



**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Financial Statements and Supplemental Information

September 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**  
Financial Statements and Supplemental Information  
September 30, 2019 and 2018

**Table of Contents**

	<b>Page</b>
Letter of Transmittal (Unaudited)	1
Independent Auditors' Report	7
Management's Discussion and Analysis (Unaudited)	9
Financial Statements:	
Balance Sheets	21
Statements of Revenues, Expenses, and Changes in Net Position	22
Statements of Cash Flows	23
Notes to Financial Statements	24
<b>Required Supplemental Information</b>	
Schedule of the Changes in the Net Pension Liability and Related Ratios (Unaudited)	71
Schedule of the District's Pension Contributions (Unaudited)	73
Schedule of the Changes in the Total OPEB Liability and Related Ratios (Unaudited)	74
Notes to Required Supplemental Information	75
<b>Supplemental Information</b>	
Combining Balance Sheet Information	78
Combining Statement of Revenues, Expenses and Changes in Net Position Information	80
Budgetary Comparison Schedule (Unaudited)	81

## 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

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 43,000 inpatient visits and over one million outpatient and physician visits annually. The System offers a complete continuum of care, including a 839-bed hospital, a freestanding emergency room, network of urgent care centers, laboratory and imaging centers, rehabilitation programs, a behavioral health hospital and a skilled nursing and rehabilitation center. A physician practice group is also part of the System, and includes 41 practice locations, 29 specialties and over 160 physicians. Sarasota Memorial serves as the community's health care safety net, and is Sarasota County's only provider of obstetrical services, pediatrics, neonatal intensive care and psychiatric services for patients of all ages.

With more than 6,400 staff, the System is among the region's largest employers. In addition, approximately 750 community members volunteer their time and expertise at Sarasota Memorial's programs and facilities.

Its medical staff includes over 1,000 physicians representing 60 specialties as well as more than 380 Advanced Practice Professionals.

The System is a special independent taxing District governed by the Sarasota County Public Hospital Board. Made up of nine residents elected by local voters to four-year terms, the Board members, who are unpaid, 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 and gynecological physician services as well as several specialty services.

### **Sarasota Memorial's Recent Accomplishments Include:**

#### *New Hospital Scheduled to Open in Venice in 2021*

In 2019, the District broke ground and began construction on a new state-of-the-art hospital on Laurel Road, just off Interstate 75 in Venice in south Sarasota County. The new full service hospital – the most significant expansion in Sarasota Memorial's 94-year history – will open with 110 private patient suites and a 28-bed Emergency Care Center. The 65-acre medical campus will have the capacity to expand based on future community needs. The new facility, which is scheduled to open in the Fall of 2021, will bring Sarasota Memorial's high-quality care to a rapidly growing community.

## **SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

### Letter of Transmittal

(Unaudited)

#### *Development of New Cancer Institute*

Sarasota Memorial is developing a comprehensive cancer program to serve a growing number of oncology patients in Southwest Florida. Construction is under way on a new inpatient and surgical oncology tower on the hospital's main campus, which is slated to open in the Fall of 2021. The project also includes the construction of an outpatient radiation oncology center on the health system's University Parkway campus, scheduled to open in August, 2020.

#### *Renovating and Upgrading Inpatient Units*

In 2019, Sarasota Memorial completed the renovation of two inpatient nursing units which now contain 52 private rooms for Trauma Progressive and Medical Respiratory patients. The upgraded nursing floors, which help the hospital accommodate increased patient volumes, had previously been occupied by inpatient rehabilitation services before the program moved to a new dedicated Rehabilitation Pavilion on the hospital campus.

#### *Physician Residency Programs Help Bring New Doctors to the Area*

Sarasota Memorial continues to take major strides to improve the community's access to care through its graduate medical education programs. Because physicians frequently choose to practice in communities where they have completed their residencies, the System's physician residency programs are a substantial investment in the health of the region.

In July of 2019, Sarasota Memorial and academic partner Florida State University's College of Medicine welcomed their third class of 13 Internal Medicine resident physicians. Working side-by-side and under the supervision of Sarasota Memorial's attending physicians, the residents work in the hospital and provide primary care at the Internal Medicine Practice in Newtown, offering continuity of care to a vulnerable and underserved population. The Internal Medicine residency program now has a total of 39 residents.

Also in 2019, Sarasota Memorial and Florida State University began a second physician residency program in the specialty of Emergency Medicine, welcoming its first class of nine Emergency Medicine residents. The program will have a total of 27 residents by 2021.

The System is currently working with Florida State University to launch a Hospice and Palliative Medicine Fellowship Program in 2020. The new fellowship program is accredited by the Accreditation Council for Graduate Medical Education, as are Sarasota Memorial's two residency programs. Each year, the one-year fellowship program will produce two specialists who are highly trained in the care of severe and chronically ill patients.

#### *Only Hospital in Florida to Continuously Earn Five Stars from CMS for Quality*

Sarasota Memorial is the only hospital in Florida to earn the federal Centers for Medicare & Medicaid Services' highest five-star rating for overall quality and safety in every reporting period since the rating system launched in 2016.

#### *Seven Consecutive "A" Grades for Patient Safety*

In the Fall of 2019, Sarasota Memorial received its seventh consecutive "A" grade for patient safety from The Leapfrog Group, a national organization that evaluates hospitals' efforts to protect patients from preventable injuries and harm. The safety grade is based on measures of publicly available hospital safety data.

## **SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

### Letter of Transmittal

(Unaudited)

#### *U.S. News High Performer*

Sarasota Memorial was one of only 57 hospitals in the U.S. to earn high-performer ratings in all nine conditions and procedures evaluated by *U.S. News & World Report* in its 2019-2020 “Best Hospitals” report.

#### *IBM Watson Top 100 Hospital*

Sarasota Memorial was listed among the nation’s 100 Top Hospitals by IBM Watson Health for 2019. The Top Hospitals were chosen from 2,752 hospitals across the country that outperformed peer-group hospitals on all clinical and operational performance benchmarks evaluated in the study, including: inpatient mortality and complications, health care-associated infections, readmission rates, length of stay, costs of care and patient satisfaction.

#### *Newsweek Lists Sarasota Memorial Among World’s Best Hospitals*

In 2019, *Newsweek* magazine named Sarasota Memorial one of the world’s best hospitals in a global ranking. Hospitals were selected based on medical performance indicators that included low mortality, complication and readmission rates, as well as recommendations from medical professionals and patient survey results.

#### *Highest Ratings from the Society of Thoracic Surgeons*

Sarasota Memorial is one of just three cardiac programs in the United States and Canada that earned the top three-star rating from The Society of Thoracic Surgeons (STS) for patient care and outcomes in all five adult cardiac surgery procedures measured by STS in an analysis posted in August of 2019. The three-star ratings, which denote the highest category of quality among hospitals, place the hospital’s cardiac surgery team among the top performers of more than 3,800 participating cardiothoracic surgeons voluntarily submitting case records to the STS Adult Cardiac Surgery Database.

#### *Designated Chest Pain Center and Cardiovascular Center of Excellence*

The American College of Cardiology awarded Sarasota Memorial full accreditation in 2019 as a designated Chest Pain Center with Primary PCI and Resuscitation for the System’s demonstrated expertise in treating patients with chest pain. Sarasota Memorial was the first hospital in Sarasota County to receive the highest-level designation, which followed a rigorous onsite evaluation of the staff’s ability to evaluate, diagnose and treat patients who may be experiencing a heart attack or cardiac arrest. In 2018, the heart program was accredited as an American Heart Association Cardiovascular Center of Excellence. Sarasota Memorial was the first in Florida and only the fourth in the U.S. to earn this designation for exemplary comprehensive cardiovascular care.

#### *Ongoing Magnet Designation*

In November of 2018, Sarasota Memorial earned Magnet Nursing Services Recognition for the fourth time – a challenge accomplished by fewer than 1% of the nation’s hospitals. 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. Sarasota Memorial has been continuously designated since 2003.

## **SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

### Letter of Transmittal

(Unaudited)

#### *Age-Friendly Health System Recognition*

In 2019, Sarasota Memorial Hospital received national recognition as an “Age-Friendly Health System,” joining more than 100 hospitals in the U.S. that are implementing best practices to enhance care for older adults. The System is the only hospital in the region and one of a handful in Florida with Age-Friendly status.

#### *Baby-Friendly Recognition*

In 2018, Sarasota Memorial was the first hospital in southwest Florida – and among a select group in the nation – to earn international recognition as a Baby-Friendly Hospital. The designation comes from Baby-Friendly USA Inc., part of a global initiative by the World Health Organization and the United Nations Children’s Fund to promote mother-baby bonding, breastfeeding and best practices in maternity care.

#### *Comprehensive Stroke Center Designation*

Sarasota Memorial has earned Comprehensive Stroke Center Certification from DNV Healthcare, one of the leading accrediting organizations in the nation. The prestigious certification demonstrates that the organization meets the highest standards of stroke care, from diagnosis and treatment to research, rehabilitation and education. Sarasota Memorial also has earned the American Heart Association/Stroke Association’s Get with the Guidelines’ “Gold Plus” award and national “Elite” honor roll status.

#### *Hip/Knee Replacement Certification*

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

#### *Gallup Great Workplace Award*

Sarasota Memorial was one of just 39 organizations worldwide to win Gallup’s Great Workplace Award in 2018. The award honors the world’s best workplaces for creating an environment and culture that inspires employee commitment and engagement.

#### *Comprehensive Bariatric Accreditation*

The hospital’s Bariatric and Metabolic Center is accredited as a higher level “Comprehensive Center” under the Metabolic and Bariatric Surgery Accreditation and Quality Improvement Program.

#### *Beacon Awards for Nursing Units*

In 2018, Sarasota Memorial’s Critical Care and Cardiac Acute/Progressive Units earned their second Beacon Awards for Excellence from the American Association of Critical-Care Nurses. The prestigious awards single out the top units in the nation caring for acutely and critically ill patients.

#### *Columbia University Affiliation*

Sarasota Memorial has been affiliated with the 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)

### *Most Wired Recognition*

Sarasota Memorial earned the College of Healthcare Information Management Executives (CHIME)'s 2019 Most Wired recognition as a certified Level 7 organization for its use of innovation and technology.

### *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, neonatal intensive care and inpatient pediatric services in Sarasota County. Sarasota Memorial also is the only hospital in Sarasota County providing psychiatric services to patients of all ages.

Sarasota Memorial's 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 who 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 Memorial registered about 125,000 emergency cases in fiscal year 2019 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.

The North Port facility also includes a new Johns Hopkins All Children's Hospital pediatric specialty clinic.

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, and a Secondary Stroke & TIA Prevention Clinic.

The System's First Physicians Group primary care practices have earned certification as "Level 3 Patient Centered Medical Homes" – the highest level available – from the National Committee for Quality Assurance (NCQA). Research shows that physician practices with this designation demonstrate improved quality, a better patient experience, increased staff satisfaction and reduced health care costs. In 2019, First Physicians Group opened a new practice at Lorraine Corners in Manatee County, which plans to pursue medical home designation.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Letter of Transmittal

(Unaudited)

### *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 6,400 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:

- \$488 million in total payroll – supports local workforce,
- \$894 million in total operating expenses that help support a variety of local businesses and community members,
- \$1.6 million investment in workforce development and staff training and education, and
- \$140.0 million for facility and equipment upgrades in 2019.

### **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.

The following are among the major revenue enhancement and cost reduction initiatives implemented or in process:

- Successful negotiation of a multi-year agreement with a major managed care payor
- Further in-sourcing of legal staff to reduce legal expenses
- Purchased an off-site building in order to relocate support staff out of space that can be used for revenue generating services
- Purchased the latest technology bed mattresses in order to virtually eliminate the need to rent specialty beds
- In-sourced blood testing in order to reduce cost and improve efficiency
- Reduced pharmacy distribution fees through pricing renegotiation
- Reduced supply distribution fees through renegotiation of the fee structure
- Renegotiated pricing for a cardiac implant device
- Continued strong front end processes including electronic out-of-pocket estimates for patients
- Implemented Computer Assisted Coding, Clinical Documentation Integrity, and Quality software
- Value analysis teams continue to evaluate products and product utilization in order to reduce overall product spend
- Financial orientation of new managers to expedite and assist in learning the availability and use of the organization's financial tools and reporting systems
- Emphasis on personnel recruitment optimization strategies to obtain the right skill at the right time
- Proactive personnel recruitment and hiring to reduce overtime and premium pay utilization and off season "traveler" staff



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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, 2019 and 2018, 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, 2019 and 2018, 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 9 through 20, schedule of the changes in the net pension liability and related ratios, schedule of the District's pension contributions and schedule of changes in the total OPEB liability and related ratios on pages 71 to 74 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 29, 2020 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 29, 2020

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

### Management's Discussion and Analysis

September 30, 2019 and 2018

(Unaudited)

This section of the annual financial report of the Sarasota County Public Hospital District (the District) provides management's discussion and analysis of the organization for the fiscal years ended September 30, 2019 and 2018. The District includes Sarasota Memorial Hospital (the Hospital) among other entities. 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). 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 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 years. 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 presents 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 \$140.4 million and \$17.4 million in the fiscal years ended September 30, 2019 and 2018, respectively. Long-term debt (including current portion) decreased by \$10.7 million and increased by \$269.4 million in the years ended September 30, 2019 and 2018, respectively. The excess of revenue over expenses were \$200.6 million and \$119.7 million for the years ended September 30, 2019 and 2018, respectively. Net position increased by \$204.3 million in fiscal 2019, and by \$120.5 million in fiscal 2018. In 2019, Hospital overall payor mix was very similar to fiscal 2018. In 2018, Hospital payor mix reflected a decrease in managed care and commercial payors and an increase in Medicare.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Medicare	59.7 %	59.6 %	58.0 %
Managed care and commercial	25.2	25.1	26.1
Self-pay and other	6.5	6.3	6.8
Medicaid	8.6	9.0	9.1
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Management's Discussion and Analysis

September 30, 2019 and 2018

(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, 2019, admissions volume increased across the Sarasota County area 14.5% over the same period in the prior year. The Hospital's admissions outperformed the overall market with an increase of 19.7% during the twelve months ended September 30, 2019. Relative to other acute care facilities in Sarasota County, the Hospital's inpatient market share for the twelve months ended September 30, 2019 was 67.6%. The Hospital outpatient volume, excluding emergency room visits, increased by 1.6% and 5.6% during the years that ended September 30, 2019 and 2018, respectively. Emergency Care Center visits increased 1.8% and 0.2% during the years that ended September 30, 2019 and 2018, respectively.

