial Hospital (SMH, Sarasota Memorial or the Hospital) and a network of outpatient services; corporate services, which consist of various support departments; Sarasota Memorial Nursing and Rehabilitation Center (NRC); SMH Health Care, Inc., a corporation providing leased personnel services to all System entities; and SMH Physician Services, Inc. d/b/a First Physicians Group, a provider of primary, obstetrical, gynecological, dermatological, pain care, geriatric, hospitalist, gastrointestinal oncology, cardiovascular surgery and psychiatric physician services.

## Sarasota Memorial's Recent Accomplishments Include

### *Launch of Internal Medicine Residency Program*

In July 2017, Sarasota Memorial took major strides to improve the community's access to care by launching Sarasota County's first and only graduate medical education program and welcoming its first class of 13 Internal Medicine resident physicians. Because physicians frequently choose to practice in communities where they have completed their residencies, the program is a substantial investment in the health of the region. Working side-by-side and under the supervision of Sarasota Memorial's attending physicians, the residents work in the hospital and provide primary care in the newly opened Internal Medicine practice in Newtown, offering continuity of care to a vulnerable and underserved population.

The program will have a total of 39 residents when at full capacity in three years. Plans also are under way to expand the hospital's academic training opportunities by adding an Emergency Medicine residency program.

## **SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Letter of Transmittal

(Unaudited)

### *New State-of-the-Art Rehabilitation Pavilion Opens*

Sarasota Memorial has opened an advanced new Rehabilitation Pavilion to meet the complex medical, rehabilitation and mobility needs of patients with brain injury, stroke, spinal cord injury, amputation, neurological disorders and orthopedic and musculoskeletal conditions. The center features a new 44-bed inpatient rehabilitation unit with all private rooms and innovative design features to accommodate patients who use a variety of mobility aids. The facility also includes a full array of outpatient rehabilitation services and a mobility garden to help patients navigate different surfaces.

### *Only CMS Five-Star Hospital in Florida*

Sarasota Memorial is currently the only hospital in the state of Florida to receive 5 stars – the highest rating – from the federal Centers for Medicare & Medicaid Services for overall quality and safety. The organization is one of only 69 hospitals nationally to earn CMS' top score three consecutive times.

Sarasota Memorial's Nursing & Rehabilitation Center has earned a five-star rating from CMS as well.

### *Back-to-Back "A" Grades for Patient Safety*

Sarasota Memorial earned "A" grades, the top designation from The Leapfrog Group, an independent hospital watchdog organization, in both its Fall 2016 and Spring 2017 reports.

The Leapfrog report assigns A, B, C, D and F letter grades to more than 2,600 hospitals in the United States. Just a third (823 hospitals) earned the highest grade in the Spring 2017 report.

### *U.S. News Top Performer*

Sarasota Memorial was one of only 48 hospitals nationwide to earn "high performing" ratings – the top rating – in all nine inpatient surgical procedures and chronic conditions evaluated in *U.S. News'* 2017-18 "Best Hospitals" report. The procedures and conditions include: Abdominal Aortic Aneurysm Repair, Aortic Valve Surgery, Heart Bypass Surgery, Heart Failure, Colon Cancer Surgery, Chronic Obstructive Pulmonary Disease (COPD), Hip Replacement, Knee Replacement and Lung Cancer Surgery.

The hospital also was recognized as a "high performer" (top 10% in the nation) for the adult specialty Gastroenterology and GI Surgery.

### *Top Heart Hospital*

Truven Health named Sarasota Memorial a Top 50 Heart Hospital for 2017 for its superior cardiovascular services.

In 2017, Sarasota Memorial also earned the highest ratings from The Society of Thoracic Surgeons for its patient care and clinical outcomes in aortic valve replacement, coronary artery bypass grafting and combination AVR/CABG surgery. The three-star ratings, which denote the highest category of quality, places Sarasota Memorial among the top hospitals for cardiothoracic surgery in the United States and Canada.

### *Most Wired Hospital*

Sarasota Memorial was listed among the American Hospital Association's tech-savvy hospitals that are pioneering information technology to promote security and safety.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Letter of Transmittal

(Unaudited)

### *Listed among Nation's Top Hospitals and Great Places to Work in Health Care*

Sarasota Memorial was listed among America's 100 top hospitals in 2017 by *Becker's Hospital Review*, and one of the publication's "150 Great Places to Work in Healthcare" for the same year.

### *Ongoing Magnet Designation*

Sarasota Memorial earned Magnet Nursing Services Recognition for the third time in 2014 – a challenge accomplished by just 1% of the nation's hospitals – after an application process that included detailed documentation and an on-site visit by Magnet surveyors. Independently sponsored research projects suggest that Magnet facilities have positive outcomes for patients, nurses and workplaces. The organization is currently the only provider in the region with Magnet Recognition, which is given by the American Nurses' Credentialing Center. SMH has been continuously designated since 2003.

### *National Accreditation*

Sarasota Memorial is accredited by the Joint Commission following a rigorous on-site survey in 2015 to confirm the hospital's compliance with national standards for quality and safety.

### *A Leader in Avoiding Hospital Readmissions*

Sarasota Memorial has among the best readmission rates in the nation and in Florida as measured by the Centers for Medicare & Medicaid Services, according to data released in July 2017. The hospital's 30-day unplanned hospital-wide readmission rate ranked among the top 60 hospitals (top 1.1%) in the nation and tied with just one other hospital for the best rate in Florida.

### *Comprehensive Stroke Center*

Sarasota Memorial earned Comprehensive Stroke Center Certification from DNV Healthcare, one of the leading accrediting organizations in the nation. The prestigious certification shows that the organization meets the highest standards of stroke care, from diagnosis and treatment to research, rehabilitation and education. Sarasota Memorial also has earned special Joint Commission certification for stroke care and for congestive heart failure treatment.

### *Hip/Knee Certification*

Sarasota Memorial also has received certification from the national accrediting organization DNV-GL for its Hip and Knee Replacement program.

### *Columbia University Affiliation*

The System has been affiliated with Columbia University Medical Center since 2012 to enhance cardiac care. The Hospital's cardiac advances include a Valve Clinic outpatient service to evaluate and manage patients with complex valve disorders, such as severe aortic stenosis and mitral disease, and identify those eligible for Transcatheter Aortic Valve Replacement (TAVR). Surgical technology includes technically advanced "iSuites" – "intelligent" operating rooms – including a Hybrid operating room, robotic surgery suites and interventional/neurointerventional radiology suites.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

### Letter of Transmittal

(Unaudited)

#### *Robotic Surgery Advances*

Nine years ago, Sarasota Memorial introduced the first da Vinci® robotic surgical system in the region. The hospital currently leads Southwest Florida with multiple da Vinci robots and more than two dozen experienced robotic surgeons who have performed thousands of advanced procedures in an ever-expanding range of specialties including cardiovascular/thoracic care, gynecological oncology, gastrointestinal oncology and urology, among others.

#### *NICHE Designation*

Sarasota Memorial has earned NICHE designation, which is awarded to hospitals implementing system-wide interventions and initiatives that promote excellent outcomes in patients 65 years and older.

#### *Nurse Residency Program Accredited with Distinction*

In 2017, Sarasota Memorial's Nurse Residency Program received accreditation with distinction from the American Nurses Credentialing Center (ANCC). The program is currently one of only two in Florida and among 10 across the United States to achieve this special national recognition.

#### *Beacon Award Winner*

Sarasota Memorial has been awarded the Silver Beacon Award of Excellence, a national recognition from the American Association of Critical Care Nurses (AACN), for its Critical Care and Cardiac Acute Telemetry units. The prestigious honor recognizes unit caregivers who successfully improve outcomes and meet national criteria.

#### *The Community's Health Care Safety Net*

Sarasota Memorial serves as the community's health care safety net, recognized for both its quality and its mission-driven programs. Sarasota Memorial cares for the majority of the county's inpatient Medicaid and uninsured cases and provides many vital services that other local hospitals do not.

- Sarasota Memorial is the sole provider of obstetrical services, Level III neonatal intensive care and inpatient pediatric services in Sarasota County. SMH also is the only hospital in Sarasota County providing psychiatric services to patients of all ages.
- Sarasota Memorial's newly expanded Community Specialty Clinic provides a wide range of free specialty care to uninsured/underinsured residents who meet eligibility criteria.
- The System provides traditional charity care to those patients who meet certain criteria established by the State of Florida. In addition, the District provides services to patients that meet other financial criteria that indicate an economic hardship and inability to pay for services, but who either do not meet the strict eligibility requirements for traditional charity care or who do not complete all necessary paperwork to qualify for traditional charity care. These services are referred to as community support.
- The System also offers a sliding scale discount program that offers significantly reduced rates to lower-income, uninsured patients. The program's goal is to make health care more affordable for the uninsured and allow eligible patients to pay what they can. Our discount plan treats patients with dignity and compassion, and encourages the uninsured to take care of their health needs promptly, before conditions become catastrophic.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Letter of Transmittal

(Unaudited)

- Sarasota Memorial registered about 123,000 emergency cases in fiscal year 2017 in the main campus Emergency Care Center and freestanding Emergency Room (ER) in North Port. In addition to the ER, the North Port center also has physician offices and outpatient programs including laboratory services, radiology services and rehabilitation services.
- In 2017, Sarasota Memorial will open a new pediatric specialty clinic at the North Port campus with Johns Hopkins All Children's Hospital.

In addition to its safety net programs, Sarasota Memorial also provides an array of disease management programs that offer patients with chronic health conditions cost-effective, high-quality alternatives to hospitalization and the ER. These services include a Heart Failure Treatment Center, Anti-Coagulation Clinics, Infusion Center and Outpatient Wound Care. The System's physician practice group also has a patient-centered medical home program, with the group's primary care practices earning national certification as "Level 3 Patient Centered Medical Homes," the highest accreditation available.

### *Economic Driving Force*

Among the largest employers in Sarasota County, the System is a significant economic engine for the region, creating and sustaining jobs and income for over 5,600 staff and a large number of local businesses and vendors. All of our earnings are re-invested into patient care, technology, and assets that benefit the community. Examples of this community investment during the past year include:

\$394 million in total payroll – supports local workforce

\$731 million in total operating expenses that help support a variety of local businesses and community members

\$1.3 million investment in workforce development and staff training and education

\$51.1 million for facility and equipment upgrades in 2017.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Letter of Transmittal

(Unaudited)

### **Finance**

#### *Operational Improvements*

Management has continued to make operational improvements focused both on improving revenue cycle efficiency and decreasing the cost of providing high quality care to our community.

Among the major revenue enhancement and cost reduction initiatives implemented or in process:

- Value analysis teams continue to evaluate products and product utilization in order to reduce overall product spend
- Continued utilization of productivity management tools combined with emphasis on proactive recruitment, resulting in overtime and premium pay savings
- Implementation of new electronic outpatient physician order entry system to ensure ease of doing business with the Hospital
- Continued focus and improvement of point-of-service collections resulting in improved cash collections
- Timely and accurate medical record coding and revenue cycle department communication and processes resulting in decreased late charges and improved claims processing timeline
- Successful negotiation of multiple agreements with managed care payors
- Clinical documentation teams continue to ensure clear physician documentation resulting in more accurate case mix and improved severity of illness and risk of mortality measures
- Expansion of voice recognition software improving accuracy and decreasing cost of transcription services
- Successful denial management process resulting in industry leading appeal overturn rate



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## Independent Auditors' Report

The Board Members  
Sarasota County Public Hospital District:

### Report on the Financial Statements

We have audited the accompanying financial statements of the Sarasota County Public Hospital District (the District), as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

#### *Auditors' 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 auditors' 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sarasota County Public Hospital District, as of September 30, 2017 and 2016, and the changes in its financial position, and its cash flows, thereof for the years then ended in accordance with U.S. generally accepted accounting principles.



## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 10 through 21, schedule of the changes in the net pension liability and related ratios, schedule of the District's pension contributions and schedule of funding progress-OPEB on pages 65 to 66, 67 and 68, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The letter of transmittal, combining balance sheet information, combining statement of revenues, expenses and changes in net position information, and budgetary comparison schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining balance sheet information and combining statement of revenues, expenses and changes in net position information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining balance sheet information and combining statement of revenues, expenses and changes in net position information are fairly stated in all material respects in relation to the basic financial statements as a whole.

The letter of transmittal and budgetary comparison schedule have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 District's 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 District's internal control over financial reporting and compliance.

KPMG LLP

January 19 2018  
Certified Public Accountants

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

### Management's Discussion and Analysis

September 30, 2017 and 2016

(Unaudited)

This section of the annual financial report of the District provides management's discussion and analysis of the organization for the fiscal years ended September 30, 2017 and 2016. This discussion has been prepared along with the financial statements and related note disclosures, which should be read in conjunction with one another. This narrative, the financial statements, and notes are the responsibility of the District's management.

#### Required Financial Statements

The basic financial statements of the District report information about the District using accounting methods prescribed by the Governmental Accounting Standards Board (GASB), and the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations*. These statements provide current and long-term financial information about the District's activities. The following statements are included in this package:

- The Balance Sheets, which list all of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). The Balance Sheets also include information to help compute the rate of return on investments, evaluate the capital structure of the organization, and assess the liquidity and financial flexibility of the District.
- The Statements of Revenues, Expenses and Changes in Net Position include all of the revenues and expenses for the respective year. This statement measures changes in the District's operations over the year and can be used to determine whether the District has been able to recover all of its costs through patient service revenue and other revenue sources.
- The Statements of Cash Flows provide information about the District's cash from operating, investing, and financing activities. It explains the sources of cash, how it was spent, and the change in the cash and cash equivalents balance during the current and prior fiscal years.

#### Summary of Financial Highlights and Trends

The District's cash and board designated investments increased by \$76.8 million and \$72.9 million in the fiscal years ended September 30, 2017 and 2016, respectively. Long-term debt (including current portion) decreased by \$11.3 million and 10.8 million in the years ended September 30, 2017 and 2016, respectively. The excess of revenue over expenses were \$99.2 million and \$107.0 million for the years ended September 30, 2017 and 2016, respectively. Net position increased by \$99.9 million in fiscal 2017, and by \$108.0 million in fiscal 2016. Hospital payor mix reflected a decrease in managed care and commercial payors in 2017 and an increase in Medicare. In 2016, payor mix reflected an increase in managed care and commercial payors and a decrease in Medicaid.

|                             | <u>2017</u>    | <u>2016</u>    | <u>2015</u>    |
|-----------------------------|----------------|----------------|----------------|
| Medicare                    | 58.0 %         | 57.4 %         | 57.6 %         |
| Managed care and commercial | 26.1           | 27.0           | 26.3           |
| Self-pay and other          | 6.8            | 6.7            | 6.6            |
| Medicaid                    | 9.1            | 8.9            | 9.5            |
|                             | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Management's Discussion and Analysis

September 30, 2017 and 2016

(Unaudited)

**Operating Statistics**

Based on the most recent data available from the Health Planning Council of Southwest Florida, Inc, for the twelve months ended September 30, 2017, admissions volume increased across the Sarasota County area 1.3% over the same period in the prior year. The Hospital's admissions outperformed the overall market with an increase of 4.1% during the twelve months ended September 30, 2017. Sarasota Memorial Hospital inpatient market share in the Sarasota County area for the twelve months ended September 30, 2017 was 63.4%. The Hospital outpatient volume, excluding emergency room visits, increased by 2.2% and 3.0% during the years that ended September 30, 2017 and 2016, respectively. Emergency Care Center visits decreased 1.1% and increased 6.6% during the years that ended September 30, 2017 and 2016, respectively.

The following tables represent utilization statistics for Sarasota Memorial for the fiscal years indicated:

|                                              | <b>Fiscal year ended September 30</b> |             |             |             |             |
|----------------------------------------------|---------------------------------------|-------------|-------------|-------------|-------------|
|                                              | <b>2017</b>                           | <b>2016</b> | <b>2015</b> | <b>2014</b> | <b>2013</b> |
| Average number of beds in service:           |                                       |             |             |             |             |
| Medical/surgical intensive care              | 62                                    | 50          | 50          | 42          | 42          |
| Cardiac telemetry, acute, and intensive care | 132                                   | 108         | 108         | 108         | 119         |
| Other medical/surgical                       | 402                                   | 401         | 401         | 349         | 298         |
| Total medical/surgical                       | 596                                   | 559         | 559         | 499         | 459         |
| Obstetrics                                   | 30                                    | 30          | 30          | 35          | 49          |
| Psychiatric and substance abuse              | 60                                    | 60          | 60          | 60          | 60          |
| Rehabilitation                               | 44                                    | 34          | 34          | 34          | 34          |
| Pediatrics                                   | 18                                    | 18          | 18          | 18          | 18          |
| Total hospital                               | 748                                   | 701         | 701         | 646         | 620         |
| Combined admissions and observation cases:   |                                       |             |             |             |             |
| Admissions                                   | 33,262                                | 31,946      | 28,042      | 27,488      | 25,576      |
| Observation cases                            | 8,940                                 | 8,680       | 9,227       | 8,431       | 7,889       |
| Total admissions and observation cases       | 42,202                                | 40,626      | 37,269      | 35,919      | 33,465      |
| Admissions:                                  |                                       |             |             |             |             |
| Total medical/surgical                       | 26,094                                | 24,808      | 21,302      | 20,858      | 19,459      |
| Obstetrics                                   | 3,639                                 | 3,652       | 3,405       | 3,328       | 3,006       |
| Psychiatric and substance abuse              | 2,123                                 | 2,171       | 2,185       | 2,206       | 1,880       |
| Rehabilitation                               | 915                                   | 800         | 785         | 655         | 718         |
| Pediatrics                                   | 491                                   | 515         | 365         | 441         | 513         |
| Total hospital                               | 33,262                                | 31,946      | 28,042      | 27,488      | 25,576      |

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Management's Discussion and Analysis

September 30, 2017 and 2016

(Unaudited)

|                                              | <b>Fiscal year ended September 30</b> |                |                |                |                |
|----------------------------------------------|---------------------------------------|----------------|----------------|----------------|----------------|
|                                              | <b>2017</b>                           | <b>2016</b>    | <b>2015</b>    | <b>2014</b>    | <b>2013</b>    |
| Average length of stay:                      |                                       |                |                |                |                |
| Total medical/surgical                       | 4.85                                  | 4.98           | 5.08           | 4.75           | 4.73           |
| Obstetrics                                   | 2.38                                  | 2.33           | 2.59           | 2.61           | 2.57           |
| Psychiatric and substance abuse              | 5.22                                  | 5.06           | 5.31           | 5.17           | 5.27           |
| Rehabilitation                               | 12.86                                 | 12.73          | 12.31          | 12.68          | 12.33          |
| Pediatrics                                   | 3.16                                  | 3.33           | 4.37           | 3.44           | 3.53           |
| <b>Total hospital</b>                        | <b>4.80</b>                           | <b>4.85</b>    | <b>4.99</b>    | <b>4.69</b>    | <b>4.70</b>    |
| Number of patient days:                      |                                       |                |                |                |                |
| Medical/surgical intensive care              | 14,661                                | 13,999         | 10,843         | 9,657          | 8,933          |
| Cardiac telemetry, acute, and intensive care | 32,396                                | 33,933         | 25,351         | 24,325         | 23,264         |
| Other medical/surgical                       | 79,385                                | 75,520         | 71,946         | 65,083         | 59,838         |
| <b>Total medical/surgical</b>                | <b>126,442</b>                        | <b>123,452</b> | <b>108,140</b> | <b>99,065</b>  | <b>92,035</b>  |
| Obstetrics                                   | 8,649                                 | 8,496          | 8,807          | 8,672          | 7,716          |
| Psychiatric and substance abuse              | 11,092                                | 10,976         | 11,607         | 11,406         | 9,904          |
| Rehabilitation                               | 11,770                                | 10,184         | 9,665          | 8,304          | 8,855          |
| Pediatrics                                   | 1,550                                 | 1,713          | 1,596          | 1,519          | 1,810          |
| <b>Total hospital</b>                        | <b>159,503</b>                        | <b>154,821</b> | <b>139,815</b> | <b>128,966</b> | <b>120,320</b> |
| Percentage occupancy (admitted patients):    |                                       |                |                |                |                |
| Medical/surgical intensive care              | 64.8 %                                | 76.5 %         | 59.4 %         | 63.0 %         | 58.3 %         |
| Cardiac telemetry, acute, and intensive care | 67.2                                  | 85.8           | 64.3           | 61.7           | 53.6           |
| Other medical/surgical                       | 54.1                                  | 51.5           | 49.2           | 51.1           | 55.0           |
| <b>Total medical/surgical</b>                | <b>58.1</b>                           | <b>60.3</b>    | <b>53.0</b>    | <b>54.4</b>    | <b>54.8</b>    |
| Obstetrics                                   | 79.0                                  | 77.4           | 80.4           | 67.9           | 43.1           |
| Psychiatric and substance abuse              | 50.6                                  | 50.0           | 53.0           | 52.1           | 45.2           |
| Rehabilitation                               | 73.3                                  | 81.8           | 77.9           | 66.9           | 71.4           |
| Pediatrics                                   | 23.6                                  | 26.0           | 24.3           | 23.1           | 27.5 %         |
| <b>Total hospital</b>                        | <b>58.4 %</b>                         | <b>60.3 %</b>  | <b>54.6 %</b>  | <b>54.7 %</b>  | <b>53.0 %</b>  |

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Management's Discussion and Analysis

September 30, 2017 and 2016

(Unaudited)

