

North Brevard County Hospital District

**Financial Statements
and Supplementary Information**

**For the Years Ended September 30, 2018 and 2017,
and Independent Auditor's Report**

NORTH BREVARD COUNTY HOSPITAL DISTRICT

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 25
BASIC FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017:	
Balance Sheets	26 - 27
Statements of Revenues, Expenses, and Changes in Net Position	28
Statements of Cash Flows	29 - 30
Notes to Basic Financial Statements	31 - 60
REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2018:	
Unaudited Schedule of Changes in Net Pension Asset and Related Ratios	61
Unaudited Schedule of Pension Contributions	62
Unaudited Schedule of Investment Returns	63
Unaudited Schedule of Changes in the Sponsor's Total OPEB Liability and Related Ratios	64
Notes to Required Supplementary Information (Unaudited)	65 - 69
OTHER SUPPLEMENTARY INFORMATION FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017:	
Consolidating Balance Sheets	70 - 73
Consolidating Statements of Revenues, Expenses, and Changes in Net Position	74 - 75
OTHER REPORT:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	76 - 77



Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Audit Committee
North Brevard County Hospital District
Titusville, Florida

Report on the Financial Statements

We have audited the accompanying balance sheets of North Brevard County Hospital District (the "District"), including North Brevard Medical Support, Inc. ("NBMS") (a blended component unit of the District), as of September 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 District'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 District'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, based on our audits, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the District as of September 30, 2018 and 2017, and the respective results of operations, changes in net position, and cash flows for the years then ended in conformity 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 and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting, placing the basic financial statements in an appropriate operational, economic, or historical context. This information is the responsibility of the District's management. We have applied certain limited procedures to the management's discussion and analysis and 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 Supplementary Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole as of and for the years ended September 30, 2018 and 2017. The accompanying other supplementary information, as listed in the table of contents, is presented for the purpose of additional analysis of the financial statements and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Board of Directors and Audit Committee
North Brevard County Hospital District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.

Certified Public Accountants

Tampa, Florida
December 21, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the North Brevard County Hospital District (the "District") annual financial report presents background information and our analysis of the District's financial performance during the fiscal years ended September 30, 2018 and 2017. It is intended to be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

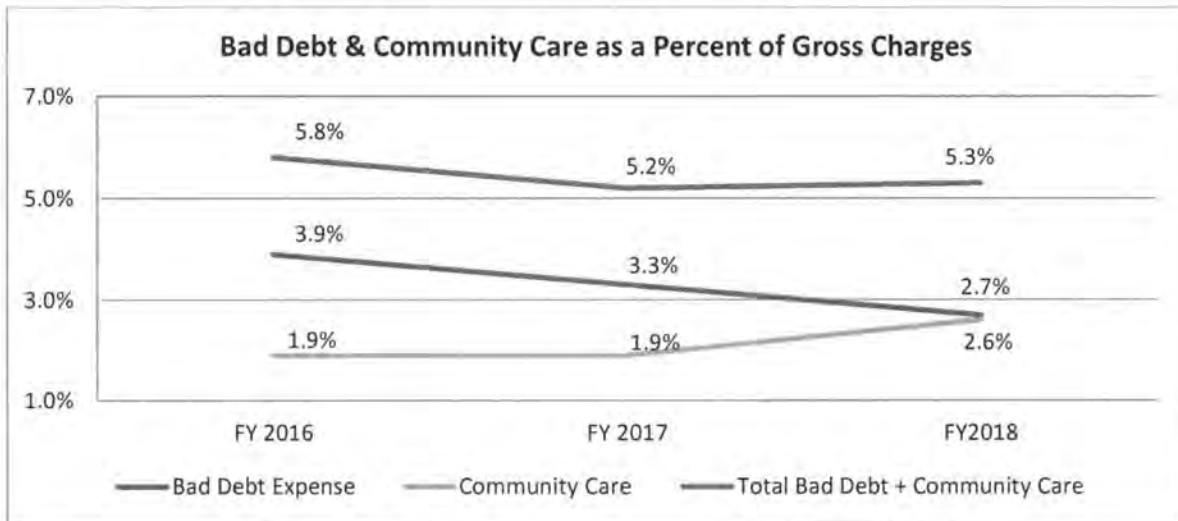
- Total operating revenues in fiscal year 2018 increased \$0.2 million, or 0.1%, while total operating expense increased \$0.8 million, or 0.7%. The net operating margin for fiscal year 2018 was approximately \$5.4 million, or 4.0%, compared to the fiscal year 2017 operating margin of approximately \$6.0 million, or 4.6%. The total 2018 net nonoperating loss was \$11.1 million. As a result, the change in net position in 2018 was a decrease of approximately \$5.6 million before capital contributions.
- Total fiscal year 2018 admissions decreased by 2.7% (from 6,194 in 2017 to 6,024 in 2018); patient days decreased by 5.4% (from 29,513 in 2017 to 27,927 in 2018). In addition, inpatient surgeries and special procedures increased in fiscal year 2018 by 5.3% (from 2,121 in 2017 to 2,233 in 2018). Total cardiac cath lab volume, both cardiac catheterizations and angioplasties ("PTCAs"), increased 2.6% in 2018 (from 1,626 in 2017 to 1,668 in 2018).
- Charges foregone, based upon established rates, from community (charity) care provided to patients increased from \$11.7 million in fiscal year 2017 to \$16.5 million in fiscal year 2018. Community care as a percentage of total gross patient service revenue was 2.6% in 2018 and 1.9% in 2017. The provision for bad debt decreased in fiscal year 2018 by \$3.6 million, as compared to fiscal year 2017. The 2018 amount was \$16.8 million versus the 2017 amount of \$20.4 million. The 2018 provision for bad debt as a percentage of total gross patient service revenue decreased to 2.7%, compared to 3.3% in fiscal year 2017. In total, bad debt and community care, as a percentage of total gross patient service revenue, increased to 5.3% for 2018, from 5.2% in 2017.
- The District elected to freeze the defined benefit plan during calendar 2016 which resulted in a reduction in the estimated present value of the associated liability. As such, the District recognized a one-time reduction of fiscal year 2017 employee benefit plan expense of \$15.2 million in conjunction with recognizing net pension assets of \$14.7 million as of September 30, 2017.
- Net position decreased \$5.6 million for the current year, compared to a \$2.7 million decrease in the prior year.
- The District's 2018 balance sheet remains strong, as evidenced by comparing the 246 days' cash on hand at fiscal year-end 2018, to the 217 days hospital industry median for Fitch Ratings "A" rated hospitals. Similarly, the District's cash-to-debt ratio of 88.0% is below the Fitch Rating industry median of approximately 97.9%. Our long-term debt to capitalization ratio was at 48.7% for 2018 compared to 48.2% for 2017.
- Net capital expenditures for the year were \$2.7 million and were funded by cash flow from operations. The breakdown of the \$2.7 million in capital expenditures is approximately \$1.4 million for the development and construction of Parrish Healthcare - Titusville; \$0.1 million for the software and renovation for the Teletracking and Mission Control project; \$0.1 million for the development and construction of Parrish Healthcare - Port Canaveral; \$0.2 million for the improvement of an off-site building; and \$0.9 million in routine capital equipment replacement.