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

	<b>Fiscal year ended September 30</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Average number of beds in service:					
Medical/surgical intensive care	62	62	62	50	50
Cardiac telemetry, acute, and intensive care	156	156	132	108	108
Other medical/surgical	438	404	402	401	401
Total medical/surgical	656	622	596	559	559
Obstetrics	30	30	30	30	30
Psychiatric and substance abuse	60	60	60	60	60
Rehabilitation	54	44	44	34	34
Pediatrics	28	28	18	18	18
Total hospital	828	784	748	701	701
Combined admissions and observation cases:					
Admissions	43,120	36,016	33,262	31,946	28,042
Observation cases	7,168	8,694	8,940	8,680	9,227
Total admissions and observation cases	50,288	44,710	42,202	40,626	37,269
Admissions:					
Total medical/surgical	34,677	28,569	26,094	24,808	21,302
Obstetrics	4,049	3,730	3,639	3,652	3,405
Psychiatric and substance abuse	2,333	2,101	2,123	2,171	2,185
Rehabilitation	1,286	1,048	915	800	785
Pediatrics	775	568	491	515	365
Total hospital	43,120	36,016	33,262	31,946	28,042

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Management's Discussion and Analysis

September 30, 2019 and 2018

(Unaudited)

	<b>Fiscal year ended September 30</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Average length of stay:</b>					
Total medical/surgical	4.54	4.72	4.85	4.98	5.08
Obstetrics	2.43	2.45	2.38	2.33	2.59
Psychiatric and substance abuse	5.29	5.88	5.22	5.06	5.31
Rehabilitation	12.80	13.70	12.86	12.73	12.31
Pediatrics	2.82	3.50	3.16	3.33	4.37
<b>Total hospital</b>	<b>4.60</b>	<b>4.79</b>	<b>4.80</b>	<b>4.85</b>	<b>4.99</b>
<b>Number of patient days:</b>					
Medical/surgical intensive care	14,339	15,204	14,661	13,999	10,843
Cardiac telemetry, acute, and intensive care	39,736	35,159	32,396	33,933	25,351
Other medical/surgical	103,439	84,346	79,385	75,520	71,946
<b>Total medical/surgical</b>	<b>157,514</b>	<b>134,709</b>	<b>126,442</b>	<b>123,452</b>	<b>108,140</b>
Obstetrics	9,838	9,141	8,649	8,496	8,807
Psychiatric and substance abuse	12,341	12,344	11,092	10,976	11,607
Rehabilitation	16,462	14,357	11,770	10,184	9,665
Pediatrics	2,187	1,989	1,550	1,713	1,596
<b>Total hospital</b>	<b>198,342</b>	<b>172,540</b>	<b>159,503</b>	<b>154,821</b>	<b>139,815</b>
<b>Percentage occupancy (admitted patients):</b>					
Medical/surgical intensive care	63.4 %	67.2 %	64.8 %	76.5 %	59.4 %
Cardiac telemetry, acute, and intensive care	69.8	61.7	67.2	85.8	64.3
Other medical/surgical	64.7	57.2	54.1	51.5	49.2
<b>Total medical/surgical</b>	<b>65.8</b>	<b>59.3</b>	<b>58.1</b>	<b>60.3</b>	<b>53.0</b>
Obstetrics	89.8	83.5	79.0	77.4	80.4
Psychiatric and substance abuse	56.4	56.4	50.6	50.0	53.0
Rehabilitation	83.5	89.4	73.3	81.8	77.9
Pediatrics	21.4	19.5	23.6	26.0	24.3
<b>Total hospital</b>	<b>65.6 %</b>	<b>60.3 %</b>	<b>58.4 %</b>	<b>60.3 %</b>	<b>54.6 %</b>

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Management's Discussion and Analysis

September 30, 2019 and 2018

(Unaudited)

	<b>Fiscal year ended September 30</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Licensed beds	839	829	829	819	819
Average number of beds in service	828	784	748	701	701
Average daily census	543	473	437	423	383
Percent occupancy	66.0	60.0	58.0	60.0	55.0
Patient days	198,342	172,540	159,503	154,821	139,815
Admissions	43,120	36,016	33,262	31,946	28,042
Adjusted admissions <sup>(1)</sup>	68,937	59,786	56,378	55,244	51,218
Average length of stay	4.60	4.79	4.80	4.85	4.99
Emergency Room Visits/Registration	125,195	122,942	122,654	124,065	116,377
Surgery Cases	24,685	23,369	22,195	21,347	19,918
Radiology procedures	358,746	342,059	326,129	329,830	302,375
Cardiac Catheterization procedures	15,823	14,930	14,257	12,675	11,910

<sup>(1)</sup> Inpatient admissions adjusted for equivalent hospital outpatient volume.

**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 2019, 2018, and 2017 is presented below (in thousands):

	<b>2019</b>	<b>2018</b>	<b>Change</b>	<b>2017</b>	<b>Change</b>
Net patient service revenue	\$ 962,714	861,236	101,478	772,201	89,035
Other revenue	22,699	19,885	2,814	20,878	(993)
<b>Total operating revenues</b>	<b>985,413</b>	<b>881,121</b>	<b>104,292</b>	<b>793,079</b>	<b>88,042</b>
<b>Total operating expenses</b>	<b>893,882</b>	<b>796,180</b>	<b>97,702</b>	<b>731,395</b>	<b>64,785</b>
<b>Operating income</b>	<b>91,531</b>	<b>84,941</b>	<b>6,590</b>	<b>61,684</b>	<b>23,257</b>
<b>Total nonoperating items</b>	<b>109,034</b>	<b>34,765</b>	<b>74,269</b>	<b>37,558</b>	<b>(2,793)</b>
<b>Excess of revenues over expenses</b>	<b>200,565</b>	<b>119,706</b>	<b>80,859</b>	<b>99,242</b>	<b>20,464</b>
Other changes in net position	3,714	807	2,907	670	137
Net position, beginning of year	1,149,811	1,029,298	120,513	929,386	99,912
Net position, end of year	\$ <u>1,354,090</u>	<u>1,149,811</u>	<u>204,279</u>	<u>1,029,298</u>	<u>120,513</u>

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

Net patient service revenue increased by \$101.5 million, or 11.8%, during fiscal year 2019. The increase in net revenues is attributed to increased hospital and employed physician volumes and improved hospital reimbursement as a result of renegotiated contracts. Hospital admissions increased 19.7% from fiscal year

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

### Management's Discussion and Analysis

September 30, 2019 and 2018

(Unaudited)

2018. Factors driving the increase in inpatient activity included a 10.6% increase in births, a 11.6% increase in inpatient surgery cases, including a 6.0% increase in open heart surgery cases, a 19.9% increase in inpatient cardiac catheterization lab cases, and a 10.8% increase in inpatient electrophysiology (EP) lab cases. In addition to the increase in inpatient volumes, outpatient surgery cases increased 2.4% and outpatient EP lab cases increased 9.6%. In addition, registrations at the Hospital's urgent care centers increased 8.4% compared to fiscal year 2018. Net patient service revenue from employed physicians increased \$12.4 million as a result of the recruitment of new physicians serving the community in primary and specialty care.

Net patient service revenue increased by \$89.0 million, or 11.5%, during fiscal year 2018. The increase in net revenues is attributed to increased hospital and employed physician volumes and improved hospital reimbursement as a result of renegotiated contracts, and mix of services. Hospital admissions increased 8.3% from fiscal year 2017. Factors driving the increase in inpatient activity included a 3.0% increase in inpatient surgery cases, including a 7.9% increase in open heart surgery cases, a 27.2% increase in Transcatheter Aortic Valve Replacement (TAVR) cases, a 2.4% increase in inpatient cardiac catheterization lab cases, and a 44.2% increase in inpatient EP lab cases. In addition to the increase in inpatient volumes, outpatient surgery cases increased 6.9%. In addition, registrations at the Hospital's urgent care centers increased 10.5% compared to fiscal year 2017. Net patient service revenue from employed physicians increased \$7.1 million as a result of the recruitment of new physicians serving the community in primary and specialty care.

Operating expenses increased in fiscal 2019 by \$97.7 million, or 12.3%. Salaries and wages increased by \$48.3 million, fringe benefits increased by \$9.4 million, supplies increased by \$21.2 million, purchased services increased \$13.7 million, professional fees increased by \$2.2 million, the State of Florida Medical Assistance Assessment increased by \$1.3 million, and depreciation and amortization increased \$1.6 million.

Operating expenses increased in fiscal 2018 by \$64.8 million, or 8.9%. Salaries and wages increased by \$34.1 million, fringe benefits increased by \$2.6 million, supplies increased by \$17.9 million, purchased services increased \$2.2 million, professional fees increased by \$1.0 million, the State of Florida Medical Assistance Assessment increased by \$0.8 million, and depreciation and amortization increased \$6.3 million.

Salaries and wages increased \$48.3 million, or 13.2%, in 2019, largely as a result of the 19.7% increase in hospital admissions noted above and a 15.0% increase in hospital patient days, plus a 2.8% rise in the hospital average hourly wage, in addition to a 8.3% increase in the number of hospital Full Time Equivalents (FTEs). Hospital FTEs increased from 4,398 in fiscal year 2018 to 4,765 in fiscal year 2019. Total System FTEs increased from 5,190 in fiscal year 2018 to 5,604 in fiscal year 2019. Also contributing to the overall increase in salaries and wages was a \$13.3 million increase in SMH Physicians Services, Inc. related to expanded services, including primary care, hospitalist, cardiovascular, urological, surgical, and neurological services.

Salaries and wages increased \$34.1 million, or 10.2%, in 2018, largely as a result of the 8.3% increase in hospital admissions noted above and an 8.2% increase in hospital patient days, plus a 1.6% rise in the hospital average hourly wage, in addition to a 7.1% increase in the number of hospital FTEs. Hospital FTEs increased from 4,107 in fiscal year 2017 to 4,398 in fiscal year 2018. Total System FTEs increased from 4,824 in fiscal year 2017 to 5,190 in fiscal year 2018. Also contributing to the overall increase in salaries and wages was a \$9.0 million increase in SMH Physicians Services, Inc. related to expanded services, including primary care, hospitalist, cardiovascular, urological, surgical, and neurological services.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

### Management's Discussion and Analysis

September 30, 2019 and 2018

(Unaudited)

Fringe benefits increased by \$9.4 million in 2019 compared to 2018. Fringe benefits as a percentage of salaries and wages increased from 17.3% in 2018 to 17.6% in 2019. The increase in overall benefit cost was primarily due to a \$2.9 million increase in self-insured health and dental plan costs, a \$3.2 million increase in wage-related employment tax costs, a \$2.1 million increase in retirement plan expenses, and a \$1.0 million increase in workers compensation expenses.

Fringe benefits increased by \$2.6 million in 2018 compared to 2017. Fringe benefits as a percentage of salaries and wages decreased from 18.4% in 2017 to 17.3% in 2018. The increase in overall benefit cost was due to a \$5.4 million increase in self-insured health and dental plan costs and a \$2.2 million increase in wage-related employment tax costs partially offset by a \$4.7 million decrease in retirement plan expenses, and a \$0.3 million decrease in workers compensation expenses.

Supplies expenses increased in fiscal 2019 by \$21.2 million. The increase was largely a result of increased volume and mix of services. Supplies expense as a percentage of net patient revenue remained at 20.9% fiscal 2019 compared to fiscal 2018. Implants increased \$4.0 million; drug costs increased \$5.9 million; medical supplies increased \$8.6 million; food supplies increased \$1.1 million; and lab and blood products increased \$0.7 million.

Supplies expenses increased in fiscal 2018 by \$17.9 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 2018 to 20.9%, compared to 21.0% in fiscal 2017. Implants increased \$7.1 million; drug costs increased \$3.3 million; medical supplies increased \$4.8 million; lab and blood products increased \$1.1 million; small equipment increased \$0.8 million; and food supplies increased \$0.4 million.

Purchased services increased by \$13.7 million in fiscal 2019. The overall increase in fiscal 2019 was a result of a \$3.8 million increase in repairs and maintenance costs, including maintenance contracts and information technology as a service, a \$2.0 million increase in traveling nurse cost, a \$1.8 million increase in rent expense, a \$1.3 million increase in fees and licenses, a \$1.4 million increase in purchased outside services including cleaning, consulting and other services, a \$1.0 million increase in professional liability expense, a \$0.4 million increase in laundry expense, a \$0.4 million increase in marketing expenses, a \$0.3 million increase in utilities, and various other increases and decreases.

Purchased services increased by \$2.2 million in fiscal 2018. The overall increase in fiscal 2018 was a result of a \$3.0 million increase in repairs and maintenance costs, including maintenance contracts, partially offset by a \$0.6 million decrease in traveling nurse cost, a \$0.5 million decrease in transcription costs, and various other increases and decreases.

Professional fees increased by \$2.2 million in fiscal 2019, as a result a \$1.1 million increase in physician fees, and a \$1.1 million increase in legal fees. Professional fees increased by \$1.0 million in fiscal 2018, largely as a result a \$1.7 million increase in physician fees, partially offset by a \$0.7 million decrease in legal fees.

Depreciation and amortization expense increased by \$1.6 million in fiscal 2019 due to completion of various construction and renovation and information technology projects, including acquisition and renovation of an office building in downtown Sarasota, renovations of the ninth and tenth floors of a main campus bed tower, completion of a new main campus parking garage, completion of a new ambulatory center at Lorraine Corners, and other renovations and equipment purchases.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

### Management's Discussion and Analysis

September 30, 2019 and 2018

(Unaudited)

Depreciation and amortization expense increased by \$6.3 million in fiscal 2018 due to completion of various construction and renovation and information technology projects, including the Newtown Internal Medicine Practice, renovations to trauma related areas, the interventional radiology suite, the bronchoscopy lab, and new clinical and other equipment purchases.

As a result of the above-noted changes in operating costs, total operating costs increased from 92.4% to 92.9% of net patient revenue. Total operating cost per adjusted admission, adjusted for the change in case mix index, increased 1.1% in fiscal year 2019 and increased 3.7% in fiscal year 2018.