The following table represents ancillary department activity for the System for the fiscal years indicated:

|                                                            | <b>Fiscal year ended September 30</b> |                  |                  |                  |                  |
|------------------------------------------------------------|---------------------------------------|------------------|------------------|------------------|------------------|
|                                                            | <b>2017</b>                           | <b>2016</b>      | <b>2015</b>      | <b>2014</b>      | <b>2013</b>      |
| Radiology:                                                 |                                       |                  |                  |                  |                  |
| I/P                                                        | 92,642                                | 85,733           | 67,992           | 63,047           | 59,401           |
| O/P                                                        | 233,487                               | 244,097          | 234,383          | 215,615          | 205,197          |
| Total                                                      | <u>326,129</u>                        | <u>329,830</u>   | <u>302,375</u>   | <u>278,662</u>   | <u>264,598</u>   |
| Nuclear medicine:                                          |                                       |                  |                  |                  |                  |
| I/P                                                        | 1,232                                 | 1,162            | 1,052            | 991              | 989              |
| O/P                                                        | 3,485                                 | 3,645            | 3,619            | 3,458            | 3,463            |
| Total                                                      | <u>4,717</u>                          | <u>4,807</u>     | <u>4,671</u>     | <u>4,449</u>     | <u>4,452</u>     |
| Laboratory units:                                          |                                       |                  |                  |                  |                  |
| I/P                                                        | 1,233,443                             | 1,171,156        | 1,054,097        | 983,480          | 828,933          |
| O/P                                                        | 1,418,462                             | 1,359,781        | 1,398,318        | 1,366,435        | 1,305,721        |
| Total                                                      | <u>2,651,905</u>                      | <u>2,530,937</u> | <u>2,452,415</u> | <u>2,349,915</u> | <u>2,134,654</u> |
| Respiratory therapy:                                       |                                       |                  |                  |                  |                  |
| I/P                                                        | 101,370                               | 105,429          | 90,734           | 77,430           | 77,585           |
| O/P                                                        | 13,684                                | 16,152           | 17,256           | 15,448           | 15,292           |
| Total                                                      | <u>115,054</u>                        | <u>121,581</u>   | <u>107,990</u>   | <u>92,878</u>    | <u>92,877</u>    |
| Total hospital outpatient cases<br>(excluding emergencies) | 447,592                               | 437,883          | 425,253          | 411,963          | 399,225          |
| Electrocardiograms                                         | 63,265                                | 58,813           | 54,315           | 51,043           | 48,747           |
| Cardiac catheterization procedures                         | 14,257                                | 12,675           | 11,910           | 11,955           | 11,117           |
| Physical therapy units                                     | 257,219                               | 228,627          | 194,500          | 167,498          | 152,202          |
| Occupational therapy units                                 | 83,983                                | 77,624           | 68,884           | 60,576           | 55,908           |
| Hemodialysis treatments                                    | 2,841                                 | 2,345            | 2,301            | 1,873            | 2,104            |
| Emergency room visits/registrations                        | 122,654                               | 124,065          | 116,377          | 108,462          | 102,949          |
| Surgery cases                                              | 22,195                                | 21,347           | 19,918           | 19,313           | 18,963           |

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Management's Discussion and Analysis

September 30, 2017 and 2016

(Unaudited)

**Statements of Revenues, Expenses and Changes in Net Position**

A summary of the District's Statements of Revenues, Expenses and Changes in Net Position for fiscal years 2017, 2016, and 2015 is presented below (in thousands):

|                                  | <u>2017</u>         | <u>2016</u>    | <u>Change</u> | <u>2015</u>    | <u>Change</u>  |
|----------------------------------|---------------------|----------------|---------------|----------------|----------------|
| Net patient service revenue      | \$ 772,201          | 702,550        | 69,651        | 644,374        | 58,176         |
| Other revenue                    | 20,878              | 16,882         | 3,996         | 17,432         | (550)          |
| Total operating revenues         | 793,079             | 719,432        | 73,647        | 661,806        | 57,626         |
| Total operating expenses         | 731,446             | 677,019        | 54,427        | 591,204        | 85,815         |
| Operating income                 | 61,633              | 42,413         | 19,220        | 70,602         | (28,189)       |
| Total nonoperating items         | 37,558              | 64,537         | (26,979)      | 52,203         | 12,334         |
| Excess of revenues over expenses | 99,191              | 106,950        | (7,759)       | 122,805        | (15,855)       |
| Other changes in net position    | 670                 | 1,064          | (394)         | 3,612          | (2,548)        |
| Net position, beginning of year  | 933,914             | 825,900        | 108,014       | 699,483        | 126,417        |
| Net position, end of year        | \$ <u>1,033,775</u> | <u>933,914</u> | <u>99,861</u> | <u>825,900</u> | <u>108,014</u> |

**Discussion of Statements of Revenues, Expenses and Changes in Net Position**

Net patient service revenue increased by \$69.7 million, or 9.9%, during fiscal year 2017. The increase in net revenues is attributed to increased volume and mix of services. Hospital admissions increased 4.1% from fiscal year 2016. Factors driving the increase in inpatient activity included a 5.6% increase in inpatient surgery cases, including a 2.1% increase in open heart surgery cases, a 48.8% increase in Transcatheter Aortic Valve Replacement (TAVR) cases, a 5.1% increase in inpatient cardiac catheterization lab cases, and a 6.9% increase in inpatient Electrophysiology (EP) lab cases. In addition to the increase in inpatient volumes, outpatient surgery cases increased 2.9%, outpatient cardiac catheterization lab cases increased 4.6%, and outpatient Electrophysiology (EP) lab cases increased 13.2%. In addition, registrations at the Hospital's urgent care centers increased 14.5% compared to fiscal year 2016.

Net patient service revenue increased by \$58.2 million, or 9.0%, during fiscal year 2016. The increase in net revenues is attributed to increased volume and mix of services. Hospital admissions increased 13.9% from fiscal year 2015. Factors driving the increase in inpatient activity included a 16.9% increase in inpatient surgery cases, including an 11.1% increase in open heart surgery cases, a 37.5% increase in Transcatheter Aortic Valve Replacement (TAVR) cases, and a 14.2% increase in cardiac catheterization lab cases. In addition to the increase in inpatient volumes, registrations at the Hospital's urgent care centers increased 1.6% compared to fiscal year 2015. Also, volumes seen at the emergency care centers increased 6.6% during fiscal year 2016, partially related to a full year of Trauma services.

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Operating expenses increased in fiscal 2017 by \$54.4 million, or 8.0%. Salaries and wages increased by \$31.9 million, fringe benefits decreased by \$0.1 million, supplies increased by \$14.1 million, purchased services increased \$2.0 million, professional fees increased by \$2.3 million, the State of Florida Medical Assistance Assessment increased by \$1.0 million, and depreciation and amortization increased \$3.2 million.

Operating expenses increased in fiscal 2016 by \$85.8 million, or 14.5%. Salaries and wages increased by \$38.5 million, fringe benefits increased by \$16.9 million, supplies increased by \$15.8 million, purchased services increased \$9.3 million, professional fees increased by \$2.9 million, the State of Florida Medical Assistance Assessment increased by \$1.0 million, and depreciation and amortization increased \$1.5 million.

Salaries and wages increased \$31.9 million, or 10.6%, in 2017, largely as a result of the 4.1% increase in hospital admissions noted above and a 3.0% increase in hospital patient days, plus a 1.0% rise in the hospital average hourly wage, in addition to a 9.1% increase in the number of hospital Full Time Equivalents (FTEs). Hospital FTEs increased from 3,778 in fiscal year 2016 to 4,123 in fiscal year 2017. Total System FTEs increased from 4,440 in fiscal year 2016 to 4,824 in fiscal year 2017. Also contributing to the overall increase in salaries and wages was a \$6.8 million increase in SMH Physicians Services, Inc. related to expanded services, including primary care services, oncology services, orthopedic trauma services, the hospitalist program, bariatric services and comprehensive rehabilitation services.

Salaries and wages increased \$38.5 million, or 14.7%, in 2016, largely as a result of the 13.9% increase in hospital admissions noted above and a 10.7% increase in hospital patient days, plus a 2.4% rise in the hospital average hourly wage, in addition to a 11.3% increase in the number of hospital Full Time Equivalents (FTEs). Hospital FTEs increased from 3,394 in fiscal year 2015 to 3,778 in fiscal year 2016. Total System FTEs increased from 3,976 in fiscal year 2015 to 4,440 in fiscal year 2016. Also contributing to the overall increase in salaries and wages was a \$7.5 million increase in SMH Physicians Services, Inc. related to expanded services, including primary care services, cardiovascular services, oncology services, pain management services, orthopedic trauma services and the hospitalist program.

Fringe benefits decreased by \$0.1 million in 2017 compared to 2016. Fringe benefits as a percentage of salaries and wages decreased from 20.3% in 2016 to 18.4% in 2017. The decrease in overall benefit cost was due to a \$1.5 million decrease in retirement plan expenses, a \$1.2 million decrease in self-insured health and dental plan costs, offset by a \$2.0 million increase in wage-related employment tax costs and a \$0.6 million increase in workers compensation expenses.

Fringe benefits increased \$16.9 million in 2016 compared to 2015. Fringe benefits as a percentage of salaries and wages increased from 16.9% in 2015 to 20.3% in 2016. The increase in overall benefit cost was due to a \$9.1 million increase in retirement plan expenses, a \$5.2 million increase in self-insured health and dental plan costs and a \$2.6 million increase in wage-related employment tax costs.

Supplies expenses increased in fiscal 2017 by \$14.1 million. The increase was largely a result of increased volume and mix of services. Supplies expense as a percentage of net patient revenue decreased in fiscal 2017 to 21.0%, compared to 21.1% in fiscal 2016. Implants increased \$3.8 million; drug costs increased \$1.0 million; medical supplies increased \$8.5 million; and food supplies increased \$0.5 million.

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Supplies expenses increased in fiscal 2016 by \$15.8 million. The increase was largely a result of increased volume and mix of services. Supplies expense as a percentage of net patient revenue increased in fiscal 2016 to 21.1%, compared to 20.6% in fiscal 2015. Implants increased \$3.7 million; drug costs increased \$3.6 million; medical supplies increased \$6.8 million; food supplies increased \$0.9 million; and lab supplies and blood products increased \$0.6 million.

Purchased services increased by \$2.0 million in fiscal 2017. The overall increase in fiscal 2017 was a result of a \$0.7 million increase in consulting fees largely related to strategic projects, a \$1.0 million increase in repairs and maintenance costs, and a \$0.6 million increase in utilities, partially offset by other increases and decreases.

Purchased services increased by \$9.3 million in fiscal 2016. The increase in fiscal 2016 was primarily a result of a \$3.4 million increase in contracted and temporary labor, including traveling nurse costs, a \$2.0 million increase in repairs and maintenance related costs, a \$0.9 million increase in rent expense including specialty equipment rentals, a \$1.2 million increase in fees and licenses for a new intensive cardiac rehabilitation program, the graduate medical education program, and new information systems, a \$0.8 million increase in purchased services including clinical management of pediatric programs, administrative outreach laboratory services, and increased requirements for nonemployed environmental services due to internal labor shortages, a \$0.6 million increase in ambulance and other patient transportation related costs, a \$0.5 million increase in marketing and advertising costs, and a \$0.3 million increase in transcription costs.

Professional fees increased by \$2.3 million in fiscal 2017, largely as a result of the legal proceedings related to strategic projects. Professional fees increased by \$2.9 million in fiscal 2016, largely as a result of the implementation of a trauma service late in fiscal year 2015.

Depreciation and amortization expense increased by \$3.2 million in fiscal 2017 due to completion of various construction and renovation and information technology projects, including the Rehabilitation Pavilion, and new equipment purchases.

Depreciation and amortization expense increased \$1.5 million in fiscal 2016 due to completion of various construction and renovation and information technology projects and new equipment purchases.

As a result of the above-noted changes in operating costs, total operating costs declined from 96.4% to 94.7% of net patient revenue. Total operating cost per adjusted admission, adjusted for the change in case mix index, increased 6.3% in fiscal year 2017 and increased 6.0% in fiscal year 2016.

Nonoperating items decreased by \$27.0 million in fiscal year 2017. The decrease is primarily due to a \$5.6 million decrease in investment income, a change from a net \$6.7 million unrealized gain on the change in market value of investments to a \$12.0 million net unrealized loss on the change in market value of investments, a change from a \$0.3 million net unrealized gain on the change in fair value of ineffective interest rate swaps to a \$2.7 million net unrealized loss thereon, and a \$3.3 million decrease in other nonoperating income, partially offset by \$3.8 million increase in ad valorem tax revenue related to an increase in area property values

Nonoperating items increased by \$12.3 million in fiscal year 2016. The increase is primarily due to a \$1.9 million increase in ad valorem tax revenue related to an increase in area property values, a \$7.6 million

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increase in investment income primarily due to higher average interest rates and a larger investment portfolio, and a \$2.8 million increase in other nonoperating income primarily related to the operation of the LeeSar, Inc. distribution center.

Excess of revenues over expenses for fiscal year 2017 was \$99.2 million, compared to an excess of revenues over expenses in fiscal year 2016 of \$107.0 million. The \$7.8 million decrease is a result of operating revenues increasing by \$73.6 million, operating expenses increasing by \$54.4 million, and nonoperating items decreasing by \$27.0 million.

Excess of revenues over expenses for fiscal year 2016 was \$107.0 million, compared to an excess of revenues over expenses in fiscal year 2015 of \$122.8 million. The \$15.9 million decrease is a result of operating revenues increasing by \$57.6 million, operating expenses increasing by \$85.8 million, and nonoperating items increasing by \$12.3 million.

**Balance Sheets**

The following table is a summary of the balance sheets as of September 30, 2017, 2016, and 2015 (in thousands):

|                                             | <u>2017</u>                | <u>2016</u>                | <u>Change</u>           | <u>2015</u>                | <u>Change</u>            |
|---------------------------------------------|----------------------------|----------------------------|-------------------------|----------------------------|--------------------------|
| Cash and cash equivalents                   | \$ 27,824                  | 18,098                     | 9,726                   | 36,491                     | (18,393)                 |
| Patient accounts receivable, net            | 77,778                     | 69,262                     | 8,516                   | 67,995                     | 1,267                    |
| Other current assets                        | <u>30,420</u>              | <u>27,484</u>              | <u>2,936</u>            | <u>25,157</u>              | <u>2,327</u>             |
| Total current assets                        | <u>136,022</u>             | <u>114,844</u>             | <u>21,178</u>           | <u>129,643</u>             | <u>(14,799)</u>          |
| Restricted and board designated investments | 834,333                    | 766,675                    | 67,658                  | 675,955                    | 90,720                   |
| Capital assets, net                         | 591,902                    | 583,320                    | 8,582                   | 545,920                    | 37,400                   |
| Other assets                                | 32,073                     | 27,918                     | 4,155                   | 24,036                     | 3,882                    |
| Interest rate swaps                         | <u>24,712</u>              | <u>24,818</u>              | <u>(106)</u>            | <u>24,351</u>              | <u>467</u>               |
| Noncurrent assets                           | 1,483,020                  | 1,402,731                  | 80,289                  | 1,270,262                  | 132,469                  |
| Deferred outflows                           | <u>58,778</u>              | <u>85,042</u>              | <u>(26,264)</u>         | <u>89,178</u>              | <u>(4,136)</u>           |
| Total assets and deferred outflows          | \$ <u><u>1,677,820</u></u> | \$ <u><u>1,602,617</u></u> | \$ <u><u>75,203</u></u> | \$ <u><u>1,489,083</u></u> | \$ <u><u>113,534</u></u> |

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(Unaudited)

|                                                      | <u>2017</u>         | <u>2016</u>      | <u>Change</u>   | <u>2015</u>      | <u>Change</u>  |
|------------------------------------------------------|---------------------|------------------|-----------------|------------------|----------------|
| Current liabilities                                  | \$ 135,361          | 131,327          | 4,034           | 115,589          | 15,738         |
| Noncurrent liabilities                               | 478,249             | 519,158          | (40,909)        | 514,278          | 4,880          |
| Total liabilities                                    | <u>613,610</u>      | <u>650,485</u>   | <u>(36,875)</u> | <u>629,867</u>   | <u>20,618</u>  |
| Deferred inflows                                     | 30,435              | 18,218           | 12,217          | 33,316           | (15,098)       |
| Net position:                                        |                     |                  |                 |                  |                |
| Net investment in capital assets                     | 242,139             | 224,189          | 17,950          | 177,888          | 46,301         |
| Restricted for specific purposes                     | 2,460               | 1,541            | 919             | 1,421            | 120            |
| Unrestricted                                         | 789,176             | 708,184          | 80,992          | 646,591          | 61,593         |
| Total net position                                   | <u>1,033,775</u>    | <u>933,914</u>   | <u>99,861</u>   | <u>825,900</u>   | <u>108,014</u> |
| Total liabilities, deferred inflows and net position | \$ <u>1,677,820</u> | <u>1,602,617</u> | <u>75,203</u>   | <u>1,489,083</u> | <u>113,534</u> |

At September 30, 2017, the District's cash and board designated investments totaled \$859.2 million, compared to long-term debt of \$380.5 million. The number of days cash on hand was 446 which exceeds the median of 242 days cash on hand for Moody's Investor Services (Moody's "A1" rated, freestanding hospitals and single and multi-state healthcare systems (2017 median, based on 2016 data).

At September 30, 2016, the District's cash and board designated investments totaled \$782.4 million, compared to long-term debt of \$391.8 million. The number of days cash on hand was 440 which exceeds the median of 255 days cash on hand for Moody's Investor Services (Moody's "A1" rated, freestanding hospitals and single and multi-state healthcare systems (2016 median, based on 2015 data).

In fiscal 2017, current assets increased by \$21.2 million. Cash and cash equivalents increased by \$9.7 million, patient accounts receivable increased by \$8.5 million, and other current assets increased \$2.9 million.

In fiscal 2016, current assets decreased by \$14.8 million. Cash and cash equivalents decreased by \$18.4 million, patient accounts receivable increased by \$1.3 million, and other current assets increased \$2.3 million.

In fiscal 2017, restricted investments and board designated investments increased \$67.7 million. As of September 30, 2017, the Moody's ratings of the District's investments are A rated or better.

In fiscal 2016, restricted investments and board designated investments increased \$90.7 million. As of September 30, 2016, the Moody's ratings of the District's investments are A rated or better.

Capital assets increased by \$8.6 million in fiscal 2017. \$51.1 million of capital additions occurred during fiscal year 2017. The additions were partially offset by annual depreciation of \$42.5 million. Of the \$51.1 million in fiscal 2017 additions, the largest projects accounted for about \$50.9 million of expenditures: \$15.3 million to complete construction of a new comprehensive rehabilitation services building; \$5.2 million for main campus renovations and improvements; \$2.9 million for development of a cancer care institute; \$1.9 million for a new internal medicine practice building in Newtown for the graduate medical residents program; \$1.6 million for trauma center improvements; \$1.5 million for a pediatric clinic in North Port; \$1.4 million for new scheduling

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

### Management's Discussion and Analysis

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software; \$1.4 million for medical gas improvements; \$1.4 million for a cardiovascular information system; \$1.2 million for other information systems projects; \$1.1 million for environmental systems; \$1.0 million for an automated medication tracking system; \$0.7 million for property in Venice; \$0.4 million to build a health information exchange; and \$13.9 million for various other medical and technology infrastructure and equipment. Additional information on the District's capital assets can be found in note 5 to the financial statements.

Capital assets increased by \$37.4 million in fiscal 2016. \$79.1 million of capital additions occurred during fiscal year 2016. The additions were partially offset by annual depreciation of \$39.3 million. Of the \$79.1 million in fiscal 2016 additions, the largest projects accounted for about \$67.8 million of expenditures: \$27.9 million to continue construction of a new comprehensive rehabilitation services building; \$5.2 million for operating rooms; \$6.3 million for main campus renovations; \$4.9 million for a new urgent care center; \$2.8 million for trauma center renovations; \$3.4 million for a new electrophysiology lab; \$2.3 million for a new interventional radiology suite; \$1.7 million to build a health information exchange; \$1.3 million for a new laboratory information system; and \$12.0 million for various other medical and technology infrastructure and equipment.

In fiscal 2017 and 2016, other assets increased by \$4.2 million and \$3.9 million, respectively, related to an increase in the equity in LeeSar and an increase in deferred retirement plan assets for employees.

Deferred outflows and deferred inflows are related to the defined benefit retirement plan, debt refundings, and interest rate swaps.

Deferred amounts related to the defined benefit retirement plan result from differences between expected and actual experience, changes in assumptions, the difference between projected and actual earnings on retirement plan investments, and contributions made by the District during the year. Please refer to note 7 to the financial statements for a more detailed discussion of the District's retirement plan.

Deferred amounts related to debt refundings result from debt refinancings and are amortized as interest expense over the related remaining debt service maturity schedule. Please refer to note 6 to the financial statements for a more detailed discussion of the District's long-term debt and interest rate swaps.

The District has several interest rate swaps related to its outstanding bond instruments. The swaps are presented in the Balance Sheets as assets or liabilities at fair value. Changes in fair value are recorded in the Balance Sheets as deferred outflows or deferred inflows for those swaps determined to be effective hedges in accordance with applicable governmental accounting standards or in the Statements of Revenues, Expenses and Changes in Net Position as nonoperating changes in fair value for ineffective interest rate swaps. Please refer to note 6 to the financial statements for a more detailed discussion of the District's interest rate swaps.

In fiscal 2017, current liabilities increased \$4.0 million primarily related to increases in employee compensation and benefits payable and estimated third-party settlements, mostly offset by decreases in accounts payable and accrued expenses.

In fiscal 2016, current liabilities increased \$15.7 million primarily related to increases in accounts payable.

In fiscal 2017, noncurrent liabilities decreased \$40.9 million, primarily as a result of decreases in long-term debt, net pension liability and interest rate swap liabilities, partially offset by an increase in other long-term liabilities.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

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In fiscal 2016, noncurrent liabilities increased \$4.9 million, primarily as a result of an increase in interest rate swap liabilities, partially offset by the decrease in long-term debt.

**Profitability, Liquidity, and Capital Ratios**

The following table outlines ratios monitored by the District as compared to Moody's "A1" rated, freestanding hospitals, single and multi-state healthcare systems:

|                                     | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2016<br/>Moody's A1<br/>median</u> |
|-------------------------------------|-------------|-------------|-------------|---------------------------------------|
| Profitability ratios:               |             |             |             |                                       |
| Operating margin                    | 11.7 %      | 9.9 %       | 14.5 %      | 4.1 %                                 |
| Excess margin                       | 13.3        | 12.6        | 16.1        | 7.0                                   |
| Return on assets                    | 7.1         | 6.7         | 8.5         | 5.1                                   |
| Total EBIDA%                        | 19.8        | 19.3        | 23.2        | n/a                                   |
| Operating cash flow margin          | 18.3        | 16.8        | 21.7        | 10.7                                  |
| Liquidity ratios:                   |             |             |             |                                       |
| Days cash on hand                   | 446         | 440         | 457         | 242                                   |
| Net days in receivables             | 37          | 36          | 39          | 49                                    |
| Capitalization ratios:              |             |             |             |                                       |
| Maximum debt service coverage ratio | 6.1         | 5.5         | 6.1         | 5.9                                   |
| Cash to debt                        | 224.7 %     | 198.7 %     | 175.4 %     | n/a                                   |

(EBIDA – Earnings Before Interest, Depreciation and Amortization)

**Discussion of Ratios**

To be consistent with rating agency calculations, tax revenues are considered operating revenues and interest expense is considered operating expense for the ratio calculations above.

The profitability, liquidity, and capitalization ratios noted above were favorable compared to the Moody's A1 medians.

In 2017, Moody's Investors Services affirmed the District's unenhanced long-term ratings on its outstanding bonds of A1. In 2017, Fitch Ratings affirmed the District's unenhanced long term ratings on its outstanding bonds of AA-. The rating agencies have noted the District's financial performance, strong liquidity, and strong service area characteristics.

