

MARION COUNTY HOSPITAL DISTRICT

**FINANCIAL STATEMENTS,
INDEPENDENT AUDITORS' REPORT, AND
REQUIRED SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2018

MARION COUNTY HOSPITAL DISTRICT
FINANCIAL STATEMENTS,
INDEPENDENT AUDITORS' REPORT, AND
REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2018

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Marion County Hospital District
Ocala, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the blended component unit of the Marion County Hospital District (the District) as of and for the year ended September 30, 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 accounting standards generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 auditors consider 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 opinions.

Certified Public Accountants

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

The Board of Trustees
Marion County Hospital District
Ocala, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the blended component unit of the District as of September 30, 2018, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 7 and Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Contributions, and Schedule of Pension Investment Returns on pages 28 and 29, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2019, 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 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.


January 24, 2019
Ocala, Florida

**MARION COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

This section of the Marion County Hospital District (the District) annual financial report presents the District's analysis of its financial performance as of September 30, 2018. Please read this analysis in conjunction with the basic financial statements, which follow this section.

Overview of the Financial Statements

Along with management's discussion and analysis, the annual financial report includes the independent auditors' report, and the financial statements of the District and its blended component unit, Munroe Regional Health System, Inc. (the Health System), collectively referred to herein as the business-type activities. The financial statements also include notes that explain in more detail some of the information in the basic financial statements. By referring to the accompanying notes to the financial statements, a broader understanding of issues impacting financial performance can be realized.

Effective April 1, 2014, the District executed a 40-year lease and purchase agreement with Munroe HMA Hospital, LLC, an affiliate of Community Health Systems, Inc. Under the lease and purchase agreement, control of the hospital operations, land, buildings, and equipment was transferred to Munroe HMA Hospital, LLC. Effective August 1, 2018, the Lessee, Munroe HMA Hospital, LLC, assigned the lease to Florida Hospital Ocala, Inc., an affiliate of Adventist Health System Sunbelt Healthcare Corporation. This change of control significantly affected the financial reporting of the business-type activities, which will be referenced throughout the management's discussion and analysis section of the annual financial report. Additional information on the change of control is included in Note 7 to the financial statements.

Balance Sheet

The balance sheet presents the assets, deferred outflows of resources, liabilities, and net position of the District and the Health System as of September 30, 2018. Net position, or the difference between total assets, deferred outflows of resources, and total liabilities, is one indicator of the current financial condition of the District's business-type activities. At September 30, 2018, the total net position of the business-type activities was approximately \$217 million. Changes in net position are an indicator of whether the overall financial condition of the organization has improved or worsened over a period of time. During 2018, net position of the business-type activities increased by approximately \$7 million. Assets and liabilities are generally measured using current values, with the exception of capital assets, which are stated at historical cost less allowances for depreciation.

A summary of the business-type activities balance sheet at September 30, 2018 and 2017, is presented below (amounts in thousands):

	<u>2018</u>	<u>2017</u>
Current assets	\$ 2,385	\$ 82,158
Investments	252,430	164,874
Capital assets, net	375	355
Other assets	9,853	10,133
Deferred outflow of resources	<u>1,411</u>	<u>870</u>
Total assets and deferred outflows	<u>\$ 266,454</u>	<u>\$ 258,390</u>
Current liabilities	\$ 3,662	\$ 2,724
Long-term liabilities	<u>45,583</u>	<u>45,776</u>
Total liabilities	<u>49,245</u>	<u>48,500</u>
Net position:		
Net investment in capital assets	361	327
Restricted	1,000	1,128
Unrestricted	<u>215,848</u>	<u>208,435</u>
Total net position	<u>217,209</u>	<u>209,890</u>
Total liabilities and net position	<u>\$ 266,454</u>	<u>\$ 258,390</u>

**MARION COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018
(Continued)**

Balance Sheet (Concluded)

Cash and cash equivalents decreased by approximately \$80 million since September 30, 2017. See the "Statement of Cash Flows" section that follows for further information regarding cash flow activity. Other assets decreased by approximately \$24 thousand since September 30, 2017, due primarily to the payments received on Receivables.

Capital assets increased by approximately \$19 thousand during 2018, due to the recognition of depreciation expense shown in Note 3 to the financial statements and the purchase of equipment.

Current liabilities increase by approximately \$938 thousand during 2018, due to the addition of an estimated third party payer settlement, and a reduction of self-insured liabilities related to workers' compensation and professional liability included in Note 5 to the financial statements.

Long-term liabilities (noncurrent portion), including long-term capital lease obligations decreased approximately \$193 thousand during 2018, primarily due to the increase in the net pension liability included in Note 6 and the decrease in the unearned lease revenue included in Note 7 to the financial statements.

Statement of Revenues, Expenses, and Changes in Net Position

The following table presents the business-type activities condensed statement of revenues, expenses, and changes in net position for the years ended September 30, 2018 and 2017, (amounts in thousands):

	<u>2018</u>	<u>2017</u>
Net patient service revenue	\$ (348)	\$ 667
Lease revenue	1,093	1,093
Other operating revenue	19	21
Total operating revenues	<u>764</u>	<u>1,781</u>
Operating expenses	<u>(4,965)</u>	<u>(5,514)</u>
Operating (loss) income	(4,201)	(3,733)
Nonoperating revenues (expenses), net	<u>11,520</u>	<u>17,438</u>
Excess of revenues over expenses	<u>7,319</u>	<u>13,705</u>
Change in net position	<u>\$ 7,319</u>	<u>\$ 13,705</u>

Operating Revenues

Operating revenues decreased in 2018 due to a charge back from AHCA for years prior to 2014.

**MARION COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018
(Continued)**

Operating Expenses

Operating expenses for 2018 was approximately \$4.9 million, a decrease primarily due to the \$1.8 million decrease in Pension expense included in Note 6 to the financial statements coupled with a \$500 thousand increase in expenditures as investments in the community through health improvement initiatives, demonstration grant expense and a contribution to College of Central Florida Health Sciences Technology Education Center.

Programs Funded by the District:

During the years ended September 30, 2018 and 2017, the District provided funding to the following Programs:

	<u>2018</u>	<u>2017</u>
Active Marion Project	\$ 344,934	\$ 12,422
Fitness and Nutrition in Schools	951,143	235,730
Barrett Liner and Buss	50,000	-
Boys and Girls Club	180,750	148,500
College of Central Florida	75,000	128,073
College of Central Florida Health Ed Bldg	600,000	600,000
Dynamic Therapy and Wellness	25,000	75,000
Estella Byrd Whitman Wellness	-	1,182
Heart of Florida	-	114,000
Help Agency of the Forest	-	16,913
Interfaith Emergency Services	186,679	219,500
Kimberly's Center	40,500	-
Langley Project Health	203,074	8,669
Marion County BOCC	26,618	41,413
Marion County Children's Alliance	89,961	93,177
Marion County Health Alliance	11,141	87,562
Marion County School Board	-	246,002
Project Hope of Marion County (return unspent funds)	(2,888)	10,421
Quit Doc	138,609	136,911
Rural Woman's Health Project	10,271	35,139
The Center's	56,212	334,687
United Hands, Inc Dental	246,930	194,778
Blessed Trinity Catholic (return unspent funds)	-	(51,672)
Total	<u>3,233,934</u>	<u>2,688,407</u>

**MARION COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018
(Continued)**

Nonoperating Gains and Losses, Net

Nonoperating revenues and expenses, net for 2018, was approximately \$12 million. Investment income of \$1.6 million is included in nonoperating revenues in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Statement of Cash Flows

The statement of cash flows provides additional information in regard to the business-type activity financial results by reporting the major sources and uses of cash.