Nonoperating items increased by \$74.3 million in fiscal year 2019. The increase is due to a change from a net \$16.9 million unrealized loss on the change in market value of investments to a \$37.8 million net unrealized gain on the change in market value of investments, \$3.0 million bond issue costs in fiscal year 2018 related to the issuance of the Series 2018 bonds, a \$3.9 loss on defeasance in fiscal year 2018 related to the retirement of the Series 2009A bonds, a \$4.6 million decrease in interest expense, net of interest rate swap receipts, as a result of capitalized interest on large construction projects and the defeasance of the Series 2009A bonds in fiscal year 2018, a \$4.2 million increase in investment income, a change from a \$0.8 million net unrealized loss on the change in fair value of ineffective interest rate swaps to a \$1.2 million net unrealized gain thereon, and a \$3.8 million increase in ad valorem tax revenue related to an increase in area property values, partially offset by a \$1.8 million decrease in other nonoperating income.

Nonoperating items decreased by \$2.8 million in fiscal year 2018. The decrease is primarily due to a change from a net \$12.0 million unrealized loss on the change in market value of investments to a \$16.9 million net unrealized loss on the change in market value of investments, \$3.0 million bond issue costs related to the issuance of the Series 2018 bonds, a \$3.9 loss on defeasance related to the retirement of the Series 2009A bonds, and a \$0.4 million increase in interest expense, net of interest rate swap receipts, partially offset by a \$3.2 million increase in investment income, a change from a \$2.7 million net unrealized loss on the change in fair value of ineffective interest rate swaps to a \$0.8 million net unrealized loss thereon, a \$3.7 million increase in ad valorem tax revenue related to an increase in area property values, and a \$0.7 million increase in other nonoperating income

Excess of revenues over expenses for fiscal year 2019 was \$200.6 million, compared to an excess of revenues over expenses in fiscal year 2018 of \$119.7 million. The \$80.9 million increase is a result of operating revenues increasing by \$104.3 million, operating expenses increasing by \$97.7 million, and nonoperating items increasing by \$74.3 million.

Excess of revenues over expenses for fiscal year 2018 was \$119.7 million, compared to an excess of revenues over expenses in fiscal year 2017 of \$99.2 million. The \$27.3 million increase is a result of operating revenues increasing by \$88.0 million, operating expenses increasing by \$64.8 million, and nonoperating items increasing by \$4.1 million.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Management's Discussion and Analysis

September 30, 2019 and 2018

(Unaudited)

**Balance Sheets**

The following table is a summary of the balance sheets as of September 30, 2019, 2018, and 2017 (in thousands):

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>2017</u>	<u>Change</u>
Cash and cash equivalents	\$ 62,059	50,217	11,842	27,824	22,393
Patient accounts receivable, net	103,491	82,953	20,538	77,778	5,175
Other current assets	<u>37,128</u>	<u>33,257</u>	<u>3,871</u>	<u>30,420</u>	<u>2,837</u>
Total current assets	<u>202,678</u>	<u>166,427</u>	<u>36,251</u>	<u>136,022</u>	<u>30,405</u>
Restricted and board designated investments	1,284,538	1,178,876	105,662	834,333	344,543
Capital assets, net	694,922	606,187	88,735	591,902	14,285
Other assets	37,035	36,216	819	32,073	4,143
Interest rate swaps	<u>23,844</u>	<u>21,727</u>	<u>2,117</u>	<u>24,712</u>	<u>(2,985)</u>
Noncurrent assets	2,040,339	1,843,006	197,333	1,483,020	359,986
Deferred outflows	<u>45,902</u>	<u>45,051</u>	<u>851</u>	<u>58,788</u>	<u>(13,737)</u>
Total assets and deferred outflows	\$ <u>2,288,919</u>	<u>2,054,484</u>	<u>234,435</u>	<u>1,677,830</u>	<u>376,654</u>
Current liabilities	\$ 172,733	133,582	39,151	135,361	(1,779)
Noncurrent liabilities	<u>727,181</u>	<u>729,089</u>	<u>(1,908)</u>	<u>482,736</u>	<u>246,353</u>
Total liabilities	<u>899,914</u>	<u>862,671</u>	<u>37,243</u>	<u>618,097</u>	<u>244,574</u>
Deferred inflows	34,915	42,002	(7,087)	30,435	11,567
Net position:					
Net investment in capital assets	408,445	334,722	73,723	242,139	92,583
Restricted for specific purposes	2,735	2,354	381	2,460	(106)
Unrestricted	<u>942,910</u>	<u>812,735</u>	<u>130,175</u>	<u>784,699</u>	<u>28,036</u>
Total net position	<u>1,354,090</u>	<u>1,149,811</u>	<u>204,279</u>	<u>1,029,298</u>	<u>120,513</u>
Total liabilities, deferred inflows and net position	\$ <u>2,288,919</u>	<u>2,054,484</u>	<u>234,435</u>	<u>1,677,830</u>	<u>376,654</u>

At September 30, 2019, the District's cash, cash equivalents, and board designated investments totaled \$1.0 billion, compared to long-term debt, including the current portion, of \$639.3 million. The number of days cash on hand was 435 which exceeds the median of 248 days cash on hand for Moody's Investor Services (Moody's) "A1" rated, freestanding hospitals and single and multi-state healthcare systems (2019 median, based on 2018 data).

At September 30, 2018, the District's cash and board designated investments totaled \$876.6 million, compared to long-term debt, including the current portion, of \$650.0 million. The number of days cash on hand was 419

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

### Management's Discussion and Analysis

September 30, 2019 and 2018

(Unaudited)

which exceeded the median of 252 days cash on hand for Moody's Investor Services (Moody's "A1" rated, freestanding hospitals and single and multi-state healthcare systems (2018 median, based on 2017 data).

In fiscal 2019, current assets increased by \$36.3 million. Cash and cash equivalents increased by \$11.8 million, patient accounts receivable increased by \$20.5 million, and other current assets increased \$3.9 million.

In fiscal 2018, current assets increased by \$30.4 million. Cash and cash equivalents increased by \$22.4 million, patient accounts receivable increased by \$5.2 million, and other current assets increased \$2.8 million.

In fiscal 2019, restricted investments and board designated investments increased \$105.7 million. Restricted investments as of September 30, 2019 included \$325.4 million of trustee-held Project funds in connection with the Series 2018 bond issuance. As of September 30, 2019, the Moody's ratings of the District's investments are A rated or better.

In fiscal 2018, restricted investments and board designated investments increased \$344.5 million. Restricted investments as of September 30, 2018 included \$349.2 million of trustee-held Project funds in connection with the Series 2018 bond issuance. As of September 30, 2018, the Moody's ratings of the District's investments are A rated or better, except for one corporate bond in the amount of \$1.0 million, which was rated at Baa1 by Moody's and BBB+ by Standard and Poors.

Capital assets increased by \$88.7 million in fiscal 2019. There were \$140.0 million of capital additions during fiscal year 2019. The additions were partially offset by annual depreciation of \$50.4 million. Of the \$140.0 million in fiscal 2019 additions, the largest projects accounted for about \$125.2 million of expenditures; \$27.9 million to continue development of a new hospital campus in Venice; \$26.8 million for further development of a cancer care institute; \$18.6 million for operating room renovations, equipment and systems; \$15.1 million to acquire and renovate an office building in downtown Sarasota to consolidate and house several support services departments and to increase capacity on the main hospital campus for growing clinical use; \$7.4 million for capitalized interest on major construction projects; \$7.0 million to complete renovations of the ninth and tenth floors of a main campus bed tower; \$6.7 million for medical and diagnostic equipment; \$6.0 million for information systems equipment and software; \$5.0 million to complete a new main campus parking garage; and \$4.7 million to complete a new ambulatory center at Lorraine Corners. Additional information on the District's capital assets can be found in note 5 to the financial statements.

Capital assets increased by \$14.3 million in fiscal 2018. There were \$63.1 million of capital additions during fiscal year 2018. The additions were partially offset by annual depreciation of \$48.8 million. Of the \$63.1 million in fiscal 2018 additions, the largest projects accounted for about \$59.3 million of expenditures: \$10.0 million to complete renovations of the ninth and tenth floors of a main campus bed tower; \$10.6 million for other main campus renovations and improvements; \$6.9 million for a new parking garage; \$5.2 million for laboratory equipment and automation; \$3.7 million for further development of a cancer care institute; \$3.3 million for operating room equipment and systems; \$2.2 million for an electrophysiology lab; \$1.4 million for energy center projects; \$1.4 million to acquire property contiguous to the main hospital campus; \$1.3 million for automated medication tracking system improvements; \$1.2 million for a new ambulatory care center; \$1.1 million for other information systems projects; \$1.1 million for physician office buildouts; \$1.0 million to begin development of a new hospital in Venice; and \$8.9 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.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

### Management's Discussion and Analysis

September 30, 2019 and 2018

(Unaudited)

In fiscal 2019 and 2018, other assets increased by \$0.8 million and \$4.1 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 and other postemployment benefits, 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 other postemployment benefits result from differences between expected and actual experience, changes in assumptions, and contributions made by the District during the year. Please refer to note 8 to the financial statements for a more detailed discussion of the District's other postemployment benefits 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 2019, current liabilities increased \$39.1 million primarily related to increases in accounts payable and other accrued expenses partially related to ongoing large construction projects, employee compensation and benefits payable, bond interest payable related to the Series 2018 bond issue, and estimated third-party settlements.

In fiscal 2018, current liabilities decreased \$1.8 million related to decreases in accounts payable and other accrued expenses, estimated third-party settlements, and the current portion of long term debt, partially offset by increases in employee compensation and benefits payable.

In fiscal 2019, noncurrent liabilities decreased \$1.9 million, primarily as a result of scheduled principal payments on long term debt and decreases in net pension liability, partially offset by an increase in interest rate swap liabilities.

In fiscal 2018, noncurrent liabilities increased \$246.4 million, primarily as a result of the issuance of the Series 2018 bonds, partially offset by the defeasance of the Series 2009A bonds and decreases in net pension liability and interest rate swap liabilities.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Management's Discussion and Analysis

September 30, 2019 and 2018

(Unaudited)

**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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2018 Moody's A1 median</u>
Profitability ratios:				
Operating margin	13.4 %	13.1 %	11.7 %	2.3 %
Excess margin	15.2	14.8	13.3	5.3
Return on assets	7.9	8.4	7.1	4.3
Total EBIDA%	20.8	21.7	19.8	n/a
Operating cash flow margin	19.2	20.1	18.4	8.9
Liquidity ratios:				
Days cash on hand	435	419	446	248
Net days in receivables	39	35	37	48
Capitalization ratios:				
Maximum debt service coverage ratio	5.9	5.5	6.1	5.3
Cash to debt	160.7 %	136.3 %	224.7 %	198.5 %

(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, excess swap receipts, net and bond issue costs are considered operating expenses for the ratio calculations above.

The profitability and liquidity ratios noted above and the maximum debt service coverage ratio were favorable compared to the Moody's A1 medians. The cash to debt ratio continues to reflect the issuance of the Series 2018 bonds to partially finance two large construction projects.

Fitch Ratings has assigned the District's unenhanced long term rating of AA- on its outstanding bonds. In 2019, Moody's Investors Services affirmed the District's unenhanced long-term ratings on its outstanding bonds of A1. The rating agencies have noted the District's financial performance, strong liquidity, and strong service area characteristics.

## **SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Management's Discussion and Analysis

September 30, 2019 and 2018

(Unaudited)

### **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, 2019 and 2018

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 62,059,019	50,216,905
Patient <b>accounts receivable</b> , less allowance for uncollectible accounts of \$168,834,433 in 2019 and \$137,875,765 in 2018	103,491,032	82,952,728
Inventories of supplies	14,307,962	14,159,332
Prepaid expenses and other assets	21,697,220	17,968,614
Due from related organizations	1,122,620	1,129,517
Total current assets	202,677,853	166,427,096
Noncurrent assets:		
Restricted investments	329,599,018	352,472,491
Board designated investments	954,939,675	826,403,640
Capital assets, net	694,921,952	606,186,753
Other assets	37,035,015	36,216,389
Interest rate swaps	23,843,693	21,726,847
Total noncurrent assets	2,040,339,353	1,843,006,120
Total assets	2,243,017,206	2,009,433,216
<b>Deferred Outflows of Resources</b>		
Deferred outflows related to pensions and OPEB	12,791,918	15,728,735
Deferred amounts on debt refundings	26,850,067	28,661,822
Deferred effective interest rate swap outflows	6,260,034	660,071
Total deferred outflows of resources	45,902,019	45,050,628
Total assets and deferred outflows of resources	\$ 2,288,919,225	2,054,483,844
<b>Liabilities</b>		
Current liabilities:		
<b>Accounts payable</b>	\$ 41,257,781	28,243,392
Employee compensation and benefits payable	69,008,682	56,393,282
Other accrued expenses	11,403,554	7,990,199
<b>Estimated third-party settlements</b>	29,220,460	20,934,810
Due to related organizations	—	1,261
Current portion of State of Florida medical assistance assessment	11,067,173	9,643,787
Current portion of long-term debt	10,775,000	10,375,000
Total current liabilities	172,732,650	133,581,731
Noncurrent liabilities:		
Long-term debt, less current portion	628,482,448	639,578,412
Long-term companion debt, less current portion	20,111,618	21,093,942
Net pension liability	6,789,413	11,896,237
State of Florida medical assistance assessment, less current portion	5,856,147	5,213,955
Other long-term liabilities	40,382,700	39,794,188
Interest rate swaps	25,559,063	11,512,757
Total noncurrent liabilities	727,181,389	729,089,491
Total liabilities	899,914,039	862,671,222
<b>Deferred Inflows of Resources</b>		
Deferred inflows related to pensions and OPEB	9,777,259	9,289,227
Deferred effective interest rate swap inflows	25,138,289	32,713,217
Total deferred inflows of resources	34,915,548	42,002,444
<b>Net Position</b>		
Net investment in capital assets	408,444,696	334,721,846
Restricted for specific purposes	2,734,883	2,353,569
Unrestricted	942,910,059	812,734,763
Total net position	1,354,089,638	1,149,810,178
Total liabilities, deferred inflows of resources and net position	\$ 2,288,919,225	2,054,483,844