## **SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

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### **Contacting the District for Additional Financial Information**

This financial report is intended to provide our citizens, patients, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the tax assistance it receives. You may access the District's annual and quarterly financial information, as well as the current budget, via our website, [www.smh.com](http://www.smh.com). The District has engaged Digital Assurance Certification, LLC (DAC) as its Investment Relations Provider. To view additional detailed secondary market disclosure information, please visit [www.dacbond.com](http://www.dacbond.com). If you have any questions regarding this report or need additional information, contact the District's Corporate Finance Department at Sarasota Memorial Hospital, Attention: Controller, 1700 S. Tamiami Trail, Sarasota, FL 34239.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Balance Sheets

September 30, 2017 and 2016

| <b>Assets</b>                                                                                                                    | <b>2017</b>             | <b>2016</b>          |
|----------------------------------------------------------------------------------------------------------------------------------|-------------------------|----------------------|
| Current assets:                                                                                                                  |                         |                      |
| Cash and cash equivalents                                                                                                        | \$ 27,823,710           | <b>18,098,274</b>    |
| Patient <b>accounts receivable</b> , less allowance for uncollectible accounts of \$131,963,819 in 2017 and \$99,002,378 in 2016 | 77,778,468              | <b>69,262,406</b>    |
| Inventories of supplies                                                                                                          | 14,001,797              | 11,505,091           |
| Prepaid expenses and other assets                                                                                                | 15,275,552              | 14,848,890           |
| Due from related organizations                                                                                                   | <u>1,143,064</u>        | <u>1,129,773</u>     |
| Total current assets                                                                                                             | <u>136,022,591</u>      | <u>114,844,434</u>   |
| Noncurrent assets:                                                                                                               |                         |                      |
| Restricted investments                                                                                                           | 2,936,118               | 2,332,401            |
| Board designated investments                                                                                                     | 831,396,423             | 764,343,035          |
| Capital assets, net                                                                                                              | 591,901,590             | 583,319,526          |
| Other assets                                                                                                                     | 32,073,179              | 27,917,639           |
| Interest rate swaps                                                                                                              | <u>24,711,820</u>       | <u>24,817,690</u>    |
| Total noncurrent assets                                                                                                          | <u>1,483,019,130</u>    | <u>1,402,730,291</u> |
| Total assets                                                                                                                     | <u>1,619,041,721</u>    | <u>1,517,574,725</u> |
| <b>Deferred Outflows of Resources</b>                                                                                            |                         |                      |
| Deferred outflows related to pensions                                                                                            | 24,648,430              | 38,950,353           |
| Deferred amounts on debt refundings                                                                                              | 30,473,577              | 32,285,333           |
| Deferred effective interest rate swap outflows                                                                                   | <u>3,656,011</u>        | <u>13,806,685</u>    |
| Total deferred outflows of resources                                                                                             | <u>58,778,018</u>       | <u>85,042,371</u>    |
| Total assets and deferred outflows of resources                                                                                  | <u>\$ 1,677,819,739</u> | <u>1,602,617,096</u> |
| <b>Liabilities</b>                                                                                                               |                         |                      |
| Current liabilities:                                                                                                             |                         |                      |
| <b>Accounts payable</b>                                                                                                          | \$ 32,017,870           | <b>37,904,884</b>    |
| Employee compensation and benefits payable                                                                                       | 51,765,489              | 44,790,335           |
| Other accrued expenses                                                                                                           | 8,562,096               | 9,487,002            |
| <b>Estimated third-party settlements</b>                                                                                         | 22,558,873              | <b>19,736,055</b>    |
| Due to related organizations                                                                                                     | 192                     | 750                  |
| Current portion of State of Florida medical assistance assessment                                                                | 8,685,991               | 8,063,161            |
| Current portion of long-term debt                                                                                                | <u>11,770,000</u>       | <u>11,345,000</u>    |
| Total current liabilities                                                                                                        | <u>135,360,511</u>      | <u>131,327,187</u>   |
| Noncurrent liabilities:                                                                                                          |                         |                      |
| Long-term debt, less current portion                                                                                             | 368,741,251             | 380,460,887          |
| Long-term companion debt, less current portion                                                                                   | 22,054,892              | 22,994,932           |
| Net pension liability                                                                                                            | 28,649,970              | 43,051,333           |
| State of Florida medical assistance assessment, less current portion                                                             | 4,693,126               | 4,253,150            |
| Other long-term liabilities                                                                                                      | 31,361,135              | 27,633,791           |
| Interest rate swaps                                                                                                              | <u>22,748,384</u>       | <u>40,764,060</u>    |
| Total noncurrent liabilities                                                                                                     | <u>478,248,758</u>      | <u>519,158,153</u>   |
| Total liabilities                                                                                                                | <u>613,609,269</u>      | <u>650,485,340</u>   |
| <b>Deferred Inflows of Resources</b>                                                                                             |                         |                      |
| Deferred inflows related to pensions                                                                                             | 3,775,210               | 1,998,922            |
| Deferred effective interest rate swap inflows                                                                                    | <u>26,660,187</u>       | <u>16,218,872</u>    |
| Total deferred inflows of resources                                                                                              | <u>30,435,397</u>       | <u>18,217,794</u>    |
| <b>Net Position</b>                                                                                                              |                         |                      |
| Net investment in capital assets                                                                                                 | 242,138,976             | 224,188,945          |
| Restricted for specific purposes                                                                                                 | 2,459,696               | 1,540,946            |
| Unrestricted                                                                                                                     | <u>789,176,401</u>      | <u>708,184,071</u>   |
| Total net position                                                                                                               | <u>1,033,775,073</u>    | <u>933,913,962</u>   |
| Total liabilities, deferred inflows of resources and net position                                                                | <u>\$ 1,677,819,739</u> | <u>1,602,617,096</u> |

See accompanying notes to financial statements.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Statements of Revenues, Expenses and Changes in Net Position

Years ended September 30, 2017 and 2016

|                                                                                                                   | <b>2017</b>      | <b>2016</b>  |
|-------------------------------------------------------------------------------------------------------------------|------------------|--------------|
| Operating revenues:                                                                                               |                  |              |
| Net patient service revenue, net of provision for bad debts<br>of \$163,278,669 in 2017 and \$125,863,304 in 2016 | \$ 772,201,300   | 702,550,286  |
| Other revenue                                                                                                     | 20,877,688       | 16,881,490   |
| Total operating revenues                                                                                          | 793,078,988      | 719,431,776  |
| Operating expenses:                                                                                               |                  |              |
| Salaries, wages and fringe benefits                                                                               | 393,953,717      | 362,154,492  |
| Supplies                                                                                                          | 162,304,420      | 148,223,399  |
| Purchased services                                                                                                | 98,348,027       | 96,310,316   |
| Professional fees                                                                                                 | 24,641,191       | 22,366,225   |
| State of Florida medical assistance assessment                                                                    | 9,676,205        | 8,643,786    |
| Depreciation and amortization                                                                                     | 42,522,959       | 39,320,638   |
| Total operating expenses                                                                                          | 731,446,519      | 677,018,856  |
| Operating income                                                                                                  | 61,632,469       | 42,412,920   |
| Nonoperating items:                                                                                               |                  |              |
| Ad valorem tax                                                                                                    | 50,663,808       | 46,845,133   |
| Interest expense                                                                                                  | (14,260,410)     | (14,020,033) |
| Interest rate swap receipts, net                                                                                  | 699,621          | 733,945      |
| Investment income                                                                                                 | 13,644,371       | 19,195,462   |
| Unrealized gains and losses on investments, net                                                                   | (11,966,536)     | 6,684,182    |
| Change in fair value of ineffective interest rate swaps                                                           | (2,682,182)      | 299,454      |
| Other nonoperating income                                                                                         | 1,459,629        | 4,798,957    |
| Total nonoperating items                                                                                          | 37,558,301       | 64,537,100   |
| Excess of revenues over expenses                                                                                  | 99,190,770       | 106,950,020  |
| Other changes in net position:                                                                                    |                  |              |
| Contributions restricted for capital purposes                                                                     | 670,341          | 1,064,118    |
| Increase in net position                                                                                          | 99,861,111       | 108,014,138  |
| Net position, beginning of year                                                                                   | 933,913,962      | 825,899,824  |
| Net position, end of year                                                                                         | \$ 1,033,775,073 | 933,913,962  |

See accompanying notes to financial statements.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Statements of Cash Flows

Years ended September 30, 2017 and 2016

|                                                                                         | <u>2017</u>           | <u>2016</u>          |
|-----------------------------------------------------------------------------------------|-----------------------|----------------------|
| Cash flows from operating activities:                                                   |                       |                      |
| Received from patient care services                                                     | \$ 766,325,246        | 704,121,666          |
| Received from nonpatient sources                                                        | 19,604,426            | 16,074,337           |
| Payments to employees                                                                   | (384,981,302)         | (366,179,467)        |
| Payments to suppliers                                                                   | <u>(293,249,702)</u>  | <u>(268,173,030)</u> |
| Net cash provided by operating activities                                               | <u>107,698,668</u>    | <u>85,843,506</u>    |
| Cash flows from noncapital financing activities:                                        |                       |                      |
| Ad valorem taxes                                                                        | <u>50,663,808</u>     | <u>46,845,133</u>    |
| Net cash provided by noncapital financing activities                                    | <u>50,663,808</u>     | <u>46,845,133</u>    |
| Cash flows from capital and related financing activities:                               |                       |                      |
| Proceeds from donations restricted for capital purposes                                 | 660,341               | 1,054,426            |
| Interest rate swap payments paid, net                                                   | (738,803)             | (492,705)            |
| Purchases of capital assets                                                             | (59,583,791)          | (67,453,765)         |
| Proceeds from disposals of capital assets                                               | 16,500                | 3,209,139            |
| Interest payments                                                                       | (11,921,112)          | (11,612,848)         |
| Repayment of long-term debt                                                             | <u>(11,345,000)</u>   | <u>(10,844,180)</u>  |
| Net cash used in capital and related financing activities                               | <u>(82,911,865)</u>   | <u>(86,139,933)</u>  |
| Cash flows from investing activities:                                                   |                       |                      |
| Investment income received                                                              | 13,876,073            | 17,941,533           |
| Purchase of investments                                                                 | (299,859,828)         | (799,210,050)        |
| Proceeds from sales and maturities of investments                                       | <u>221,085,162</u>    | <u>714,904,200</u>   |
| Net cash used in investing activities                                                   | <u>(64,898,593)</u>   | <u>(66,364,317)</u>  |
| Increase (decrease) in cash and cash equivalents                                        | 10,552,018            | (19,815,611)         |
| Cash and cash equivalents, beginning of year                                            | <u>18,737,793</u>     | <u>38,553,404</u>    |
| Cash and cash equivalents, end of year                                                  | \$ <u>29,289,811</u>  | \$ <u>18,737,793</u> |
| Reconciliation of cash and cash equivalents to the balance sheets:                      |                       |                      |
| Cash and cash equivalents in current assets                                             | \$ 27,823,710         | 18,098,274           |
| Cash and cash equivalents in restricted investments                                     | <u>1,466,101</u>      | <u>639,519</u>       |
| Total cash and cash equivalents                                                         | \$ <u>29,289,811</u>  | \$ <u>18,737,793</u> |
| Reconciliation of operating income to net cash provided by operating activities:        |                       |                      |
| Operating income                                                                        | \$ 61,632,469         | 42,412,920           |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                       |                      |
| Depreciation and amortization                                                           | 42,522,959            | 39,320,638           |
| Provision for bad debts                                                                 | 163,278,669           | 125,863,304          |
| Changes in:                                                                             |                       |                      |
| Patient accounts receivable                                                             | (171,794,731)         | (127,131,075)        |
| Other current and noncurrent assets                                                     | 8,367,115             | (2,139,515)          |
| Current liabilities and other liabilities                                               | <u>3,692,187</u>      | <u>7,517,234</u>     |
| Net cash provided by operating activities                                               | \$ <u>107,698,668</u> | \$ <u>85,843,506</u> |
| Noncash capital and related financing activities:                                       |                       |                      |
| Accrued purchases of capital assets                                                     | \$ 5,406,618          | 13,874,028           |
| Unrealized (losses) gains on investments, net                                           | (11,966,536)          | 6,684,182            |
| Change in equity investment                                                             | 976,913               | 1,659,443            |

See accompanying notes to financial statements.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2017 and 2016

### (1) Operations, Organization, and Summary of Significant Accounting Policies

#### (a) Operations and Organization

The Sarasota County Public Hospital District was established in 1949 by a special act of the Florida Legislature, which created and incorporated a special tax district to be known as Sarasota County Public Hospital District (the District), which includes all of Sarasota County, and authorized the District to levy property taxes for various purposes. The District's primary function is to operate Sarasota Memorial Hospital (the Hospital), Sarasota Memorial Nursing and Rehabilitation Center (NRC), and provide other healthcare delivery services in Sarasota County.

The financial statements include the accounts of the Sarasota County Public Hospital District and the following blended component units of the District: SMH Health Care, Inc., and SMH Physician Services, Inc. (PSI). These entities are considered blended component units, as the governing bodies of these entities are substantially the same as the District and the entities provide services almost entirely to the District or benefit the District even though they do not provide services directly to the District. The entities are hereafter referred to collectively as the "District." All intercompany accounts and transactions have been eliminated between the District and its blended component units.

#### (b) Mission Statement

The mission of the District is to provide health care services which excel in caring, quality, and innovation.

#### (c) Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### (d) Accounting Standards

The District recognizes revenues and expenses on the accrual basis of accounting in accordance with the standards established by the Governmental Accounting Standards Board (GASB) and certain provisions in the *Audit and Accounting Guide for Health Care Organizations*, published by the American Institute of Certified Public Accountants.

Effective for periods beginning after June 15, 2017, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This Statement replaces the requirements of Statements No. 45, as amended, and No. 57. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense related to postemployment benefits other than pensions provided to employees of state and local governmental employers. The impact of this Statement on the District's financial statements has not yet been evaluated.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2017 and 2016

**(e) Community Programs**

The District is a public health care provider established to meet the needs of Sarasota County. Accordingly, services are being provided to the community at no charge or for which only partial payments are received. The following is a summary of the cost, net of actual and estimated reimbursements, if any, of the District's community programs provided during the years ended September 30, 2017 and 2016:

|                                                         | <u>2017</u>           | <u>2016</u>        |
|---------------------------------------------------------|-----------------------|--------------------|
| Bad debts                                               | \$ 31,755,600         | 27,178,545         |
| Traditional charity care                                | 15,664,526            | 15,443,268         |
| Medicare losses                                         | 36,424,451            | 33,775,697         |
| Medicaid losses                                         | 20,864,573            | 19,147,397         |
| Trauma and Emergency care center call pay and subsidies | 8,960,455             | 9,382,187          |
| Anesthesiologist, hospitalist, and psychiatric coverage | 7,657,250             | 6,498,500          |
| Clinics and other community programs                    | 3,289,058             | 3,415,996          |
| Graduate medical education net costs                    | 1,334,944             | 580,107            |
| Indigent care fund payments                             | 9,676,205             | 8,643,786          |
|                                                         | <u>\$ 135,627,062</u> | <u>124,065,483</u> |

The District provides traditional charity care to those patients who meet certain criteria under its charity care policy. A patient is classified as a charity patient by reference to certain established policies of the District. Amounts determined to qualify as traditional charity care are not reported as revenue. Included in bad debts are estimated community support costs of \$11,915,000 and \$9,428,000 for the years ended September 30, 2017 and 2016, respectively. Community support recognizes the cost of providing care for those patients that met other financial criteria which indicated an economic hardship and inability to pay for their services, but who either did not meet the strict eligibility requirements for traditional charity care or who did not complete all necessary paperwork to qualify for traditional charity care.

Payments received from the Medicare and Medicaid programs are significantly less than established patient charges and are less than management's estimate of the costs of providing those services. An assessment of 1.00% for net outpatient revenues, 1.50% for net inpatient revenues, and 0.04% of total operating expenses is assessed to the Hospital to help fund the Florida Medicaid and Indigent Care program.

**(f) Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and the provision for bad debts.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2017 and 2016

The difference between customary charges and the contractually established rates is accounted for as a contractual adjustment. The District's customary charges, contractual adjustments, and provision for bad debts for the years ended September 30, 2017 and 2016 are as follows:

|                             | <u>2017</u>           | <u>2016</u>          |
|-----------------------------|-----------------------|----------------------|
| Gross patient charges       | \$ 3,700,330,046      | 3,085,241,809        |
| Contractual adjustments     | (2,764,850,077)       | (2,256,828,219)      |
| Provision for bad debts     | <u>(163,278,669)</u>  | <u>(125,863,304)</u> |
| Net patient service revenue | \$ <u>772,201,300</u> | <u>702,550,286</u>   |

The District has agreements with third-party payors that provide for payment to the District at amounts different from its established rates. A summary of the basis of payment with major third-party payors follows:

(i) *Medicare*

Most services including inpatient acute care services, inpatient rehabilitative services, inpatient psychiatric services, skilled nursing services, and hospital outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Disproportionate share reimbursement to partially offset the revenue losses from furnishing uncompensated care to low-income patients and direct graduate medical education costs are paid at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary.

The Hospital's Medicare cost reports have been audited and final settlements determined by the Medicare intermediary for all years through September 30, 2014. Retroactive adjustments for cost reports and other settlements are accrued on an estimated basis in the period when the related services are rendered and adjusted in future periods when final settlements are determined.

(ii) *Medicaid*

Outpatient services (except for laboratory and pathology services) rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology subject to regulatory reductions. Reimbursable cost is determined in accordance with the principles of reimbursement established by the Florida Title XIX Hospital Reimbursement Plan, supplemented by the Medicare Principles of Reimbursement. Interim rates are tentatively established on an individual per diem basis for each hospital based on unaudited cost reports with exceptions. Effective with admissions on or after July 1, 2013, Medicaid changed the reimbursement for inpatient stays to an APR-DRG-based methodology. Effective July 1, 2017, Medicaid changed the reimbursement for inpatient services to an EAPG-based methodology. Final settlement is determined when the prospectively determined rate is adjusted after the intermediary audit of the Medicaid cost report that was used to determine the prospective rate. Retroactive adjustments for interim rate changes anticipated after the intermediary audit of the cost report are accrued on an estimated basis in the period when final settlements are determined. The District's outpatient Medicaid rates are based on

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2017 and 2016

the Medicaid cost report periods ended through September 30, 2014, which have been audited by the fiscal intermediary through September 30, 2013.

Effective May 1, 2014, the Florida Medicaid program implemented a new system through which Medicaid enrollees receive services. The program is called the Statewide Medicaid Managed Care Medical Assistance Program. The new program is comprised of several types of managed care plans including Health Maintenance Organizations, Provider Service Networks, and a Children's Services Network. The new program is designed to emphasize patient centered care, personal responsibility and active patient participation, provide for fully integrated care through alternative delivery models with access to providers and services through a uniform statewide program, and implement innovations in reimbursement methodologies, plan quality and plan accountability. Most Medicaid recipients must enroll in the program. Providers and the managed care plans negotiate mutually agreed-upon rates and terms of payment for the provision of services as part of the contract between the provider and the managed care plan. Unless stated in the law, managed care plans do not have to pay in the same way that providers are paid under the fee-for-service Medicaid program.

Final combined Medicare and Medicaid amounts estimated related to prior years resulted in an increase in net patient service revenue of \$633,077 and \$1,715,829 for the years ended September 30, 2017 and 2016, respectively.

The District's classification of patients and the appropriateness of their admission are subject to review by the fiscal intermediaries administering the Medicare and Medicaid programs.

Laws and regulations governing the Medicare and Medicaid Programs are complex and subject to interpretation. The District believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future governmental review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid Programs. As a result, there is at least a reasonable possibility that recorded estimates associated with these programs will change by a material amount in the near term.

Provisions have been recorded in the financial statements for open cost report years through 2017.

*(iii) Other*

The District has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these arrangements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined rates. Some of these arrangements provide for review of paid claims for compliance with the terms of the contract and result in retroactive settlement with third parties. Retroactive adjustments for other third-party claims are recorded in the period when final settlement is determined.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2017 and 2016

**(g) Cash and Cash Equivalents**

The District considers cash on hand, money in checking accounts, time deposits, short-term unrestricted fund investments, and short-term restricted assets available for current liabilities with a maturity of three months or less when purchased to be cash and cash equivalents.

**(h) Investments and Investment Income**

Investment securities held by the District are carried at fair value. Realized gains and losses, based on the specific identification method, are included in investment income in nonoperating items in the statements of revenues expenses, and changes in net position. Unrealized gains and losses are included in unrealized gains and losses on investments, net in nonoperating items in the statements of revenues, expenses and changes in net position.

**(i) Inventories of Supplies**

Inventories of supplies are stated at the lower of cost or market, on a first-in, first-out basis.

**(j) Capital Assets**

Capital assets have been recorded at historical cost if purchased or fair value at date of donation. Capital purchases above \$1,000 are capitalized. Major asset classifications and estimated useful lives are generally in accordance with those recommended by the American Hospital Association. The provision for depreciation is computed using the straight-line method over the estimated useful lives of the assets as summarized below:

|                        | <b>Estimated<br/>useful lives<br/>(years)</b> |
|------------------------|-----------------------------------------------|
| Land improvements      | 3–25                                          |
| Buildings              | 5–50                                          |
| Leasehold improvements | 3–25                                          |
| Moveable equipment     | 2–25                                          |

Routine maintenance, repairs, renewals, and replacement costs are charged against operations. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized, as is interest incurred during the period prior to the related assets being placed in service. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in other nonoperating income (expense).

**(k) Debt Issue Costs, Original Issuance Premiums and Discounts, and Deferred Gains and Losses on Refunding**

The District recognizes debt issuance costs as an expense in the period incurred as required by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Original issuance premiums and discounts on bonds payable are amortized using the effective interest method. Amortization of original issuance premiums and discounts is included in interest expense.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2017 and 2016

Deferred losses on refunding, which are included in deferred outflows of resources, are amortized over the shorter of the remaining life of the old debt or the life of the new debt using the straight-line method, which approximates the effective interest method. Amortization of deferred gains and losses on refunding is included in interest expense.