Total cash and cash equivalents decreased in fiscal year 2018 by approximately \$80 million. This decrease is attributed to the redemption/termination of the investments of our advisor, Goldman Sachs, into cash in the prior year and the subsequent reinvestment/contracting with Berman Capital Advisors in 2018. Cash and cash equivalents for the District were mainly used to support the operations of the District and fund the pension plan for the former employees of MRHS.

Debt Outstanding

As of September 30, 2018, the business-type activities had \$14 thousand debt outstanding compared to approximately \$29 thousand in 2017, due to payments on the note during the year, included in Note 4 to the financial statements.

Capital Assets

The business-type activities had approximately \$374 thousand in net capital assets as of September 30, 2018. This represents an increase of approximately \$19 thousand from 2017 as a result of normal depreciation expense and the work in progress. Additional information on the business-type activities capital assets is included in Note 3 to the financial statements.

	<u>2018</u>	<u>2017</u>
Land	\$ 143,825	\$ 143,825
Work in progress	11,500	25,000
Buildings and fixed equipment	159,926	178,765
Movable equipment	9,023	8,005
Software	50,390	-
Total capital assets, net	<u>\$ 374,664</u>	<u>\$ 355,595</u>

Outlook

The cancellation of the lease of Munroe Regional Medical Center for the Health System still has many matters to be settled with additional costs related to pension termination, self-insured liabilities, and accounts receivable collections that will continue over the next several years. These costs will be funded using current cash balances and lease proceeds.

The District's Mission, Vision, and Values Statement set the framework for future operations. Our Mission states "*Create Specific Initiatives Which Will Impact Prioritized Health Concerns and Promote Healthier Lifestyles of Marion County Citizens*". Our Vision for the District states "*Improved Health of Marion County Citizens*." Our values are consistent with our mission and vision, which are integrity, stewardship, quality care, and transparency.

**MARION COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018
(Concluded)**

Outlook (Concluded)

The District implemented three strategic goals in 2018: 1) Develop and implement long-term chronic disease prevention initiatives that promote a culture of health and improve health outcomes; 2) Administer a Hospital District Demonstration Health Grant Program that addresses targeted health concerns (mental health, oral health, diabetes, obesity, tobacco use, opioids, and nursing shortages), which will be objective, monitored, performance-based, and funded by designated earnings from invested funds and other available matching grant funds; and 3) Develop and implement a procedure to ensure appropriate and long-term hospital lease administration, which is consistent with the provisions of the 2014 Lease and Purchase Agreement and applicable laws.

The District expanded the two proprietary, long-term chronic disease prevention projects in 2018 – the Active Marion Project (AMP) and Fitness and Nutrition in Schools (FANS).

- AMP is a large-scale, county-wide initiative to increase our residents' level of physical activity to decrease incidents of obesity and diabetes. It utilizes a competition-based model that encourages a team approach to increased physical fitness. Accomplishments for 2018 include creation of a smart phone application to motivate the community to be more active, partnered with Marion County Parks and Recreation to create AMP Rangers, created Healthy Workplace Certification for local employers, developed a public awareness campaign, social media platform, and multimedia materials to inform Marion County residents of wellness opportunities throughout the community.
- FANS is a fitness and nutrition initiative, in collaboration with the Marion County Public School System, which introduces our children to healthy behaviors and agriculture-based experiential learning. FANS Clubs at all high schools and middle schools will help grow and prepare healthy crops for consumption in their cafeterias. In addition, FANS Clubs will help promote physical activity initiatives and healthy menu options throughout our school system. Accomplishments for 2018 include establishing eleven model elementary schools providing nutrition and physical activity curricula, established FANS clubs in both middle and high schools that disseminated school-wide health awareness campaigns, initiated taste tests at all grade levels to expose students to variety of healthy foods, and provided enhanced learning landscapes at multiple schools within the public school system.

Request for Information

This report is designed to provide a general overview of the District's finances. Questions or requests for additional information should be made in writing to the Executive Director of the Board of Directors, 1121 SW 1st Ave, Ocala, Florida 34471.

**BALANCE SHEET
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
SEPTEMBER 30, 2018**

ASSETS AND DEFERRED OUTFLOW OF RESOURCES

	<u>Marion County Hospital District</u>	<u>Munroe Regional Health System</u>	<u>Total Business-type Activities</u>
Current Assets			
Cash and Cash Equivalents	\$ 66,554	\$ 1,425,553	\$ 1,492,107
Accounts Receivable, Other	-	20,250	20,250
Notes Receivable, Current	-	220,242	220,242
Accrued Interest on Investments	359,301	-	359,301
Patient Accounts Receivable	-	240,000	240,000
Prepaid Expenses and Other Current Assets	-	53,074	53,074
Total Current Assets	<u>425,855</u>	<u>1,959,119</u>	<u>2,384,974</u>
Noncurrent Assets			
Noncurrent Cash and Investments:			
Investments	252,429,712	-	252,429,712
Assets Limited as to Use - Cash and Investments:			
Board Designated	-	37,489	37,489
Restricted Investments	-	1,425,535	1,425,535
	<u>-</u>	<u>1,463,024</u>	<u>1,463,024</u>
Total Noncurrent Cash and Investments	252,429,712	1,463,024	253,892,736
Notes Receivable, Noncurrent	-	8,390,714	8,390,714
Capital Asset, Net of Accumulated Depreciation	374,664	-	374,664
Total Noncurrent Assets	<u>252,804,376</u>	<u>9,853,738</u>	<u>262,658,114</u>
Total Assets	<u>253,230,231</u>	<u>11,812,857</u>	<u>265,043,088</u>
Deferred Outflow of Resources			
Deferred Amount on Pension Liability	-	1,411,249	1,411,249
Total Deferred Outflow of Resources	<u>-</u>	<u>1,411,249</u>	<u>1,411,249</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 253,230,231</u>	<u>\$ 13,224,106</u>	<u>\$ 266,454,337</u>

See accompanying notes.