See accompanying notes to financial statements.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Net patient service revenue, net of provision for bad debts of \$193,094,193 in 2019 and \$162,730,098 in 2018	\$ 962,713,515	861,236,665
Other revenue	<u>22,698,714</u>	<u>19,884,691</u>
Total operating revenues	<u>985,412,229</u>	<u>881,121,356</u>
Operating expenses:		
Salaries, wages and fringe benefits	488,285,569	430,586,007
Supplies	201,440,359	180,213,886
Purchased services	114,223,827	100,530,004
Professional fees	27,820,587	25,624,227
State of Florida medical assistance assessment	11,712,294	10,427,911
Depreciation and amortization	<u>50,398,563</u>	<u>48,798,307</u>
Total operating expenses	<u>893,881,199</u>	<u>796,180,342</u>
Operating income	<u>91,531,030</u>	<u>84,941,014</u>
Nonoperating items:		
Ad valorem tax	58,136,476	54,313,958
Interest expense	(11,444,104)	(15,556,104)
Interest rate swap receipts, net	2,060,436	1,594,999
Bond issue costs	—	(3,016,338)
Loss on defeasance	—	(3,860,311)
Investment income	20,969,144	16,816,734
Unrealized gains and losses on investments, net	37,757,412	(16,862,278)
Change in fair value of ineffective interest rate swaps	1,245,429	(798,315)
Other nonoperating income	<u>309,742</u>	<u>2,132,385</u>
Total nonoperating items	<u>109,034,535</u>	<u>34,764,730</u>
Excess of revenues over expenses	200,565,565	119,705,744
Other changes in net position:		
Contributions restricted for capital purposes	<u>3,713,895</u>	<u>806,623</u>
Increase in net position	204,279,460	120,512,367
Net position, beginning of year	<u>1,149,810,178</u>	<u>1,029,297,811</u>
Net position, end of year	\$ <u><u>1,354,089,638</u></u>	\$ <u><u>1,149,810,178</u></u>

See accompanying notes to financial statements.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Statements of Cash Flows

Years ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Received from patient care services	\$ 950,495,407	855,012,696
Received from nonpatient sources	20,765,993	20,718,136
Payments to employees	(477,948,108)	(428,016,037)
Payments to suppliers	<u>(348,889,903)</u>	<u>(319,796,022)</u>
Net cash provided by operating activities	<u>144,423,389</u>	<u>127,918,773</u>
Cash flows from noncapital financing activities:		
Ad valorem taxes	<u>58,136,476</u>	<u>54,313,958</u>
Net cash provided by noncapital financing activities	<u>58,136,476</u>	<u>54,313,958</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	—	<b>350,000,000</b>
Premium on issuance of long-term debt	—	<b>6,653,412</b>
Payment of bond issue costs	(13,457)	(3,016,338)
Proceeds from donations restricted for capital purposes	2,575,147	804,123
Interest rate swap payments paid, net	579,309	(23,260)
Interest received on bond funds held by trustee	7,640,349	—
Purchases of capital assets	(125,346,105)	(65,792,842)
Proceeds from disposals of capital assets	279,103	4,700
Interest payments	(21,089,831)	(12,222,747)
Repayment of long-term debt	(10,375,000)	(89,085,000)
Loss on defeasance	—	(3,860,311)
Net cash provided (used) in capital and related financing activities	<u>(145,750,485)</u>	<u>183,461,737</u>
Cash flows from investing activities:		
Investment income received	20,499,007	17,317,867
Purchase of investments	(538,451,736)	(698,558,801)
Proceeds from sales and maturities of investments	<u>472,272,748</u>	<u>337,963,876</u>
Net cash used in investing activities	<u>(45,679,981)</u>	<u>(343,277,058)</u>
Increase in cash and cash equivalents	11,129,399	22,417,410
Cash and cash equivalents, beginning of year	<u>51,707,221</u>	<u>29,289,811</u>
Cash and cash equivalents, end of year	\$ <u>62,836,620</u>	\$ <u>51,707,221</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 62,059,019	50,216,905
Cash and cash equivalents in restricted investments	<u>777,601</u>	<u>1,490,316</u>
Total cash and cash equivalents	\$ <u>62,836,620</u>	\$ <u>51,707,221</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 91,531,030	84,941,014
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	50,398,563	48,798,307
Provision for bad debts	193,094,193	162,730,098
Changes in:		
Patient accounts receivable	(213,632,497)	(167,904,358)
Other current and noncurrent assets	(2,099,994)	3,312,141
Current liabilities and other liabilities	<u>25,132,094</u>	<u>(3,958,429)</u>
Net cash provided by operating activities	\$ <u>144,423,389</u>	\$ <u>127,918,773</u>
Noncash capital and related financing activities:		
Accrued purchases of capital assets	\$ 9,469,903	2,744,937
Unrealized gains (losses) on investments, net	37,757,412	(16,862,278)
Change in equity investment	229,325	981,345

See accompanying notes to financial statements.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2019 and 2018

### (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).

Effective for reporting periods beginning after June 15, 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* (GASB 88). This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. As a result of adoption of GASB 88 in the fiscal year ended September 30, 2019, the District segregated information and included additional disclosures in note 6 related to direct borrowings.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

**(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, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Bad debts	\$ 34,317,556	29,913,109
Traditional charity care	17,509,470	18,493,894
Medicare losses	33,078,291	39,532,587
Medicaid losses	37,427,066	31,587,905
Trauma and emergency care center call pay and subsidies	8,551,559	8,920,384
Anesthesiologist, hospitalist, and psychiatric coverage	9,636,659	8,603,063
Clinics and other community programs	3,606,495	3,237,407
Indigent care fund payments	11,712,294	10,427,911
	\$ 155,839,390	150,716,260

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 \$13,960,000 and \$11,517,000 for the years ended September 30, 2019 and 2018, 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, 2019 and 2018

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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Gross patient charges	\$ 4,917,968,197	4,249,943,216
Contractual adjustments	(3,762,160,489)	(3,225,976,453)
Provision for bad debts	<u>(193,094,193)</u>	<u>(162,730,098)</u>
Net patient service revenue	\$ <u>962,713,515</u>	<u>861,236,665</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 partially offsets the revenue losses from furnishing uncompensated care to low-income patients. Graduate medical education reimbursement is intended to partially offset the cost of the program and is 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, 2016. 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*

Effective May 1, 2014, the Florida Medicaid program implemented a system through which most Medicaid enrollees receive services. The program is called the Statewide Medicaid Managed Care Medical Assistance Program. The program is comprised of several types of managed care plans including Health Maintenance Organizations, Provider Service Networks, and a Children's Services Network. The 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. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2019 and 2018

patient classification system that is based on clinical, diagnostic, and other factors. 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. Before implementation of this system, reimbursement was cost-based subject to ceilings and limits. Final settlement was determined through the Medicaid Cost Report. The State completed rate setting audits for these cost based years through June 30, 2014.

Final combined Medicare and Medicaid amounts estimated related to prior years resulted in an increase in net patient service revenue of \$2,010,202 and \$3,423,642 for the years ended September 30, 2019 and 2018, 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 2019.

*(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.

**(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.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

**(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 useful lives (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. 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 losses on refunding is included in interest expense.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

**(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, 2019 and 2018 are as follows:

	<b>2019</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	\$ 14,858,742	11,712,294	(9,647,716)	16,923,320	11,067,173
Other long-term liabilities	43,649,465	3,500,812	(2,932,581)	44,217,696	3,834,996
Total	<u>\$ 58,508,207</u>	<u>15,213,106</u>	<u>(12,580,297)</u>	<u>61,141,016</u>	<u>14,902,169</u>

  

	<b>2018</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	\$ 13,379,117	10,427,911	(8,948,286)	14,858,742	9,643,787
Other long-term liabilities	39,848,122	5,605,874	(1,804,531)	43,649,465	3,855,277
Total	<u>\$ 53,227,239</u>	<u>16,033,785</u>	<u>(10,752,817)</u>	<u>58,508,207</u>	<u>13,499,064</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 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 upon termination. 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

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2019 and 2018

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 unspent bond proceeds 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, bond issue costs, loss on defeasance, 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 \$58,136,476 and \$54,313,958 for the years ended September 30, 2019 and 2018, respectively.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2019 and 2018

### **(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, 2019 and 2018.

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

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

For the years ended September 30, 2019 and 2018, 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 \$4,251,329 and \$3,870,987 were covered by federal depository insurance to the applicable limits for the years ended September 30, 2019 and 2018, 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.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

As of September 30, 2019, the District had cash and investments maturing as follows:

		<b>Cash and investment maturities</b>				
		<b>Fair value</b>	<b>Less than 1 year</b>	<b>1–5 years</b>	<b>6–10 years</b>	<b>More than 10 years</b>
U.S. government securities	\$	559,088,383	412,725,571	107,611,992	38,750,820	—
U.S. government agency securities		204,746,026	44,355,293	79,288,554	79,950,121	1,152,058
Commercial paper		12,985,390	12,985,390	—	—	—
Corporate bonds		436,937,727	65,069,759	184,802,815	187,065,153	—
Municipal securities		28,463,129	4,996,272	12,039,994	11,426,863	—
Other, including bank deposits		104,377,057	104,377,057	—	—	—
<b>Total cash and investments</b>	<b>\$</b>	<b>1,346,597,712</b>	<b>644,509,342</b>	<b>383,743,355</b>	<b>317,192,957</b>	<b>1,152,058</b>

As of September 30, 2018, the District had cash and investments maturing as follows:

		<b>Cash and investment maturities</b>				
		<b>Fair value</b>	<b>Less than 1 year</b>	<b>1–5 years</b>	<b>6–10 years</b>	<b>More than 10 years</b>
U.S. government securities	\$	510,434,235	432,052,491	61,600,064	16,781,680	—
U.S. government agency securities		206,877,371	55,561,083	70,472,117	80,844,171	—
Corporate bonds		386,428,511	68,017,376	137,925,920	180,485,215	—
Municipal securities		23,186,490	13,357,540	7,403,486	2,425,464	—
Other, including bank deposits		102,166,429	102,166,429	—	—	—
<b>Total cash and investments</b>	<b>\$</b>	<b>1,229,093,036</b>	<b>671,154,919</b>	<b>277,401,587</b>	<b>280,536,530</b>	<b>—</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

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

### Notes to Financial Statements

September 30, 2019 and 2018

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 average life rather than maturity. At September 30, 2019, 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, 2019, the credit rating agency ratings of the District's investments range from A – to AAA. As of September 30, 2018, the credit rating agency ratings of the District's investments ranged from A – to AAA except for the corporate bond noted below, which was rated at Baa1 by Moody's and BBB+ by Standard and Poors.

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, 2019, there was an exception to the policy limits. An asset backed security in the amount of \$2,310,089 was identified by the investment manager and sold in November 2019. As of September 30, 2018, at the request of its investment manager, a specific temporary exception to the policy limits was approved for one corporate bond in the amount of \$999,189.

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.

## **SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

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, 2019, 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 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, 2019 and 2018, there were no investment holdings above the applicable concentration of credit risk limits.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

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

Restricted investments and board designated investments as of September 30, 2019 and 2018 are as follows:

	<b>2019</b>	<b>2018</b>
Under bond indenture agreements held by trustees, at fair value plus accrued interest, held for:		
Payment of principal and interest	\$ 448,808	507,438
Project funds	325,393,160	349,219,229
Bond issue costs	88,156	100,015
	325,930,124	349,826,682
Restricted funds designated by donors or grantors, at fair value plus accrued interest, held for:		
Specific purposes	740,044	142,992
Plant replacement and expansion	2,928,850	2,502,817
	3,668,894	2,645,809
Total restricted investments	\$ 329,599,018	352,472,491
Unrestricted funds designated by the Board, at fair value plus accrued interest, held for:		
Capital improvements	\$ 954,939,675	826,403,640

**(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 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.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

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, 2019 and 2018.

	<b>2019</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 Level 1</b>	<b>Significant other observable inputs Level 2</b>	<b>Significant unobservable inputs Level 3</b>	
Obligations:				
U.S. government securities	\$ 233,158,260	—	—	233,158,260
U.S. government agency securities	—	204,746,026	—	204,746,026
Commercial paper	—	12,985,390	—	12,985,390
Corporate bonds	—	436,937,727	—	436,937,727
Municipal securities	—	28,463,128	—	28,463,128
Cash equivalents	38,649,144	—	—	38,649,144
Total board designated investments by fair value level	\$ <u>271,807,404</u>	<u>683,132,271</u>	<u>—</u>	<u>954,939,675</u>

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

<b>Investments by fair value level</b>	<b>2018</b>			<b>Total</b>
	<b>Fair value measures using</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>	
Obligations:				
U.S. government securities	\$ 160,607,554	—	—	160,607,554
U.S. government agency securities	—	206,877,371	—	206,877,371
Corporate bonds	—	386,428,511	—	386,428,511
Municipal securities	—	23,186,490	—	23,186,490
Cash equivalents	49,303,714	—	—	49,303,714
Total board designated investments by fair value level	\$ <u>209,911,268</u>	<u>616,492,372</u>	<u>—</u>	<u>826,403,640</u>

The tables below show the fair value leveling of the System's restricted investments as of September 30, 2019 and 2018.

<b>Investments by fair value level</b>	<b>2019</b>			<b>Total</b>
	<b>Fair value measures using</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>	
Cash equivalents	\$ 777,601	—	—	777,601
Total restricted investments by fair value level	\$ <u>777,601</u>	<u>—</u>	<u>—</u>	<u>777,601</u>

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

2018				
Fair value measures using				
Investments by fair value level	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
Cash equivalents	\$ 1,490,316	—	—	1,490,316
Total restricted investments by fair value level	\$ 1,490,316	—	—	1,490,316

The above tables exclude certain assets classified as restricted investments on the District's balance sheets, and total to \$328,821,417 and \$350,982,175 as of September 30, 2019 and 2018, respectively. Such other assets include trustee-held bond funds at September 30, 2019, 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, 2019 and 2018.

2019				
Fair value measures using				
Investments by fair value level	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
Mutual funds	\$ 17,221,152	—	—	17,221,152
Total deferred compensation investments by fair value level	\$ 17,221,152	—	—	17,221,152

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

<b>2018</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	\$ 16,631,851	—	—	16,631,851
Total deferred compensation investments by fair value level	\$ 16,631,851	—	—	16,631,851

The tables below show the fair value leveling of the System's derivative instruments as of September 30, 2019 and 2018.