**(l) Other Noncurrent Liabilities**

Other noncurrent liabilities consist of State of Florida medical assistance assessment and unearned revenue and other long-term liabilities. The changes in other noncurrent liabilities for the years ended September 30, 2017 and 2016 are as follows:

|                                                | <b>2017</b>              |                             |                     |                       | <b>Amounts due within one year</b> |
|------------------------------------------------|--------------------------|-----------------------------|---------------------|-----------------------|------------------------------------|
|                                                | <b>Beginning balance</b> | <b>Accrual/ assessments</b> | <b>Payments</b>     | <b>Ending balance</b> |                                    |
| State of Florida medical assistance assessment | \$ 12,316,311            | 9,386,253                   | (8,323,447)         | 13,379,117            | 8,685,991                          |
| Other long-term liabilities                    | 31,391,588               | 5,947,157                   | (1,977,705)         | 35,361,040            | 3,999,905                          |
| Total                                          | <u>\$ 43,707,899</u>     | <u>15,333,410</u>           | <u>(10,301,152)</u> | <u>48,740,157</u>     | <u>12,685,896</u>                  |

  

|                                                | <b>2016</b>              |                             |                    |                       | <b>Amounts due within one year</b> |
|------------------------------------------------|--------------------------|-----------------------------|--------------------|-----------------------|------------------------------------|
|                                                | <b>Beginning balance</b> | <b>Accrual/ assessments</b> | <b>Payments</b>    | <b>Ending balance</b> |                                    |
| State of Florida medical assistance assessment | \$ 11,214,148            | 8,643,786                   | (7,541,623)        | 12,316,311            | 8,063,161                          |
| Other long-term liabilities                    | 28,225,007               | 4,423,026                   | (1,256,445)        | 31,391,588            | 3,757,797                          |
| Total                                          | <u>\$ 39,439,155</u>     | <u>13,066,812</u>           | <u>(8,798,068)</u> | <u>43,707,899</u>     | <u>11,820,958</u>                  |

**(m) Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the SMH Health Care Retirement Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**(n) Compensated Absences**

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated paid time off (PTO A) balances for vacations, holidays, personal needs and sickness and unpaid, accumulated and vested short term disability leave (PTO B) balances. PTO A is earned by eligible employees at varying rates, up to a maximum balance of 320 hours. The unused balance of PTO A is paid at time of employment termination. The liability for PTO A has been calculated based on the unused hours and current rates of pay for each employee and is included in employee compensation and benefits payable on the balance sheets. PTO B is earned by eligible employees up

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2017 and 2016

to a maximum balance of 800 hours. Employees hired prior to October 1, 1998 who terminate with ten years minimum years of service are vested in PTO B and will receive one half of accumulated unused PTO B hours. Employees hired on or after October 1, 1998 will not receive any accumulated hours in PTO B. The liability for PTO B has been calculated for vested employees based on half of the unused hours and current rates of pay for each employee. The current and noncurrent portions are estimated based on historical payment experience. The current portion is included in employee compensation and benefits payable on the balance sheets. The noncurrent portion is included in other long-term liabilities on the balance sheets.

### **(o) Net Position**

Net position of the District is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any borrowings and deferred outflows of resources used to finance the purchase or construction of those assets. Restricted for specific purposes is net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by bond indentures. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets nor restricted for specific purposes.

### **(p) Operating Revenues and Expenses**

The District's statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with furtherance of its mission, and include related grant revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Nonexchange revenues and expenses, including ad valorem taxes, investment income, interest expense on borrowed funds, the difference between interest rate swap payments received and paid, unrealized gains and losses on investments, changes in the fair value of ineffective interest rate swaps, gains and losses on disposal of capital assets, and other nonoperating income and expenses are reported as nonoperating items in the financial statements.

### **(q) Income Taxes**

The District is organized as a political subdivision of the State of Florida and is not subject to federal and state income taxes.

SMH Health Care, Inc. and PSI, have been recognized by the Internal Revenue Service (IRS) as tax-exempt organizations described in Internal Revenue Code Section 501(c)(3). Income earned by these organizations in furtherance of their tax-exempt purpose is exempt from federal and state income taxes.

### **(r) Ad Valorem Taxes**

Tax monies received are based on assessments by the District to Sarasota County real property owners for purposes stated in the Millage resolutions. Ad valorem taxes are recorded in the period for which the taxes are levied and amounted to \$50,663,808 and \$46,845,133 for the years ended September 30, 2017 and 2016, respectively.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2017 and 2016

### **(s) Derivative Instruments**

The District uses interest rate swaps, which are recorded based on criteria set forth in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as amended by GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, to manage net exposure to interest rate changes related to its borrowings and to lower its overall borrowing costs. The derivative instruments are recorded as either assets or liabilities in the balance sheets at fair value. Gains and losses resulting from terminations of swaps, when they occur, are recognized as a component of nonoperating items in the accompanying statements of revenues, expenses and changes in net position. Increases or decreases in the fair value of effective interest rate swaps are recognized as deferred effective interest rate swap inflows or outflows in the accompanying balance sheets. Gains and losses resulting from changes in the fair value of ineffective interest rate swaps are recognized as a component of nonoperating items in the accompanying statements of revenues, expenses and changes in net position.

### **(t) Impairment of Long-Lived Assets**

Management evaluates whether there has been a significant unexpected decline in the utility of a capital asset that could indicate an impairment in the capital asset. If there is an indication that the asset may be impaired, the District follows GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, to determine if the impairment loss should be recognized. The amount of impairment, if any, is determined by comparing the historical carrying value of the asset to the valuation method which most appropriately reflects the decline in service utility of the capital asset. The District concluded that no impairments existed as of September 30, 2017 and 2016.

## **(2) Cash and Investments**

### **(a) Cash Deposits**

For the years ended September 30, 2017 and 2016, the District's governmental bank balances are held in accounts protected under Chapter 280, Florida Statutes in institutions classified as qualified public depositories. The District's nongovernmental bank balances of \$2,057,784 and \$2,470,128 were covered by federal depository insurance to the applicable limits for the years ended September 30, 2017 and 2016, respectively.

### **(b) Investments**

Florida Statutes and the District's enabling legislation authorize the District to invest in obligations of the U.S. government and certain of its agencies, certificates of deposit of qualified public depositories, certain bankers' acceptances, certain domestic commercial paper, corporate notes and bonds, interest-bearing time deposits or savings accounts of qualified banks and savings and loans institutions, and repurchase and reverse repurchase agreements.

The fair value of short-term investments are estimated based on quoted market prices, which are generally equal to carrying amounts because of the short maturity of those instruments. The fair value of restricted investments and board designated investments are based on quoted market prices.

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As of September 30, 2017, the District had cash and investments maturing as follows:

|                                   | <b>Cash and investment maturities</b> |                             |                    |                    |                               |
|-----------------------------------|---------------------------------------|-----------------------------|--------------------|--------------------|-------------------------------|
|                                   | <b>Fair value</b>                     | <b>Less than<br/>1 year</b> | <b>1–5 years</b>   | <b>6–10 years</b>  | <b>More than<br/>10 years</b> |
| U.S. government securities        | \$ 164,604,368                        | 100,040,899                 | 61,228,606         | 3,334,863          | —                             |
| U.S. government agency securities | 225,407,366                           | 33,429,646                  | 84,745,176         | 105,449,234        | 1,783,310                     |
| Corporate bonds                   | 384,793,478                           | 34,307,226                  | 142,916,348        | 207,569,904        | —                             |
| Municipal securities              | 17,666,109                            | 8,208,552                   | 9,457,557          | —                  | —                             |
| Other, including bank deposits    | 69,684,930                            | 69,684,930                  | —                  | —                  | —                             |
| <b>Total cash and investments</b> | <b>\$ 862,156,251</b>                 | <b>245,671,253</b>          | <b>298,347,687</b> | <b>316,354,001</b> | <b>1,783,310</b>              |

As of September 30, 2016, the District had cash and investments maturing as follows:

|                                   | <b>Cash and investment maturities</b> |                             |                    |                    |                               |
|-----------------------------------|---------------------------------------|-----------------------------|--------------------|--------------------|-------------------------------|
|                                   | <b>Fair value</b>                     | <b>Less than<br/>1 year</b> | <b>1–5 years</b>   | <b>6–10 years</b>  | <b>More than<br/>10 years</b> |
| U.S. government securities        | \$ 145,388,264                        | 32,104,421                  | 113,283,843        | —                  | —                             |
| U.S. government agency securities | 194,427,931                           | 20,374,719                  | 53,861,173         | 116,819,693        | 3,372,346                     |
| Corporate bonds                   | 359,842,495                           | 9,979,932                   | 115,044,113        | 229,805,365        | 5,013,085                     |
| Municipal securities              | 24,393,415                            | 18,348,125                  | 6,045,290          | —                  | —                             |
| Other, including bank deposits    | 60,721,605                            | 60,721,605                  | —                  | —                  | —                             |
| <b>Total cash and investments</b> | <b>\$ 784,773,710</b>                 | <b>141,528,802</b>          | <b>288,234,419</b> | <b>346,625,058</b> | <b>8,385,431</b>              |

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy authorizes a strategic asset allocation that is designed to provide an optimal return over the District's investment horizon within the District's risk tolerance and cash requirements. The District's investment policy states that investment transactions shall be structured to minimize capital losses, whether from securities defaults or erosion of market value. To attain this objective, diversification is required in order to minimize potential losses on the portfolio.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits the District's investment portfolio to maturities as follows:

|                                                       |           |
|-------------------------------------------------------|-----------|
| Direct government obligations                         | 10 years  |
| U.S. government and U.S. government agency securities | 10 years  |
| Bankers' acceptances                                  | 0.5 years |
| Commercial paper, corporate notes, and bonds          | 10 years  |
| Certificate of deposits                               | 0.5 years |

Although the policy typically prohibits U.S. Government Agency investment maturities greater than 10 years, for asset-backed or similar securities the investment policy limitation is based on weighted

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average life rather than maturity. At September 30, 2017, the weighted average life was less than 10 years. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy provides guidelines for its fund managers and lists specific allowable investments. The policy provides for the utilization of varying styles of managers so that portfolio diversification is maximized and total portfolio efficiency is enhanced. GASB No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, requires that disclosure be made as to the credit quality ratings of investments in debt securities except for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. As of September 30, 2017, the credit rating agency ratings of the District's investments range from A – to AAA. As of September 30, 2016, the credit rating agency ratings of the District's investments ranged from A – to AAA.

The investment policy limits commercial paper investments to that of prime quality rated by at least two nationally recognized debt rating agencies in the highest letter and numerical rating of each agency. If not so rated, such prime quality commercial paper may be purchased if secured by a letter of credit provided by a commercial bank, which bank or its holding company carries a credit rating in one of the two highest alphabetical categories from at least two nationally recognized debt rating agencies.

The investment policy limits corporate debt investments to interest-bearing bonds, debentures, and other such evidence of indebtedness with a fixed maturity of any domestic corporation within the United States which is listed on any one or more of the recognized national stock exchanges in the United States and conforms with the periodic reporting requirements under the Securities Exchange Act of 1934. Such obligation shall either carry ratings in one of the three highest classifications of at least two nationally recognized debt rating agencies; or be secured by a letter of credit provided by a commercial bank, which bank or its holding company carries a credit rating in one of the three highest alphabetical categories from at least two nationally recognized debt rating agencies. As of September 30, 2017 and 2016, there were no exceptions to the policy limits.

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not held in the District's name.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The District's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the District, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At September 30, 2017, the District's governmental deposits and investments were not exposed to custodial credit risk since the full amount was insured or registered, or securities held by the District or its agent, in the District's name. The District's investment policy states that District securities be held with a third-party custodian and all securities purchased by, and all collateral obtained by, the District

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shall be properly designated as an asset of the District. Other entities of the District have deposits in a financial institution in excess of federally insured limits and which are not collateralized.

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. Disclosure is required for investments in any one issuer that represent 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The District's investment policy states that no single corporate fixed income issuer shall represent more than 10% of the portfolio. The policy further states that the District's investments shall be diversified to the extent practicable to control the risk of loss resulting from over concentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which financial instruments are bought and sold. At September 30, 2017 and 2016, there were no investment holdings above the applicable concentration of credit risk limits.

**(3) Restricted Investments and Board Designated Investments**

Restricted investments and board designated investments as of September 30, 2017 and 2016 are as follows:

|                                                                                                   | <b>2017</b>    | <b>2016</b> |
|---------------------------------------------------------------------------------------------------|----------------|-------------|
| Under bond indenture agreements held by trustees, at fair value plus accrued interest, held for:  |                |             |
| Payment of principal and interest                                                                 | \$ 275,060     | 389,973     |
| Restricted funds designated by donors or grantors, at fair value plus accrued interest, held for: |                |             |
| Specific purposes                                                                                 | 184,955        | 302,908     |
| Plant replacement and expansion                                                                   | 2,476,103      | 1,639,520   |
|                                                                                                   | 2,661,058      | 1,942,428   |
| Total restricted investments                                                                      | \$ 2,936,118   | 2,332,401   |
| Unrestricted funds designated by the Board, at fair value plus accrued interest, held for:        |                |             |
| Capital improvements                                                                              | \$ 831,396,423 | 764,343,035 |

**(4) Fair Value Measurements**

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the inputs used in valuation and gives the highest priority to unadjusted quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuations are observable. In determining the level of the hierarchy in

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

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which the estimate is disclosed, the highest level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, to unobservable inputs.

Level 1 – Valuations based on unadjusted quoted prices for identical instruments in active markets that the System has the ability to access.

Level 2 – Valuations based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each investment. The tables below show the fair value leveling of the System’s board designated investments as of September 30, 2017 and 2016.

|                                                               | <b>2017</b>                                                             |                                                        |                                                    | <b>Total</b>       |
|---------------------------------------------------------------|-------------------------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------|--------------------|
|                                                               | <b>Fair value measures using</b>                                        |                                                        |                                                    |                    |
| <b>Investments by fair value level</b>                        | <b>Quoted prices in active markets for identical assets<br/>Level 1</b> | <b>Significant other observable inputs<br/>Level 2</b> | <b>Significant unobservable inputs<br/>Level 3</b> |                    |
| Obligations:                                                  |                                                                         |                                                        |                                                    |                    |
| U.S. government securities                                    | \$ 164,604,368                                                          | —                                                      | —                                                  | 164,604,368        |
| U.S. government agency securities                             | —                                                                       | 225,407,366                                            | —                                                  | 225,407,366        |
| Corporate bonds                                               | —                                                                       | 384,793,478                                            | —                                                  | 384,793,478        |
| Municipal securities                                          | —                                                                       | 17,666,109                                             | —                                                  | 17,666,109         |
| Cash equivalents                                              | 38,925,102                                                              | —                                                      | —                                                  | 38,925,102         |
| <b>Total board designated investments by fair value level</b> | <b>\$ 203,529,470</b>                                                   | <b>627,866,953</b>                                     | <b>—</b>                                           | <b>831,396,423</b> |

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| <b>2016</b>                                                  |                                                                                             |                                                                    |                                                            |                    |
|--------------------------------------------------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------|------------------------------------------------------------|--------------------|
| <b>Fair value measures using</b>                             |                                                                                             |                                                                    |                                                            |                    |
| <b>Investments by fair value level</b>                       | <b>Quoted<br/>prices in<br/>active<br/>markets for<br/>identical<br/>assets<br/>Level 1</b> | <b>Significant<br/>other<br/>observable<br/>inputs<br/>Level 2</b> | <b>Significant<br/>unobservable<br/>inputs<br/>Level 3</b> | <b>Total</b>       |
| Obligations:                                                 |                                                                                             |                                                                    |                                                            |                    |
| U.S. government securities                                   | \$ 144,998,291                                                                              | —                                                                  | —                                                          | 144,998,291        |
| U.S. government agency securities                            | —                                                                                           | 194,427,931                                                        | —                                                          | 194,427,931        |
| Corporate bonds                                              | —                                                                                           | 359,842,497                                                        | —                                                          | 359,842,497        |
| Municipal securities                                         | —                                                                                           | 24,393,415                                                         | —                                                          | 24,393,415         |
| Cash equivalents                                             | 40,680,901                                                                                  | —                                                                  | —                                                          | 40,680,901         |
| Total board designated<br>investments by fair<br>value level | \$ <u>185,679,192</u>                                                                       | <u>578,663,843</u>                                                 | <u>—</u>                                                   | <u>764,343,035</u> |

The tables below show the fair value leveling of the System's restricted investments as of September 30, 2017 and 2016.

| <b>2017</b>                                            |                                                                                             |                                                                    |                                                            |                  |
|--------------------------------------------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------|------------------------------------------------------------|------------------|
| <b>Fair value measures using</b>                       |                                                                                             |                                                                    |                                                            |                  |
| <b>Investments by fair value level</b>                 | <b>Quoted<br/>prices in<br/>active<br/>markets for<br/>identical<br/>assets<br/>Level 1</b> | <b>Significant<br/>other<br/>observable<br/>inputs<br/>Level 2</b> | <b>Significant<br/>unobservable<br/>inputs<br/>Level 3</b> | <b>Total</b>     |
| Cash equivalents                                       | \$ —                                                                                        | 1,466,101                                                          | —                                                          | 1,466,101        |
| Total restricted<br>investments by fair<br>value level | \$ <u>—</u>                                                                                 | <u>1,466,101</u>                                                   | <u>—</u>                                                   | <u>1,466,101</u> |

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|                                                  | <b>2016</b>                                                         |                                                    |                                                |              |
|--------------------------------------------------|---------------------------------------------------------------------|----------------------------------------------------|------------------------------------------------|--------------|
|                                                  | <b>Fair value measures using</b>                                    |                                                    |                                                |              |
| <b>Investments by fair value level</b>           | <b>Quoted prices in active markets for identical assets Level 1</b> | <b>Significant other observable inputs Level 2</b> | <b>Significant unobservable inputs Level 3</b> | <b>Total</b> |
| Cash equivalents                                 | \$ —                                                                | 1,029,493                                          | —                                              | 1,029,493    |
| Total restricted investments by fair value level | \$ —                                                                | 1,029,493                                          | —                                              | 1,029,493    |

The above tables exclude certain assets classified as restricted investments on the District's balance sheets, and total to \$1,470,017 and \$1,302,908 as of September 30, 2017 and 2016, respectively. Such other assets are valued at cost, and, therefore, are not included in the leveling tables above.

The tables below show the fair value leveling of the System's assets related to deferred compensation arrangements which are included in other long term assets in the accompanying balance sheets as of September 30, 2017 and 2016.

|                                                             | <b>2017</b>                                                         |                                                    |                                                |              |
|-------------------------------------------------------------|---------------------------------------------------------------------|----------------------------------------------------|------------------------------------------------|--------------|
|                                                             | <b>Fair value measures using</b>                                    |                                                    |                                                |              |
| <b>Investments by fair value level</b>                      | <b>Quoted prices in active markets for identical assets Level 1</b> | <b>Significant other observable inputs Level 2</b> | <b>Significant unobservable inputs Level 3</b> | <b>Total</b> |
| Mutual funds                                                | \$ 13,469,987                                                       | —                                                  | —                                              | 13,469,987   |
| Total deferred compensation investments by fair value level | \$ 13,469,987                                                       | —                                                  | —                                              | 13,469,987   |

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|                                                                      |    | 2017                                                                           |                                                         |                                                  |                   |
|----------------------------------------------------------------------|----|--------------------------------------------------------------------------------|---------------------------------------------------------|--------------------------------------------------|-------------------|
|                                                                      |    | Fair value measures using                                                      |                                                         |                                                  |                   |
| <u>Investments by fair value level</u>                               |    | Quoted<br>prices in<br>active<br>markets for<br>identical<br>assets<br>Level 1 | Significant<br>other<br>observable<br>inputs<br>Level 2 | Significant<br>unobservable<br>inputs<br>Level 3 | Total             |
| Mutual funds                                                         | \$ | 10,291,359                                                                     | —                                                       | —                                                | 10,291,359        |
| Total deferred<br>compensation<br>investments by fair<br>value level | \$ | <u>10,291,359</u>                                                              | <u>—</u>                                                | <u>—</u>                                         | <u>10,291,359</u> |

The tables below show the fair value leveling of the System's derivative instruments as of September 30, 2017 and 2016.

|                                        |    | 2017                                                                           |                                                         |                                                  |              |
|----------------------------------------|----|--------------------------------------------------------------------------------|---------------------------------------------------------|--------------------------------------------------|--------------|
|                                        |    | Fair value measures using                                                      |                                                         |                                                  |              |
| <u>Investments by fair value level</u> |    | Quoted<br>prices in<br>active<br>markets for<br>identical<br>assets<br>Level 1 | Significant<br>other<br>observable<br>inputs<br>Level 2 | Significant<br>unobservable<br>inputs<br>Level 3 | Total        |
| Interest rate swap assets              | \$ | —                                                                              | 24,711,820                                              | —                                                | 24,711,820   |
| Interest rate swap liabilities         | \$ | —                                                                              | (22,748,384)                                            | —                                                | (22,748,384) |

|                                        |    | 2016                                                                           |                                                         |                                                  |              |
|----------------------------------------|----|--------------------------------------------------------------------------------|---------------------------------------------------------|--------------------------------------------------|--------------|
|                                        |    | Fair value measures using                                                      |                                                         |                                                  |              |
| <u>Investments by fair value level</u> |    | Quoted<br>prices in<br>active<br>markets for<br>identical<br>assets<br>Level 1 | Significant<br>other<br>observable<br>inputs<br>Level 2 | Significant<br>unobservable<br>inputs<br>Level 3 | Total        |
| Interest rate swap assets              | \$ | —                                                                              | 24,817,690                                              | —                                                | 24,817,690   |
| Interest rate swap liabilities         | \$ | —                                                                              | (40,764,060)                                            | —                                                | (40,764,060) |

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Debt securities classified in Level 1 are valued using prices quoted in active markets. Debt securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. These securities have nonproprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market.