COMMUNITY BENEFIT HIGHLIGHTS

Bad Debt and Community (Charity) Care

Our fiscal year 2018 total net bad debt write-offs decreased \$7.0 million, or 32.0%, from \$21.9 million in 2017 to \$14.9 million in 2018. Net bad debt write-offs reflect the annual amount of total bad debt write-offs less the amount of collections and adjustments to accounts classified as bad debt. Total 2018 bad debt write-offs were \$21.6 million, compared to \$25.2 million in 2017; a \$3.6 million decrease.

Total 2018 gross cash collections decreased \$2.9 million to \$130.5 million, compared to the 2017 amount of \$133.4 million. Our percentage of cash collected to net patient service revenue was 98.7% in 2018, compared to 103.2% in 2017.



Our fiscal year 2018 total bad debt and community care as a percentage of total gross patient service revenue was 5.3%.

A patient qualifying for community care does not have the ability to pay for services rendered. A patient's charges charged to bad debt means that, based on information provided, the patient has the financial resources, but nevertheless refuses to pay for the services rendered.

In analyzing the \$7.0 million decrease in our net bad debt write-offs, we noted that self-pay accounts decreased in 2018 versus 2017 by 935, or 12.1%. Self-pay account write-offs decreased \$1.0 million (\$13.1 million in 2018 versus \$14.1 million in 2017). Bad debt write-offs for self-pay patients that were unemployed decreased approximately \$0.8 million, or 11.2% (from \$6.7 million to \$5.9 million).

The remaining \$6.0 million decrease in bad debt write-offs in 2018 compared to 2017 are for the patient portion of Medicare, commercial HMO, and PPO insured patients. Those write-offs decreased from \$7.8 million for 2017 to \$1.8 million for 2018. This decrease reflects an improved process of identifying patients that have a need for community care, as shown by the increase in community care of \$4.9 million.

Our self-pay discount policy incorporates the principles and guidelines developed by the American Hospital Association, the Patient Friendly Billing Project, and the Florida Hospital Association. The policy is centered on a sliding scale based on household income. Individuals who make 200% or less of the current Federal Poverty Guidelines ("FPG") qualify for charity care and 100% write-offs; those with household incomes between 201% and 299% of the FPG qualify for an 80% discount; those with household incomes between 300% and 399% of the FPG qualify for a 70% discount; and those with household incomes over 400% of the FPG qualify for a 60% discount. In addition, if the balance is paid in full within 30 days of service, an extra 5% discount is provided. During fiscal year 2018, we provided approximately \$18.7 million in discounts to self-pay accounts, as compared to \$19.3 million in fiscal year 2017.

In May 2007, Parrish Medical Center (“PMC”) began issuing Care Pass Cards as a service to our self-pay patients. Care Pass is an identification card with information showing the patient’s name, type of assistance for which the individual qualified, and an expiration date. A financial evaluation determines whether the patient qualifies for financial assistance (i.e., community care) or a discount. Both the discount program and financial assistance are based on the FPG. Care Pass Cards are accepted for all hospital-related services and locations, as well as Parrish Medical Group locations.

Prior to receiving the cards, patients are screened for state medical assistance programs. Anyone who qualifies is helped with the application process by using the Access website provided by the Department of Children and Family Services. Our goal in fiscal year 2018 continues to be finding other community partners (physicians, pharmacies, durable medical equipment, and supply companies, etc.) that will recognize the card and offer discounted healthcare services to people in need.

During fiscal year 2018, our community care was 2.6% of total gross patient service revenue for 2018 and 2017. Total community care was \$16.5 million in 2018, compared to \$11.7 million in 2017, a \$4.9 million increase, or 41.7%. Included in total community care is a hardship provision category for individuals who would not qualify for community care (200% or less of the FPG), but whose total bill(s) exceeded 25% of the individual’s annual salary.

Finally, we continue to work on improving our identification of patients who qualify for community care, especially early in the process of the patient’s access to our system. Our total fiscal year 2018 actual community care write-offs increased \$4.5 million, or 38.8%. Costs associated with providing community care to patients amounted to approximately \$3.2 million and \$2.6 million for fiscal years 2018 and 2017, respectively.

Other Community Benefits

Parrish Medical Center (PMC) is a not-for-profit, community healthcare organization whose mission and vision are *Healing experiences for everyone all the time*[®] and *Healing Families--Healing Communities*[®]. These are words our care partners live by at all of the District’s locations: Parrish Medical Center, Titusville; Parrish Healthcare Centers, Port St. John, Port Canaveral, and Titusville; Parrish Health & Fitness Center, Titusville; Parrish Occupational Medical Services, Titusville; Parrish Home Care, Titusville and Port St. John; Parrish Senior Consultation Center, Titusville; Parrish Cancer Center, Titusville; Parrish Infusion Center, Titusville; and Parrish Wound Healing Centers, Titusville and Port St. John.

PMC maintains its not-for-profit, public status even though the medical center’s Board of Directors has, for more than 22 years, voted against accepting public tax money (unlike most public hospitals). Nevertheless, in 2018, we provided more than \$33.3 million in bad debt and community (charity) care - a testament to the medical center’s commitment to providing affordable healthcare to the people we serve.

Our service area extends from the Beach Line (SR 528) in the south to the Volusia County line in the north, and from the Atlantic coast in the east to the Orange and Seminole County lines in the west. Our unique Central Florida location means we provide care for year-round residents, seasonal residents, Kennedy Space Center-related tourists, passengers and crews from Cape Canaveral-based cruise lines, and visitors who come to enjoy Brevard County’s beaches and fishing. Today, with the addition of the Space Shuttle Atlantis Exhibit, the Space Center hosted 1.7 million visitors, a continued increase in rocket launches, a growing eco-tourism business, and an expansion of the Port Canaveral cruise ship port, tourists are coming to northern Brevard. During the past year, Port Canaveral grew at the rate of 26% and is one of the busiest ports in the country for both cruise and cargo businesses, adding two additional mega cruise ships, for a total of eight by 2022, to call the port home. In addition, there are a number of businesses relocating to the Brevard County area to take advantage of the highly skilled labor pool. One such venture is Kennedy Space Center (“KSC”), which is leasing land to establish Exploration Park at KSC, for commercial light manufacturing, research and space tourism through private commercial aerospace and technology companies.