<b>2019</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>
Interest rate swap assets	\$ —	23,843,693	—	23,843,693
Interest rate swap liabilities	—	(25,559,063)	—	(25,559,063)

<b>2018</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>
Interest rate swap assets	\$ —	21,726,847	—	21,726,847
Interest rate swap liabilities	—	(11,512,757)	—	(11,512,757)

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

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, 2019 and 2018 are as follows:

	Beginning balance	Additions	2019		Ending balance
			Transfers in/ transfers out	Disposals	
Nondepreciable:					
Land	\$ 53,899,196	563,565	—	—	54,462,761
Land held for future expansion	27,269,073	—	—	—	27,269,073
Construction in progress	46,894,061	139,464,710	(100,057,674)	—	86,301,097
Total					
nondepreciable	128,062,330	140,028,275	(100,057,674)	—	168,032,931
Depreciable:					
Land improvements	10,746,343	—	18,028	(5,448)	10,758,923
Buildings	608,237,231	—	60,522,505	(1,367,626)	667,392,110
Leasehold improvements	6,409,585	—	391,629	(737,917)	6,063,297
Moveable equipment	395,383,709	—	39,125,512	(3,729,362)	430,779,859
Total depreciable	1,020,776,868	—	100,057,674	(5,840,353)	1,114,994,189
	1,148,839,198	140,028,275	—	(5,840,353)	1,283,027,120
Less accumulated depreciation	(542,652,445)	(50,398,563)	—	4,945,840	(588,105,168)
Capital assets, net	\$ 606,186,753	89,629,712	—	(894,513)	694,921,952

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

	2018				Ending balance
	Beginning balance	Additions	Transfers in/ transfers out	Disposals	
Nondepreciable:					
Land	\$ 52,537,025	1,362,171	—	—	53,899,196
Land held for future expansion	27,269,073	—	—	—	27,269,073
Construction in progress	16,233,510	48,028,194	(17,367,643)	—	46,894,061
Total					
nondepreciable	96,039,608	49,390,365	(17,367,643)	—	128,062,330
Depreciable:					
Land improvements	10,639,551	44,027	62,765	—	10,746,343
Buildings	605,625,195	2,105,432	523,479	(16,875)	608,237,231
Leasehold improvements	5,932,628	68,959	407,998	—	6,409,585
Moveable equipment	370,152,200	11,526,156	16,373,401	(2,668,048)	395,383,709
Total depreciable	992,349,574	13,744,574	17,367,643	(2,684,923)	1,020,776,868
	1,088,389,182	63,134,939	—	(2,684,923)	1,148,839,198
Less accumulated depreciation	(496,487,592)	(48,798,307)	—	2,633,454	(542,652,445)
Capital assets, net	\$ 591,901,590	14,336,632	—	(51,469)	606,186,753

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 \$666.8 million as of September 30, 2019, including \$404.2 million for a new hospital campus in Venice; \$169.5 million to complete a comprehensive cancer center on the main campus; and \$21.6 million for a radiation oncology facility.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

**(6) Long-Term Debt**

The District was obligated under long-term debt as of September 30, 2019 and 2018 as follows:

	<u>2019</u>	<u>2018</u>
Bonds:		
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 5.90% at September 30, 2019.	\$ 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%.	87,000,000	90,000,000
Sarasota County Public Hospital District, Variable Rate Demand Hospital Revenue Refunding Bonds, Series 2008B, due in annual amounts through 2037 at variable interest rates, 1.48% at September 30, 2019.	57,425,000	60,625,000
Sarasota County Public Hospital District, Fixed Rate Hospital Revenue Bonds, Series 2018, due in amounts through 2048 at interest rates from 3% to 5% (plus unamortized bond premium in the amount of \$6,332,448 and \$6,653,412 at September 30, 2019 and 2018, respectively).	<u>356,332,448</u>	<u>356,653,412</u>
Total bonds	<u>515,757,448</u>	<u>522,278,412</u>
Bank notes:		
Direct bank note payable to Northern Trust Company, due in annual amounts through 2037. Interest payable monthly at a rate of 80% of Libor plus 50 basis points, 2.11% at September 30, 2019.	65,650,000	66,775,000
Direct bank note payable to DNT Asset Trust, due in annual amounts through 2037. Interest payable monthly at a rate of 79% of Libor plus 65 basis points, 2.24% at September 30, 2019.	<u>57,850,000</u>	<u>60,900,000</u>
Total bank notes	<u>123,500,000</u>	<u>127,675,000</u>
Total bonds and bank notes	639,257,448	649,953,412
Less current portion	<u>(10,775,000)</u>	<u>(10,375,000)</u>
	<u>\$ 628,482,448</u>	<u>639,578,412</u>

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

Long-term debt activity for the years ended September 30, 2019 and 2018 was as follows:

	2019				Amounts due within one year
	Beginning balance	Additions	Reductions	Ending balance	
Bonds:					
Municipal Inflation Linked Exempt Variable Rate Bonds (1997A) \$	15,000,000	—	—	15,000,000	—
Hospital Revenue Refunding Fixed Rate Bonds (1998B)	90,000,000	—	(3,000,000)	87,000,000	3,000,000
Hospital Revenue Variable Rate Demand Bonds (2008B)	60,625,000	—	(3,200,000)	57,425,000	3,325,000
Hospital Revenue Fixed Rate Bonds (2018)	350,000,000	—	—	350,000,000	—
Total bonds	515,625,000	—	(6,200,000)	509,425,000	6,325,000
Bank notes:					
Direct bank note payable to Northern Trust Company	66,775,000	—	(1,125,000)	65,650,000	1,225,000
Direct bank note payable to DNT Asset Trust	60,900,000	—	(3,050,000)	57,850,000	3,225,000
Total bank notes	127,675,000	—	(4,175,000)	123,500,000	4,450,000
Plus original issue premium	6,653,412	—	(320,964)	6,332,448	—
Total long-term debt \$	649,953,412	—	(10,695,964)	639,257,448	10,775,000

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

	2018				Amounts due within one year
	Beginning balance	Additions	Reductions	Ending balance	
Bonds:					
Municipal Inflation Linked Exempt Variable Rate Bonds (1997A)	\$ 15,000,000	—	—	15,000,000	—
Hospital Revenue Refunding Fixed Rate Bonds (1998B)	93,000,000	—	(3,000,000)	90,000,000	3,000,000
Hospital Revenue Variable Rate Demand Bonds (2008B)	63,700,000	—	(3,075,000)	60,625,000	3,200,000
Hospital Revenue Fixed Rate Bonds (2009A)	79,085,000	—	(79,085,000)	—	—
Hospital Revenue Fixed Rate Bonds (2018)	—	350,000,000	—	350,000,000	—
<b>Total bonds</b>	<b>250,785,000</b>	<b>350,000,000</b>	<b>(85,160,000)</b>	<b>515,625,000</b>	<b>6,200,000</b>
Bank notes:					
Direct bank note payable to Northern Trust Company	67,825,000	—	(1,050,000)	66,775,000	1,125,000
Direct bank note payable to DNT Asset Trust	63,775,000	—	(2,875,000)	60,900,000	3,050,000
<b>Total bank notes</b>	<b>131,600,000</b>	<b>—</b>	<b>(3,925,000)</b>	<b>127,675,000</b>	<b>4,175,000</b>
Plus original issue premium	(1,873,749)	6,657,870	1,869,291	6,653,412	—
<b>Total long-term debt</b>	<b>\$ 380,511,251</b>	<b>356,657,870</b>	<b>(87,215,709)</b>	<b>649,953,412</b>	<b>10,375,000</b>

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

	Bonds			Bank notes		
	Total	Principal	Interest	Total	Principal	Interest
Year ending September 30:						
2020	\$ 24,355,238	6,325,000	18,030,238	9,451,312	4,450,000	5,001,312
2021	25,315,687	7,525,000	17,790,687	8,501,737	3,695,000	4,806,737
2022	27,658,499	10,000,000	17,658,499	8,532,429	3,875,000	4,657,429
2023	32,699,993	15,000,000	17,699,993	4,536,964	—	4,536,964
2024	32,236,436	15,100,000	17,136,436	4,518,174	—	4,518,174
2025–2029	150,414,388	66,170,000	84,244,388	33,775,141	11,400,000	22,375,141
2030–2034	114,018,883	34,075,000	79,943,883	74,591,182	59,485,000	15,106,182
2035–2039	145,397,538	73,975,000	71,422,538	43,635,312	40,595,000	3,040,312
2040–2044	189,517,500	143,670,000	45,847,500	—	—	—
2045–2049	151,613,200	137,585,000	14,028,200	—	—	—
	<b>\$ 893,227,362</b>	<b>509,425,000</b>	<b>383,802,362</b>	<b>187,542,251</b>	<b>123,500,000</b>	<b>64,042,251</b>

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2019 and 2018

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, 2019. 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, 2019 and 2018, 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. The Series 1998B Bonds are collateralized by a municipal bond insurance policy.

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. The 2008A letter of credit was no longer needed and cancelled in 2015, as noted below. The 2008B letter of credit expires on October 1, 2022. There were no drawings or loans on the letter of credit during the year ended September 30, 2019.

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. There are no assets pledged as collateral for the loan with Northern Trust. Failure to make any payments when due or failure to perform or observe any term, covenant or agreement in the Loan Agreement may cause an Event of Default. No events of default have occurred. 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 loan agreement called for the District to pay 67% of 1 month LIBOR plus 65 basis points in interest each month. In February 2018, the Tax Cuts and Jobs Act was signed which reduced the corporate tax rate to 21%. This invoked a clause in the agreement to increase the interest by 1.22%. The bank had the option of terminating the note on April 8, 2025. Effective September 28, 2018 the District and Northern Trust negotiated a new variable rate and revised the optional termination date on the bank note. The new rate is 80% of 1 month Libor plus 50 basis points, and the new optional termination date is September 28, 2025.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

### Notes to Financial Statements

September 30, 2019 and 2018

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 was 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.

On August 27, 2018, the District irrevocably placed \$81,614,363 with the bond trustee, to be used solely for satisfying scheduled payments of both interest and principal of the 2009A bonds. The trust was restricted to owning only monetary assets that are essentially risk-free as to the amount, timing, and collection of interest and principal. As a result of this transaction, the 2009A bonds were no longer reported as a liability on the balance sheet as of September 30, 2018. The difference between the reacquisition price and the net carrying amount of the debt, in the amount of \$3,860,311 was in the Statement of Revenues and Expenses as a loss on defeasance for the year ended September 30, 2018. The District achieved an economic gain of \$10,765,075 on the transaction. As of September 30, 2019, there is no outstanding balance on the debt that was defeased in substance in the year ended September 30, 2018.

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. There are no assets pledged as collateral for the loan with DNT Asset Trust. Failure to make any payments when due or failure to perform or observe any term, covenant or agreement in the Loan Agreement may cause an Event of Default. No events of default have occurred. 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 had the option of terminating the note on April 8, 2025. The loan agreement called for the District to pay 67% of 1 month LIBOR plus 84 basis points in interest each month. In February 2018, the Tax Cuts and Jobs Act was signed which reduced the corporate tax rate to 21%. This invoked a clause in the agreement to increase the interest rate by 1.22%. Effective September 28, 2018 the District and DNT Asset negotiated a new variable rate and a new optional termination date on the bank note. The new rate is 79% of 1 month Libor plus 65 basis points, and the new optional termination date is April 8, 2028.

On September 24, 2018 the District issued \$350,000,000 of Fixed Rate Revenue Bonds, Series 2018, to provide partial funding for a new 110 bed hospital in Venice, Florida, and a new regional cancer institute building on the Hospital's main campus. The bonds were issued with interest rates ranging from 3.0% to 5.0% at yields ranging from 2.68% to 4.13%, resulting in a total net original issuance premium of \$6,657,870 which is being amortized using the effective interest method over the life of the bonds which mature in varying amounts through 2048.

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 specified debt service coverage ratios. Management believes the District was in compliance with all debt covenants at September 30, 2019 and 2018.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

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 \$15,097,000 and \$688,000 of interest expense was capitalized in connection with the District's construction programs for the years ended September 30, 2019 and 2018, 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.

Terms at September 30, 2019:

Associated bond issue	Notional amount of swap	Counterparty	Effective date	District pays	District receives	Termination date	Fair value at September 30, 2019 (1)	Net cash flows during 2019
1998B	\$ 90,000,000	Goldman Sachs	9/15/1998	SIFMA	Fixed rates per maturities	7/1/2028	\$ 17,479,944	2,849,224
2015 NT Bank Note	66,775,000	Deutsche Bank	11/19/2010	3.610 %	67% of 1-month LIBOR	7/1/2037	(17,194,445)	(1,339,698)
2008B	60,625,000	Deutsche Bank	7/3/2013	3.766 %	61.7% of 1-month LIBOR plus 0.26%	7/1/2037	(6,260,034)	(457,227)
2015 DNT Asset Trust Bank Note	60,900,000	U.S. Bank	7/4/2013	3.697 %	61.7% of 1-month LIBOR plus 0.26%	6/28/2023	(2,104,584)	(462,998)

(1) Fair value at September 30, 2019 excludes current net accrued interest receivable of \$763,339.

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, 2019 were \$(16,633,486) and \$(16,484,612), 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, 2019 and 2018

Terms at September 30, 2018:

<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, 2018 (1)</u>	<u>Net cash flows during 2018</u>
1998B	\$ 90,000,000	Goldman Sachs	9/15/1998	SIFMA	Fixed rates per maturities	7/1/2028	\$ 13,183,380	3,264,964
2015 NT Bank Note	66,775,000	Deutsche Bank	11/19/2010	3.610 %	67% of 1-month LIBOR	7/1/2037	(10,852,686)	(1,658,621)
2008B	60,625,000	Deutsche Bank	7/3/2013	3.766 %	61.7% of 1-month LIBOR plus 0.26%	7/1/2037	(660,071)	(765,790)
2015 DNT Asset Trust Bank Note	60,900,000	U.S. Bank	7/4/2013	3.697 %	61.7% of 1-month LIBOR plus 0.26%	6/28/2023	3,425,147	(755,965)

(1) Fair value at September 30, 2018 excludes current net accrued interest receivable of \$783,222.

Note:

In accordance with GASB 53, the fair values of the novated 2008B and 2015 DNT Asset Trust Bank Note sw aps are based on the at-the-market payor rates of the respective sw aps. The actual fair value of the 2008B and 2015 DNT Asset Trust Bank Note sw aps at September 30, 2018 were \$(10,268,617) and \$(9,784,634), respectively.

Definitions:

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

**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 hedging derivative instruments that are 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 obligations. As of September 30, 2019, the weighted average rate on the District's hedged variable rate debt was 1.95% while the weighted average of the LIBOR-based variable receiver rates was 1.45%.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2019 and 2018

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 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 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 swaps. During the fiscal year ended September 30, 2019, the amortization of the companion debt resulted in an increase to interest expense of \$490,584 and an increase in interest rate swap receipts, net, of \$1,451,533. During the fiscal year ended

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

September 30, 2018, the amortization of the companion debt resulted in an increase to interest expense of \$511,494 and an increase in interest rate swap receipts, net, of \$1,451,533.