**(5) Capital Assets**

The changes in capital assets for the years ended September 30, 2017 and 2016 are as follows:

|                                | 2017                 |              |                                |             |                   |
|--------------------------------|----------------------|--------------|--------------------------------|-------------|-------------------|
|                                | Beginning<br>balance | Additions    | Transfers in/<br>transfers out | Disposals   | Ending<br>balance |
| Nondepreciable:                |                      |              |                                |             |                   |
| Land                           | \$ 52,537,025        | —            | —                              | —           | 52,537,025        |
| Land held for future expansion | 26,924,385           | 344,688      | —                              | —           | 27,269,073        |
| Construction in progress       | 47,512,207           | 34,648,203   | (65,926,900)                   | —           | 16,233,510        |
| Total nondepreciable           | 126,973,617          | 34,992,891   | (65,926,900)                   | —           | 96,039,608        |
| Depreciable:                   |                      |              |                                |             |                   |
| Land improvements              | 10,568,524           | 67,132       | 3,895                          | —           | 10,639,551        |
| Buildings                      | 554,558,002          | 1,531,716    | 49,535,477                     | —           | 605,625,195       |
| Leasehold improvements         | 5,899,208            | 45,291       | —                              | (11,871)    | 5,932,628         |
| Moveable equipment             | 346,723,175          | 14,480,352   | 16,387,528                     | (7,438,855) | 370,152,200       |
| Total depreciable              | 917,748,909          | 16,124,491   | 65,926,900                     | (7,450,726) | 992,349,574       |
|                                | 1,044,722,526        | 51,117,382   | —                              | (7,450,726) | 1,088,389,182     |
| Less accumulated depreciation  | (461,403,000)        | (42,522,959) | —                              | 7,438,367   | (496,487,592)     |
| Capital assets, net            | \$ 583,319,526       | 8,594,423    | —                              | (12,359)    | 591,901,590       |
|                                |                      |              |                                |             |                   |
|                                | 2016                 |              |                                |             |                   |
|                                | Beginning<br>balance | Additions    | Transfers in/<br>transfers out | Disposals   | Ending<br>balance |
| Nondepreciable:                |                      |              |                                |             |                   |
| Land                           | \$ 45,382,333        | 3,790,243    | 3,599,123                      | (234,674)   | 52,537,025        |
| Land held for future expansion | 28,102,940           | —            | —                              | (1,178,555) | 26,924,385        |
| Construction in progress       | 25,118,641           | 61,206,223   | (38,812,657)                   | —           | 47,512,207        |
| Total nondepreciable           | 98,603,914           | 64,996,466   | (35,213,534)                   | (1,413,229) | 126,973,617       |
| Depreciable:                   |                      |              |                                |             |                   |
| Land improvements              | 14,267,213           | 20,508       | 7,209                          | (3,726,406) | 10,568,524        |
| Buildings                      | 545,070,326          | 931,823      | 11,488,841                     | (2,932,988) | 554,558,002       |
| Leasehold improvements         | 5,057,358            | 63,426       | 846,233                        | (67,809)    | 5,899,208         |
| Moveable equipment             | 311,646,520          | 13,134,814   | 22,871,251                     | (929,410)   | 346,723,175       |
| Total depreciable              | 876,041,417          | 14,150,571   | 35,213,534                     | (7,656,613) | 917,748,909       |
|                                | 974,645,331          | 79,147,037   | —                              | (9,069,842) | 1,044,722,526     |
| Less accumulated depreciation  | (428,724,971)        | (39,320,638) | —                              | 6,642,609   | (461,403,000)     |
| Capital assets, net            | \$ 545,920,360       | 39,826,399   | —                              | (2,427,233) | 583,319,526       |

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The District has expansion and renovation programs involving various Hospital departments, patient care areas, ambulatory centers and support services. Total estimated cost to complete all projects in progress is approximately \$47.2 million as of September 30, 2017, including \$17.3 million for patient floor renovation projects and \$11.7 million for a new parking garage.

**(6) Long-Term Debt**

The District was obligated under long-term debt as of September 30, 2017 and 2016 as follows:

|                                                                                                                                                                                                                                                                                                                                                                                                                                       | <u>2017</u>           | <u>2016</u>         |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|---------------------|
| Sarasota County Public Hospital District, Municipal Inflation Linked Exempt Bonds Series 1997A, \$5,000,000 due October 1, 2020 and \$10,000,000 due October 1, 2021. Interest paid semi-annually in the sum of 2.05% plus or minus a floating rate which will increase or decrease each semi-annual period based on the Consumer Price Index, as defined. Both components of the interest rates totaled 3.65% at September 30, 2017. | \$ 15,000,000         | 15,000,000          |
| Sarasota County Public Hospital District, Fixed Rate Hospital Revenue Refunding Bonds, Series 1998B, due in annual amounts through 2028 at annual interest rates from 5.25% to 5.50%.                                                                                                                                                                                                                                                 | 93,000,000            | 96,000,000          |
| Sarasota County Public Hospital District, Variable Rate Demand Hospital Revenue Refunding Bonds, Series 2008B, due in annual amounts through 2037 at variable interest rates, 0.92% at September 30, 2017.                                                                                                                                                                                                                            | 63,700,000            | 66,550,000          |
| Sarasota County Public Hospital District, Fixed Rate Hospital Revenue Bonds, Series 2009A, due in annual amounts through 2039 at interest rates from 4.0% to 5.625% (less unamortized bond issuance discount in the amount of \$1,873,749 and \$1,924,113 at September 30, 2018 and 2017, respectively).                                                                                                                              | 77,211,251            | 78,880,887          |
| Direct bank note payable to Northern Trust Company, due in annual amounts through 2037. Interest payable monthly at a rate of 67% of Libor, plus 65 basis points, 1.48% at September 30, 2017.                                                                                                                                                                                                                                        | 67,825,000            | 68,850,000          |
| Direct bank note payable to DNT Asset Trust, due in annual amounts through 2037. Interest payable monthly at a rate of 67% of Libor, plus 84 basis points, 1.67% at September 30, 2017.                                                                                                                                                                                                                                               | <u>63,775,000</u>     | <u>66,525,000</u>   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                       | 380,511,251           | 391,805,887         |
| Less current portion                                                                                                                                                                                                                                                                                                                                                                                                                  | <u>(11,770,000)</u>   | <u>(11,345,000)</u> |
|                                                                                                                                                                                                                                                                                                                                                                                                                                       | <u>\$ 368,741,251</u> | <u>380,460,887</u>  |



**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2017 and 2016

Maturities under the long-term debt agreements, including interest, described above are as follows:

|                           | <u>Total</u>          | <u>Principal</u>   | <u>Interest</u>    |
|---------------------------|-----------------------|--------------------|--------------------|
| Year ending September 30: |                       |                    |                    |
| 2018                      | \$ 24,606,425         | 11,770,000         | 12,836,425         |
| 2019                      | 24,644,162            | 12,215,000         | 12,429,162         |
| 2020                      | 24,671,209            | 12,680,000         | 11,991,209         |
| 2021                      | 24,763,702            | 13,245,000         | 11,518,702         |
| 2022                      | 25,092,094            | 13,875,000         | 11,217,094         |
| 2023-2027                 | 125,710,447           | 72,425,000         | 53,285,447         |
| 2028-2032                 | 132,748,386           | 84,690,000         | 48,058,386         |
| 2033-2037                 | 138,833,886           | 110,580,000        | 28,253,886         |
| 2038-2039                 | 55,239,344            | 50,905,000         | 4,334,344          |
|                           | <u>\$ 576,309,655</u> | <u>382,385,000</u> | <u>193,924,655</u> |

Debt service on the Series 1997A and 1998B Bonds in the above table is based upon the execution of an interest rate exchange agreement in which the District will be paying rates based on the Securities Industry and Financial Markets Municipal Swap Index (SIFMA Index). The assumed rate to calculate debt service is the average rate for the year ended September 30, 2017. Debt service on the direct bank note with Northern Trust Company, the Series 2008B Bonds, and the direct bank note with DNT Asset Trust in the above table is based upon the execution of interest rate exchange agreements in which the District will be paying fixed rates of 3.61%, 3.766%, and 3.697%, respectively. All bonds and bank notes were issued by the District pursuant to a Master Trust Indenture dated September 1, 1996, as supplemented and amended, between the District and U.S. Bank National Association as master trustee. As of September 30, 2017 and 2016, the District was the only member of the obligated group under the Master Trust Indenture; however, members may be admitted to the obligated group or may cease membership in accordance with the terms of the Master Trust Indenture.

On July 7, 1997, the District issued \$15,000,000 in Municipal Inflation Linked Exempt Bonds, Series 1997A, to refund existing debt at that time. The Series 1997A Bonds are collateralized by a municipal bond insurance policy.

During 1998, the District issued, \$120,000,000 of Fixed Rate Hospital Revenue Refunding Bonds, Series 1998B, to refund existing debt at that time.

On September 2, 2008, to refinance existing debt, the District issued the \$76,875,000 Variable Rate Demand Hospital Revenue Refunding Bonds, Series 2008A bonds, and the \$81,725,000 Variable Rate Demand Hospital Revenue Refunding Bonds, Series 2008B bonds. Both of these series were supported by separate bank credit facilities in the form of a direct pay letter of credit.

To reduce exposure to the variable rate demand obligation market, the District refinanced the Series 2008A bonds on April 8, 2015 through a \$71,100,000 direct bank loan with Northern Trust. The Series 2008A letter of credit was no longer needed and was cancelled. The bank loan agreement is for a period of ten years, but maintains the same schedule of principal payments from the original refinanced Series 2008A bonds through 2037. The District pays 67% of 1 month LIBOR plus 65 basis points in interest each month.

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The bank has the option of terminating the note on April 8, 2025. The 2008B letter of credit expires on October 1, 2019. There were no drawings or loans on the letters of credit during the year ended September 30, 2017.

On August 27, 2009, the District issued \$103,890,000 of Fixed Rate Hospital Revenue Bonds, Series 2009A, to provide funding for a new nine-story hospital bed tower that was later constructed on the Hospital campus. The bonds were issued with interest rates ranging from 3.0% to 5.625% at yields ranging from 1.95% to 5.82%, resulting in a total net original issuance discount of \$2,104,385 which is being amortized using the effective interest method over the life of the bonds which mature in varying amounts through 2039. The District exercised its right for an optional \$11,845,000 partial redemption on July 1, 2014.

As the result of marketability problems on the Series 2007B bonds following the April 2009 credit rating downgrade of the bank which issued the direct pay letter of credit supporting the bonds, the District refunded the issue on September 30, 2009. The refunding of the Series 2007B bonds was accomplished through the issuance of the \$79,525,000 Variable Rate Demand Hospital Revenue Refunding Bonds, Series 2009B, which are supported by a bank credit facility in the form of a direct pay letter of credit. On October 19, 2011, the 2009B bonds were remarketed with a mode change to daily and with a new bank credit facility in the form of a direct pay letter of credit that was set to expire on October 15, 2015.

To reduce exposure to the variable rate demand obligation market, the District refinanced the Series 2009B bonds on April 8, 2015 through a \$70,750,000 bank loan with DNT Asset Trust, an affiliate of JP Morgan. The related letter of credit was no longer needed and was cancelled. The bank loan agreement is for a period of ten years, but maintains the same schedule of principal payments from the original refinanced Series 2009B bonds through 2037. The bank has the option of terminating the note on April 8, 2025. The District pays 67% of 1 month LIBOR plus 84 basis points in interest each month.

The Hospital Revenue Bonds described above are collateralized by a lien on and a pledge of the net revenues of the District and all monies held in funds created by the bond resolution. The debt agreements contain various covenants, which provide for, among other things, the maintenance of minimum levels of cash and investments and specified debt service coverage ratios. Management believes the District was in compliance with all debt covenants at September 30, 2017 and 2016.

The District's ability to borrow is restricted under certain covenants of the Master Trust Indenture. Among these is the limitation of indebtedness not under the Master Indenture, which may not exceed 25% of operating revenue.

Approximately \$746,000 and \$524,000 of interest expense was capitalized in connection with the District's construction programs for the years ended September 30, 2017 and 2016, respectively.

### **(a) Hedging Derivative Instruments**

*Objectives of the hedging derivative instruments:* The District has entered into interest rate swaps to manage interest costs related to long-term debt.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2017 and 2016

Terms at September 30, 2017:

| <u>Associated bond issue</u>   | <u>Notional amount of swap</u> | <u>Counterparty</u> | <u>Effective date</u> | <u>District pays</u> | <u>District receives</u>          | <u>Termination date</u> | <u>Fair value at September 30, 2017 (1)</u> | <u>Net cash flows during 2017</u> |
|--------------------------------|--------------------------------|---------------------|-----------------------|----------------------|-----------------------------------|-------------------------|---------------------------------------------|-----------------------------------|
| 1998B                          | \$ 93,000,000                  | Goldman Sachs       | 9/15/1998             | SIFMA                | Fixed rates per maturities        | 7/1/2028                | \$ 18,795,185                               | 3,803,710                         |
| 2015 NT Bank Note              | 67,825,000                     | Deutsche Bank       | 11/19/2010            | 3.610 %              | 67% of 1-month LIBOR              | 7/1/2037                | (15,601,214)                                | (2,065,959)                       |
| 2008B                          | 63,700,000                     | Deutsche Bank       | 7/3/2013              | 3.766                | 61.7% of 1-month LIBOR plus 0.26% | 7/1/2037                | (3,656,011)                                 | (1,177,499)                       |
| 2015 DNT Asset Trust Bank Note | 63,775,000                     | U.S. Bank           | 7/4/2013              | 3.697                | 61.7% of 1-month LIBOR plus 0.26% | 6/28/2023               | (3,491,159)                                 | (1,206,466)                       |

(1) Fair value at September 30, 2017 excludes current net accrued interest receivable of \$513,321.

Note:

In accordance with GASB 53, the fair values of the novated 2008B and 2015 DNT Asset Trust Bank Note swaps are based on the at-the-market payor rates of the respective swaps. The actual fair value of the 2008B and 2015 DNT Asset Trust Bank Note swaps at September 30, 2017 were \$(14,763,895) and \$(14,193,051), respectively.

Definitions:

SIFMA is the Securities Industry Financial Markets Association benchmark rate  
LIBOR is the London InterBank Offering Rate

Terms at September 30, 2016:

| <u>Associated bond issue</u>   | <u>Notional amount of swap</u> | <u>Counterparty</u> | <u>Effective date</u> | <u>District pays</u> | <u>District receives</u>          | <u>Termination date</u> | <u>Fair value at September 30, 2016 (1)</u> | <u>Net cash flows during 2016</u> |
|--------------------------------|--------------------------------|---------------------|-----------------------|----------------------|-----------------------------------|-------------------------|---------------------------------------------|-----------------------------------|
| 1998B                          | \$ 96,000,000                  | Goldman Sachs       | 9/15/1998             | SIFMA                | Fixed rates per maturities        | 7/1/2028                | \$ 16,218,872                               | 4,426,056                         |
| 2015 NT Bank Note              | 68,850,000                     | Deutsche Bank       | 11/19/2010            | 3.610 %              | 67% of 1-month LIBOR              | 7/1/2037                | (24,101,288)                                | (2,332,255)                       |
| 2008B                          | 66,550,000                     | Deutsche Bank       | 7/3/2013              | 3.766                | 61.7% of 1-month LIBOR plus 0.26% | 7/1/2037                | (8,433,262)                                 | (1,499,594)                       |
| 2015 DNT Asset Trust Bank Note | 66,525,000                     | U.S. Bank           | 7/4/2013              | 3.697                | 61.7% of 1-month LIBOR plus 0.26% | 6/28/2023               | (8,229,510)                                 | (1,449,075)                       |

(1) Fair value at September 30, 2016 excludes current net accrued interest receivable of \$552,308.

Note:

In accordance with GASB 53, the fair values of the novated 2008B and 2015 DNT Asset Trust Bank Note swaps are based on the at-the-market payor rates of the respective swaps. The actual fair value of the 2008B and 2015 DNT Asset Trust Bank Note swaps at September 30, 2016 were \$(20,816,939) and \$(20,147,956), respectively.

Definitions:

SIFMA is the Securities Industry Financial Markets Association benchmark rate  
LIBOR is the London InterBank Offering Rate

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2017 and 2016

### *Risks*

**Credit risk:** The District is exposed to credit risk on hedging derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the District's policy to require counterparty collateral posting provisions in its nonexchange-traded swaps. These terms require full collateralization of the fair value of the swaps in asset positions (net of the effect on applicable netting arrangements) should the counterparty's Moody's credit rating fall below Baa3. The District is not required to post collateral to the counterparty in any circumstance. Collateral is to be posted in the form of U.S. Treasury securities held by a third-party custodian.

**Interest rate risk:** The District is exposed to interest rate risk on its pay-variable, receive-fixed interest rate swap. As SIFMA increases, the District's net payment on the swap increases. Alternatively, on its pay-fixed, receive variable interest rate swaps, as LIBOR decreases, the District's net payment increases.

**Basis risk:** The District is exposed to basis risk on its pay-fixed, receive variable interest rate swaps because the variable rate payments received by the District are based on an index other than the interest rates the District pays on its hedged variable rate demand obligations, which are remarketed either daily or weekly, depending on the series. As of September 30, 2017, the average rate on the District's hedged variable rate debt was 1.49% while the LIBOR-based variable receiver rates are 0.76% and 1.02% on the pay-fixed, receive variable interest rate swaps.

**Termination risk:** The District or its counterparties may terminate each of the derivative instruments if the other party fails to perform under the terms of the contract. Additionally, the District can terminate the contracts without cause at any time.

The fixed receiver swap with Goldman Sachs (Goldman) can be terminated if Goldman exercises its option to deliver securities under an existing put agreement, or if the District exercises its option to terminate the put agreement. Currently, no determination can be made by management relating to the probability of the termination option being exercised. In exchange for granting the option, the District receives a semi-annual payment of 8 basis points calculated on the outstanding Series 1998B Bonds, the issuance costs of the Series 1998B Bonds paid by the counterparty to the interest rate swap, and, in the event the option is exercised, the reasonable cost of refunding the Series 1998B Bonds into Variable Rate Demand Hospital Revenue Bonds similar in characteristics to the original debt.

In trades completed on June 28, 2013, the District implemented a novation strategy for its existing interest rate swap transactions related to its Series 2008B and Series 2009B Bond issues. The District solicited proposals for new counterparties to replace Citibank, N.A. (Citi) on these two fixed payer interest rate swap agreements, both of which included optional termination events that effectively provided Citi recurring put options. The 2008B termination option would have been first exercisable by Citi in September 2013, and the 2009B termination option first exercisable by Citi in September 2016. The District selected Deutsche Bank AG and U.S. Bank N.A. for the 2008B and 2009B swaps, respectively. The trades took place on June 28, 2013 with effective dates of July 3, 2013, for the 2008B swap and July 4, 2013, for the 2009B swap.

Simultaneously with the novations, confirmations were entered into with the new counterparties that modified the terms of the original swaps. The 2008B swap fixed payment rate was increased

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

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16.8 basis points to 3.766% and the counterparty no longer has any option to terminate early. The variable payment rate remains the same at 61.7% of the 1-month LIBOR rate plus 0.26%. The 2008B swap is in the notional amount of \$73,000,000 with reductions tied to the Series 2008B Bond principal payments, and the termination date is July 1, 2037.

For the 2009B swap the District opted for a 10-year “put” and a fixed payment rate increase of 9.9 basis points to 3.697%. The mandatory termination date on the 2009B swap is June 28, 2023. The variable payment rate remains the same at 61.7% of the 1-month LIBOR rate plus 0.26%. The 2009B swap is in the notional amount of \$72,700,000 with reductions tied to the Series 2009B Bond principal payments through the October 1, 2037 2009B Bond maturity date.

In accordance with GASB No. 53, the novations resulted in a termination of hedge accounting for the replaced Citi swaps. As a result of the terminations of the 2008B and 2009B swaps, losses on termination were recorded in fiscal 2013 in the amounts of \$13,739,010 and \$13,029,959, respectively. The new swaps were considered to be hybrid instruments consisting of a “companion instrument” and an at-the-market swap. The noncurrent portion of the total companion instrument liability is included in the balance sheets as “long term companion debt, less current portion” and the current portion is included in other accrued expenses. The companion instrument is amortized over the term of the related 2008B and 2009B swaps. During the fiscal year ended September 30, 2017, the amortization of the companion debt resulted in an increase to interest expense of \$531,949 and an increase in interest rate swap receipts, net, of \$1,451,534. During the fiscal year ended September 30, 2016, the amortization of the companion debt resulted in an increase to interest expense of \$551,959 and an increase in interest rate swap receipts, net, of \$1,451,534.

In accordance with GASB No. 53, the 2015 refinancing of the Series 2008A and Series 2009B bonds resulted in a termination of hedge accounting for the related Deutsche Bank and U.S. Bank swaps, respectively. As a result, the related deferred effective interest rate swap outflows at April 8, 2015 were reclassified to deferred outflows related to refinancing and are being amortized as interest expense over the related remaining debt service maturity schedule. The amount of amortization for the years ended September 30, 2017 and 2016 was \$1,394,222 and \$1,394,222, respectively.

Long-term companion debt activity for the year ended September 30, 2017 and 2016 was as follows:

|                                                    | <b>2017</b>              |                  |                   |                       | <b>Amounts due within one year</b> |
|----------------------------------------------------|--------------------------|------------------|-------------------|-----------------------|------------------------------------|
|                                                    | <b>Beginning balance</b> | <b>Additions</b> | <b>Reductions</b> | <b>Ending balance</b> |                                    |
| 2008B Swap companion debt                          | \$ 12,276,202            | —                | (471,386)         | 11,804,816            | 481,936                            |
| 2015 DNT Asset Trust Bank Note Swap companion debt | 11,638,315               | —                | (448,199)         | 11,190,116            | 458,104                            |
| Total long-term companion debt                     | <u>\$ 23,914,517</u>     | <u>—</u>         | <u>(919,585)</u>  | <u>22,994,932</u>     | <u>940,040</u>                     |

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

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|                                                       | <b>2016</b>                  |                  |                   |                           | <b>Amounts due<br/>within one<br/>year</b> |
|-------------------------------------------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------------------|
|                                                       | <b>Beginning<br/>balance</b> | <b>Additions</b> | <b>Reductions</b> | <b>Ending<br/>balance</b> |                                            |
| 2008B Swap companion debt                             | \$ 12,737,270                | —                | (461,068)         | 12,276,202                | 471,386                                    |
| 2015 DNT Asset Trust Bank<br>Note Swap companion debt | <u>12,076,822</u>            | <u>—</u>         | <u>(438,507)</u>  | <u>11,638,315</u>         | <u>448,199</u>                             |
| Total long-term<br>companion debt                     | <u>\$ 24,814,092</u>         | <u>—</u>         | <u>(899,575)</u>  | <u>23,914,517</u>         | <u>919,585</u>                             |

Maturities for the long-term companion debt, including interest, described above are as follows:

|                           | <b>Total</b>         | <b>Principal</b>  | <b>Interest</b>  |
|---------------------------|----------------------|-------------------|------------------|
| Year ending September 30: |                      |                   |                  |
| 2018                      | \$ 1,451,533         | 940,040           | 511,493          |
| 2019                      | 1,451,533            | 960,950           | 490,583          |
| 2020                      | 1,451,534            | 982,325           | 469,209          |
| 2021                      | 1,451,533            | 1,004,175         | 447,358          |
| 2022                      | 1,451,534            | 1,026,512         | 425,022          |
| 2023–2027                 | 7,257,667            | 5,485,388         | 1,772,279        |
| 2028–2032                 | 7,257,665            | 6,122,124         | 1,135,541        |
| 2033–2037                 | <u>6,894,781</u>     | <u>6,473,418</u>  | <u>421,363</u>   |
|                           | <u>\$ 28,667,780</u> | <u>22,994,932</u> | <u>5,672,848</u> |

Any termination of a contract would cause a settlement payment or receipt at the fair value of the instrument.