LIABILITIES AND NET POSITION

	Marion County Hospital District	Munroe Regional Health System	Total Business-type Activities
Current Liabilities			
Accounts Payable	\$ 173,691	\$ 1,202,602	\$ 1,376,293
Accrued Liabilities:			
Self-insured Liabilities	-	141,533	141,533
Liabilities for Amounts Held for Others	-	65,420	65,420
Estimated Third-party Payer Settlements	-	2,065,597	2,065,597
Note Payable	13,750	-	13,750
Total Current Liabilities	187,441	3,475,152	3,662,593
Noncurrent Liabilities			
Self-insured Liabilities	-	1,225,998	1,225,998
Unearned Lease Revenue	38,814,729	-	38,814,729
Liabilities for Amounts Held for Others	-	360,179	360,179
Net Pension Liability	0	5,181,852	5,181,852
Total Noncurrent Liabilities	38,814,729	6,768,029	45,582,758
Total Liabilities	39,002,170	10,243,181	49,245,351
Net Position			
Net Investment in Capital Assets	360,914	-	360,914
Restricted:			
For Donor Purposes - Capital, Scholarships, and Community Outreach Program	-	999,936	999,936
Unrestricted	213,867,147	1,980,989	215,848,136
Total Net Position	214,228,061	2,980,925	217,208,986
Total Liabilities and Net Position	\$ 253,230,231	\$ 13,224,106	\$ 266,454,337

See accompanying notes.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Marion County Hospital District	Munroe Regional Health System	Total Business-type Activities
Operating Revenues			
Patient Service Revenue	\$ -	\$ 374,176	\$ 374,176
Third Party Chargebacks	-	(722,627)	(722,627)
Net Patient Service Revenue	-	(348,451)	(348,451)
Lease Revenue	1,093,368	-	1,093,368
Other Income	-	19,073	19,073
Total Operating Revenues	1,093,368	(329,378)	763,990
Operating Expenses			
Salaries and Benefits	-	413,801	413,801
Pension Expense	-	590,716	590,716
Purchased Services and Other	-	1,011,777	1,011,777
Workers' Compensation and Professional Liability Adjustment	-	(350,771)	(350,771)
Health Improvement Initiatives	-	1,296,076	1,296,076
Depreciation and Amortization	33,051	-	33,051
Grant Expense	-	1,343,057	1,343,057
Contribution to College of Central Florida	-	600,000	600,000
Other Expense	-	27,533	27,533
(Total Operating Expenses)	(33,051)	(4,932,189)	(4,965,240)
Operating Income	1,060,317	(5,261,567)	(4,201,250)
Nonoperating Revenues (Expenses)			
Investment Revenue	4,994,788	385,773	5,380,561
Interest and Dividend Income	6,251,174	-	6,251,174
Other (Expense) Income	(111,284)	-	(111,284)
Total Nonoperating Revenues (Expenses), Net	11,134,678	385,773	11,520,451
Excess/(Deficiency) of Revenues Over/(Under) Expenses	12,194,995	(4,875,794)	7,319,201
Transfers (out)/in	(3,035,388)	3,035,388	-
Change in Net Position	9,159,607	(1,840,406)	7,319,201
Net Position, Beginning of Year	205,068,454	4,821,331	209,889,785
Net Position, End of Year	\$ 214,228,061	\$ 2,980,925	\$ 217,208,986

See accompanying notes.

STATEMENT OF CASH FLOWS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Marion County Hospital District	Munroe Regional Health System	Total Business-type Activities
Cash Flows from Operating Activities			
Cash Received from Patients and Third-party Payers	\$ -	\$ 292,043	\$ 292,043
Cash Paid to Suppliers and Grantees	57,748	(3,846,623)	(3,788,875)
Cash Paid to Employees	-	(413,801)	(413,801)
Net Cash Provided by (Used in) Operating Activities	<u>57,748</u>	<u>(3,968,381)</u>	<u>(3,910,633)</u>
Cash Flows from Noncapital Activities			
Net Operating Transfers in/(out)	(3,035,388)	3,035,388	-
Net Cash Provided by (Used in) Noncapital Activities	<u>(3,035,388)</u>	<u>3,035,388</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities			
Purchase of Capital Assets	(58,574)	-	(58,574)
Principal Payments on Notes Payable	(15,000)	-	(15,000)
Principal Payments Received for Notes Receivable	-	207,889	207,889
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(73,574)</u>	<u>207,889</u>	<u>134,315</u>
Cash Flows Provided by (Used in) Investing Activities			
Purchase of Investments - Restricted and Unrestricted	(179,276,478)	-	(179,276,478)
Proceeds from Sale and Maturity of Investments	96,714,653	59,059	96,773,712
Cash Received for Interest and Dividends	6,143,469	385,773	6,529,242
Net Cash Flows Provided by (Used in) Investing Activities	<u>(76,418,356)</u>	<u>444,832</u>	<u>(75,973,524)</u>
Increase/(Decrease) in Cash and Cash Equivalents	(79,469,570)	(280,272)	(79,749,842)
Cash and Cash Equivalents, Beginning of Year	<u>79,536,124</u>	<u>1,705,825</u>	<u>81,241,949</u>
Cash and Cash Equivalents, End of Year	<u>\$ 66,554</u>	<u>\$ 1,425,553</u>	<u>\$ 1,492,107</u>

See accompanying notes.

STATEMENT OF CASH FLOWS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
FOR THE YEAR ENDED SEPTEMBER 30, 2018
(Concluded)

	Marion County Hospital District	Munroe Regional Health System	Total Business-type Activities
Cash Flows from Operating Activities			
Operating Income (Loss)	\$ 1,060,317	\$ (5,261,567)	\$ (4,201,250)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Depreciation and Amortization	33,051	-	33,051
Changes in Operating Assets and Liabilities:			
Patient Accounts Receivable	-	(120,745)	(120,745)
Other Receivables	-	147,172	147,172
Inventories, Prepaid Expenses, and Other Current Assets	-	12,743	12,743
Accounts Payable	57,748	364,750	422,498
Deferred Revenue	(1,093,368)	-	(1,093,368)
Accrued Payroll, Employee Benefits, Compensated Absences, and Net Pension Liability	-	1,131,995	1,131,995
Deferred Outflow on Pension Liability	-	(541,279)	(541,279)
Self-insurance Liabilities	-	(496,539)	(496,539)
Other Liabilities	-	52,923	52,923
Third Party Settlements	-	742,166	742,166
Net Cash Provided by (Used in) Operating Activities	\$ 57,748	\$ (3,968,381)	\$ (3,910,633)

See accompanying notes.

**NOTES TO FINANCIAL STATEMENTS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA**

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Marion County Hospital District (the District) is a special tax district, which was created by special act of the Florida Legislature in 1965 and recodified in 2007. The special act provides for the appointment of seven (7) Trustees by the Marion County Board of County Commission for four (4) year terms. The District Board of Trustees is authorized to establish, construct, lease, operate, and maintain any hospital or clinic as its opinion is necessary for the use of the people of the District.