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, 2019 and 2018 was \$1,394,222 and \$1,394,222, respectively.

Long-term companion debt activity for the year ended September 30, 2019 and 2018 was as follows:

	<b>2019</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	\$ 11,322,880	—	(492,722)	10,830,158	503,749
2015 DNT Asset Trust Bank Note Swap companion debt	<u>10,732,012</u>	—	<u>(468,227)</u>	<u>10,263,785</u>	<u>478,576</u>
Total long-term companion debt	<u>\$ 22,054,892</u>	<u>—</u>	<u>(960,949)</u>	<u>21,093,943</u>	<u>982,325</u>

  

	<b>2018</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	\$ 11,804,816	—	(481,936)	11,322,880	492,722
2015 DNT Asset Trust Bank Note Swap companion debt	<u>11,190,116</u>	—	<u>(458,104)</u>	<u>10,732,012</u>	<u>468,228</u>
Total long-term companion debt	<u>\$ 22,994,932</u>	<u>—</u>	<u>(940,040)</u>	<u>22,054,892</u>	<u>960,950</u>

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

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

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
Year ending September 30:			
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	1,451,533	1,049,345	402,188
2024	1,451,533	1,072,686	378,847
2025–2029	7,257,667	5,732,132	1,525,535
2030–2034	7,257,666	6,397,562	860,104
2035–2039	3,991,715	3,829,206	162,509
	<u>\$ 25,764,715</u>	<u>21,093,943</u>	<u>4,670,772</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.

Terms as of September 30, 2019:

<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, 2019 (1)</u>	<u>Net cash flows during 2019</u>
1997A	\$ 10,000,000	CitiGroup	6/24/2005	SIFMA Sw ap index	62.4% of 1-month LIBOR + 0.705%	10/1/2021	\$ 111,916	66,153
1997A	15,000,000	Goldman Sachs	11/19/2010	SIFMA Sw ap index + 0.04%	Floating CPI rate + 2.05%	10/1/2021	591,023	339,475
1998B	84,000,000	CitiGroup	6/24/2005	SIFMA Sw ap index	62.4% of 1-month LIBOR + 0.757%	7/1/2028	2,718,322	585,980
2015 NT Bank Note	66,775,000	J.P. Morgan	4/24/2003	SIFMA Sw ap index	67% of 1-month LIBOR plus 0.655%	7/1/2037	2,942,488	479,527

(1) Fair value at September 30, 2019 excludes current net accrued interest receivable of \$480,345.

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, 2019 and 2018

Terms as of September 30, 2018:

<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, 2018 (1)</u>	<u>Net cash flows during 2018</u>
1997A	\$ 10,000,000	CitiGroup	6/24/2005	SIFMA Sw ap index	62.4% of 1-month LIBOR + 0.705%	10/1/2021	\$ 137,293	54,791
1997A	15,000,000	Goldman Sachs	11/19/2010	SIFMA Sw ap index + 0.04%	Floating CPI rate + 2.05%	10/1/2021	864,074	552,093
1998B	84,000,000	CitiGroup	6/24/2005	SIFMA Sw ap index	62.4% of 1-month LIBOR + 0.757%	7/1/2028	2,108,095	516,973
2015 NT Bank Note	66,775,000	J.P. Morgan	4/24/2003	SIFMA Sw ap index	67% of 1-month LIBOR plus 0.655%	7/1/2037	2,008,858	386,554

(1) Fair value at September 30, 2018 excludes current net accrued interest receivable of \$508,942.

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 investment derivative instruments in which it pays based on SIFMA and receives a payment based on the six-month change based on the CPI index. As of September 30, 2019, the rate the District paid the counterparty was 1.62% and the rate received was 5.90%.

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, 2019, the SIFMA index was 1.58% and the one-month LIBOR index was 2.01563%.

**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, 2019 and 2018

### (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 contribution to the Plan based on State of Florida rules.

The Plan is a governmental plan under Internal Revenue Code Section 414(d), which defines a governmental plan as "a plan established and maintained for its employees by the Government of the United States, by the government of any State or political subdivision thereof, or by any agency or instrumentality of any of the foregoing." During the year ended September 30, 2003, the District clarified the status of the Plan as a governmental plan that is exempt from ERISA requirements. The Department of Labor was notified of this clarification through communications with the Pension Benefit Guarantee Corporation. On March 26, 2003, the District formally requested a private letter ruling from the Internal Revenue Service (IRS) confirming the status of the pension plan as 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 and the IRS continues to refuse to rule on whether any particular retirement plan is a "governmental plan" under Internal Revenue Code Section 414(d). However, on November 24, 2010, the IRS confirmed that the plan sponsor (SMH Health Care, Inc.) is a governmental entity. Management believes, based on discussions with legal counsel, that the pension plan is a governmental plan under Internal Revenue Code Section 414(d) and that if this is ever examined by the IRS, 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, 2018. This estimate includes any adjustments for the funding relief legislation passed in July 2012, August 2014, and in November 2015.

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.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

*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.

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 an eligible employee. 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.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

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.

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 determined as of his date of disability.

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

At October 1, 2018, the following employees were covered by the benefit terms:

Inactive employees (or their beneficiaries) currently receiving benefits	976
Inactive employees entitled to but not yet receiving benefits	494
Active employees	<u>1,273</u>
	<u><u>2,743</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 \$10,049,127 and \$10,824,970, during the years ended September 30, 2019 and 2018, respectively. The Plan recognized contributions of \$10,824,970 and \$12,139,689, as additions to the Plan's fiduciary net position during the fiscal years ended September 30, 2019 and 2018, respectively.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

**(c) Net Pension Liability**

The District's net pension liability of \$6,789,413 at September 30, 2019 was measured as of September 30, 2018 using an actuarial valuation as of October 1, 2017 and is included in net pension liability in the accompanying balance sheets. The District's net pension liability of \$11,896,237 at September 30, 2018 was measured as of September 30, 2017 using an actuarial valuation as of October 1, 2016 and is included in net pension liability in the accompanying balance sheets. The total pension liabilities used to calculate the net pension liability were determined by an actuarial valuation as of October 1, 2017 and 2016 rolled-forward to September 30, 2018 and 2017, respectively, using standard roll-forward techniques.

*Actuarial assumptions.* The total pension liability in the October 1, 2017 and 2016 actuarial valuations 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, 2019 and 2018		<b><u>Based on actual plan experience</u></b>
	<b><u>Age</u></b>	<b><u>% increase at attained age</u></b>
	Less than 35	5.00 %
	35–49	4.50
	50–54	4.00
	55–59	3.50
	60 or older	3.00

Healthy and disabled mortality rates were updated for the fiscal year ending September 30, 2019 to 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 MP-2018. The healthy and disabled mortality rates prior to the fiscal year ending September 30, 2019 were 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).

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

The long-term expected rate of return on retirement plan investments was determined using the October 1, 2018 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, 2018 was:

	<b>Actual allocation</b>	<b>Target allocation</b>	<b>Long-term expected rate of return</b>
Large cap stocks	22.8 %	21.0 %	7.3 %
Small cap stocks	4.6	4.0	6.9
International stocks	21.9	22.0	7.3
Private equity	4.3	5.0	8.3
Emerging market stocks	7.4	8.0	7.8
Real estate	5.6	5.0	6.0
Hedge fund of funds	4.6	5.0	5.9
High-yield bonds	4.0	5.0	5.1
BarCap Aggregate bonds	23.7	25.0	4.2
Cash	1.1	—	3.3
	<u>100.0 %</u>	<u>100.0 %</u>	

The Plan asset allocation and long-term rate of return as of September 30, 2017 was:

	<b>Actual allocation</b>	<b>Target allocation</b>	<b>Long-term expected rate of return</b>
Large cap stocks	21.2 %	21.0 %	7.3 %
Small cap stocks	4.2	4.0	6.9
International stocks	22.7	22.0	7.3
Private equity	4.1	5.0	8.3
Emerging market stocks	8.0	8.0	7.8
Real estate	5.3	5.0	5.8
Hedge fund of funds	4.4	5.0	5.7
High-yield bonds	4.0	5.0	4.8
BarCap Aggregate bonds	24.7	25.0	3.6
Cash	1.4	—	3.1
	<u>100.0 %</u>	<u>100.0 %</u>	

Based on the target allocation, the mean return over 15 and 20 years ranged from 7.08% to 7.16%, respectively. The median return over 15 and 20 years ranged from 7.12% and 7.18%, respectively.

*Discount rate.* The discount rate used to measure the total pension liability was 7.0% for the September 30, 2018 and 2017 measurement dates. The projection of cash flows used to determine the

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

discount rate was based on expected benefit payments and employer 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, 2017	\$ 369,515,297	340,865,327	28,649,970
Changes for the year:			
Service cost	8,237,830	—	8,237,830
Interest	25,040,903	—	25,040,903
Demographic (gains)/losses	(3,234,518)	—	(3,234,518)
Change in actuarial assumptions	493,692	—	493,692
Net investment income	—	35,432,192	(35,432,192)
Contributions-employer	—	12,139,689	(12,139,689)
Benefits payments	(18,094,587)	(18,094,587)	—
Administrative expense	—	(280,241)	280,241
Net changes	<u>12,443,320</u>	<u>29,197,053</u>	<u>(16,753,733)</u>
Balances at September 30, 2018	<u>381,958,617</u>	<u>370,062,380</u>	<u>11,896,237</u>
Changes for the year:			
Service cost	7,932,022	—	7,932,022
Interest	25,733,708	—	25,733,708
Demographic (gains)/losses	(3,057,760)	—	(3,057,760)
Change in actuarial assumptions	(5,309,527)	—	(5,309,527)
Net investment income	—	19,785,014	(19,785,014)
Contributions-employer	—	10,824,970	(10,824,970)
Benefits payments	(22,552,914)	(22,552,914)	—
Administrative expense	—	(204,717)	204,717
Net changes	<u>2,745,529</u>	<u>7,852,353</u>	<u>(5,106,824)</u>
Balances at September 30, 2019	<u>\$ 384,704,146</u>	<u>377,914,733</u>	<u>6,789,413</u>

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

*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 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 (6.0)%</u>	<u>Current discount (7.0)%</u>	<u>1% Increase (8.0)%</u>
District's net pension liability, 2019	\$ 37,983,216	6,789,413	(20,036,638)
	<u>1% Decrease (6.0)%</u>	<u>Current discount (7.0)%</u>	<u>1% Increase (8.0)%</u>
District's net pension liability, 2018	\$ 44,377,952	11,896,237	(15,920,944)

*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](http://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 and in accordance with generally accepted accounting principles. The Plan's investments are stated at fair value.

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

The District recognized pension expense of \$8,010,756 and \$8,328,752, respectively, for the years ended September 30, 2019 and 2018 and is included in salaries, wages and fringe benefits on the statement of revenues, expenses, and changes in net position. At September 30, 2019, the District

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>2019</b>	
	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ —	4,189,783
Changes in assumptions	2,462,863	4,649,626
Net difference between projected and actual earnings on pension plan investments	—	125,329
Contributions made by the District during the year ended September 30, 2019	<u>10,049,127</u>	<u>—</u>
	<b>\$ 12,511,990</b>	<b>8,964,738</b>

District contributions subsequent to the measurement date of \$10,049,127 will be recognized as a reduction of the net pension liability during the fiscal year ending September 30, 2020. 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:	
2020	\$ 1,511,515
2021	(5,823,093)
2022	(3,325,358)
2023	<u>1,135,061</u>
	<b>\$ <u>(6,501,875)</u></b>

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

At September 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>2018</b>	
	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ —	3,451,874
Changes in assumptions	4,802,302	1,334,962
Net difference between projected and actual earnings on pension plan investments	—	4,224,731
Contributions made by the District during the year ended September 30, 2018	<u>10,824,970</u>	<u>—</u>
	<u>\$ 15,627,272</u>	<u>9,011,567</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, 2019 and 2018 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, 2019 and 2018 was \$8,663,301 and \$6,512,893, respectively, and is included in salaries, wages and fringe benefits on the statements of revenues, expenses and changes in net position.

**(8) Postemployment Benefits Other Than Pensions (OPEB)**

**(a) General Information about postemployment benefits**

*Plan description and benefits provided.* 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, 41,600 or more total hours 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.

The Plan also provides \$10,000 Life insurance to those who retire under the Florida Retirement System (FRS) or the OPEB Plan with at least 20 years of service and 41,600 or more total hours of service.

The OPEB Plan is a single-employer defined benefit OPEB plan administered by the District. No assets are accumulated in a trust. Separate financial statements for the District's OPEB Plan are not prepared.

*Contributions.* 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.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

**(b) Employees covered by benefit terms.** At October 1, 2017, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	675
Inactive employees entitled to but not yet receiving benefit payments	—
Active employees	4,756
	5,431

**(c) Total OPEB liability**

The District's total OPEB liability of \$9,995,179 at September 30, 2019 was measured as of September 30, 2018 using an actuarial valuation as of October 1, 2017, and is included in other long-term liabilities in the accompanying balance sheet. The District's total OPEB liability of \$10,348,597 at September 30, 2018 was measured as of September 30, 2017 using an actuarial valuation as of October 1, 2016 and is included in other long-term liabilities in the accompanying balance sheet. Liabilities measured as of September 30, 2018 and 2017 were projected from the valuation dates using standard roll-forward methodology.