**(b) Investment Derivative Instruments**

The District has entered into four basis swaps that are accounted for as investment derivative instruments.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2017 and 2016

Terms as of September 30, 2017:

| <u>Associated bond issue</u> | <u>Notional amount of swap</u> | <u>Counterparty</u> | <u>Effective date</u> | <u>District pays</u>     | <u>District receives</u>         | <u>Termination date</u> | <u>Fair value at September 30, 2017 (1)</u> | <u>Net cash flows during 2017</u> |
|------------------------------|--------------------------------|---------------------|-----------------------|--------------------------|----------------------------------|-------------------------|---------------------------------------------|-----------------------------------|
| 1997A                        | \$ 10,000,000                  | CitiGroup           | 6/24/2005             | SIFMA Swap index         | 62.4% of 1-month LIBOR + 0.705%  | 10/1/2021               | \$ 180,392                                  | 52,736                            |
| 1997A                        | 15,000,000                     | Goldman Sachs       | 11/19/2010            | SIFMA Swap index + 0.04% | Floating CPI rate + 2.05%        | 10/1/2021               | 1,353,503                                   | 446,183                           |
| 1998B                        | 84,000,000                     | CitiGroup           | 6/24/2005             | SIFMA Swap index         | 62.4% of 1-month LIBOR + 0.757%  | 7/1/2028                | 2,307,799                                   | 488,899                           |
| 2015 NT Bank Note            | 67,825,000                     | J.P. Morgan         | 4/24/2003             | SIFMA Swap index         | 67% of 1-month LIBOR plus 0.655% | 7/1/2037                | 2,074,941                                   | 358,017                           |

(1) Fair value at September 30, 2017 excludes current net accrued interest receivable of \$504,596.

Definitions:

SIFMA is the Securities Industry Financial Markets Association benchmark rate  
CPI is Consumer Price Index

Terms as of September 30, 2016:

| <u>Associated bond issue</u> | <u>Notional amount of swap</u> | <u>Counterparty</u> | <u>Effective date</u> | <u>District pays</u>     | <u>District receives</u>         | <u>Termination date</u> | <u>Fair value at September 30, 2016 (1)</u> | <u>Net cash flows during 2016</u> |
|------------------------------|--------------------------------|---------------------|-----------------------|--------------------------|----------------------------------|-------------------------|---------------------------------------------|-----------------------------------|
| 1997A                        | \$ 10,000,000                  | CitiGroup           | 6/24/2005             | SIFMA Swap index         | 62.4% of 1-month LIBOR + 0.705%  | 10/1/2021               | \$ 202,506                                  | 71,830                            |
| 1997A                        | 15,000,000                     | Goldman Sachs       | 11/19/2010            | SIFMA Swap index + 0.04% | Floating CPI rate + 2.05%        | 10/1/2021               | 2,009,654                                   | 390,881                           |
| 1998B                        | 84,000,000                     | CitiGroup           | 6/24/2005             | SIFMA Swap index         | 62.4% of 1-month LIBOR + 0.757%  | 7/1/2028                | 3,206,656                                   | 646,721                           |
| 2015 NT Bank Note            | 68,850,000                     | J.P. Morgan         | 4/24/2003             | SIFMA Swap index         | 67% of 1-month LIBOR plus 0.655% | 7/1/2037                | 3,180,002                                   | 479,381                           |

(1) Fair value at September 30, 2016 excludes current net accrued interest receivable of \$543,783.

Definitions:

SIFMA is the Securities Industry Financial Markets Association benchmark rate  
CPI is Consumer Price Index

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2017 and 2016

| Associated bond issue | Notional amount of swap | Counterparty  | Effective date | District pays             | District receives                | Termination date | Fair value at September 30, 2016 (1) | Net cash flows during 2016 |
|-----------------------|-------------------------|---------------|----------------|---------------------------|----------------------------------|------------------|--------------------------------------|----------------------------|
| 1997A                 | \$ 10,000,000           | CitiGroup     | 6/24/2005      | SIFMA Sw ap index         | 62.4% of 1-month LIBOR + 0.705%  | 10/1/2021        | \$ 202,506                           | 71,830                     |
| 1997A                 | 15,000,000              | Goldman Sachs | 11/19/2010     | SIFMA Sw ap index + 0.04% | Floating CPI rate + 2.05%        | 10/1/2021        | 2,009,654                            | 390,881                    |
| 1998B                 | 84,000,000              | CitiGroup     | 6/24/2005      | SIFMA Sw ap index         | 62.4% of 1-month LIBOR + 0.757%  | 7/1/2028         | 3,206,656                            | 646,721                    |
| 2015 NT Bank Note     | 68,850,000              | J.P. Morgan   | 4/24/2003      | SIFMA Sw ap index         | 67% of 1-month LIBOR plus 0.655% | 7/1/2037         | 3,180,002                            | 479,381                    |

(1) Fair value at September 30, 2016 excludes current net accrued interest receivable of \$543,783.

Definitions:

SIFMA is the Securities Industry Financial Markets Association benchmark rate

CPI is Consumer Price Index

**Risks**

**Credit risk:** The District is exposed to credit risk on investment derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the District's policy to require counterparty collateral posting provisions in its nonexchange-traded swaps. These terms require full collateralization of the fair value of the swaps in asset positions (net of the effect on applicable netting arrangements) should the counterparty's Moody's credit rating fall below Baa3. The District is not required to post collateral to the counterparty in any circumstance. Collateral is to be posted in the form of U.S. Treasury securities held by a third-party custodian.

**Interest rate risk:** The District is exposed to interest rate risk on its pay-fixed, receive variable interest rate swap; as LIBOR decreases, the District's net settlement payment increases.

**Basis risk:** The District is exposed to basis risk on its swap in which it pays based on SIFMA and receives a payment based on the six-month change based on the CPI index because the variable rate payments received by the District are based on an index other than the interest rates the District pays on its hedged variable rate demand obligations. As of September 30, 2017, the rate the District paid the counterparty was 0.98% and the rate received was 3.65%.

The District is also exposed to basis risk on the three swaps in which the District payment is based on the SIFMA index and receives a payment based on the one-month LIBOR index. As of September 30, 2017, the SIFMA index was 0.94% and the one-month LIBOR index was 1.23%.

**Termination risk:** The District or its counterparties may terminate each of the derivative instruments if the other party fails to perform under the terms of the contract. Additionally, the District can terminate the contracts without cause at any time.

Any termination of a contract would cause a settlement payment or receipt at the fair value of the instrument.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2017 and 2016

### (7) Retirement Plan

#### (a) *General Information about the Defined Benefit Retirement Plan*

*Plan description.* The SMH Health Care Retirement Plan (the Plan) is a single employer defined benefit pension plan administered by the District. On September 24, 1995, the District withdrew from the Florida Retirement System (FRS). This withdrawal was accomplished by transferring all District employees to SMH Health Care, Inc., a related organization. SMH Health Care, Inc. contracts with the District for leased personnel services. All employees of SMH Health Care, Inc. were given a one-time option to choose between two defined benefit retirement options with an effective date of October 1, 1995. The two options within the single defined benefit Plan were a "Traditional Pension Benefit" component or a "Pension Equity Benefit" component. Participants entering the Plan subsequent to October 1, 1995 accrue benefits under the Pension Equity Benefit component. All employees' benefits previously earned through FRS are guaranteed under the new retirement plan. Employees who had 10 or more years of service under FRS as of September 30, 1995 were entitled to a pension from the State of Florida. Employees who did not have 10 years of service retained their years of service under either of the new options. Plan members are not required or permitted to contribute to the Plan under the funding policy. The District is required to contribute at an actuarially determined rate based on State of Florida rules.

During the year ended September 30, 2003, the District changed the status of the Plan from an ERISA plan to a governmental plan under the Florida Statutes thereby eliminating various ERISA requirements. The change was made effective for the year ended September 30, 2003. On March 26, 2003, the District formally requested a private letter ruling from the Internal Revenue Service (IRS) to change the status of the pension plan to a governmental plan. On January 22, 2007, the IRS informed the District that the IRS would not issue letter rulings on whether or not a plan is a "governmental plan" because the IRS intends to publish new guidance regarding the meaning of a "governmental plan". To date, no such guidance has been published. Management believes, based on discussions with legal counsel, that a favorable outcome will ultimately be granted. However, if the IRS were to determine that the Plan is not a "governmental plan", it is estimated that no additional contribution would be necessary for the Plan to be 80% funded on an ERISA plan basis (including the changes under the Pension Protection Act which impacts ERISA plans starting with 2008 plan years) as of October 1, 2016. This estimate includes any adjustments for the funding relief legislation passed in July 2012 and in August 2014.

The Plan is closed to any employee hired or rehired on or after October 1, 2009. The District issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report is available on the District's website at [www.smh.com](http://www.smh.com) and also may be obtained by writing to the District.

Benefits provided. The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Retirement benefits accrue under the Plan in one of two ways, depending on the component of the Plan. The Sarasota County Public Hospital Board has the authority under which benefit terms are established or may be amended.

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Traditional Pension Benefit – Annual benefits accrue beginning at the normal retirement date, equal to the product of a percentage (based on age and years of service) of the final average compensation and the participant’s number of years of service, less any vested benefit payable under FRS. The number of years of service includes the credited service under FRS prior to October 1, 1995. After October 1, 1995, the years of service include all plan years with at least 1,000 hours of service.

The percentage of the participant’s final average compensation is determined by:

|                                        |        |
|----------------------------------------|--------|
| Age less than 63                       | 1.60 % |
| Age equal to 63 or service equal to 31 | 1.63   |
| Age equal to 64 or service equal to 32 | 1.65   |
| Age equal to 65 or service equal to 33 | 1.68   |

Final average compensation is a participant’s average annual compensation for the five calendar years rendered prior to retirement date during which their compensation was the highest and such participant was an eligible employee.

Pension Equity Benefit – The participant’s lump sum benefit amount under the Pension Equity Benefit formula equals the sum of the participant’s pension equity credits determined for each year of accrued service credited after September 30, 1995, multiplied by the participant’s highest average compensation over any five calendar years preceding termination while a participant. A participant shall earn pension equity credits for each year of accrual service as follows:

| <u>Age last birthday on October 1 of the plan year</u> | <u>Credits earned</u> |
|--------------------------------------------------------|-----------------------|
| Less than 30                                           | 6 %                   |
| 30–39                                                  | 9                     |
| 40–49                                                  | 12                    |
| 50 or above                                            | 15                    |

Any participant under the Pension Equity Benefit option with less than 10 years of service under the FRS plan as of October 1, 1995 is also entitled to a Traditional Pension Benefit (as described above) based on the participant’s service and final average compensation as of September 30, 1995.

Death Benefits – For pre-retirement death benefits, the surviving spouse of a vested participant under the Traditional Pension Benefit option who dies on or after age 42 will be entitled to receive a lifetime monthly benefit equal to 50% of the benefit the participant would have received under the joint and 50% survivor form of benefit if he had elected immediate commencement of his accrued benefit.

The surviving spouse of a vested participant under the Traditional Pension Benefit option who dies before age 42 will be entitled to receive a lifetime monthly benefit equal to 50% of the benefit the participant would have received under the joint and 50% survivor form of benefit if he had elected commencement of his accrued benefit at age 42. The benefit payable to the surviving spouse will commence on the first day of the month after the early retirement date.

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For post-retirement death benefits, the surviving spouse's benefit is determined in accordance with the annuity option selected at retirement.

The pre-retirement death benefit payable to a beneficiary of any vested participant under the Pension Equity Benefit option is a lump sum equal to the Pension Equity Benefit amount at the date of death.

Disability Benefits – A participant who becomes disabled prior to satisfying the requirements for a normal retirement pension will be entitled to receive a monthly retirement benefit commencing on the participant's normal retirement date. The monthly benefit will equal his accrued benefit based on compensation at date of disability and service projected to the date his retirement benefit begins.

**(b) Employees Covered by Benefit Terms.**

At October 1, 2016, the following employees were covered by the benefit terms:

|                                                                          |                     |
|--------------------------------------------------------------------------|---------------------|
| Inactive employees (or their beneficiaries) currently receiving benefits | 901                 |
| Inactive employees entitled to but not yet receiving benefits            | 529                 |
| Active employees                                                         | <u>1,468</u>        |
|                                                                          | <u><u>2,898</u></u> |

*Contributions.* The Board reserves the right at any time, by majority consent in writing or by a meeting, to amend, suspend or terminate the Plan, any contributions thereunder, the Trust or any contract issued by an insurance carrier forming a part of the Plan, in whole or in part and for any reason and without the consent of any Participating Company, Member, other Employee, Beneficiary or Surviving Spouse. Subject to certain provisions, no amendment or modification can be made which would (i) retroactively impair any right to any benefit under the Plan which any Member, Beneficiary or Surviving Spouse would otherwise have had at the date of such amendment by reason of the contributions theretofore made, or (ii) make it possible for any part of the funds of the Plan (other than such part as is required to pay taxes, if any, and administrative expenses as provided in Section 14.4) to be used for or diverted to any purposes other than for the exclusive benefit of Members and their Beneficiaries and Surviving Spouses under the Plan prior to the satisfaction of all liabilities with respect thereto. Subject to the above, the District contributes to the Plan, the amounts recommended by the Actuary as necessary to maintain the Plan on a sound actuarial basis, in accordance with Florida law and the Internal Revenue Service Code. The District contributed \$12,139,689 and \$14,551,924, during the years ended September 30, 2017 and 2016, respectively. The Plan recognized contributions of \$14,551,924 and \$49,810,358, as additions to the Plan's fiduciary net position during the fiscal years ended September 30, 2017 and 2016, respectively.

**(c) Net Pension Liability**

The District's net pension liability was measured as of September 30, 2016 for the fiscal year ended September 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2015 rolled-forward to September 30, 2016 using standard roll-forward techniques.

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*Actuarial assumptions.* The total pension liability in the October 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |                                        |
|---------------------------|----------------------------------------|
| Inflation                 | 2.50 %                                 |
| Investment rate of return | 7.00                                   |
| Salary increases          | <b>Based on actual plan experience</b> |
|                           | <b>% increase at</b>                   |
|                           | <b>Age</b>                             |
|                           | <b>% increase at</b>                   |
|                           | <b>attained age</b>                    |
|                           | Less than 30                           |
|                           | 6.50 %                                 |
|                           | 30-44                                  |
|                           | 6.00                                   |
|                           | 45-54                                  |
|                           | 5.00                                   |
|                           | 56 or older                            |
|                           | 4.00                                   |

Healthy and disabled mortality rates were based on the RP-2014 healthy and disabled mortality tables for males and females, respectively, with the MP-2014 projection scale backed out to 2006 and then projected forward generationally using Scale BB (male). The long-term expected rate of return on retirement plan investments was determined using the January 1, 2017 Willis Towers Watson U.S. Capital Market assumptions investment return model. The Plan asset allocation and long-term rate of return as of September 30, 2016 was:

|                        | <b>Actual<br/>allocation</b> | <b>Target<br/>allocation</b> | <b>Long-term<br/>expected rate<br/>of return</b> |
|------------------------|------------------------------|------------------------------|--------------------------------------------------|
| Large cap stocks       | 20.8 %                       | 21.0 %                       | 7.3 %                                            |
| Small cap stocks       | 3.9                          | 4.0                          | 6.9                                              |
| International stocks   | 22.1                         | 22.0                         | 7.3                                              |
| Private equity         | 4.6                          | 5.0                          | 8.3                                              |
| Emerging market stocks | 8.7                          | 8.0                          | 7.8                                              |
| Real estate            | 5.4                          | 5.0                          | 5.9                                              |
| Hedge fund of funds    | 4.7                          | 5.0                          | 5.7                                              |
| High-yield bonds       | 4.2                          | 5.0                          | 4.9                                              |
| BarCap Aggregate bonds | 24.0                         | 25.0                         | 3.7                                              |
| Cash                   | 1.6                          | —                            | 3.0                                              |
|                        | <u>100.0 %</u>               | <u>100.0 %</u>               |                                                  |

Based on the target allocation, the mean return over 15 and 20 years ranged from 6.91% to 7.01%, respectively. The median return over 15 and 20 years ranged from 6.95% and 7.02%, respectively.

*Discount rate.* The discount rate used to determine the actuarial accrued liability for funding and the total pension liability for expense is equal to the expected return on assets of 7.0%. The projection of cash flows used to determine the discount rate was based on expected benefit payments and employer

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contributions based on the actuarially determined contributions. Based on those assumptions, the pension plan fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long term expected rate of return on retirement plan investments was applied to all periods of projected benefit payments to determine the total pension liability and does not incorporate a municipal bond rate.

**(d) Changes in the Net Pension Liability**

|                                 | Increase (decrease)     |                             |                       |
|---------------------------------|-------------------------|-----------------------------|-----------------------|
|                                 | Total pension liability | Plan fiduciary net position | Net pension liability |
|                                 | (a)                     | (b)                         | (c)                   |
| Balances at September 30, 2015  | \$ 336,237,794          | 296,628,086                 | 39,609,708            |
| Changes for the year:           |                         |                             |                       |
| Service cost                    | 9,357,119               | —                           | 9,357,119             |
| Interest                        | 23,572,643              | —                           | 23,572,643            |
| Demographic (gains)/losses      | (745,239)               | —                           | (745,239)             |
| Change in actuarial assumptions | 11,080,081              | —                           | 11,080,081            |
| Net investment income           | —                       | (9,642,501)                 | 9,642,501             |
| Contributions-employer          | —                       | 49,810,358                  | (49,810,358)          |
| Benefits payments               | (19,641,173)            | (19,641,173)                | —                     |
| Administrative expense          | —                       | (344,878)                   | 344,878               |
| Net changes                     | <u>23,623,431</u>       | <u>20,181,806</u>           | <u>3,441,625</u>      |
| Balances at September 30, 2016  | <u>359,861,225</u>      | <u>316,809,892</u>          | <u>43,051,333</u>     |
| Changes for the year:           |                         |                             |                       |
| Service cost                    | 9,619,975               | —                           | 9,619,975             |
| Interest                        | 24,231,700              | —                           | 24,231,700            |
| Demographic (gains)/losses      | (520,626)               | —                           | (520,626)             |
| Change in actuarial assumptions | (2,669,926)             | —                           | (2,669,926)           |
| Net investment income           | —                       | 30,898,892                  | (30,898,892)          |
| Contributions-employer          | —                       | 14,551,924                  | (14,551,924)          |
| Benefits payments               | (21,007,051)            | (21,007,051)                | —                     |
| Administrative expense          | —                       | (388,330)                   | 388,330               |
| Net changes                     | <u>9,654,072</u>        | <u>24,055,435</u>           | <u>(14,401,363)</u>   |
| Balances at September 30, 2017  | <u>\$ 369,515,297</u>   | <u>340,865,327</u>          | <u>28,649,970</u>     |

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the District, calculated using the discount rate of 7.0%, as well as what the District's

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net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

|                                  | <u>1% Decrease<br/>(6.0)%</u> | <u>Current<br/>discount<br/>(7.0)%</u> | <u>1% Increase<br/>(8.0)%</u> |
|----------------------------------|-------------------------------|----------------------------------------|-------------------------------|
| District's net pension liability | \$ 61,024,664                 | 28,649,970                             | 935,355                       |

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan audited financial statements, which can be obtained from www.smh.org. The Plan's fiduciary net position has been determined on the same basis used by the Plan. The Plan financial statements have been prepared using the accrual basis of accounting (except for benefit payments which are recorded when paid) and in accordance with generally accepted accounting principles. The Plan's investments are stated at fair value, based on quoted market prices.

**(e) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The District recognized pension expense of \$13,816,537 and \$16,613,720, respectively, for the years ended September 30, 2017 and 2016. At September 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|                                                                                  | <u>2017</u>                                   |                                              |
|----------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------|
|                                                                                  | <u>Deferred<br/>outflows of<br/>resources</u> | <u>Deferred<br/>inflows of<br/>resources</u> |
| Differences between expected and actual experience                               | \$ —                                          | 1,772,766                                    |
| Changes in assumptions                                                           | 6,648,049                                     | 2,002,444                                    |
| Net difference between projected and actual earnings on pension plan investments | 5,860,692                                     | —                                            |
| Contributions made by the District during the year ended September 30, 2017      | <u>12,139,689</u>                             | <u>—</u>                                     |
|                                                                                  | \$ <u>24,648,430</u>                          | <u>3,775,210</u>                             |

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At September 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|                                                                                  | <b>2016</b>                                   |                                              |
|----------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------|
|                                                                                  | <b>Deferred<br/>outflows of<br/>resources</b> | <b>Deferred<br/>inflows of<br/>resources</b> |
| Differences between expected and actual experience                               | \$ —                                          | 1,998,922                                    |
| Changes in assumptions                                                           | 8,864,065                                     |                                              |
| Net difference between projected and actual earnings on pension plan investments | 15,534,364                                    | —                                            |
| Contributions made by the District during the year ended September 30, 2016      | 14,551,924                                    | —                                            |
|                                                                                  | <u>\$ 38,950,353</u>                          | <u>1,998,922</u>                             |

District contributions subsequent to the measurement date of \$12,139,689 will be recognized as a reduction of the net pension liability during the fiscal year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended September 30: |                     |
|--------------------------|---------------------|
| 2018                     | \$ 1,412,786        |
| 2019                     | 3,611,194           |
| 2020                     | 5,522,080           |
| 2021                     | <u>(1,812,529)</u>  |
|                          | <u>\$ 8,733,531</u> |

**(f) General Information about the Defined Contribution Plan**

Employees hired on or after October 1, 2009 participate in a defined contribution plan named the SMHCS Retirement Savings Plan (RSP Plan), whereby the District contributes a stated percentage of qualified earnings into the RSP Plan. The stated contribution rate for the fiscal years ended September 30, 2017 and 2016 was 4% of qualified earnings and does not require a matching contribution by the employee. The expense of the RSP Plan for the years ended September 30, 2017 and 2016 was \$5,730,367 and \$4,402,991, respectively, and is included in salaries, wages and fringe benefits on the statements of revenues, expenses and changes in net position.

**(8) Post-Employment Benefits**

The District provides other postemployment health care benefits (OPEB Plan) to all employees who retire from the District under the OPEB Plan after 20 or more years of service and age 55, or after 30 years of service. Premiums paid by retirees are based on the projected average plan cost of the District's self-insured health benefit program for the year.

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Life insurance is offered to those who retire under the Florida Retirement System (FRS) or the OPEB Plan with at least 20 years of service.

The OPEB Plan is funded on a pay-as-you-go basis. The District may make additional contributions as desired. No additional contributions have been made to date. Separate financial statements for the District's OPEB Plan are not prepared.