Blue Origin owned by Amazon.com (750,000 square feet) and OneWeb owned by Airbus (250,000 square feet) opened a facility in 2018 with 300 plus employees. Sierra Nevada Corporation flying space cargo missions broke ground on its 150,000 square foot facility in 2018. Space Florida located at Exploration Park is projecting 1,500 new aerospace jobs within one year. Florida's Secretary of State has projected that within ten years the aerospace expansion will bring 100,000 new jobs and \$100 billion dollars of new revenue to the state with a significant part of that growth focused in east Central Florida.

Titusville will remain a major participant in space flight with the goal of becoming one of the world's capitals of high-technology and science. Boeing announced in October 2011 that it would be developing its new commercial space capsule at KSC. KSC will also assemble and process the Orion spacecraft for deep space missions. The first Orion exploration flight test took place in December 2014. The successful unmanned test flight lasted four-and-a-half hours before splashing down in the Pacific Ocean. The next test flight is scheduled for December 2018 with the first mission to carry astronauts to take place in 2021.

Titusville has also seen growth at its municipal airport ("TICO") with businesses, such as Paragon Plastics, Embraer, a natural gas plant, and a logistics center. Lockheed Martin is adding 300 new jobs at the Astrotech site adjacent to TICO, while Space X has added 100 new jobs to its local site.

On the medical front, to meet the increasing needs of the uninsured and underinsured in the community, the Board of Directors approved transitioning the operations of the Community Medical Clinic to a federally qualified healthcare clinic with several other locations in Brevard County. Under the agreement the District provided \$0.1 million in outpatient diagnostic services in both 2018 and 2017. The Board of Directors felt this transition and collaboration enabled PMC to continue to fulfill its healing mission with respect to indigent patients at a lower cost than if they used the emergency department for healthcare services. The District's Board of Directors and management understand that PMC seeks to assist our community by serving as an extension of the local healthcare safety net. All patients, regardless of their financial position, are served within the goals of PMC's vision (*Healing Families--Healing Communities*[®]).

PMC's Diabetes Education Program is recognized by the American Diabetes Association as meeting the National Standards for Diabetes Self-Management Education. According to the District's 2016 Community Health Needs Assessment, conducted by Professional Research Corp. ("PRC"), a total of 13.9% of North Brevard County adults report having been diagnosed with diabetes. This is similar to the statewide and national proportions. In addition to the prevalence of diagnosed diabetes referenced above, another 8.7% of service area adults report that they have "pre-diabetes" or "borderline diabetes." This is comparable to the U.S. prevalence. A physician referral is required for participation in the program and for other services.

The Diabetes Education Program includes up to 10 hours of diabetes self-management training, which is provided through small group classes and individual assessments with a Diabetes Nurse Educator and a Registered Dietitian. The program tracks multiple quality measures, including program satisfaction and changes in self-care behaviors.

Diabetes Education has taken extra strides to reach out to members of the community through free monthly diabetes support groups, community presentations, and by participating in health fairs and community events. Last year, more than 1,000 community members participated in our community events.

The Diabetes Education Program revenue does not cover its direct costs, and it operated at a loss of approximately \$0.5 million in 2018.

In 2000, the District, through its subsidiary, North Brevard Medical Support, Inc. ("NBMS"), opened a \$2.0 million Children's Center (the "Center") to bring various community children's programs under one roof. This facility houses Early Learning Coalition of Brevard, Space Coast Early Steps, United Way of Brevard's Healthy Families Program, Nemours pediatric specialty clinics, Able Academics for autistic children, Speech Works Pediatric Therapy and Parrish Early Care and Education, and Lifetime Counseling Center. The Center's partnering agencies work together to meet the needs of children with learning and/or physical disabilities. Services range from childcare and pre-school to parenting groups, play groups, school tutoring, behavior interventions, developmental evaluations, therapy services, support groups, and more.

The Center serves over 300 children each day and operated at a breakeven in fiscal year 2018.

PMC care partners had more than 16,000 encounters with community members in 2018. The PMC team helped our community learn how to be and stay healthy by providing health fairs, screenings, and education across Brevard County. During 2018 and 2017, the District sponsored numerous community health and wellness-related events and programs. Associated costs, exclusive of staff time, were approximately \$20,500 in 2018 and \$19,500 in 2017.

The District sponsored 62 organizations and programs in 2018 and 60 organizations and programs in 2017 at a cost of approximately \$429,000 and \$451,000, respectively. In addition, the District paid approximately \$2,000 and \$5,000 in 2018 and 2017, respectively, for several healthcare programs for the City of Titusville.

The District offers free multiple support groups that use our staff, resources, and facilities. Among these programs are: Beginning Breastfeeding Class, HealthBridge healthy living series, Crash Course on Aging, and Caregiver Academy. Support groups include those for AWAKE Sleep Disorders Caregiver, Congestive Heart Failure, Diabetes, Look Good Feel Better Cancer Patient, Moms & Kids Gathering (childhood development), Parkinson's, Parrish Partners (cancer), Pulmonary Hypertension, and Stroke.

In addition, the District provides other programs that require a nominal enrollment fee that does not cover the cost of the program but does help pay for materials for the following programs: Moments to Miracles (childbirth education class), Respite Nights (for parents of special needs children), Diabetes Survival Skills - Titusville & Port St. John (diabetes self-management classes), Diabetes Group Class, and HeartSaver CPR Class. In addition, the District offers EMMI®, a comprehensive health program providing important education, videos and more through a variety of platforms. An online health-education library and videos, as well as healthcare provider information, medical records portals, and a variety of health trackers are provided as part of the medical center's website parrishmed.com. A monthly electronic newsletter alerts members to upcoming monthly health events, screenings and important health news. A quarterly health magazine is mailed to more than 26,000 homes in North Brevard.

The District, through its subsidiary NBMS, provides \$75,000 annually to support healthcare-related community activities. Brevard County residents and not-for-profit organizations can apply for a grant. A committee reviews the grant requests quarterly to determine who receives grants for that quarter.

The care partners of the District, through PMC's programs, facilities, contributions, and community involvement, are working daily to fulfill our mission (*Healing experiences for everyone all the time®*) and our vision (*Healing Families--Healing Communities®*).

Game Plan: The Game Plan was introduced in 2000 and is the medical center's strategic plan. It is the framework the District uses for the consistent, standardized communication of the organization's annual business strategic goals and expectations. It is supported and directed by the medical center's Board of Directors. In 2012, the District introduced an updated Game Plan. The current Game Plan is a matrix of 10 pillars to drive organizational success: five pillars defining *what* we do and five pillars defining *how* we do it.