Effective September 1, 1984, the District transferred the operations of Munroe Regional Medical Center (the Medical Center) to Munroe Regional Health System, Inc. (the Health System or MRHS), a not-for-profit corporation, which prior to October 1, 1994, was known as Big Sun Healthcare Systems, Inc., in the form of a lease. The Health System Board of Directors is comprised of the seven (7) District Trustees. Prior to April 2014, the Health System Board of Directors was comprised of seven (7) District Trustees and six (6) Non-Trustee Directors. The Health System is reported as a blended component unit of the District. On July 28, 2003, the District and the Health System entered into a revised lease agreement, which was effective through September 30, 2023. The lease was renewable automatically for an additional 10-year term, unless canceled by either party. Annual lease payments were equal to the District's debt service obligations and normal and ordinary operating expenses incurred by the lessor. In addition, the lease also required that \$500,000 or an amount equal to the prior fiscal year operating margin, whichever is less, to be set aside each year to fund special healthcare projects in the community as approved by the Board of the lessee.

Effective April 1, 2014, this lease was mutually terminated and control of the hospital was leased to a third-party organization (see Note 7). Subsequent to the change in control, MRHS remains a not-for-profit corporation with future operations to be governed by the Board of Trustees of the District and is reported as a blended component unit of the District.

Note Receivable

The Health System participated in a joint venture with Ocala Healthcare Associates, LLP (OHA) d/b/a Timber Ridge Nursing and Rehabilitation Center, a 180-bed for-profit skilled nursing and rehabilitation facility.

OHA is a partnership that was owned by a managing partner and the Health System, a general partner. The Health System's ownership interest was 62.5%. During the 2015 year, the Health System's equity interest in this joint venture was sold to the managing partner for \$8.5 million. In addition to the sale, the Health System advanced \$700 thousand to OHA to extinguish third party debt on the facility. The sale was executed with a \$9.2 million promissory note, payable to the Health System over seven (7) years at an interest rate of 6%. As of September 30, 2018, the balance of the promissory note was \$8,558,524.

NOTES TO FINANCIAL STATEMENTS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The accounting policies of the District and the Health System conform to generally accepted accounting principles (GAAP) as applicable to governmental entities. The accounts of both the District and the Health System, are organized as enterprise funds, which are used to account for the District and the Health System's activities in a manner similar to a private business enterprise. Accordingly, the District and the Health System maintain their records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recognized and recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred. Under this basis, depreciation of assets is recognized, and all assets and liabilities associated with the operation of the District and the Health System are included in the balance sheet.

Nonexchange transactions, in which the District or the Health System receives value without directly giving equal value in return, include grants from federal, state, and local governments. On an accrual basis, revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to the District or the Health System on a reimbursement basis.

Use of Estimates

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The District and the Health System considers all highly liquid investments with original maturities of three (3) months or less at the date of purchase to be cash equivalents.

Investments

Investments are reported at fair value based on quoted market prices, except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one (1) year or less, which are reported at amortized cost.

Assets Limited as to Use and Restricted Investments

Assets limited as to use - cash and investments primarily include designated assets set aside by the Board for future insurance claims over which the Board retains control and may at its discretion subsequently use for other purposes. Restricted investments are segregated for the purpose of meeting donor imposed restrictions, including gift annuities and charitable remainder trusts.

**NOTES TO FINANCIAL STATEMENTS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
(Continued)**

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are recorded at historical cost at the date of acquisition, which includes capitalized interest or at fair value at the date of donation. Routine maintenance and repairs are expensed when incurred. Expenditures that increase the value, change the capacity, or extend the useful life of an asset are capitalized. Major asset classifications and useful lives are generally in accordance with those recommended by the American Hospital Association. Depreciation is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization expense in the statements of revenues, expenses, and changes in net position. Upon sale or retirement of depreciable assets, the related cost and accumulated depreciation are removed and any gain or loss is included in nonoperating loss.

Estimated useful lives by major asset classification are summarized below:

	<u>Years</u>
Buildings and Fixed Equipment	5-40
Moveable Equipment	2-20

Deferred Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources expense until then. The Health System has one (1) item that qualifies for this category, which is the deferred amount on the pension liability.

Net Position Classification

Net position is displayed in three (3) components:

- Net investment in capital assets, consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position, consists of net position with constraints placed on the use either by: (1) external groups such as creditors, grantors, donors, or laws or regulations of other governments; or (2) laws through constitutional provisions or enabling legislation. It is the Health System’s policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.
- Unrestricted net position, consists of net position that does not meet the definition of “restricted” or “net investment in capital assets”.

NOTES TO FINANCIAL STATEMENTS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Classification of Revenues and Expenses

The Health System's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services. Nonexchange revenues, including grants, and contributions received for purposes other than capital acquisition are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Patient Service Revenue

The Health System has agreements with third-party payers that provide for payment at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers.

A summary of the basis of payment with Medicare, Medicaid, and other third-party payers is as follows:

Medicare—Inpatient acute care services, inpatient rehabilitative 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. Certain outpatient services rendered to Medicare beneficiaries are paid based upon a cost-reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative interim rate with final settlement determined after submission of annual cost reports and audits by the Medicare fiscal intermediary.

The Medical Center's Medicare cost reports have been audited and final settlements determined by the Medicare intermediary for all fiscal years through March 31, 2015. Retroactive adjustments for cost report 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.

Medicaid—Outpatient services (except for laboratory and pathology services) rendered to Medicaid program beneficiaries are reimbursed under a cost-reimbursement methodology. Reimbursable cost is determined in accordance with the principles of reimbursement established by the Florida Title XIX Hospital Reimbursement Plan, supplemented by the Medicare Principles of Reimbursement. The interim rates are tentatively established on an individual per diem basis for each hospital, subject to cost ceilings with exceptions. The Medical Center is reimbursed at a tentative interim rate with final settlement determined when the prospectively determined rate is adjusted after the intermediary audit of the combined Medicare and Medicaid cost report that was used to determine the prospective rate. Retroactive adjustments for interim rate changes anticipated after the intermediary audit of the cost report are accrued on an estimated basis in the period when final settlements are determined. The Medical Center's Medicaid interim rates are based on the Medicare/Medicaid cost report. The cost report for fiscal year 2015 has been audited by the fiscal intermediary. Effective with admissions on or after July 1, 2013, the Medicaid program changed the reimbursement for inpatient stays to a DRG-based methodology.

**NOTES TO FINANCIAL STATEMENTS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
(Continued)**

Note 1 - Summary of Significant Accounting Policies (Concluded)

Net Patient Service Revenue (Concluded)

Medicaid—(Concluded)

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

Other—The Health System has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment 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.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. 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*. The Health System 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.

Income Taxes

The Health System has been recognized by the Internal Revenue Service as a tax-exempt organization, as described in Section 501(c)(3) of the Internal Revenue Code (the Code). Income earned in furtherance of the Health System’s tax-exempt purpose is exempt from federal and state income taxes. The Code provides for taxation of unrelated business income under certain circumstances. The Health System’s unrelated business income was not significant for the year ended September 30, 2018.