The District's OPEB cost is calculated based on the *Annual Required Contribution* of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement Number 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the OPEB Plan, and changes in the District's net OPEB obligation.

|                                            | <u>2017</u>                | <u>2016</u>             |
|--------------------------------------------|----------------------------|-------------------------|
| Annual required contribution               | \$ 714,620                 | 729,255                 |
| Interest on net OPEB obligation            | 185,121                    | 167,549                 |
| Adjustment to annual required contribution | <u>(276,880)</u>           | <u>(248,828)</u>        |
| Annual OPEB cost                           | 622,861                    | 647,976                 |
| Contributions made                         | <u>(9,820)</u>             | <u>(120,590)</u>        |
| Increase in net OPEB obligation            | 613,041                    | 527,386                 |
| Net OPEB obligation, beginning of year     | <u>4,936,562</u>           | <u>4,409,176</u>        |
| Net OPEB obligation, end of year           | \$ <u><u>5,549,603</u></u> | <u><u>4,936,562</u></u> |

The net OPEB obligation is included in other long-term liabilities in the balance sheets. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation for the most recent three years were as follows:

|                                 | <u>Annual<br/>OPEB<br/>cost (AOC)</u> | <u>Percentage<br/>of AOC<br/>contributed</u> | <u>Net<br/>OPEB<br/>obligation</u> |
|---------------------------------|---------------------------------------|----------------------------------------------|------------------------------------|
| Fiscal year ended September 30: |                                       |                                              |                                    |
| 2015                            | \$ 569,424                            | 8.8 %                                        | 4,409,176                          |
| 2016                            | 647,976                               | 18.6                                         | 4,936,562                          |
| 2017                            | 622,861                               | 1.6                                          | 5,549,603                          |

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Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplemental information presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.75% discount rate, the open level dollar amortization method amortized over 30 years, and an annual healthcare cost trend rate of 7.0% initially, reduced each year until an ultimate rate of 5% is reached after 8 years (in the 2024/2025 plan year).

| <u>Actuarial valuation date</u> | <u>Actuarial value of plan assets</u> | <u>Actuarial accrued liability</u> | <u>Unfunded actuarial accrued liability (UAAL)</u> | <u>Funded ratio</u> | <u>Covered payroll</u> | <u>UAAL as a percentage of covered payroll</u> |
|---------------------------------|---------------------------------------|------------------------------------|----------------------------------------------------|---------------------|------------------------|------------------------------------------------|
| 10/1/2016                       | — \$                                  | 8,189,172                          | 8,189,172                                          | — %                 | 262,680,202            | 3.1 %                                          |

**(9) Related Organizations**

The District is related to various organizations through several provisions contained in the articles of incorporation and bylaws of the entities. These related organizations are not component units of the District because while they are legally separate, the District does not appoint the voting majority of the organizations' Boards, they are not fiscally dependent on the District, the District does not have access to the entities' resources nor is it responsible for the entities' debts, and it would not be misleading to not

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include the entity as a component unit. Net amounts due from/to these related organizations and investments in related organizations as of September 30, 2017 and 2016 are as follows:

|                                               | <u>2017</u>          | <u>2016</u>       |
|-----------------------------------------------|----------------------|-------------------|
| Current assets:                               |                      |                   |
| Community Health Corporation                  | \$ 1,499             | 15,917            |
| Physician Hospital Organization, Inc.         | 71,565               | 40,589            |
| LeeSar Inc.                                   | 1,070,000            | 1,070,000         |
| Other                                         | —                    | 3,267             |
| Total current assets                          | \$ <u>1,143,064</u>  | <u>1,129,773</u>  |
| Noncurrent assets (included in other assets): |                      |                   |
| Investment in LeeSar Inc.                     | \$ <u>18,603,193</u> | <u>17,626,280</u> |
| Total noncurrent assets                       | \$ <u>18,603,193</u> | <u>17,626,280</u> |
| Current liabilities:                          |                      |                   |
| Other                                         | \$ <u>192</u>        | <u>750</u>        |
| Total current liabilities                     | \$ <u>192</u>        | <u>750</u>        |

Community Health Corporation was established to provide educational services, operate, manage, and own health care facilities, provide services for the care of persons suffering from illnesses and disabilities, and to further the interest of the District.

Physician Hospital Organization, Inc. is a corporation formed by physicians and the Hospital. The corporation contracts with payors to provide health care services. The District and certain medical staff physicians are each 50% members of the entity. The District utilizes the equity method of accounting for the investment.

During 1998, the Hospital entered into a joint venture with another southwest Florida area governmental hospital. The purpose of the joint venture was to develop a regional service center, LeeSar HealthTrust Partners, L.C. (LeeSar), to meet the materials services and distribution needs of both hospitals. The hospitals agreed to fund initial costs of opening LeeSar and working capital needs through an established line of credit. Each hospital provided a revolving credit loan not to exceed \$3,000,000 to assist in funding LeeSar purchases, capital costs, and operational costs. The terms of the amended agreement stated the entire principal and accrued interest would be due and payable on September 30, 2005. The District voted in November 2003 to convert the LeeSar loan to an equity form of investment, effective September 30, 2003, due to LeeSar's inability to repay the loan under the current terms. Each organization had a 50% ownership interest through the year ended September 30, 2010. During 2010, the partners sold 5.555% each, of their respective ownership interest to a central Florida hospital. As a result, the Hospital now has a 44.445% ownership interest. The Hospital is accounting for the joint venture under the equity method of accounting. LeeSar's excess of revenues over expenses was approximately \$2,198,000 and \$3,734,000 for the years ended September 30, 2017 and 2016, respectively. Effective October 1, 2009, LeeSar

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Healthtrust Partners, L.C. merged with LeeSar Inc. LeeSar Inc., the surviving corporation, is a 501(c)(3) not-for-profit Florida corporation.

Sarasota Memorial Healthcare Foundation, Inc. (the Foundation) was formed to assist in fund-raising activities and community relations. The Foundation is not a component unit of the District because it is a legally separate organization, benefits other healthcare organizations in Sarasota County, and is not controlled by the Sarasota County Public Hospital Board. Funds contributed by the Foundation to the District are recorded as restricted or unrestricted gifts and bequests depending on the nature of the donation.

The District has pledges receivable from the Foundation of approximately \$1,195,000 and \$1,303,000 which are included in restricted investments as of September 30, 2017 and 2016, respectively. The District received \$3,004,000 and \$1,835,000 from the Foundation during the years ended September 30, 2017 and 2016, respectively.

### **(10) Malpractice Insurance**

The District is subject to malpractice claims and litigation. Losses incurred have been estimated and accrued in the accompanying financial statements. The District is potentially liable for losses in excess of amounts accrued. However, in management's opinion, such excess, if any, should not have a material adverse effect on the results of operations or financial position of the District. Effective September 12, 1986, the District, as a "state agency or subdivision," eliminated its malpractice insurance coverage and invoked sovereign immunity for medical malpractice claims in excess of \$100,000 per individual and \$200,000 per occurrence. Effective October 1, 2011, the sovereign immunity limits increased to \$200,000 per individual and \$300,000 per occurrence. The District has accrued for the Hospital and Sarasota Memorial Nursing and Rehabilitation Center approximately \$6,744,000 and \$6,685,000 as of September 30, 2017 and 2016, respectively, for estimated professional liability claims. The current portion of this is included in other accrued expenses and the noncurrent portion is included in other long-term liabilities in the accompanying balance sheets.

PSI is subject to malpractice claims and litigation. Losses incurred have been estimated and accrued in the accompanying financial statements. PSI is potentially liable for losses in excess of amounts accrued. However, in management's opinion, such excess, if any, should not have a material adverse effect on the results of operations or financial position of PSI. PSI has received a favorable ruling on a court decision that its physicians are covered under the doctrine of sovereign immunity. Effective December 1, 2003, PSI as a "state agency or subdivision," eliminated its malpractice insurance coverage and invoked sovereign immunity for medical malpractice claims in excess of \$100,000 per individual and \$200,000 per occurrence. As noted above, effective October 1, 2011, the sovereign immunity limits increased to \$200,000 per individual and \$300,000 per occurrence. PSI accrued approximately \$3,527,000 and \$3,139,000 as of September 30, 2017 and 2016, respectively, for professional liability claims. The current portion of this liability is included in other accrued expenses and the noncurrent portion is included in other long-term liabilities in the accompanying balance sheets.

Prior to December 1, 2003, PSI carried professional and comprehensive general liability insurance for each physician for claims arising from acts or omissions occurring within the scope of the physician's employment with PSI. The amount of coverage for each physician was determined jointly by PSI and the physician. The minimum coverage was \$250,000 for each claim and \$750,000 in the aggregate.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2017 and 2016

Activity related to these self-insured professional liability claims included as a component of other accrued expenses and other long-term liabilities in the accompanying balance sheets for the years ended September 30, 2017, 2016, and 2015 is reflected in the tables below:

|                          | <b>2017</b>                                                    |                                           |                 |                                                                |
|--------------------------|----------------------------------------------------------------|-------------------------------------------|-----------------|----------------------------------------------------------------|
|                          | <b>Self-insured<br/>liabilities<br/>September 30,<br/>2016</b> | <b>Insurance<br/>expense<br/>(credit)</b> | <b>Payments</b> | <b>Self-insured<br/>liabilities<br/>September 30,<br/>2017</b> |
| Professional liabilities | \$ 9,824,000                                                   | 1,448,714                                 | (1,001,714)     | 10,271,000                                                     |

  

|                          | <b>2016</b>                                                    |                                           |                 |                                                                |
|--------------------------|----------------------------------------------------------------|-------------------------------------------|-----------------|----------------------------------------------------------------|
|                          | <b>Self-insured<br/>liabilities<br/>September 30,<br/>2016</b> | <b>Insurance<br/>expense<br/>(credit)</b> | <b>Payments</b> | <b>Self-insured<br/>liabilities<br/>September 30,<br/>2017</b> |
| Professional liabilities | \$ 9,280,000                                                   | 861,968                                   | (317,968)       | 9,824,000                                                      |

The District had no significant reductions in insurance coverage during the fiscal year ended September 30, 2017. There were no settlements which exceeded the District's insurance coverage in any of the past three fiscal years.

**(11) Commitments and Contingencies**

The District has various contractual arrangements for employment contracts, leased office space related to medical practices, and equipment leases. Some of the employment contracts and operating leases have initial or remaining noncancelable lease terms in excess of one year. Total operating lease expense for the years ended September 30, 2017 and 2016 was approximately \$9,209,000 and \$9,283,000, respectively.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2017 and 2016

Minimum payments required under contractual employment agreements and operating leases as of September 30, 2017 are approximately as follows:

|                                    | <b>Employment<br/>contracts</b> | <b>Operating<br/>leases</b> | <b>Total</b>      |
|------------------------------------|---------------------------------|-----------------------------|-------------------|
| Year ending September 30:          |                                 |                             |                   |
| 2018                               | \$ 20,373,460                   | 7,086,962                   | 27,460,422        |
| 2019                               | —                               | 7,157,403                   | 7,157,403         |
| 2020                               | —                               | 7,204,856                   | 7,204,856         |
| 2021                               | —                               | 4,947,657                   | 4,947,657         |
| 2022                               | —                               | 4,498,418                   | 4,498,418         |
| All years after September 30, 2022 | —                               | 7,621,918                   | 7,621,918         |
|                                    | <u>\$ 20,373,460</u>            | <u>38,517,214</u>           | <u>58,890,674</u> |

Additionally, the District may from time to time, be party to routine legal proceedings incidental to the operation of its business. The outcome of any pending or threatened proceedings is not expected to have a material adverse effect on the financial condition, operating results, or cash flows of the District.

**(12) Concentrations of Credit Risk**

Financial instruments which potentially subject the District to concentrations of credit risk consist principally of cash and cash equivalents, investments, patient accounts receivable, other assets, and investments restricted under bond indenture agreements or by donors or designated by the Board for future use.

The District places its cash and cash equivalents with what management believes to be high credit quality financial institutions. As stated in note 2, the custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not held in the District's name. The District's governmental bank balances are held in accounts protected under Chapter 280, Florida Statutes in institutions classified as qualified public depositories under Chapter 280 for the years ended September 30, 2017 and 2016. Other entities of the District have deposits in a financial institution in excess of federally insured limits and which are not collateralized.

As noted in note 2(b), the District's board designated and restricted investments are primarily invested in time deposits with high credit quality financial institutions, U.S. Treasury bonds and notes, government-backed mortgage securities, and highly rated corporate bonds.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2017 and 2016

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors as of September 30, 2017 and 2016 was as follows:

|                             | <u>2017</u>    | <u>2016</u>    |
|-----------------------------|----------------|----------------|
| Medicare                    | 31.5 %         | 35.5 %         |
| Self-pay and others         | 30.0           | 26.7           |
| Managed care and commercial | 23.7           | 24.2           |
| Medicaid                    | 14.8           | 13.6           |
|                             | <u>100.0 %</u> | <u>100.0 %</u> |

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Required Supplemental Information

Schedule of the Changes in the Net Pension Liability and Related Ratios (Unaudited)

September 30, 2017 and 2016

|                                           | <u>2017</u>          | <u>2016</u>         | <u>2015</u>         | <u>2014</u>         |
|-------------------------------------------|----------------------|---------------------|---------------------|---------------------|
| Total pension liability:                  |                      |                     |                     |                     |
| Service cost                              | \$ 9,619,975         | 9,357,119           | 9,593,252           | 10,036,918          |
| Interest                                  | 24,231,700           | 23,572,643          | 21,938,676          | 21,187,578          |
| Demographic (gains)/losses                | (520,626)            | (745,239)           | (2,337,885)         | —                   |
| Change in actuarial assumptions           | (2,669,926)          | 11,080,081          | —                   | —                   |
| Benefit payments                          | <u>(21,007,051)</u>  | <u>(19,641,173)</u> | <u>(17,407,572)</u> | <u>(18,905,723)</u> |
| Net change in total pension liability     | 9,654,072            | 23,623,431          | 11,786,471          | 12,318,773          |
| Total pension liability – beginning       | <u>359,861,225</u>   | <u>336,237,794</u>  | <u>324,451,323</u>  | <u>312,132,550</u>  |
| Total pension liability – ending (a)      | <u>369,515,297</u>   | <u>359,861,225</u>  | <u>336,237,794</u>  | <u>324,451,323</u>  |
| Plan fiduciary net position:              |                      |                     |                     |                     |
| Contributions-employer                    | 14,551,924           | 49,810,358          | 16,606,485          | 98,258,981          |
| Net investment income                     | 30,898,892           | (9,642,501)         | 26,103,829          | 22,947,703          |
| Benefit payments                          | (21,007,051)         | (19,641,173)        | (17,407,572)        | (18,905,723)        |
| Administrative expense                    | <u>(388,330)</u>     | <u>(344,878)</u>    | <u>(294,193)</u>    | <u>(349,092)</u>    |
| Net change in plan fiduciary net position | 24,055,435           | 20,181,806          | 25,008,549          | 101,951,869         |
| Plan fiduciary net position – beginning   | <u>316,809,892</u>   | <u>296,628,086</u>  | <u>271,619,537</u>  | <u>169,667,668</u>  |
| Plan fiduciary net position – ending (b)  | <u>340,865,327</u>   | <u>316,809,892</u>  | <u>296,628,086</u>  | <u>271,619,537</u>  |
| Net pension liability – ending (a)-(b)    | \$ <u>28,649,970</u> | <u>43,051,333</u>   | <u>39,609,708</u>   | <u>52,831,786</u>   |

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Required Supplemental Information

Schedule of the Changes in the Net Pension Liability and Related Ratios (Unaudited)

September 30, 2017 and 2016

|                                                                            | <u>2017</u>    | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|----------------------------------------------------------------------------|----------------|-------------|-------------|-------------|
| Plan fiduciary net position as a percentage of the total pension liability | 92.2 %         | 88.0 %      | 88.2 %      | 83.7 %      |
| Covered-employee payroll                                                   | \$ 124,949,986 | 127,730,377 | 133,004,920 | 139,579,218 |
| Net pension liability as a percentage of covered-employee payroll          | 22.9 %         | 33.7 %      | 29.8 %      | 37.9 %      |

See accompanying notes to required supplemental information and independent auditors' report.

Note: The Schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**  
 Required Supplemental Information  
 Schedule of the District's Pension Contributions (Unaudited)  
 September 30, 2017 and 2016

A schedule of the District's Pension Contributions for the most recent ten fiscal years is as follows:

|                                                                      | <u>2017</u>       | <u>2016</u>       | <u>2015</u>         | <u>2014</u>       | <u>2013</u>           | <u>2012</u>       | <u>2011</u>       | <u>2010</u>       | <u>2009</u>       | <u>2008</u>       |
|----------------------------------------------------------------------|-------------------|-------------------|---------------------|-------------------|-----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Actuarially determined contribution                                  | \$ 12,139,689     | 14,551,924        | 19,810,358          | 16,606,485        | 23,258,981            | 23,698,368        | 22,664,712        | 22,648,703        | 19,296,545        | 17,462,000        |
| Contributions in relation to the actuarially determined contribution | <u>12,139,689</u> | <u>14,551,924</u> | <u>49,810,358</u>   | <u>16,606,485</u> | <u>98,258,981</u> (a) | <u>23,698,368</u> | <u>22,664,712</u> | <u>22,648,703</u> | <u>19,296,545</u> | <u>17,462,000</u> |
| Contribution deficiency/(excess)                                     | \$ <u>—</u>       | <u>—</u>          | <u>(30,000,000)</u> | <u>—</u>          | <u>(75,000,000)</u>   | <u>—</u>          | <u>—</u>          | <u>—</u>          | <u>—</u>          | <u>—</u>          |
| Covered-employee payroll                                             | \$ 118,225,538    | 124,949,986       | 127,730,377         | 133,004,920       | 139,579,218           | 153,291,551       | 161,452,376       | 166,667,613       | 150,848,731       | 139,894,544       |
| Contributions as a% of covered-employee payroll                      | 10.3 %            | 11.6 %            | 39.0 %              | 12.5 %            | 70.4 %                | 15.5 %            | 14.0 %            | 13.6 %            | 12.8 %            | 12.5 %            |

(a) Pension contributions in fiscal year 2013 of \$98,258,981 included \$17,773,776 that were recognized as a receivable by the Pension Plan in fiscal year 2012.

See accompanying notes to required supplemental information and independent auditors' report.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**  
 Required Supplemental Information  
 Schedule of Funding Progress – OPEB (Unaudited)  
 September 30, 2017 and 2016

A schedule of funding progress for the previous seven plan years is as follows:

| Actuarial<br>valuation<br>date | Actuarial<br>value of<br>plan assets | Actuarial<br>accrued<br>liability | Unfunded<br>actuarial<br>accrued<br>liability<br>(UAAL) | Funded<br>ratio | Covered<br>payroll | UAAL as a<br>percentage<br>of covered<br>payroll |
|--------------------------------|--------------------------------------|-----------------------------------|---------------------------------------------------------|-----------------|--------------------|--------------------------------------------------|
| 10/2010                        | —                                    | \$ 8,333,008                      | 8,333,008                                               | — %             | 174,865,030        | 4.8 %                                            |
| 10/2011                        | —                                    | 7,561,305                         | 7,561,305                                               | —               | 180,806,146        | 4.2                                              |
| 10/2012                        | —                                    | 7,356,185                         | 7,356,185                                               | —               | 183,435,395        | 4.0                                              |
| 10/2013                        | —                                    | 7,305,740                         | 7,305,740                                               | —               | 193,463,523        | 3.8                                              |
| 10/2014                        | —                                    | 7,151,506                         | 7,151,506                                               | —               | 204,206,489        | 3.5                                              |
| 10/2015                        | —                                    | 8,337,468                         | 8,337,468                                               | —               | 230,747,093        | 3.6                                              |
| 10/2016                        | —                                    | 8,189,172                         | 8,189,172                                               | —               | 262,680,202        | 3.1                                              |

See accompanying notes to required supplemental information and independent auditors' report.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

### Notes to Required Supplemental Information

September 30, 2017 and 2016

#### (1) Schedule of the District's Pension Contributions

Actuarially determined contributions are calculated two years prior to the end of the fiscal year in which contributions are reported. The most recent actuarial valuation was performed as of October 1, 2016. Contributions are made one fiscal year prior to the fiscal year in which the contributions are reported. Contributions made in the most recent fiscal year are reported on the balance sheets as deferred outflows related to pensions, and reverse in the following year.

|                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Methods and assumptions used to determine contribution rates: |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Actuarial cost method                                         | Entry age normal; prior to 10/1/2014 Valuation Date, projected unit credit was used                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Amortization method                                           | Level dollar amount over working life expectancy; prior to 10/1/2012 level dollar amount over 30 years was used                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Remaining amortization period                                 | 8 years (based on average remaining expected service of active plan participants as of 10/1/2015)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Asset valuation method                                        | 5 year smoothed market                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Inflation                                                     | 2.5% for 10/1/2013 and later; rates from 2.75% to 3.0% for prior periods                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Salary increases                                              | 5.0%, average, including inflation; In the 2008, 2012, and 2016 actuarial valuations, expected salary increases were adjusted to age-graded rates to more closely reflect actual experience. Prior to 2008, 5.5%.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Investment rate of return                                     | 7%, net of pension plan investment expense, including inflation; 7.25% was used for the 2011 actuarial valuation; 7.5% was used for the 2008 through 2010 actuarial valuations; 8.0% was used prior to 2008                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Retirement age                                                | Age graded rates from 50 to 75; Prior to 2015, age-graded rates from 50 to 70. Expected retirement rates were adjusted in 2010 and 2015 to more closely reflect actual experience.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Mortality                                                     | In the 2016 valuation, assumed life expectancies were adjusted based on the State mandated tables of the combined RP-2000 Mortality Tables for males and females projected generationally from 2000 using Scale BB for males and females. In the 2014 and 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP 2014 employee/annuitant mortality tables for males and females with the MP 2014 projection scale backed out to 2006 and then projected forward generationally using Scale BB (male). In the 2012 and 2013 actuarial valuations, assumed life expectancies were adjusted as a result of adopting the RP 2000 combined mortality tables for males and females projected to 10 years past the valuation date using Scale AA. For the 2008 through 2011 valuations, assumed life expectancies were adjusted as a result of adopting the RP 2000 combined mortality tables for males and females projected to 2015 using Scale AA. Prior to the 2008 actuarial valuation, assumed life expectancies were adjusted 'based on the 1983 Group Annuity Mortality Table for males and females. |
| Other information:                                            | The plan was closed to new or rehired employees on or after 10/1/2009.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Required Supplemental Information

September 30, 2017 and 2016

**(2) Schedule of Funding Progress-OPEB**

In the October 1, 2016 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 3.75% discount rate, the open level dollar amortization method amortized over 30 years, and an annual healthcare cost trend rate of 7.0% initially, reduced each year until an ultimate rate of 5% is reached after 8 years (in the 2024/2025 plan year).