“What we do” Pillars:

- Educate = Knowledge-gain strategies
- Assess = Health screening and assessment strategies
- Understand = Diagnostic strategies
- Care = Treatment strategies
- Maintain = Disease management strategies

“How we do it” Pillars:

- Community Investment = Stewardship and budget strategies
- Engaged Partners in Care = Loyalty and care partner engagement strategies
- System Reliability = Safety and excellence strategies (applying Lean Sigma principles)
- Healing Experiences = Compassion and patient satisfaction strategies
- Healing Communities = Integrity and overall community health management strategies

The premise of the Game Plan is that if an organization is balanced among the pillars, it will be well-positioned to sustain long-term success. These goals are: to achieve and maintain the Hospital Consumer Assessment of Healthcare Providers and Systems (“HCAHPS”) patient satisfaction scores in the top 10% nationally (Healing Experience); to achieve and maintain engagement scores in the top 10% nationally (Engaged Partners in Care); to achieve and maintain a rank in the top 10% nationally in Centers for Medicare & Medicaid Services (“CMS”) quality indicators for heart attack, heart failure, surgical infection prevention, and pneumonia (System Reliability); to achieve and maintain credit rating in the top 10% nationally (Community Investment); and to achieve and maintain a readmission rate of less than 8% (Healing Communities).

PMC is proud to be an independent, public, not-for-profit community medical center that not only serves our community with excellence, but also serves as an industry leader on many fronts, most notably as leaders of the healing environment and leaders for integrated quality and safe care.

Mayo Clinic announced PMC as the 29th member of the Mayo Clinic Care Network (“MCCN”) in 2014. With that announcement, PMC became the first Central Florida MCCN member and the third in Florida. As a MCCN member, PMC physicians and patients have direct access to the latest Mayo Clinic expertise, clinical care information, resources and tools. In 2016, PMC deepened its relationship with Mayo with a formal affiliation for cancer care and treatment. PMC, Mayo Clinic in Jacksonville, Florida, and OMNI Healthcare, Brevard County’s only physician-owned and managed multi-specialty group, partnered to create Parrish Cancer Center. The District’s cancer program is a member of the MCCN.

PMC’s proven care integration, quality and safety performance place us in the top percentile of all U.S. hospitals according to such premier rating and accreditation organizations as The LeapFrog Group, The Safe Care Group, CMS, The Patient Safety Movement Foundation, Vizient Southeast (formerly VHA Southeast) and The Joint Commission.

The Joint Commission announced in January 2016 that PMC is the first in the United States to be awarded Integrated Care Certification. The Joint Commission’s Integrated Care Certification recognizes that PMC is improving patient outcomes with better coordinated care and demonstrates PMC’s commitment to ensuring that high-quality care transcends the walls of the hospital. With this certification, PMC introduced Parrish Healthcare® to the community — another milestone in our proud tradition of serving as recognized national industry leaders. In 2018, PMC earned re-certification for Integrated Care from The Joint Commission. PMC remains the only health system in the United States to be nationally certified for integrated care.

Parrish Healthcare is a groundbreaking network of healthcare providers that includes PMC and its affiliates; Parrish Medical Group, NCQA certified patient and family-centered medical homes; and Parrish Health Network, a regional network of healthcare providers, insurers, and others.

Unlike other models that opt to build networks through mergers and acquisitions, PMC’s model is one of collaboration. PMC’s network includes like-minded organizations who have agreed to collaborate instead of compete for the benefit of the patients and people served. Collaboration between healthcare providers is preferable to costly competition that raises costs and does nothing to improve care. That’s why PMC created Parrish Healthcare, a regional network of healthcare providers who are committed to working together to practice evidence-based care and to engage in collaborative initiatives that result in superior quality outcomes, the elimination of patient harm, and reduced healthcare costs for all — achieving the triple aim of the government’s value-based purchasing initiative.

PMC is also a CMS 4-star rated hospital, according to Hospital Compare. The overall rating summarizes up to 64 quality measures reflecting common conditions that hospitals treat. The overall rating shows how well each hospital performed, on average, compared to other hospitals in the U.S. PMC maintains top national rankings for quality, safety and patient experience.

In 2016, the National Patient Safety Movement announced PMC was the first hospital to make formal commitments that align with all Actionable Patient Safety Solutions (“APSS”) toward eliminating preventable patient deaths by 2020. The Patient Safety Movement Foundation works with medical safety experts from around the world to develop this series of simple and easy-to-follow processes to some of the most common patient safety challenges that hospitals face today. These processes, called APSS, can be adapted to almost any clinical setting, anywhere in the world. There are currently 30 patient safety challenges, and PMC has committed to all 30 APSS categories.

Additionally, PMC is ranked among the Top 100 SafeCare Hospitals® by the SafeCare Group. The SafeCare Group was founded in 2010 to help hospitals excel in the areas of Patient Safety, Quality, and Efficiency. According to the data, PMC was the highest ranking performer among Florida hospitals for CMS Hospital Value-Based Purchasing (“HVBP”) Program, Hospital-Acquired Condition Reduction Program (“HACRP”), and Hospital Readmissions Reduction Program (“HRRP”). It was also the only Florida hospital to attain the coveted three-standard deviations above the average cumulative score with 40 metrics of the Affordable Care Act.

PMC has also maintained the designation of a Top Performer on Key Quality Measures® by The Joint Commission, the leading accreditor of healthcare organizations in the United States.

PMC has earned more straight ‘A’ Hospital Safety Grades from The LeapFrog Group, than most U.S. hospitals. In 2016, PMC’s straight A record, placed them among the top 1.2% of hospitals in the United States.

PMC also received the 2016 Women’s Choice Award®, distinguishing PMC as one of America’s Best Stroke Centers. The Women’s Choice Award is the only declaration that integrates clinical excellence (“CMS”) and consumer experience (“HCAHPS”) to provide women, the family’s Chief Health Officers, the ability to make the best healthcare decisions for their families.

In addition, PMC was designated as a Gynecological Surgery Center of Excellence by the American Institute of Minimally Invasive Surgery (“AIMIS”) in 2015; in 2014, PMC was one of only 37 hospitals in the United States to receive Consumer Reports’ highest rating in preventing surgical-site infections, central line infections, and infections stemming from urinary catheters; in a separate rating, in 2014, Consumer Reports also rated PMC as Florida’s safest hospital; PMC earned the Designated Blue Distinction® Center for Maternity Care; among many other awards and distinctions (all of which can be found on parrishmed.com).

In addition to the patient safety and clinical quality distinctions, PMC has also earned a national reputation as one of America’s finest healing work environments. PMC ranks among the top “150 Great Places to Work in Healthcare” by *Becker’s Hospital Review 2016*, a premier national healthcare publication; was named a Top 100 Places to Work by *Modern Healthcare*; and earned the Gallup Great Workplaces award; among others.