Note 2 - Deposit and Investments

At September 30, 2018, the District had cash and cash equivalents and investments at fair value, including the following:

Cash and Cash Equivalents:	
Deposits	\$ <u>66,554</u>
Total Cash and Cash Equivalents	\$ <u>66,554</u>
Investments:	
Bank of New York - Massey Quick	\$ 83,979,732
Bank of New York - SunTrust	85,265,546
Bank of New York – Berman	<u>83,184,434</u>
Total Investments	\$ <u>252,429,712</u>

**NOTES TO FINANCIAL STATEMENTS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
(Continued)**

Note 2 - Deposit and Investments (Continued)

As of September 30, 2018, the Health System had the following cash and cash equivalents and investments, including assets limited as to use, at fair value, including the following:

Cash and Cash Equivalents:	
Deposits	\$ 1,425,553
Total Cash and Cash Equivalents	<u>\$ 1,425,553</u>
Assets Limited as to Use:	
Board Designated:	
Cash	\$ 37,489
Total Assets Limited as to Use	<u>\$ 37,489</u>
Restricted Investments:	
Cash	\$ 9,155
Short-term Investments	13,561
Mutual Funds – Fixed Income	563,370
Mutual Funds – Equity	450,508
Mutual Funds – International	199,084
Real Assets	22,832
Alternative Investments	<u>167,025</u>
Total Restricted Investments	<u>\$ 1,425,535</u>

Deposits

The District and the Health System require bank deposits to be secured per Chapter 280 Florida Statutes. This Statute requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida and creates the Public Deposits Trust Fund, a multiple financial institutions pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2018, the District and the Health System’s deposits were entirely covered by federal deposit insurance or by collateral pledged with the State Treasurer pursuant to Chapter 280, Florida Statutes.

Investments

The District’s and Health System’s investment policies, approved by the Board of Trustees, were written to comply with all of the applicable laws and rules of Florida Statute 218.415. The Health System currently does not hold any investments that fall under their policy; however, the investments included on the Balance Sheet fall under trust investment policies.

The District and the Health System had the following types of investments by issuer and effective duration presented in terms of years:

NOTES TO FINANCIAL STATEMENTS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
(Continued)

Note 2 - Deposit and Investments (Continued)

Investments (Continued)

	<u>Fair Value</u>	<u>Weighted Average Duration (Years)</u>	<u>Credit Rating</u>
District Investments:			
Cash and Cash Equivalents	\$ 4,675,116	N/A	AAA
Equities	12,405,316	N/A	N/A
Fixed Income:			
Canada Government Bonds	389,472	3.165	AA-
Corporate Notes	4,694,364	3.846	A
FGLMC Notes	1,810,367	5.370	AA+
FNMA Notes	1,861,318	5.653	AA+
GNMA Bonds	195,443	6.341	AA+
MUNI Bonds	1,255,471	5.864	AA
YANKEE	289,803	7.104	A-
T-Bills	299,829	0.036	A-1+
Treasury Inflated Protection Securities	1,423,753	2.448	AA+
U.S. Government Securities	2,188,062	2.096	AA+
	<u>14,407,882</u>		
RTS	201	N/A	N/A
Mutual Funds:			
Closed-end Fund	1,145,658	N/A	N/A
Exchange Traded Fund (ETF)	69,675,817	N/A	N/A
Open-end Fund	150,119,722	N/A	N/A
	<u>220,941,398</u>		
Total District Investments	<u>\$ 252,429,712</u>		
Health System Investments:			
Cash	\$ 9,155	N/A	N/A
Short-term Investments	13,561	N/A	N/A
Mutual Funds - Fixed Income	563,370	3.08 - 8.30	AA-BBB
Mutual Funds - Equity	450,508	N/A	N/A
Mutual Funds - International	199,084	N/A	N/A
Real Assets	22,832	N/A	N/A
Alternative Investments	167,025	N/A	N/A
Total Health System Investments	<u>\$ 1,425,535</u>		

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Government Accounting Standards Board Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements are as follows at September 30, 2018:

NOTES TO FINANCIAL STATEMENTS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
(Continued)

Note 2 - Deposits and Investments (Continued)

Investments (Continued)

	<u>Fair Value</u>	<u>Fair Value Measurements Using:</u>		
		<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
District Investments:				
Cash and Cash Equivalents	\$ 4,675,116	\$ 4,675,116	\$ -	\$ -
Equities	12,405,316	12,157,210	248,106	-
Fixed Income:				
Canada Government Bonds	389,472	-	389,472	-
Corporate Notes	4,694,364	328,605	4,365,759	-
FGLMC Notes	1,810,367	-	1,810,367	-
FNMA Notes	1,861,318	-	1,861,318	-
GNMA Bonds	195,443	-	195,443	-
MUNI Bonds	1,255,471	-	1,255,471	-
YANKEE	289,803	-	289,803	-
T-BILL	299,829	299,829	-	-
Treasury Inflated Protection				
Securities	1,423,753	1,423,753	-	-
U.S. Government Securities	2,188,062	2,188,062	-	-
RTS	201	201	-	-
Mutual Funds:				
Closed-end Fund	1,145,658	1,145,658	-	-
Exchange Traded Fund (ETF)	69,675,817	69,675,817	-	-
Open-end Fund	150,119,722	103,582,608	1,501,197	45,035,917
Total Hospital District	\$ 252,429,712	\$ 195,476,859	\$ 11,916,936	\$ 45,035,917
Health System Investments:				
Cash	\$ 9,155	\$ 9,155	\$ -	\$ -
Short-term Investments	13,561	13,561	-	-
Mutual Funds - Fixed Income	563,370	563,370	-	-
Mutual Funds - Equity	450,508	450,508	-	-
Mutual Funds - International	199,084	199,084	-	-
Real Assets	22,832	22,832	-	-
Alternative Investments	167,025	167,025	-	-
Total Health System Investments	\$ 1,425,535	\$ 1,425,535	\$ -	\$ -

Cash and Cash Equivalents, Equity Securities, MUNI Bonds, Treasury Inflated Protection Securities, U.S. Government Securities, Closed-end Mutual Fund, and Exchange Traded Fund (ETF) are categorized as Level 1 and are based on prices quoted in active markets for those investments. Fixed Income investments categorized as Level 2 are based upon evaluated prices from the custodian bank's external pricing vendors. The pricing methodology involved the use of evaluation models such as matrix pricing, which is based on securities' relationship to benchmark quoted prices. The Open and Closed-end Mutual Funds classified as Level 3 are prices from the investment managers' and custodian bank's external pricing vendors or an alternative pricing source, utilizing inputs such as stale prices, cash flow models, broker bids, or cost. Cost or book value may be used as an estimate of fair value when there is a lack of independent pricing source.

Interest Rate Risk—Interest rate risk is the risk that the fair value of investments will decrease as a result of an increase in interest rates. The District's investment policy seeks to control risk and reduce the volatility of its portfolio through diversification. Short-term volatility is characteristic of the securities markets and will be tolerated if such volatility is consistent with

NOTES TO FINANCIAL STATEMENTS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
(Continued)

Note 2 - Deposits and Investments (Continued)

Investments (Continued)

Interest Rate Risk—(Concluded)

the volatility of similar investment portfolios. Unless matched to a specific cash flow requirement, the District will not directly invest in securities maturing more than 10 years from the date of purchase. The Health System's investments, which are held in trust agreements, have a moderate risk tolerance stating that they have a medium tolerance for risk but moderate down years in investment performance are acceptable. The investment horizon is 11+ years.