*Actuarial assumptions and other input.* The total OPEB liabilities in the actuarial valuations were determined using the following actuarial assumptions and other inputs, applied to all periods in the measurement, unless otherwise specified:

Salary increases	Age Graded Rates:	
	<u>Age</u>	<u>% increase at attained age</u>
	Less than 25	6.00 %
	25–34	5.00 %
	35–49	4.50 %
	50–59	3.50 %
	60–64	3.00 %
	65 and older	2.50 %
Discount Rate, 2018		3.50 %
Discount Rate, 2019		3.83 %
Current Health Care Cost Trend Rate, 2018		7.00 %
Current Health Care Cost Trend Rate, 2019		6.75 %
Ultimate Health Care Cost Trend Rate		5.00 %
Year of Ultimate Trend Rate		2025
Participation Assumptions:		
Medical Coverage		35.00 %
Medical Dependent Coverage		20.00 %

The discount rates for 2019 and 2018 were based on a 20-year municipal bond rate as of the Measurement Date. The change in discount rate from 2018 to 2019 is reflected as a Changes in Assumptions in the following table. The discount rates used in these valuations were determined using

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

the 20-year yields on the Fidelity AA Municipal General Obligation Fund. For the fiscal year ending September 30, 2019, mortality rates were updated to the RP-2014 Healthy mortality table for male or females, as appropriate, with adjustment backward to 2006 with MP-2014, generationally projected using Scale MP-2018. For the fiscal year ending September 30, 2018, mortality rates were based on RP-2014 Healthy mortality table for male or females, as appropriate, with adjustment backward to 2006 with MP-2014, generationally projected using Scale BB (male). The compensation increase assumption is based on the results of a 4-year experience study based on pay and participant data from 2012 through 2016. The termination and retirement rates assumptions are based on the results of a 5-year experience study based on participant data from October 1, 2010 through September 30, 2015.

**(d) Changes in the Total OPEB Liability**

	<b>Total OPEB Liability</b>
Balance at September 30, 2017	\$ 10,036,685
Changes for the year:	
Service cost	290,331
Interest cost	348,432
Changes of benefit terms	—
Differences between expected and actual experience	99,459
Changes of assumptions	(416,490)
Benefit payments	<u>(9,820)</u>
Net changes	<u>311,912</u>
Balance at September 30, 2018	<u>10,348,597</u>
Changes for the year:	
Service cost	323,551
Interest cost	368,724
Changes of benefit terms	—
Differences between expected and actual experience	(132,424)
Changes of assumptions	(878,112)
Benefit payments	<u>(35,157)</u>
Net changes	<u>(353,418)</u>
Balance at September 30, 2019	\$ <u><u>9,995,179</u></u>

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the total OPEB liability of the District as of September 30, 2019, as well as what the District's total OPEB liability

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

would be if it were calculated using a discount rate that is 1-percentage-point lower (2.83%) or 1-percentage-point higher (4.83%) than the current discount rate:

	<u>1% Decrease (2.83%)</u>	<u>Discount rate (3.83%)</u>	<u>1% Increase (4.83%)</u>
Total OPEB Liability	\$ 11,669,357	9,995,179	8,669,817

The following presents the total OPEB liability of the District as of September 30, 2018, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.5%) or 1-percentage-point higher (4.5%) than the then current discount rate:

	<u>1% Decrease (2.5%)</u>	<u>Discount rate (3.5%)</u>	<u>1% Increase (4.5%)</u>
Total OPEB Liability	\$ 12,156,844	10,348,597	8,929,031

*Sensitivity of total OPEB liability to changes in healthcare cost trend rates.* The following presents the total OPEB liability of the District as of September 30, 2019, as well as what the district's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.75% decreasing to 4.00%) or 1-percentage-point higher (7.75% decreasing to 6.00%) than the current healthcare cost trend rates:

	<u>1% Decrease (5.75% decreasing to 4.0%)</u>	<u>Healthcare Cost Trend rates (6.75% decreasing to 5.00%)</u>	<u>1% Increase (7.75% decreasing to 6.0%)</u>
Total OPEB Liability	\$ 9,605,463	9,995,179	10,445,614

The following presents the total OPEB liability of the District as of September 30, 2018, as well as what the district's total OPEB liability would be if it were calculated using healthcare cost trend rates that are

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

1-percentage-point lower (6.0% decreasing to 4.0%) or 1-percentage-point higher (8.0% decreasing to 6.0%) than the current healthcare cost trend rates:

	<b>1% Decrease (6.0% decreasing to 4.0%)</b>	<b>Healthcare Cost Trend rates (7.0% decreasing to 5.0%)</b>	<b>1% Increase (8.0% decreasing to 6.0%)</b>
Total OPEB Liability	\$ 9,918,207	10,348,597	10,855,208

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

**(e) OPEB Expense and Deferred Outflows of Resources and deferred Inflows of Resources Related to OPEB**

For the years ended September 30, 2019 and 2018, the District recognized OPEB expense of \$249,753 and \$533,086, respectively, and is included in salaries, wages and fringe benefits on the statement of revenues, expenses, and changes in net position. At September 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>2019</b>	
	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ 33,153	88,283
Changes in assumptions	—	724,238
Benefit payments made by the District during the year ended September 30, 2019	<u>246,775</u>	<u>—</u>
	<u>\$ 279,928</u>	<u>812,521</u>

Deferred outflows of resources resulting from benefit payments made by the District during the year ended September 30, 2019 will be recognized as a reduction of the total OPEB liability in the year ending September 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:	
2020	\$ (442,522)
2021	<u>(336,846)</u>
	<u>\$ (779,368)</u>

At September 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>2018</b>	
	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ 66,306	—
Changes in assumptions	—	277,660
Benefit payments made by the District during the year ended September 30, 2018	<u>35,157</u>	<u>—</u>
	<u>\$ 101,463</u>	<u>277,660</u>

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

**(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 exclude the entity as a component unit. Net amounts due from/to these related organizations and investments in related organizations as of September 30, 2019 and 2018 are as follows:

	<b>2019</b>	<b>2018</b>
Current assets:		
Community Health Corporation	\$ 1,406	1,428
Physician Hospital Organization, Inc.	51,214	58,089
LeeSar Inc.	1,070,000	1,070,000
Total current assets	\$ 1,122,620	1,129,517
Noncurrent assets (included in other assets):		
Investment in LeeSar Inc.	\$ 19,813,863	19,584,538
Total noncurrent assets	\$ 19,813,863	19,584,538
Current liabilities:		
Other	\$ —	1,261
Total current liabilities	\$ —	1,261

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%

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2019 and 2018

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 \$516,000 and \$2,208,000 for the years ended September 30, 2019 and 2018, respectively. Effective October 1, 2009, LeeSar 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 \$2,891,000 and \$1,155,000 as of September 30, 2019 and 2018, respectively. The District received \$4,789,000 and \$2,384,000 from the Foundation during the years ended September 30, 2019 and 2018, 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 \$7,283,000 and \$6,956,000 as of September 30, 2019 and 2018, 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 \$4,203,000 and \$3,912,000 as of September 30, 2019 and 2018, 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.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2019 and 2018

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, 2019, 2018, and 2017 is reflected in the tables below:

	<b>2019</b>			
	<b>Self-insured liabilities September 30, 2018</b>	<b>Insurance expense (credit)</b>	<b>Payments</b>	<b>Self-insured liabilities September 30, 2019</b>
Professional liabilities	\$ 10,868,000	1,998,033	(1,380,033)	11,486,000

  

	<b>2018</b>			
	<b>Self-insured liabilities September 30, 2017</b>	<b>Insurance expense (credit)</b>	<b>Payments</b>	<b>Self-insured liabilities September 30, 2018</b>
Professional liabilities	\$ 10,271,000	984,438	(387,438)	10,868,000

The District had no significant reductions in insurance coverage during the fiscal year ended September 30, 2019. 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, 2019 and 2018 was approximately \$11,137,000 and \$9,382,000, respectively.

Minimum payments required under contractual employment agreements and operating leases as of September 30, 2019 are approximately as follows:

	<b>Employment contracts</b>	<b>Operating leases</b>	<b>Total</b>
Year ending September 30:			
2020	\$ 18,980,993	8,297,726	27,278,719
2021	—	5,578,828	5,578,828
2022	—	5,104,702	5,104,702
2023	—	2,043,393	2,043,393
2024		1,453,715	1,453,715
All years after September 30, 2024		7,367,278	7,367,278
	<u>\$ 18,980,993</u>	<u>29,845,642</u>	<u>48,826,635</u>

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2019 and 2018

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, 2019 and 2018. 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.

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, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Medicare	30.9 %	31.0 %
Self-pay and others	28.2	28.4
Managed care and commercial	25.6	26.8
Medicaid	15.3	13.8
	<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, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:						
Service cost	\$ 7,932,022	8,237,830	9,619,975	9,357,119	9,593,252	10,036,918
Interest	25,733,708	25,040,903	24,231,700	23,572,643	21,938,676	21,187,578
Demographic (gains)/losses	(3,057,760)	(3,234,518)	(520,626)	(745,239)	(2,337,885)	—
Change in actuarial assumptions	(5,309,527)	493,692	(2,669,926)	11,080,081	—	—
Benefit payments	<u>(22,552,914)</u>	<u>(18,094,587)</u>	<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	2,745,529	12,443,320	9,654,072	23,623,431	11,786,471	12,318,773
Total pension liability – beginning	<u>381,958,617</u>	<u>369,515,297</u>	<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>384,704,146</u>	<u>381,958,617</u>	<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	10,824,970	12,139,689	14,551,924	49,810,358	16,606,485	98,258,981
Net investment income	19,785,014	35,432,192	30,898,892	(9,642,501)	26,103,829	22,947,703
Benefit payments	(22,552,914)	(18,094,587)	(21,007,051)	(19,641,173)	(17,407,572)	(18,905,723)
Administrative expense	<u>(204,717)</u>	<u>(280,241)</u>	<u>(388,330)</u>	<u>(344,878)</u>	<u>(294,193)</u>	<u>(349,092)</u>
Net change in plan fiduciary net position	7,852,353	29,197,053	24,055,435	20,181,806	25,008,549	101,951,869
Plan fiduciary net position – beginning	<u>370,062,380</u>	<u>340,865,327</u>	<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>377,914,733</u>	<u>370,062,380</u>	<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>6,789,413</u>	<u>11,896,237</u>	<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, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Plan fiduciary net position as a percentage of the total pension liability	98.2 %	96.9 %	92.2 %	88.0 %	88.2 %	83.7 %
Covered-employee payroll	\$ 114,623,636	118,225,538	124,949,986	127,730,377	133,004,920	139,579,218
Net pension liability as a percentage of covered-employee payroll	5.9 %	10.1 %	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, 2019 and 2018

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarially determined contribution	\$ 10,049,127	10,824,970	12,139,689	14,551,924	19,810,358	16,606,485	23,258,981	23,698,368	22,664,712	22,648,703
Contributions in relation to the actuarially determined contribution	<u>10,049,127</u>	<u>10,824,970</u>	<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>
Contribution deficiency/(excess)	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(30,000,000)</u>	<u>—</u>	<u>(75,000,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Covered-employee payroll	\$ 109,970,976	114,623,636	118,225,538	124,949,986	127,730,377	133,004,920	139,579,218	153,291,551	161,452,376	166,667,613
Contributions as a% of covered-employee payroll	9.1 %	9.4 %	10.3 %	11.6 %	39.0 %	12.5 %	70.4 %	15.5 %	14.0 %	13.6 %

(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 Changes in the Total OPEB Liability and Related Ratios (Unaudited)  
 September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability:			
Service cost	\$ 323,551	290,331	272,925
Interest	368,724	348,432	298,742
Differences between expected and actual experience	(132,424)	99,459	—
Changes of assumptions	(878,112)	(416,490)	—
Benefit payments	<u>(35,157)</u>	<u>(9,820)</u>	<u>(120,590)</u>
Net change in total pension liability	(353,418)	311,912	451,077
Total OPEB liability – beginning	<u>10,348,597</u>	<u>10,036,685</u>	<u>9,585,608</u>
Total OPEB liability – ending	<u>\$ 9,995,179</u>	<u>10,348,597</u>	<u>10,036,685</u>
Covered-employee payroll	\$ 294,022,400	262,680,254	230,474,125
Total OPEB liability as a percentage of covered payroll	3.40 %	3.94 %	4.35 %

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

Notes to Required Supplemental Information

September 30, 2019 and 2018

### **(1) Schedule of the Changes in the Net Pension Liability and Related Ratios**

In 2019, amounts reported as changes of actuarial assumptions resulted primarily from an update of healthy and disabled mortality projection scale from Scale BB(male) to Scale MP-2018 for males and females.

In 2018, amounts reported as changes of actuarial assumptions resulted primarily from adjustments to salary increase assumption updated from age-graded rates of 6.5% to 4.00% to age-graded rates of 5.00% to 3.00% and an update to the assumed future increases to the IRC maximum benefit and plan compensation limits from 0% to 2.5%.

In 2017, amounts reported as changes of actuarial assumptions resulted primarily from an update to the termination and retirement rates based on plan experience.

In 2016, amounts reported as changes of actuarial assumptions resulted primarily from adjustments to healthy mortality assumption from RP-2000 mortality tables for males and females projected statically with Scale AA to 10 years beyond valuation year to RP-2006 for males and females projected generationally using Scale BB(male) and disabled mortality assumption updated from RP-2000 mortality tables for males and females set to 10 years beyond valuation year to RP-2006 disabled mortality tables for males and females projected generationally using Scale BB(male).

### **(2) 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, 2018. Contributions are made one fiscal year prior to the fiscal year in which the contributions are reported as a reduction in net pension liability. 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.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Required Supplemental Information

September 30, 2019 and 2018

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	7 years (based on average remaining expected service of active plan participants as of 10/1/2018)
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	3.8%, average, including inflation; In the 2012 and 2016, actuarial valuations, expected salary increases were adjusted to age-graded rates to more closely reflect actual experience.
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;
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.
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, 2019 and 2018

### **(3) Schedule of Changes in the Total OPEB Liability and Related Ratios**

#### **2019**

The discount rate changed from 3.50% to 3.83%.

Assumed per capita claims costs were updated for fiscal year ending September 30, 2019 based on most recent premiums provided by SMH and to reflect changes in distribution of enrollment by plan options.

The annual average per capita retiree contributions were updated for fiscal year ending September 30, 2019 from \$7,448 to \$7,542 due to changes in the distribution of enrollment by plan option and changes in elected coverage categories.

The mortality improvement scale was updated from Scale BB to Scale MP-2018.

#### **2018**

The discount rate changed from 3.10% to 3.50%

Assumed per capita claims costs were updated for fiscal year ending September 30, 2018 based on most recent premiums provided by SMH and to reflect changes in distribution of enrollment by plan options.

The annual average per capita retiree contributions were updated for fiscal year ending September 30, 2018 from \$7,093 to \$7,448 due to changes in the distribution of enrollment by plan option and changes in elected coverage categories.

The dependent coverage assumption was updated for fiscal year ending September 30, 2018 from 25% to 20% to better reflect plan experience.