PMC’s focus on quality, safety and excellent patient experiences is not only the right thing to do on behalf of the patients and communities we serve, but will also lead to increased reimbursement from the government, as part of their value-based purchasing program and commercial insurance payors.

PMC is guided by its vision of Healing Families—Healing Communities® and exists to fulfill its mission to provide a Healing experience for everyone all the time®.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information about the District using accounting methods prescribed by the Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants *Audit and Accounting Guide for Health Care Organizations* (the "Audit Guide"). These financial statements provide current and long-term financial information about the District's activities. The Balance Sheets include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides information to compute rate-of-return, evaluate the capital structure of the District, and assess the District's liquidity and financial flexibility.

All revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. These statements measure changes in the District's operations over the past two years and can be used to determine whether the District has recovered its costs through patient service revenue and other revenue sources.

The final required statement is the Statement of Cash Flows. This statement provides information about the District's cash from operating, investing, and financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT

The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Position report information about the District's financial position and activities. These two statements report the net position of the District and the changes in the net position. Increases or decreases in net position are one indicator of whether the District's financial health is improving or deteriorating. However, other nonfinancial factors, such as changes in economic conditions, population growth (including the uninsured and working poor), and new or changed government legislation, should also be considered.

Net Position

A summary of the District's condensed Balance Sheets is presented in Table 1 below:

TABLE 1
Condensed Balance Sheets
(in thousands)

	FY2016	FY2017	FY 2018	FY17 vs. FY18 Dollar Change	Total % Change
Current and other long-term assets	\$ 126,321	\$ 136,325	\$ 132,616	\$ (3,709)	(2.72)%
Capital assets	85,771	79,069	70,448	(8,621)	(10.90)%
Deferred outflows	18,638	18,764	20,374	1,610	8.58 %
Total assets and deferred outflows	<u>\$ 230,730</u>	<u>\$ 234,158</u>	<u>\$ 223,438</u>	<u>\$ (10,720)</u>	<u>(4.58)%</u>
Current and long-term debt outstanding	\$ 98,734	\$ 96,316	\$ 92,591	\$ (3,725)	(3.87)%
Other current and long-term liabilities	25,898	31,602	28,531	(3,071)	(9.72)%
Deferred inflows	98	3,071	4,730	1,659	54.02 %
Total liabilities and deferred inflows	<u>\$ 124,730</u>	<u>\$ 130,989</u>	<u>\$ 125,852</u>	<u>\$ (5,137)</u>	<u>(3.92)%</u>
Invested in capital assets, net of related debt	\$ 9,670	\$ 5,108	\$ 3,282	\$ (1,826)	(35.75)%
Restricted by donors	301	280	333	53	18.93 %
Restricted for debt service	5,189	5,222	1,029	(4,193)	(80.29)%
Unrestricted	90,840	92,559	92,942	383	0.41 %
Total net assets	<u>\$ 106,000</u>	<u>\$ 103,169</u>	<u>\$ 97,586</u>	<u>\$ (5,583)</u>	<u>(5.41)%</u>



2018 Compared to 2017

The decrease of \$3.7 million in current and other long-term assets in fiscal year 2018, compared to 2017, is due to a \$1.1 million increase in accounts receivable; a \$1.6 million decrease in cash, funded depreciation, and investments; an increase of \$0.2 million in deposits and other assets; an increase of \$0.1 million in supplies; an increase of \$0.3 million in prepaid expenses and other assets; a decrease of \$4.2 million in trust reserves and restricted assets and an increase of \$0.4 million in net pension assets. The increase of \$1.6 million for deferred outflows is related to the refunding of the remaining Series 2008 Bonds and the pension asset. The decrease of \$8.6 million in capital assets in 2018 over 2017 stems from the net effect of the capital additions (\$13.2 million), less the net change of accumulated depreciation (\$4.6 million) recognized in 2018.

The approximately \$3.7 million decrease in current and long-term debt outstanding in fiscal year 2018 is due to the defeasance of the remaining 2008 Bonds of approximately \$28.2 million, the annual bond payment on the 2014 Bonds of approximately \$0.7 million offset by the increase due to the issuance of the 2017 Bonds of approximately \$25.0 million; and a decrease in long-term capital lease obligations of \$0.3 million, offset by a reduction in unamortized bond discount of \$0.5 million. Other current and long-term liabilities decreased \$3.1 million due to a decrease of \$3.3 million for accounts payable and accrued expenses; a decrease in third-party payables of \$0.6 million; and an increase in other liabilities of \$0.8 million. Finally, as seen in Table 1, fiscal year 2018 total net position decreased \$5.6 million to \$97.6 million, down from \$103.3 million in fiscal year 2017. The change in net position results primarily from \$5.6 million in net operating and nonoperating loss.

2017 Compared to 2016

The increase of \$10.0 million in current and other long-term assets in fiscal year 2017, compared to 2016, is due to a \$2.1 million decrease in accounts receivable; a \$4.6 million decrease in cash, funded depreciation, and investments; an increase of \$2.3 million in deposits and other assets; an increase of \$0.1 million in supplies; a decrease of \$0.4 million in prepaid expenses and other assets; an increase of \$0.1 million in trust reserves and restricted assets and an increase of \$14.7 million in net pension assets. The increase of \$0.1 million for deferred outflows is related to the partial refunding of the Series 2008 Bonds and the pension asset. The decrease of \$6.7 million in capital assets in 2017 over 2016 stems from the net effect of the capital additions (\$1.0 million), less the net change of accumulated depreciation (\$7.7 million) recognized in 2017.

The approximately \$2.4 million decrease in current and long-term debt outstanding in fiscal year 2017 is due to the annual bond payment on the 2008 and 2014 Bonds of approximately \$1.3 million and \$0.7 million, respectively; and a decrease in long-term capital lease obligations of \$0.4 million. Other current and long-term liabilities increased \$5.5 million due to an increase of \$4.5 million for accounts payable and accrued expenses; an increase in third-party payables of \$0.7 million; and an increase in other current liabilities of \$0.3 million. Finally, as seen in Table 1, fiscal year 2017 total net position decreased \$2.7 million to \$103.3 million, down from \$106.0 million in fiscal year 2016. The change in net position results primarily from \$2.7 million in net operating and nonoperating loss.