Credit Risk—Credit risk is the risk that the District and Health System will not recover their investments due to the ability of the counterparty to fulfill its obligation. The District's investment policy has guidelines for allowable investments including cash and fixed income, U.S. Equity, Non-U.S. Equity, illiquid alternatives, and alternatives. The Health System's investments, which are part of trust agreements, include cash equivalents, fixed income, equities, and real assets.

At September 30, 2018, the District's and Health System's fixed-income investments are rated in the table above.

Custodial Credit Risk—Custodial credit risk is the risk that in the event of the failure of a counterparty, the District or the Health System would not be able to recover the value of their investments or collateral securities that are in the possession of an outside party. The District and the Health System maintain their cash and cash equivalents with several large institutions and all accounts are guaranteed by the Federal Deposit Insurance Corporation up to \$250,000 per institution. In addition, all operating accounts of the District and the Health System are insured by the *Florida Security for Public Deposits Act* as outlined in Chapter 280 of the Florida Statutes. The investments for the District are held by a third party custodian, Bank of New York, in the name Marion County Hospital District and these investments are managed by three investment advisors. The Health System investments are held in trust with Regions Bank and Wells Fargo Bank, N.A.

Concentration of Credit Risk—Concentration of credit risk is the risk of loss attributable to the magnitude of investments in a single issuer. The Health System's investment policies establish limitations on portfolio composition by investment type and issuer to limit its exposure to concentration of credit risk.

The District's investment policies establish limitations on portfolio composition by investment type to limit its exposure to concentration of credit risk. The target allocation of investment by type is as follows: Cash and Fixed Income (50%), U.S. Equity (25%), Non-U.S. Equity Securities (10%), and Illiquid Alternatives (5%) and Alternatives (10%). The investment policy provides various factors that the investment advisors should consider when creating an investment portfolio including general economic conditions, the possible effect of inflation or deflation, the expected total return from income, and the appreciation of investments. Management and investment decisions about an individual asset will be made not in isolation but in the context of the portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the portfolio goals of the District. The District does not invest directly in investments that would be classified as derivatives; however, there are underlying assets within commingled or pooled investments which may be classified as derivatives. Information related to investments held in commingled funds has not been separately disclosed in the financial statements or the accompanying footnotes.

**NOTES TO FINANCIAL STATEMENTS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
(Continued)**

Note 2 - Deposits and Investments (Concluded)

Investments (Concluded)

The Health System's allocation of investments provides a diversified approach to investing based on the account's investment time horizon. The target allocation is as follows: Cash and Cash Equivalents (10%), Equities (36%), Fixed Income (50%), and Real Assets (4%).

Note 3 - Capital Assets

The capital asset activity for the District is as follows:

	September 30, 2017	Additions/ Transfers	Deletions	September 30, 2018
Capital Assets Not Being Depreciated:				
Land	\$ 143,825	\$ -	\$ -	\$ 143,825
Work in Process	25,000	-	(13,500)	11,500
Total Capital Assets Not Being Depreciated	<u>168,825</u>	<u>-</u>	<u>(13,500)</u>	<u>155,325</u>
Capital Assets Being Depreciated:				
Buildings and Fixed Equipment	355,819	5,491	(9,700)	351,610
Moveable Equipment	167,241	8,383	-	175,624
Software	-	58,200	-	58,200
Total Capital Assets Being Depreciated	<u>523,060</u>	<u>72,074</u>	<u>(9,700)</u>	<u>585,434</u>
Less Accumulated Depreciation:				
Buildings and Fixed Equipment	(177,054)	(17,876)	3,246	(191,684)
Moveable Equipment	(159,236)	(7,365)	-	(166,601)
Software	-	(7,810)	-	(7,810)
Total Accumulated Depreciation	<u>(336,290)</u>	<u>(33,051)</u>	<u>3,246</u>	<u>(366,095)</u>
Total Depreciable Capital Assets, Net	<u>186,770</u>	<u>39,023</u>	<u>(6,454)</u>	<u>219,339</u>
Total Capital Assets, Net	<u>\$ 355,595</u>	<u>\$ 39,023</u>	<u>\$ (19,954)</u>	<u>\$ 374,664</u>

Note 4 - Long-term Obligation

The District entered into a promissory note for the purchase of property on September 26, 2014, for \$75,000. The note is for 60 months to be paid in monthly installments of \$1,250, with no stated interest rate. The first installment payment was made on the settlement date.

Changes in long-term debt for the District for the year ended September 30, 2018, were as follows:

	September 30, 2017	Additions	Deletions	September 30, 2018	Amount Due Within One Year
Note Payable	\$ 28,750	\$ -	\$ (15,000)	\$ 13,750	\$ 13,750

Debt to maturity of the District's Note payable obligation is as follows:

	Due September	Principal
2019		13,750
Total		<u>\$ 13,750</u>

NOTES TO FINANCIAL STATEMENTS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
(Continued)

Note 5 - Risk Management

The Health System was exposed to various risks of loss related to general, professional, patient care, and workers' compensation until March 31, 2014, when the hospital operations were leased to a third-party organization.

The Health System has a self-insurance program for its medical malpractice exposure. The Health System claims entitlement to the protections of Sovereign Immunity under Section 768.28, Florida Statutes. In addition, the Health System purchases excess professional liability coverage for claims exceeding the self-insured retention amounts of \$3 million per medical incident up to \$25 million per claim and in the aggregate. Claims of approximately \$423,976 as of September 30, 2018, are included in the balance sheet based upon the expected ultimate cost of the expenses to date (including a provision for unknown incidents). During the year ended September 30, 2018, the Health System recorded a \$250,394 decrease in medical malpractice expense estimate based on an analysis performed by independent actuaries employed by the Health System to estimate the actual costs. In management's opinion, an adequate reserve for loss contingencies has been recorded in the accompanying financial statements.

The Health System is self-insured for workers' compensation up to \$600,000 per occurrence subsequent to October 1, 2010, and has purchased excess coverage from commercial carriers up to the amount allowed by Florida Statutes. Workers' compensation claims of approximately \$943,555 as of September 30, 2018, is accrued and included in the balance sheet based on an analysis performed by independent actuaries employed by the Health System to estimate the expected costs. In management's opinion, an adequate reserve for loss contingencies has been recorded in the accompanying financial statements.

As a provider of healthcare services, the Health System was subject to malpractice claims and litigation through the normal course of operations. Certain of these matters were covered by insurance arrangements described above. Losses that are subject to the deductible provisions have been estimated and accrued in the accompanying financial statements. Management believes that these matters will be resolved without material adverse effect on the Health System's future financial position, results of operations, or cash flows.