The actuarial cost method was changed from the Projected Unit Credit Method (PUC) to the Entry Age Normal (EAN) cost method as required by GASB 75.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**  
Supplemental Information – Combining Balance Sheet Information  
September 30, 2019

<b>Assets</b>	<b>Sarasota Memorial Hospital</b>	<b>Corporate Division</b>	<b>Sarasota Memorial Nursing &amp; Rehabilitation Center</b>	<b>Eliminations</b>	<b>Sarasota County Public Hospital District</b>	<b>SMH Health Care, Inc.</b>	<b>SMH Physician Services, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current assets:</b>									
Cash and cash equivalents	\$ 53,519,803	1,772,025	2,872,817	—	58,164,645	204,407	3,689,967	—	62,059,019
Patient accounts receivable, less allowance for uncollectible accounts	96,199,644	—	1,546,355	—	97,745,999	—	5,745,033	—	103,491,032
Inventories of supplies	14,256,853	—	51,109	—	14,307,962	—	—	—	14,307,962
Prepaid expenses and other assets	15,916,082	3,445,804	38,844	—	19,400,730	345,592	1,950,898	—	21,697,220
Due from related organizations	5,076,522	95,206	43,939	(2,205,040)	3,010,627	86,448,304	2,301	(88,338,612)	1,122,620
Total current assets	<u>184,968,904</u>	<u>5,313,035</u>	<u>4,553,064</u>	<u>(2,205,040)</u>	<u>192,629,963</u>	<u>86,998,303</u>	<u>11,388,199</u>	<u>(88,338,612)</u>	<u>202,677,853</u>
<b>Noncurrent assets:</b>									
Restricted investments	329,599,018	—	—	—	329,599,018	—	—	—	329,599,018
Board designated investments	954,939,675	—	—	—	954,939,675	—	—	—	954,939,675
Capital assets, net	550,552,650	136,589,486	3,438,556	—	690,580,692	—	4,341,260	—	694,921,952
Other assets	19,813,863	—	—	—	19,813,863	17,221,152	—	—	37,035,015
Interest rate swaps	23,140,754	702,939	—	—	23,843,693	—	—	—	23,843,693
Total noncurrent assets	<u>1,878,045,960</u>	<u>137,292,425</u>	<u>3,438,556</u>	<u>—</u>	<u>2,018,776,941</u>	<u>17,221,152</u>	<u>4,341,260</u>	<u>—</u>	<u>2,040,339,353</u>
Total assets	<u>2,063,014,864</u>	<u>142,605,460</u>	<u>7,991,620</u>	<u>(2,205,040)</u>	<u>2,211,406,904</u>	<u>104,219,455</u>	<u>15,729,459</u>	<u>(88,338,612)</u>	<u>2,243,017,206</u>
<b>Deferred Outflows of Resources</b>									
Deferred outflows related to pensions and OPEB	—	—	—	—	—	12,791,918	—	—	12,791,918
Deferred amounts on debt refundings	26,850,067	—	—	—	26,850,067	—	—	—	26,850,067
Deferred effective interest rate swap outflows	6,260,034	—	—	—	6,260,034	—	—	—	6,260,034
Total deferred outflows of resources	<u>33,110,101</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>33,110,101</u>	<u>12,791,918</u>	<u>—</u>	<u>—</u>	<u>45,902,019</u>
Total assets and deferred outflows of resources	<u>\$ 2,096,124,965</u>	<u>142,605,460</u>	<u>7,991,620</u>	<u>(2,205,040)</u>	<u>2,244,517,005</u>	<u>117,011,373</u>	<u>15,729,459</u>	<u>(88,338,612)</u>	<u>2,288,919,225</u>

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Supplemental Information – Combining Balance Sheet Information

September 30, 2019

<b>Liabilities</b>	<b>Sarasota Memorial Hospital</b>	<b>Corporate Division</b>	<b>Sarasota Memorial Nursing &amp; Rehabilitation Center</b>	<b>Eliminations</b>	<b>Sarasota County Public Hospital District</b>	<b>SMH Health Care, Inc.</b>	<b>SMH Physician Services, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current liabilities:</b>									
Accounts payable	\$ 37,587,713	1,226,303	453,863	—	39,267,879	564,163	1,425,739	—	41,257,781
Employee compensation and benefits payable	—	—	—	—	—	69,008,682	—	—	69,008,682
Other accrued expenses	9,852,091	563,137	141,700	—	10,556,928	—	846,626	—	11,403,554
Estimated third-party settlements	28,903,000	—	317,460	—	29,220,460	—	—	—	29,220,460
Due to related organizations	23,942,024	61,820,566	47,486	(2,205,040)	83,605,036	43,938	4,689,638	(88,338,612)	—
Current portion of State of Florida medical assistance assessment	11,067,173	—	—	—	11,067,173	—	—	—	11,067,173
Current portion of long-term debt	10,739,034	35,966	—	—	10,775,000	—	—	—	10,775,000
Total current liabilities	<u>122,091,035</u>	<u>63,645,972</u>	<u>960,509</u>	<u>(2,205,040)</u>	<u>184,492,476</u>	<u>69,616,783</u>	<u>6,962,003</u>	<u>(88,338,612)</u>	<u>172,732,650</u>
<b>Noncurrent liabilities:</b>									
Long-term debt, less current portion	611,540,284	16,942,164	—	—	628,482,448	—	—	—	628,482,448
Long-term companion debt, less current portion	20,111,618	—	—	—	20,111,618	—	—	—	20,111,618
Net pension liability	—	—	—	—	—	6,789,413	—	—	6,789,413
State of Florida medical assistance assessment, less current portion	5,856,147	—	—	—	5,856,147	—	—	—	5,856,147
Other long-term liabilities	5,654,000	16,782	320,000	—	5,990,782	30,827,918	3,564,000	—	40,382,700
Interest rate swaps	25,559,063	—	—	—	25,559,063	—	—	—	25,559,063
Total noncurrent liabilities	<u>668,721,112</u>	<u>16,958,946</u>	<u>320,000</u>	<u>—</u>	<u>686,000,058</u>	<u>37,617,331</u>	<u>3,564,000</u>	<u>—</u>	<u>727,181,389</u>
Total liabilities	<u>790,812,147</u>	<u>80,604,918</u>	<u>1,280,509</u>	<u>(2,205,040)</u>	<u>870,492,534</u>	<u>107,234,114</u>	<u>10,526,003</u>	<u>(88,338,612)</u>	<u>899,914,039</u>
<b>Deferred Inflows of Resources</b>									
Deferred inflows related to pensions and OPEB	—	—	—	—	—	9,777,259	—	—	9,777,259
Deferred effective interest rate swap inflows	25,138,289	—	—	—	25,138,289	—	—	—	25,138,289
Total deferred inflows of resources	<u>25,138,289</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>25,138,289</u>	<u>9,777,259</u>	<u>—</u>	<u>—</u>	<u>34,915,548</u>
<b>Net Position</b>									
Net investment in capital assets	281,053,524	119,611,356	3,438,556	—	404,103,436	—	4,341,260	—	408,444,696
Restricted for specific purposes	2,734,883	—	—	—	2,734,883	—	—	—	2,734,883
Unrestricted	996,386,122	(57,610,814)	3,272,555	—	942,047,863	—	862,196	—	942,910,059
Total net position	<u>1,280,174,529</u>	<u>62,000,542</u>	<u>6,711,111</u>	<u>—</u>	<u>1,348,886,182</u>	<u>—</u>	<u>5,203,456</u>	<u>—</u>	<u>1,354,089,638</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,096,124,965</u>	<u>142,605,460</u>	<u>7,991,620</u>	<u>(2,205,040)</u>	<u>2,244,517,005</u>	<u>117,011,373</u>	<u>15,729,459</u>	<u>(88,338,612)</u>	<u>2,288,919,225</u>

See accompanying independent auditors' report.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

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

Year ended September 30, 2019

	<b>Sarasota Memorial Hospital</b>	<b>Corporate Division</b>	<b>Sarasota Memorial Nursing &amp; Rehabilitation Center</b>	<b>Eliminations</b>	<b>Sarasota County Public Hospital District</b>	<b>SMH Health Care, Inc.</b>	<b>SMH Physician Services, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
Operating revenues:									
Net patient service revenue, net of provision for bad debts	\$ 877,647,264	—	13,610,381	—	891,257,645	—	71,455,870	—	962,713,515
Other revenue	15,783,240	32,059,307	608,380	(24,377,596)	24,073,331	489,448,644	5,526,109	(496,349,370)	22,698,714
Total operating revenues	<u>893,430,504</u>	<u>32,059,307</u>	<u>14,218,761</u>	<u>(24,377,596)</u>	<u>915,330,976</u>	<u>489,448,644</u>	<u>76,981,979</u>	<u>(496,349,370)</u>	<u>985,412,229</u>
Operating expenses:									
Salaries, wages, and fringe benefits	369,980,819	21,248,692	8,347,639	—	399,577,150	489,203,780	88,708,419	(489,203,780)	488,285,569
Supplies	194,963,182	230,081	1,685,221	—	196,878,484	—	4,561,875	—	201,440,359
Purchased services	118,419,570	11,871,512	2,709,742	(24,279,925)	108,720,899	244,864	9,640,153	(4,382,089)	114,223,827
Professional fees	26,848,147	3,699,205	109,407	(97,671)	30,559,088	—	25,000	(2,763,501)	27,820,587
State of Florida medical assistance assessment	11,712,294	—	—	—	11,712,294	—	—	—	11,712,294
Depreciation and amortization	45,408,009	3,787,847	420,296	—	49,616,152	—	782,411	—	50,398,563
Total operating expenses	<u>767,332,021</u>	<u>40,837,337</u>	<u>13,272,305</u>	<u>(24,377,596)</u>	<u>797,064,067</u>	<u>489,448,644</u>	<u>103,717,858</u>	<u>(496,349,370)</u>	<u>893,881,199</u>
Operating income (loss)	<u>126,098,483</u>	<u>(8,778,030)</u>	<u>946,456</u>	<u>—</u>	<u>118,266,909</u>	<u>—</u>	<u>(26,735,879)</u>	<u>—</u>	<u>91,531,030</u>
Nonoperating items:									
Ad valorem tax	58,136,476	—	—	—	58,136,476	—	—	—	58,136,476
Interest expense	(10,781,897)	(662,207)	—	—	(11,444,104)	—	—	—	(11,444,104)
Interest rate swap receipts, net	1,654,807	405,629	—	—	2,060,436	—	—	—	2,060,436
Bond issue costs	—	—	—	—	—	—	—	—	—
Loss on defeasance	—	—	—	—	—	—	—	—	—
Investment income	20,931,728	—	265	—	20,931,993	—	37,151	—	20,969,144
Unrealized gains and losses on investments, net	37,757,412	—	—	—	37,757,412	—	—	—	37,757,412
Change in fair value of ineffective interest rate swaps	1,543,857	(298,428)	—	—	1,245,429	—	—	—	1,245,429
Other nonoperating income	544,912	(222,830)	—	—	322,082	—	(12,340)	—	309,742
Total nonoperating items	<u>109,787,295</u>	<u>(777,836)</u>	<u>265</u>	<u>—</u>	<u>109,009,724</u>	<u>—</u>	<u>24,811</u>	<u>—</u>	<u>109,034,535</u>
Excess (deficit) of revenues over expenses	235,885,778	(9,555,866)	946,721	—	227,276,633	—	(26,711,068)	—	200,565,565
Other changes in net position:									
Contributions restricted for capital purposes	3,713,895	—	—	—	3,713,895	—	—	—	3,713,895
Net transfers from (to) other component units	(27,306,143)	26,498	—	—	(27,279,645)	—	27,279,645	—	—
Increase (decrease) in net position	212,293,530	(9,529,368)	946,721	—	203,710,883	—	568,577	—	204,279,460
Net position, beginning of year	1,067,880,999	71,529,910	5,764,390	—	1,145,175,299	—	4,634,879	—	1,149,810,178
Net position, end of year	<u>\$ 1,280,174,529</u>	<u>62,000,542</u>	<u>6,711,111</u>	<u>—</u>	<u>1,348,886,182</u>	<u>—</u>	<u>5,203,456</u>	<u>—</u>	<u>1,354,089,638</u>

See accompanying independent auditors' report.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Supplemental Information – Budgetary Comparison Schedule (Unaudited)

Year ended September 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Net patient service revenue, net of provision for bad debts	\$ 866,026,963	962,713,515	96,686,552
Other revenue	19,274,622	22,698,714	3,424,092
<b>Total operating revenues</b>	<u>885,301,585</u>	<u>985,412,229</u>	<u>100,110,644</u>
Operating expenses:			
Salaries, wages, and fringe benefits	484,578,156	488,285,569	(3,707,413)
Supplies	190,846,512	201,440,359	(10,593,847)
Purchased services	112,589,331	114,223,827	(1,634,496)
Professional fees	25,706,601	27,820,587	(2,113,986)
State of Florida medical assistance assessment	10,601,225	11,712,294	(1,111,069)
Depreciation and amortization	46,769,061	50,398,563	(3,629,502)
<b>Total operating expenses</b>	<u>871,090,886</u>	<u>893,881,199</u>	<u>(22,790,313)</u>
<b>Operating income</b>	<u>14,210,699</u>	<u>91,531,030</u>	<u>77,320,331</u>
Nonoperating items:			
Ad valorem tax	58,016,273	58,136,476	120,203
Interest expense	(12,746,207)	(11,444,104)	1,302,103
Interest rate swap receipts, net	1,835,251	2,060,436	225,185
Bond issue costs	—	—	—
Loss on Defeasance	—	—	—
Investment income	17,668,329	20,969,144	3,300,815
Unrealized gains and losses on investments, net	—	37,757,412	37,757,412
Changes in fair value of ineffective interest rate swaps	—	1,245,429	1,245,429
Other nonoperating income	1,500,000	309,742	(1,190,258)
<b>Total nonoperating items</b>	<u>66,273,646</u>	<u>109,034,535</u>	<u>42,760,889</u>
<b>Excess of revenues over expenses</b>	<u>80,484,345</u>	<u>200,565,565</u>	<u>120,081,220</u>
Other changes in net position:			
Contributions restricted for capital purposes	1,000,000	3,713,895	2,713,895
<b>Increase in net position</b>	<u>81,484,345</u>	<u>204,279,460</u>	<u>122,795,115</u>
Net position, beginning of year	<u>1,149,810,178</u>	<u>1,149,810,178</u>	<u>—</u>
<b>Net position, end of year</b>	<u>\$ 1,231,294,523</u>	<u>1,354,089,638</u>	<u>122,795,115</u>

See accompanying independent auditors' report.