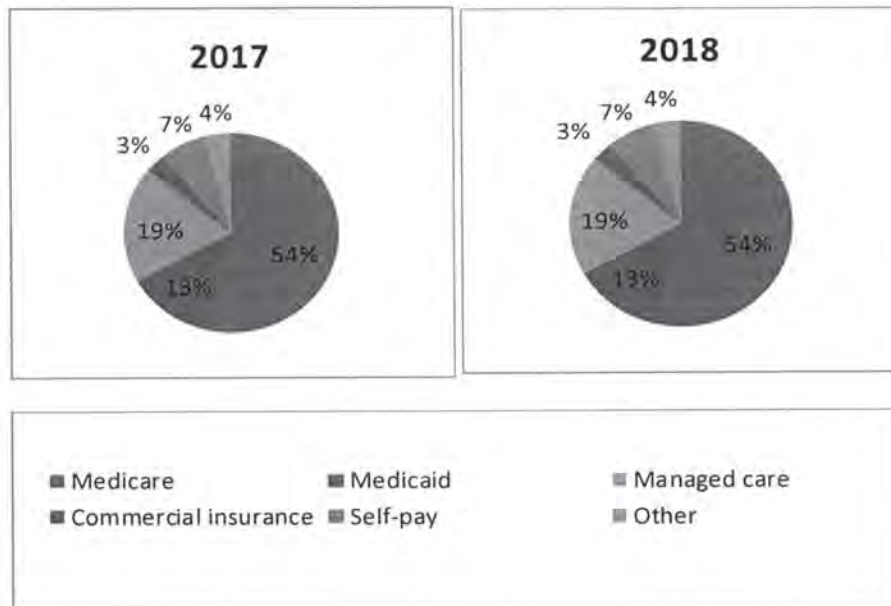
Sources of Revenue

Operating Revenue

During fiscal year 2018, the District derived approximately 85% of total revenues from operations and approximately 15% from nonoperating activities. Operating revenues include revenues from the Medicare and Medicaid programs, third-party insurance carriers, and patients. Table 2 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended September 30, 2018 and 2017.

TABLE 2
Payor Mix by Percentage

	Year Ended September 30,	
	2017	2018
Medicare	54%	54%
Medicaid	13%	13%
Managed care	19%	19%
Commercial insurance	3%	3%
Self-pay	7%	7%
Other	4%	4%
Total patient service revenues	100%	100%



Net Nonoperating Revenues (Expenses)

Investment Income. During fiscal year 2018, investment income of \$5.2 million is included in the District's \$155.2 million in total revenues (both operating revenue and nonoperating revenue). This was comprised primarily of \$2.3 million of interest and dividends, \$2.7 million of realized gains on sale of investments, and \$0.2 million of net unrealized gains on investments.

Net Other Nonoperating Revenues. During fiscal year 2018, the District incurred approximately \$0.2 million of net nonoperating loss from the activities of NBMS. Within other nonoperating revenue are certain income and/or expenses of the Center; Parrish Health Network, a joint venture; Florida Medical Insurance Corporation and physician recruitment activities.

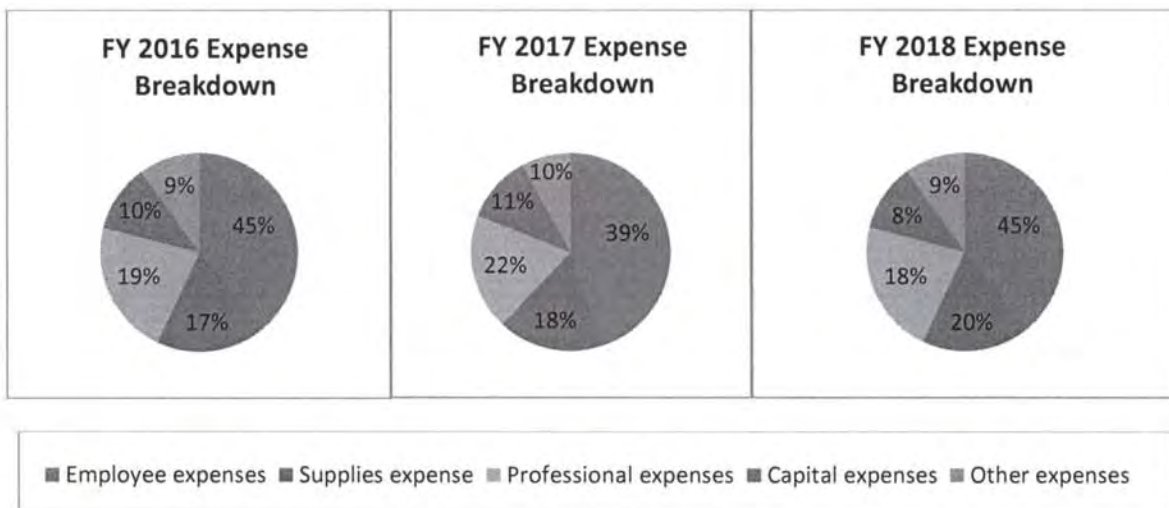
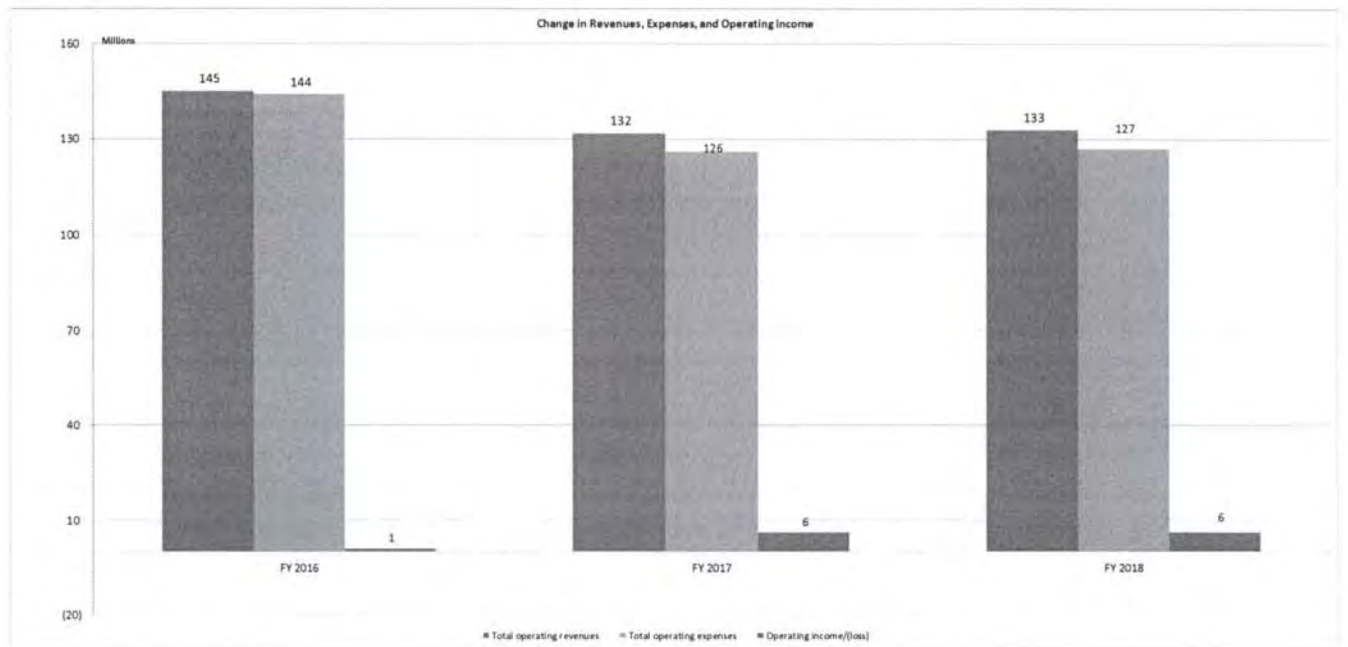
The District's net other nonoperating expenses during 2018 approximated the same results from 2017. We have 45 employed physicians as of September 30, 2018. The net loss from physician practices increased by approximately \$1.1 million compared to 2017. During 2018, our total active medical staff decreased by 14; our total active medical staff at September 30, 2018 and 2017, was 94 and 108, respectively.