A summary of the self-insurance activities for malpractice and workers' compensation is as follows:

	Medical Malpractice	Workers' Compensation	Total
Balance at September 30, 2017	\$ 674,709	\$ 1,189,361	\$ 1,864,070
Claims and Changes in Estimates	(250,394)	(100,377)	(350,771)
Claim Payments	(339)	(145,429)	(145,768)
Balance at September 30, 2018	\$ 423,976	\$ 943,555	\$ 1,367,531

	Medical Malpractice	Workers' Compensation	Total
Balance at September 30, 2016	\$ 1,054,000	\$ 1,520,000	\$ 2,574,000
Claims and Changes in Estimates	(368,879)	(55,113)	(423,992)
Claim Payments	(10,412)	(275,526)	(285,938)
Balance at September 30, 2017	\$ 674,709	\$ 1,189,361	\$ 1,864,070

**NOTES TO FINANCIAL STATEMENTS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
(Continued)**

Note 6 - Benefit Plans

Defined Benefit Pension Plan

Plan Description

The Defined Benefit Pension Plan (the Plan) is a single-employer defined benefit plan administered by the Health System. The Plan provides retirement benefits to participants upon reaching retirement. As of October 1, 1985, those employees who are 21 years of age with one credited year of service may participate in the Plan. The Plan issues separate financial statements, which are prepared on the accrual basis of accounting and can be obtained by contacting the Health System.

Plan Amendments

On March 24, 2014, the Health System amended the Plan to provide that all Plan participants are immediately and fully vested in their accrued retirement benefit. The amendment also provides that any terminated vested Plan participants not already in pay status may elect a lump sum distribution of the accrued retirement benefit. With the Health System termination of the lease of the hospital on March 31, 2014, the Health System terminated all active employees. A Voluntary Correction Plan (VCP) has been approved by the IRS for the Plan and the payout for the affected Plan participants is expected in the near future.

Benefits Provided

The Plan provides retirement, disability, and death benefits to Plan members and their beneficiaries. Retirement benefits are calculated as a percent, ranging from 2.7-4.0% of an employee's final 5-year highest average salary out of their last 10 years of credited service times years of service. Employees with 3 years of continuous service are eligible to retire at age 65. Employees may early retire at age after 55 with three years of vesting service. Disability retirement benefits are determined in the same manner as retirement benefits but accrue at the time of termination. Death benefits are in accordance with the terms of benefits selected at the time of retirement. Terminated vested Plan participants not already in pay status may elect a lump sum distribution of the accrued retirement benefit.

Employee membership data related to the Plan, as of October 1, 2018, was as follows:

Retirees and Beneficiaries Currently Receiving Benefits	375
Terminated Employees Entitled to but not yet Receiving Benefits	246
Active Plan Members	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 50px;"></div>
	621

The actuarial valuation was based on personnel information from Munroe Regional Health Systems, Inc. records as of October 1, 2018.

**NOTES TO FINANCIAL STATEMENTS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
(Continued)**

Note 6 - Benefit Plans (Continued)

Defined Benefit Pension Plan (Continued)

Contributions

The participants do not contribute to the Plan. The contribution requirements of the Health System are based upon the actuarially determined minimum required contribution. During the year ended September 30, 2018, the Health System contributed \$0 to the Plan.

Net Pension Liability

The District's net pension liability was measured as of September 30, 2018, and the total pension liability to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability in the September 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary Increases	N/A
Discount Rate	4.0%
Expected Return on Assets	4.0%

The actuarial assumptions used in the September 30, 2018, valuation were based on economic and demographic assumptions for the period October 1, 2017 through September 30, 2018. In addition, mortality rates were based on the RP-2006 with fully generational mortality improvements at Scale MP-2018.

The long-term rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Expected Target Allocation</u>	<u>Nominal Return</u>	<u>Expected Real Rate of Return</u>
US Treasury STRIPs	9%	3.0%	0.7%
Long-term Credit	91%	4.2%	1.9%

Discount Rate

The discount rate used to measure the total pension liability was 4.0 percent. The projection of cash flows used to determine the discount rate assumed there would be no employee or employer contributions to the Plan. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the expected rate of return was applied to all periods of projected benefits to determine the total pension liability.

**NOTES TO FINANCIAL STATEMENTS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
(Continued)**

Note 6 - Benefit Plans (Continued)

Defined Benefit Pension Plan (Continued)

Changes in Plan's Net Pension Liability

Shown below are details regarding the Total Pension Liability as determined by an actuarial valuation for the measurement period from October 1, 2017 through September 30, 2018:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c)=(a)-(b)
Balance Recognized at October 1, 2017	\$ 22,523,594	\$ 18,473,737	\$ 4,049,857
Changes Recognized for the Fiscal Year:			
Service Cost	-	N/A	-
Interest on the Total Pension Liability	814,137	N/A	814,137
Changes in Benefit Terms	-	N/A	-
Differences Between Expected and Actual Experience	(530,915)	N/A	(530,915)
Changes of Assumptions	(48,934)	N/A	(48,934)
Contributions from the Employer	N/A	-	-
Net Investment Income	N/A	(480,163)	480,163
Benefit Payments	(4,383,341)	(4,383,341)	-
Administrative Expense	N/A	(417,544)	417,544
Net Changes	<u>(4,149,053)</u>	<u>(5,281,048)</u>	<u>1,131,995</u>
Balance Recognized at September 30, 2018	<u>\$ 18,374,541</u>	<u>\$ 13,192,689</u>	<u>\$ 5,181,852</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability calculated using the discount rate of 4.0 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.0 percent) or 1-percentage-point higher (5.0 percent) than the current rate:

	1% Decrease (3%)	Current Rate (4%)	1% Increase (5%)
Total Pension Liability	\$ 20,716,408	\$ 18,374,541	\$ 16,500,133
Plan Fiduciary Net Position	<u>13,192,689</u>	<u>13,192,689</u>	<u>13,192,689</u>
Net Pension Liability	<u>\$ 7,523,719</u>	<u>\$ 5,181,852</u>	<u>\$ 3,307,444</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued Plan financial report.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended September 30, 2018, the District recognized pension expense of \$590,716. On September 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

**NOTES TO FINANCIAL STATEMENTS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
(Concluded)**

Note 6 - Benefit Plans (Concluded)

Defined Benefit Pension Plan (Concluded)

**Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources
(Concluded)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Actual and Expected Experience	\$ -	\$ -
Assumption Changes	-	-
Difference Between Expected and Actual Earnings on Pension Plan Investments	1,411,249	-
Total	\$ 1,411,249	\$ -

Amounts recognized in the deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

Year Ended September 30	Amount
2019	\$ 581,817
2020	217,000
2021	387,813
2022	224,619

Note 7 - Capital Lease Agreement

Trustee Execution of Lease/Purchase Agreement (LPA)

On April 1, 2014, the Health System and District executed a 40-year lease and purchase agreement (LPA) with Munroe HMA Hospital, LLC, an affiliate of Community Health Systems (CHS); thereby, terminating the revised hospital and operations lease between the Health System and the District. Under the LPA, control of the hospital transferred to CHS, including control of land, buildings, and equipment with a net book value at the time of transfer of approximately \$132 million; and inventory, prepaids, investments in joint ventures, and various assumed obligations with a net book value of approximately \$6 million. The District received approximately \$196 million of cash and consideration under the LPA on April 1, 2014. Net proceeds of the LPA after settlement and closing costs was approximately \$110,535,000. Included in the settlement of the LPA proceeds were refunding of bond payables, prepayment of pension contributions, and closing costs of approximately \$4,788,000. The remaining amount of \$38,814,729 is reported as unearned lease revenues and amortized over the life of the lease with annual amortization of deferred income in the amount of approximately \$1,093,000 each year.