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Supplemental Information – Combining Balance Sheet Information

September 30, 2017

| <b>Assets</b>                                                          | <b>Sarasota<br/>Memorial<br/>Hospital</b> | <b>Corporate<br/>Division</b> | <b>Sarasota<br/>Memorial<br/>Nursing &amp;<br/>Rehabilitation<br/>Center</b> | <b>Eliminations</b> | <b>Sarasota<br/>County Public<br/>Hospital<br/>District</b> | <b>SMH<br/>Health Care,<br/>Inc.</b> | <b>SMH<br/>Physician<br/>Services,<br/>Inc.</b> | <b>Eliminations</b> | <b>Total</b>         |
|------------------------------------------------------------------------|-------------------------------------------|-------------------------------|------------------------------------------------------------------------------|---------------------|-------------------------------------------------------------|--------------------------------------|-------------------------------------------------|---------------------|----------------------|
| <b>Current assets:</b>                                                 |                                           |                               |                                                                              |                     |                                                             |                                      |                                                 |                     |                      |
| Cash and cash equivalents                                              | \$ 23,285,060                             | 1,883,483                     | 1,011,108                                                                    | —                   | 26,179,651                                                  | 148,076                              | 1,495,983                                       | —                   | 27,823,710           |
| Patient accounts receivable, less allowance for uncollectible accounts | 71,864,103                                | —                             | 1,953,430                                                                    | —                   | 73,817,533                                                  | —                                    | 3,960,935                                       | —                   | 77,778,468           |
| Inventories of supplies                                                | 13,943,168                                | —                             | 58,629                                                                       | —                   | 14,001,797                                                  | —                                    | —                                               | —                   | 14,001,797           |
| Prepaid expenses and other assets                                      | 10,466,390                                | 1,028,180                     | 62,435                                                                       | —                   | 11,557,005                                                  | 135,902                              | 3,582,645                                       | —                   | 15,275,552           |
| Due from related organizations                                         | 1,446,871                                 | 76,677                        | 119,624                                                                      | (253,842)           | 1,389,330                                                   | 68,643,823                           | 711                                             | (68,890,800)        | 1,143,064            |
| <b>Total current assets</b>                                            | <b>121,005,592</b>                        | <b>2,988,340</b>              | <b>3,205,226</b>                                                             | <b>(253,842)</b>    | <b>126,945,316</b>                                          | <b>68,927,801</b>                    | <b>9,040,274</b>                                | <b>(68,890,800)</b> | <b>136,022,591</b>   |
| <b>Noncurrent assets:</b>                                              |                                           |                               |                                                                              |                     |                                                             |                                      |                                                 |                     |                      |
| Restricted investments                                                 | 2,936,118                                 | —                             | —                                                                            | —                   | 2,936,118                                                   | —                                    | —                                               | —                   | 2,936,118            |
| Board designated investments                                           | 831,396,423                               | —                             | —                                                                            | —                   | 831,396,423                                                 | —                                    | —                                               | —                   | 831,396,423          |
| Capital assets, net                                                    | 468,716,776                               | 118,657,720                   | 2,984,188                                                                    | —                   | 590,358,684                                                 | —                                    | 1,542,906                                       | —                   | 591,901,590          |
| Other assets                                                           | 18,603,193                                | —                             | —                                                                            | —                   | 18,603,193                                                  | 13,469,986                           | —                                               | —                   | 32,073,179           |
| Interest rate swaps                                                    | 23,177,925                                | 1,533,895                     | —                                                                            | —                   | 24,711,820                                                  | —                                    | —                                               | —                   | 24,711,820           |
| <b>Total noncurrent assets</b>                                         | <b>1,344,830,435</b>                      | <b>120,191,615</b>            | <b>2,984,188</b>                                                             | <b>—</b>            | <b>1,468,006,238</b>                                        | <b>13,469,986</b>                    | <b>1,542,906</b>                                | <b>—</b>            | <b>1,483,019,130</b> |
| <b>Total assets</b>                                                    | <b>1,465,836,027</b>                      | <b>123,179,955</b>            | <b>6,189,414</b>                                                             | <b>(253,842)</b>    | <b>1,594,951,554</b>                                        | <b>82,397,787</b>                    | <b>10,583,180</b>                               | <b>(68,890,800)</b> | <b>1,619,041,721</b> |
| <b>Deferred Outflows of Resources</b>                                  |                                           |                               |                                                                              |                     |                                                             |                                      |                                                 |                     |                      |
| Deferred outflows related to pensions                                  | —                                         | —                             | —                                                                            | —                   | —                                                           | 24,648,430                           | —                                               | —                   | 24,648,430           |
| Deferred amounts on debt refundings                                    | 30,473,577                                | —                             | —                                                                            | —                   | 30,473,577                                                  | —                                    | —                                               | —                   | 30,473,577           |
| Deferred effective interest rate swap outflows                         | 3,656,011                                 | —                             | —                                                                            | —                   | 3,656,011                                                   | —                                    | —                                               | —                   | 3,656,011            |
| <b>Total deferred outflows of resources</b>                            | <b>34,129,588</b>                         | <b>—</b>                      | <b>—</b>                                                                     | <b>—</b>            | <b>34,129,588</b>                                           | <b>24,648,430</b>                    | <b>—</b>                                        | <b>—</b>            | <b>58,778,018</b>    |
| <b>Total assets and deferred outflows of resources</b>                 | <b>\$ 1,499,965,615</b>                   | <b>123,179,955</b>            | <b>6,189,414</b>                                                             | <b>(253,842)</b>    | <b>1,629,081,142</b>                                        | <b>107,046,217</b>                   | <b>10,583,180</b>                               | <b>(68,890,800)</b> | <b>1,677,819,739</b> |

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT1**

Supplemental Information – Combining Balance Sheet Information

September 30, 2017

| <b>Liabilities</b>                                                       | <b>Sarasota<br/>Memorial<br/>Hospital</b> | <b>Corporate<br/>Division</b> | <b>Sarasota<br/>Memorial<br/>Nursing &amp;<br/>Rehabilitation<br/>Center</b> | <b>Eliminations</b> | <b>Sarasota<br/>County Public<br/>Hospital<br/>District</b> | <b>SMH<br/>Health Care,<br/>Inc.</b> | <b>SMH<br/>Physician<br/>Services,<br/>Inc.</b> | <b>Eliminations</b> | <b>Total</b>         |
|--------------------------------------------------------------------------|-------------------------------------------|-------------------------------|------------------------------------------------------------------------------|---------------------|-------------------------------------------------------------|--------------------------------------|-------------------------------------------------|---------------------|----------------------|
| Current liabilities:                                                     |                                           |                               |                                                                              |                     |                                                             |                                      |                                                 |                     |                      |
| Accounts payable                                                         | \$ 29,464,580                             | 1,020,892                     | 741,801                                                                      | —                   | 31,227,273                                                  | 1,630                                | 788,967                                         | —                   | 32,017,870           |
| Employee compensation and benefits payable                               | —                                         | —                             | —                                                                            | —                   | —                                                           | 51,765,489                           | —                                               | —                   | 51,765,489           |
| Other accrued expenses                                                   | 7,373,178                                 | 327,265                       | 129,142                                                                      | —                   | 7,829,585                                                   | —                                    | 732,511                                         | —                   | 8,562,096            |
| Estimated third-party settlements                                        | 22,385,001                                | —                             | 173,872                                                                      | —                   | 22,558,873                                                  | —                                    | —                                               | —                   | 22,558,873           |
| Due to related organizations                                             | 40,025,345                                | 25,959,465                    | 394,610                                                                      | (253,842)           | 66,125,578                                                  | —                                    | 2,765,414                                       | (68,890,800)        | 192                  |
| Current portion of State of Florida medical assistance assessment        | 8,685,991                                 | —                             | —                                                                            | —                   | 8,685,991                                                   | —                                    | —                                               | —                   | 8,685,991            |
| Current portion of long-term debt                                        | 11,734,034                                | 35,966                        | —                                                                            | —                   | 11,770,000                                                  | —                                    | —                                               | —                   | 11,770,000           |
| <b>Total current liabilities</b>                                         | <b>119,668,129</b>                        | <b>27,343,588</b>             | <b>1,439,425</b>                                                             | <b>(253,842)</b>    | <b>148,197,300</b>                                          | <b>51,767,119</b>                    | <b>4,286,892</b>                                | <b>(68,890,800)</b> | <b>135,360,511</b>   |
| Noncurrent liabilities:                                                  |                                           |                               |                                                                              |                     |                                                             |                                      |                                                 |                     |                      |
| Long-term debt, less current portion                                     | 351,799,087                               | 16,942,164                    | —                                                                            | —                   | 368,741,251                                                 | —                                    | —                                               | —                   | 368,741,251          |
| Long-term companion debt, less current portion                           | 22,054,892                                | —                             | —                                                                            | —                   | 22,054,892                                                  | —                                    | —                                               | —                   | 22,054,892           |
| Net pension liability                                                    | —                                         | —                             | —                                                                            | —                   | —                                                           | 28,649,970                           | —                                               | —                   | 28,649,970           |
| State of Florida medical assistance assessment, less current portion     | 4,693,126                                 | —                             | —                                                                            | —                   | 4,693,126                                                   | —                                    | —                                               | —                   | 4,693,126            |
| Other long-term liabilities                                              | 5,145,000                                 | 53,217                        | 320,000                                                                      | —                   | 5,518,217                                                   | 22,853,918                           | 2,989,000                                       | —                   | 31,361,135           |
| Interest rate swaps                                                      | 22,748,384                                | —                             | —                                                                            | —                   | 22,748,384                                                  | —                                    | —                                               | —                   | 22,748,384           |
| <b>Total noncurrent liabilities</b>                                      | <b>406,440,489</b>                        | <b>16,995,381</b>             | <b>320,000</b>                                                               | <b>—</b>            | <b>423,755,870</b>                                          | <b>51,503,888</b>                    | <b>2,989,000</b>                                | <b>—</b>            | <b>478,248,758</b>   |
| <b>Total liabilities</b>                                                 | <b>526,108,618</b>                        | <b>44,338,969</b>             | <b>1,759,425</b>                                                             | <b>(253,842)</b>    | <b>571,953,170</b>                                          | <b>103,271,007</b>                   | <b>7,275,892</b>                                | <b>(68,890,800)</b> | <b>613,609,269</b>   |
| <b>Deferred Inflows of Resources</b>                                     |                                           |                               |                                                                              |                     |                                                             |                                      |                                                 |                     |                      |
| Deferred inflows related to pensions                                     | —                                         | —                             | —                                                                            | —                   | —                                                           | 3,775,210                            | —                                               | —                   | 3,775,210            |
| Deferred effective interest rate swap inflows                            | 26,660,187                                | —                             | —                                                                            | —                   | 26,660,187                                                  | —                                    | —                                               | —                   | 26,660,187           |
| <b>Total deferred inflows of resources</b>                               | <b>26,660,187</b>                         | <b>—</b>                      | <b>—</b>                                                                     | <b>—</b>            | <b>26,660,187</b>                                           | <b>3,775,210</b>                     | <b>—</b>                                        | <b>—</b>            | <b>30,435,397</b>    |
| <b>Net Position</b>                                                      |                                           |                               |                                                                              |                     |                                                             |                                      |                                                 |                     |                      |
| Net investment in capital assets                                         | 135,932,293                               | 101,679,590                   | 2,984,187                                                                    | —                   | 240,596,070                                                 | —                                    | 1,542,906                                       | —                   | 242,138,976          |
| Restricted for specific purposes                                         | 2,459,696                                 | —                             | —                                                                            | —                   | 2,459,696                                                   | —                                    | —                                               | —                   | 2,459,696            |
| Unrestricted                                                             | 808,804,821                               | (22,838,604)                  | 1,445,802                                                                    | —                   | 787,412,019                                                 | —                                    | 1,764,382                                       | —                   | 789,176,401          |
| <b>Total net position</b>                                                | <b>947,196,810</b>                        | <b>78,840,986</b>             | <b>4,429,989</b>                                                             | <b>—</b>            | <b>1,030,467,785</b>                                        | <b>—</b>                             | <b>3,307,288</b>                                | <b>—</b>            | <b>1,033,775,073</b> |
| <b>Total liabilities, deferred inflows of resources and net position</b> | <b>\$ 1,499,965,615</b>                   | <b>123,179,955</b>            | <b>6,189,414</b>                                                             | <b>(253,842)</b>    | <b>1,629,081,142</b>                                        | <b>107,046,217</b>                   | <b>10,583,180</b>                               | <b>(68,890,800)</b> | <b>1,677,819,739</b> |

See accompanying independent auditors' report.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT1**

Supplemental Information – Combining Statement of Revenues, Expenses and Changes in Net Position Information

Year ended September 30, 2017

|                                                             | <b>Sarasota<br/>Memorial<br/>Hospital</b> | <b>Corporate<br/>Division</b> | <b>Sarasota<br/>Memorial<br/>Nursing &amp;<br/>Rehabilitation<br/>Center</b> | <b>Eliminations</b> | <b>Sarasota<br/>County Public<br/>Hospital<br/>District</b> | <b>SMH<br/>Health Care,<br/>Inc.</b> | <b>SMH<br/>Physician<br/>Services,<br/>Inc.</b> | <b>Eliminations</b>  | <b>Total</b>         |
|-------------------------------------------------------------|-------------------------------------------|-------------------------------|------------------------------------------------------------------------------|---------------------|-------------------------------------------------------------|--------------------------------------|-------------------------------------------------|----------------------|----------------------|
| <b>Operating revenues:</b>                                  |                                           |                               |                                                                              |                     |                                                             |                                      |                                                 |                      |                      |
| Net patient service revenue, net of provision for bad debts | \$ 708,450,671                            | —                             | 11,808,982                                                                   | —                   | 720,259,653                                                 | —                                    | 51,941,647                                      | —                    | 772,201,300          |
| Other revenue                                               | 12,446,862                                | 25,142,587                    | 628,284                                                                      | (18,596,299)        | 19,621,434                                                  | 395,527,784                          | 6,463,007                                       | (400,734,537)        | 20,877,688           |
| <b>Total operating revenues</b>                             | <b>720,897,533</b>                        | <b>25,142,587</b>             | <b>12,437,266</b>                                                            | <b>(18,596,299)</b> | <b>739,881,087</b>                                          | <b>395,527,784</b>                   | <b>58,404,654</b>                               | <b>(400,734,537)</b> | <b>793,078,988</b>   |
| <b>Operating expenses:</b>                                  |                                           |                               |                                                                              |                     |                                                             |                                      |                                                 |                      |                      |
| Salaries, wages, and fringe benefits                        | 307,114,347                               | 16,088,650                    | 7,235,619                                                                    | —                   | 330,438,616                                                 | 395,000,755                          | 63,515,101                                      | (395,000,755)        | 393,953,717          |
| Supplies                                                    | 157,728,406                               | 225,945                       | 1,668,900                                                                    | —                   | 159,623,251                                                 | —                                    | 2,681,169                                       | —                    | 162,304,420          |
| Purchased services                                          | 99,468,835                                | 10,408,416                    | 3,124,886                                                                    | (18,516,596)        | 94,485,541                                                  | 527,029                              | 6,838,140                                       | (3,502,683)          | 98,348,027           |
| Professional fees                                           | 24,452,731                                | 2,354,988                     | 119,274                                                                      | (79,703)            | 26,847,290                                                  | —                                    | 25,000                                          | (2,231,099)          | 24,641,191           |
| State of Florida medical assistance assessment              | 9,676,205                                 | —                             | —                                                                            | —                   | 9,676,205                                                   | —                                    | —                                               | —                    | 9,676,205            |
| Depreciation and amortization                               | 38,113,718                                | 3,649,090                     | 369,122                                                                      | —                   | 42,131,930                                                  | —                                    | 391,029                                         | —                    | 42,522,959           |
| <b>Total operating expenses</b>                             | <b>636,554,242</b>                        | <b>32,727,089</b>             | <b>12,517,801</b>                                                            | <b>(18,596,299)</b> | <b>663,202,833</b>                                          | <b>395,527,784</b>                   | <b>73,450,439</b>                               | <b>(400,734,537)</b> | <b>731,446,519</b>   |
| <b>Operating income (loss)</b>                              | <b>84,343,291</b>                         | <b>(7,584,502)</b>            | <b>(80,535)</b>                                                              | <b>—</b>            | <b>76,678,254</b>                                           | <b>—</b>                             | <b>(15,045,785)</b>                             | <b>—</b>             | <b>61,632,469</b>    |
| <b>Nonoperating items:</b>                                  |                                           |                               |                                                                              |                     |                                                             |                                      |                                                 |                      |                      |
| Ad valorem tax                                              | 50,663,808                                | —                             | —                                                                            | —                   | 50,663,808                                                  | —                                    | —                                               | —                    | 50,663,808           |
| Interest expense                                            | (13,595,016)                              | (665,394)                     | (2,740)                                                                      | 2,740               | (14,260,410)                                                | —                                    | —                                               | —                    | (14,260,410)         |
| Interest rate swap receipts, net                            | 200,702                                   | 498,919                       | —                                                                            | —                   | 699,621                                                     | —                                    | —                                               | —                    | 699,621              |
| Investment income                                           | 13,629,069                                | —                             | 907                                                                          | (2,740)             | 13,627,236                                                  | —                                    | 17,135                                          | —                    | 13,644,371           |
| Unrealized gains and losses on investments, net             | (11,966,536)                              | —                             | —                                                                            | —                   | (11,966,536)                                                | —                                    | —                                               | —                    | (11,966,536)         |
| Change in fair value of ineffective interest rate swaps     | (2,003,917)                               | (678,265)                     | —                                                                            | —                   | (2,682,182)                                                 | —                                    | —                                               | —                    | (2,682,182)          |
| Other nonoperating income (expense)                         | 1,459,629                                 | —                             | —                                                                            | —                   | 1,459,629                                                   | —                                    | —                                               | —                    | 1,459,629            |
| <b>Total nonoperating items</b>                             | <b>38,387,739</b>                         | <b>(844,740)</b>              | <b>(1,833)</b>                                                               | <b>—</b>            | <b>37,541,166</b>                                           | <b>—</b>                             | <b>17,135</b>                                   | <b>—</b>             | <b>37,558,301</b>    |
| <b>Excess (deficit) of revenues over expenses</b>           | <b>122,731,030</b>                        | <b>(8,429,242)</b>            | <b>(82,368)</b>                                                              | <b>—</b>            | <b>114,219,420</b>                                          | <b>—</b>                             | <b>(15,028,650)</b>                             | <b>—</b>             | <b>99,190,770</b>    |
| <b>Other changes in net position:</b>                       |                                           |                               |                                                                              |                     |                                                             |                                      |                                                 |                      |                      |
| Contributions restricted for capital purposes               | 670,341                                   | —                             | —                                                                            | —                   | 670,341                                                     | —                                    | —                                               | —                    | 670,341              |
| Net transfers from (to) other component units               | (15,800,000)                              | —                             | —                                                                            | —                   | (15,800,000)                                                | —                                    | 15,800,000                                      | —                    | —                    |
| <b>Increase (decrease) in net position</b>                  | <b>107,601,371</b>                        | <b>(8,429,242)</b>            | <b>(82,368)</b>                                                              | <b>—</b>            | <b>99,089,761</b>                                           | <b>—</b>                             | <b>771,350</b>                                  | <b>—</b>             | <b>99,861,111</b>    |
| <b>Net position, beginning of year</b>                      | <b>839,595,439</b>                        | <b>87,270,228</b>             | <b>4,512,357</b>                                                             | <b>—</b>            | <b>931,378,024</b>                                          | <b>—</b>                             | <b>2,535,938</b>                                | <b>—</b>             | <b>933,913,962</b>   |
| <b>Net position, end of year</b>                            | <b>\$ 947,196,810</b>                     | <b>78,840,986</b>             | <b>4,429,989</b>                                                             | <b>—</b>            | <b>1,030,467,785</b>                                        | <b>—</b>                             | <b>3,307,288</b>                                | <b>—</b>             | <b>1,033,775,073</b> |

See accompanying independent auditors' report.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Supplemental Information – Budgetary Comparison Schedule (Unaudited)

Year ended September 30, 2017

|                                                                | <u>Budget</u>         | <u>Actual</u>        | <u>Variance</u>     |
|----------------------------------------------------------------|-----------------------|----------------------|---------------------|
| Operating revenues:                                            |                       |                      |                     |
| Net patient service revenue, net of provision<br>for bad debts | \$ 706,003,351        | 772,201,300          | 66,197,949          |
| Other revenue                                                  | <u>15,222,895</u>     | <u>20,877,688</u>    | <u>5,654,793</u>    |
| Total operating revenues                                       | <u>721,226,246</u>    | <u>793,078,988</u>   | <u>71,852,742</u>   |
| Operating expenses:                                            |                       |                      |                     |
| Salaries, wages, and fringe benefits                           | 391,994,228           | 393,953,717          | (1,959,489)         |
| Supplies                                                       | 150,570,974           | 162,304,420          | (11,733,446)        |
| Purchased services                                             | 99,437,093            | 98,348,027           | 1,089,066           |
| Professional fees                                              | 23,404,046            | 24,641,191           | (1,237,145)         |
| State of Florida medical assistance assessment                 | 8,258,178             | 9,676,205            | (1,418,027)         |
| Depreciation and amortization                                  | <u>45,317,362</u>     | <u>42,522,959</u>    | <u>2,794,403</u>    |
| Total operating expenses                                       | <u>718,981,881</u>    | <u>731,446,519</u>   | <u>(12,464,638)</u> |
| Operating income                                               | <u>2,244,365</u>      | <u>61,632,469</u>    | <u>59,388,104</u>   |
| Nonoperating items:                                            |                       |                      |                     |
| Ad valorem tax                                                 | 50,430,990            | 50,663,808           | 232,818             |
| Interest expense                                               | (14,657,937)          | (14,260,410)         | 397,527             |
| Interest rate swap receipts, net                               | 1,362,570             | 699,621              | (662,949)           |
| Investment income                                              | 10,669,898            | 13,644,371           | 2,974,473           |
| Unrealized gains and losses on investments, net                | —                     | (11,966,536)         | (11,966,536)        |
| Changes in fair value of ineffective interest rate swaps       | —                     | (2,682,182)          | (2,682,182)         |
| Other nonoperating income                                      | <u>2,000,000</u>      | <u>1,459,629</u>     | <u>(540,371)</u>    |
| Total nonoperating items                                       | <u>49,805,521</u>     | <u>37,558,301</u>    | <u>(12,247,220)</u> |
| Excess of revenues over expenses                               | 52,049,886            | 99,190,770           | 47,140,884          |
| Other changes in net position:                                 |                       |                      |                     |
| Contributions restricted for capital purposes                  | <u>2,000,000</u>      | <u>670,341</u>       | <u>(1,329,659)</u>  |
| Increase in net position                                       | 54,049,886            | 99,861,111           | 45,811,225          |
| Net position, beginning of year                                | <u>878,197,210</u>    | <u>933,913,962</u>   | <u>55,716,752</u>   |
| Net position, end of year                                      | <u>\$ 932,247,096</u> | <u>1,033,775,073</u> | <u>101,527,977</u>  |

See accompanying independent auditors' report.



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## **Independent Auditors' 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***

The Board Members  
Sarasota County Public Hospital District:

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 Sarasota County Public Hospital District (the District) which comprise the balance sheet as of September 30, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 19, 2018.

### **Internal Control over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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 District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

January 19, 2018  
Certified Public Accountants