Summary of Revenues, Expenses, and Changes in Net Position

The following table presents a summary of the District's historical revenues and expenses for each of the fiscal years ended September 30, 2016, 2017, and 2018:

TABLE 3
Condensed Statements of Revenues, Expenses, and
Changes in Net Position
(in thousands)

	FY 2016	FY 2017	FY 2018	FY17 vs. FY18 Dollar Change	Total % Change
Net patient service revenue	\$ 142,149	\$ 129,227	\$ 132,146	\$ 2,919	2.3 %
Other operating revenues	2,924	3,102	368	(2,734)	(88.1)%
Total operating revenues	145,073	132,329	132,514	185	0.1 %
Employee expenses	65,665	48,562	57,639	9,077	18.7 %
Supplies expense	24,543	23,203	24,730	1,527	6.6 %
Professional expenses	27,370	27,458	22,223	(5,235)	(19.1)%
Capital expenses	15,251	14,210	10,613	(3,597)	(25.3)%
Other expenses	11,841	12,874	11,944	(930)	(7.2)%
Total operating expenses	144,670	126,307	127,149	842	0.7 %
Operating income (loss)	403	6,022	5,365	(657)	(10.9)%
Nonoperating expense - net	(4,658)	(8,697)	(11,053)	(2,356)	27.1 %
Loss before capital contributions	(4,255)	(2,675)	(5,688)	(3,013)	112.6 %
Capital contributions	1,094	5	105	100	2000.0 %
Change in net position	(3,161)	(2,670)	(5,583)	(2,913)	109.1 %
Total net position - beginning of year	109,000	105,839	103,169	(2,670)	(2.5)%
Total net position - end of year	\$ 105,839	\$ 103,169	\$ 97,586	\$ (5,583)	(5.4)%



OPERATING AND FINANCIAL PERFORMANCE

Table 4 presents the volume indicators for the years ended September 30, 2018 and 2017, as well as the 2018 budget:

TABLE 4
Hospital Volume Indicators

	Year Ended September 30,		
	Actual 2017	Actual 2018	Budget 2018
Admissions	6,194	6,024	6,531
Patient Days	29,513	27,927	29,074
Average Length of Stay	4.76	4.64	4.45
Adjusted Admissions	17,250	16,888	18,916
Adjusted Patient Days	82,027	78,321	84,190
Inpatient Surgery and Special	2,121	2,233	2,252
Outpatient Surgery and Special	3,773	4,146	3,805
Emergency Room Visits	41,851	40,180	42,403
Outpatient Diagnostic Visits	61,347	64,348	55,590

Admissions. The decrease of 170 admissions from the prior year was due to several factors. The change is primarily isolated to the following specialties:

Increases

- Hospitalist/Internal Medicine/Family Practice – 35 cases
- Orthopedics – 23 cases

Decreases

- Pulmonary – 35 cases
- Cardiology – 66 cases
- Intensivist – 75 cases
- OB/GYN – 22 cases

Surgery Procedures. Inpatient surgery and special procedures in fiscal year 2018 increased by 5.3%, or 112 procedures, compared to fiscal year 2017. Outpatient surgery and special procedures increased by 9.9%, or 373 procedures, in fiscal year 2018, compared to fiscal year 2017. The following specialties had an increase in fiscal year 2018, as compared to 2017: Ophthalmology, Orthopedics, Pulmonary, Cystoscopy/Urology, Gastroenterology and ENT. The following specialties had a decrease in fiscal year 2018, as compared to 2017: General Surgery, OB/GYN, Pulmonary and Oncology.

Emergency Room Visits. Emergency room visits decreased by 1,671 visits, or 3.99%, in fiscal year 2018, compared to fiscal year 2017. When compared to the fiscal year 2018 budget, emergency room visits were 5.2%, or 2,223 below budget. The decrease in emergency room visits is primarily due to changes in the uninsured population and the increased utilization of urgent cares.

Outpatient Diagnostics. In fiscal year 2018, outpatient diagnostic visits increased 4.9%, or 3,001 visits, from fiscal year 2017. In addition, compared to the fiscal year 2018 budget, outpatient diagnostic visits were below budget by 8,758, or 15.8%. Parrish Healthcare Center in Port St. John had an increase in volumes, compared to 2017 by 0.1%, or 11. In addition, compared to the fiscal year 2018 budget, volumes were above budget by 11.4%, or 1,889. The decrease is mainly due to growth within the service area.

The urgent care center we opened in collaboration with MedFast Urgent Care in Parrish Healthcare Center at Port St. John adds volume to the diagnostic center in Port St. John. In fiscal year 2018, urgent care visits decreased 11.2%, or 1,026 visits (8,162 in 2018 compared to 9,188 in 2017).

Parrish Medical Group opened the second collaboration with MedFast Urgent Care physicians, this one in Titusville. In fiscal year 2018, urgent care visits decreased 11.8%, or 1,218 visits (9,101 in 2018 compared to 10,319 in 2017).

Both Urgent Care Center locations are assisting the community by providing another cost-effective alternative to the emergency room for the community. The physicians that staff the Urgent Care Center are all board-certified emergency room physicians, which is a major differentiator from other urgent care centers.