The executed 2014 Lease/Purchase Agreement was assigned by Munroe HMA Hospital, LLC to Florida Hospital Ocala, Inc. an affiliate of Adventist Health System Sunbelt Healthcare Corporation. On June 27, 2018 the Fourth Amendment was signed and consented to the Original Lessee's assignment of the Agreement to the Lessee which assignment became effective on August 1, 2018

REQUIRED SUPPLEMENTARY INFORMATION

**REQUIRED SUPPLEMENTARY INFORMATION
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA**

Schedule of Changes in Net Pension Liability and Related Ratios

	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>
Total Pension Liability				
Service Cost	\$ -	\$ -	\$ -	\$ -
Interest Cost	814,137	842,039	720,945	1,803,979
Changes of Benefit Terms	-	-	-	-
Differences Between Expected and Actual Experiences	(530,915)	1,662,521	4,894,520	10,793
Changes in Assumptions	(48,934)	(151,685)	(326,555)	-
Benefit Payments, Including Refunds of Member Contributions	<u>(4,383,341)</u>	<u>(1,743,418)</u>	<u>(2,769,636)</u>	<u>(55,038,769)</u>
Net Change in Total Pension Liability	<u>(4,149,053)</u>	<u>609,457</u>	<u>2,519,274</u>	<u>(53,223,997)</u>
Total Pension Liability (Beginning)	<u>22,523,594</u>	<u>21,914,137</u>	<u>19,394,863</u>	<u>72,618,860</u>
Total Pension Liability (Ending)	<u>\$ 18,374,541</u>	<u>\$ 22,523,594</u>	<u>\$ 21,914,137</u>	<u>\$ 19,394,863</u>
 Plan Fiduciary Net Position				
Contributions - Employer	\$ -	\$ 7,600,000	\$ 4,388,128	\$ -
Contributions - Employee	-	-	-	-
Net Investment Income	(480,163)	(179,001)	1,305,953	(266,768)
Benefit Payments, Including Refunds of Member Contributions	(4,383,341)	(1,743,418)	(2,769,636)	(55,038,769)
Administrative Expenses	(417,544)	(399,963)	(432,062)	(885,890)
Other	-	-	-	-
Net Change in Plan Fiduciary Net Position	<u>(5,281,048)</u>	<u>5,277,618</u>	<u>2,492,383</u>	<u>(56,191,427)</u>
Plan Fiduciary Net Position (Beginning)	<u>18,473,737</u>	<u>13,196,119</u>	<u>10,703,736</u>	<u>66,895,163</u>
Plan Fiduciary Net Position (Ending)	<u>\$ 13,192,689</u>	<u>\$ 18,473,737</u>	<u>\$ 13,196,119</u>	<u>\$ 10,703,736</u>
 Net Pension Liability (Ending)	\$ 5,181,852	\$ 4,049,857	\$ 8,718,018	\$ 8,691,127
Net Position as a % of Pension Liability	71.80%	82.02%	60.22%	55.19%
Covered - Employee Payroll	N/A	N/A	N/A	N/A
Net Pension Liability as a % of Payroll	N/A	N/A	N/A	N/A

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

REQUIRED SUPPLEMENTARY INFORMATION
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
(Concluded)

Schedule of Contributions

	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Actuarially Determined Contribution	\$ -	\$ 1,149,743	\$ 1,050,729	\$ 2,522,934	\$ -
Contributions made in Relation to the ASC	-	7,600,000	4,388,128	10,000,000	-
Contribution Deficiency (Excess)	-	(6,450,257)	(3,337,399)	(7,477,066)	-
Covered-Employee Payroll Contributions as a % of Payroll	N/A	N/A	N/A	N/A	N/A

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Pension Investment Returns

	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	(3.0%)	(1.1%)	11.6%	(0.69%)	2.46%

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The following changes in actuarial assumptions occurred in 2018:

- The mortality projection scale changed from MP-2017 to MP-2018.

The following changes in actuarial assumptions occurred in 2017:

- The mortality projection scale changed from MP-2016 to MP-2017.

The following changes in actuarial assumptions occurred in 2016:

- The Mortality projection scale changed to RP-2006 Mortality with fully generational projections at Scale MP-2016.

**ADDITIONAL ELEMENTS OF REPORTING PREPARED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*,
ISSUED BY THE COMPTROLLER GENERAL OF THE
UNITED STATES, *RULES OF THE AUDITOR GENERAL***

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees
Marion County Hospital District
Ocala, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the blended component unit, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Marion County Hospital District's (the District) basic financial statements, and have issued our report thereon dated January 24, 2019.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Certified Public Accountants

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

To the Board of Trustees
Marion County Hospital District
Ocala, Florida

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Concluded)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


January 24, 2019
Ocala, Florida

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE
WITH SECTION 218.415, FLORIDA STATUTES**

To the Board of Trustees
Marion County Hospital District
Ocala, Florida

We have examined the Marion County Hospital District (the District) and the Munroe Regional Health System's (the Health System) compliance with the requirements of Section 218.415, Florida Statutes, as of and for the year ended September 30, 2018, as required by Section 10.556(10)(a), *Rules of the Auditor General*. Management is responsible for the District's and the Health System's compliance with those requirements. Our responsibility is to express an opinion on the District's and Health System's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's or Health System's compliance with specified requirements.

In our opinion, the District and the Health System complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2018.


January 24, 2019
Ocala, Florida

Certified Public Accountants

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MANAGEMENT LETTER

To the Board of Trustees
Marion County Hospital District
Ocala, Florida

Report on the Financial Statements

We have audited the financial statements of the Marion County Hospital District (the District), and its blended component unit, the Munroe Regional Health System (the Health System) as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated January 24, 2019.

Auditors' Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, *Rules of the Auditor General*.

Other Reporting Requirements

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountants' Report on examination conducted in accordance with American Institute of Certified Public Accountants Professional Standards, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports and schedule, which are dated January 24, 2019, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no prior year findings or recommendations.

Official Title and Legal Authority

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements (see Note 1 of the financial statements).

Financial Condition

Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report on the results of our determination as to whether or not the District or the Health System has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District and the Health System did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Certified Public Accountants

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To the Board of Trustees
Marion County Hospital District
Ocala, Florida

MANAGEMENT LETTER
(Concluded)

Financial Condition (Concluded)

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the District's and the Health System's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we communicate any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Additional Matters

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not note any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and the Board of Trustees and applicable management, and is not intended to be, and should not be, used by anyone other than these specified parties.


January 24, 2019
Ocala, Florida