The following summarizes the District's Statements of Revenues, Expenses, and Changes in Net Position between 2018 and 2017, as presented in Table 3:

Net Patient Service Revenue: Net patient service revenue increased \$2.9 million, or 2.3%, in 2018. Total inpatient surgery and special procedure volume increased 5.3%, outpatient surgery and special procedure volume increased 9.9%, Cardiac Cath Lab volume increased 2.6%, and outpatient diagnostic visits increased 4.9%. Fiscal year 2018 inpatient gross revenue increased 0.6%, and outpatient gross revenue increased by 1.8% from fiscal year 2017. Length of Stay decreased 2.7%, while admissions decreased 2.7% from fiscal year 2017. We continue to qualify for the State of Florida's Medicaid disproportionate share, intergovernmental transfers, and low-income pool programs. We received approximately \$3.0 million in 2018, vs. \$3.7 million in 2017. The state of Florida is phasing out the low-income pool program, and it is likely that we will be receiving less in future years. Finally, fiscal year 2018 combined bad debt and community care increased \$1.2 million from fiscal year 2017 (\$33.2 million in fiscal year 2018 vs. \$32.0 million in fiscal year 2017). The combined bad debt and community care, as a percentage of gross revenue, was 5.3% in fiscal year 2018, compared to 5.2% in fiscal year 2017.

Total cash collections on patient accounts decreased by \$3.3 million, compared to fiscal year 2017. The total cash collections of \$130.1 million represent 98.7% of the net patient service revenue. Disproportionate share, Low Income Pool funding, and other cost report settlements make up the difference between patient cash and net revenue.

Employee Expenses. Employee expenses increased \$9.1 million, or 18.7%, in 2018, which is a combination of salary and benefit costs. Salary costs decreased \$1.5 million, or 3.3%. This was a result of market adjustments, internal promotions, and a decrease of 2.9%, or approximately 27 FTEs, compared to 2017. Employee benefits increased \$10.6 million, or 535.0%, primarily because of an increase of \$13.0 million related to freezing the defined benefit plan and the GASB 67/68 impact, which was a one-time benefit during FY17, a decrease of \$0.1 million related to the 403(b) match and employer contribution, a decrease in payroll taxes of \$0.2 million related to the decrease in FTEs, a decrease in other employee benefits of \$0.4 million, a decrease in workers compensation costs of \$0.1 million, and a decrease in group health claims paid of \$1.6 million.

Supplies Expense. Supply costs increased \$1.5 million, or 6.6%. Medical and surgical supplies increased approximately \$0.3 million, or 2.5%. This increase was primarily related to the increase in volumes during 2018 over 2017. Medications costs decreased \$1.2 million, or 23.0%. A \$0.2 million decrease related to the dialysis center program transfer to the joint venture offset primarily by an increase in medications related to the increase in Ophthalmology procedures. Administrative supplies and other expenses remained unchanged in 2018 compared to 2017.

Professional Expenses. Professional fees and contract services decreased \$5.2 million, or 19.1%. Contract labor costs decreased \$0.9 million, or 58.3%, due to a decrease of \$0.6 million in Emergency Department and a decrease of \$0.3 million in the business office. In both instances, contract labor was converted to a staffed FTE. Contract service arrangements with outside providers decreased \$4.5 million, or 19.5%. Contract services decreased primarily due to a decrease in attorney fees \$0.7 million, administrative consulting \$4.9 million (related to work done with BRG). Rehab services decreased \$0.2 million, collection fees decreased \$0.02 million, and the balance of \$0.3 million reduction is related to various agreements. These decreases were offset by an increase of \$1.8 million related to IT services outsourced to Halifax Health. Physician fees increased approximately \$0.2 million, or 5.5%, due to a decrease in anesthesia

contract services of \$0.3 million and a decrease of \$0.3 million in Cath lab fees offset by an increase of \$0.8 million related to co-management agreements.

Capital Expenses. Capital expenses, which include depreciation and interest expense, decreased approximately \$3.6 million, or 25.3%. Depreciation expense decreased approximately \$3.0 million, or 28.0%, due to capitalized buildings, fixed equipment, and moveable equipment reaching their useful depreciable lives. Interest expense decreased by approximately \$0.6 million, or 12.5%. This is due to a reduction of interest expense of \$0.6 million related to the pay down of principal Series 2014 Bonds and the refunding of the Series 2008 Bonds which had a fixed rate of 5.69% with the issuance of the Series 2017 Bonds with a fixed rate of 3.22%.

Other Expenses. Other operating expenses increased \$0.9 million, or 7.2%. Repair and maintenance costs decreased \$0.6 million, or 7.0%, due to a decrease of \$0.4 million in plant services repairs and maintenance supplies and purchased repair services mainly related to the two hurricanes in 2017 not recurring, a decrease of \$0.1 million in IT network equipment and software, and a decrease of \$0.1 million in clinic equipment repairs. Rents and leases decreased \$0.5 million, or 23.7%, due to a decrease of \$0.1 million for IT network equipment, a decrease of \$0.3 million for OR equipment, and by a decrease of \$0.1 million in specialty bed rentals. Utilities costs decreased \$0.1 million, or 5.7%, related to water, sewer, and trash removal fees. Finally, there was an increase of \$0.3 million, or 577.7%, in our total insurance costs, mainly due to a \$0.2 million increase in malpractice costs and an increase of \$0.1 million in property and general liability insurance.

The following summarizes the District's Statements of Revenues, Expenses, and Changes in Net Position between 2017 and 2016, as presented in Table 3:

Net Patient Service Revenue: Net patient service revenue decreased \$12.9 million, or 9.1%, in 2017. Total inpatient surgery and special procedure volume decreased 11.1%, Cardiac Cath Lab volume decreased 7.4% and outpatient diagnostic visits decreased 1.4%. Fiscal year 2017 inpatient gross revenue decreased 2.0%, and outpatient gross revenue increased by 1.3% from fiscal year 2016. Length of Stay increased 4.5%, while admissions decreased 8.2% from fiscal year 2016. We continue to qualify for the State of Florida's Medicaid disproportionate share, intergovernmental transfers, and low-income pool programs. We received approximately \$3.7 million in 2017, vs. \$4.5 million in 2016. The state of Florida is phasing out the low-income pool program, and it is likely that we will be receiving less in future years. Finally, fiscal year 2017 combined bad debt and community care decreased \$3.6 million from fiscal year 2016 (\$32.0 million in fiscal year 2017 vs. \$35.6 million in fiscal year 2016). The combined bad debt and community care, as a percentage of gross revenue, was 5.2% in fiscal year 2017, compared to 5.8% in fiscal year 2016.

Total cash collections on patient accounts decreased by \$1.3 million, compared to fiscal year 2016. The total cash collections of \$133.4 million represent 103.2% of the net patient service revenue. Disproportionate share, Low Income Pool funding, and other cost report settlements make up the difference between patient cash and net revenue.

Employee Expenses. Employee expenses decreased \$17.1 million, or 26.0%, in 2017, which is a combination of salary and benefit costs. Salary costs decreased \$1.5 million, or 3.1%. This was a result of market adjustments, internal promotions, and a decrease of 6.3%, or approximately 62 FTEs, compared to 2016. Employee benefits decreased \$15.6 million, or 88.7%, primarily because of a decrease of \$15.2 million related to freezing the defined benefit plan and the GASB 67/68 impact, an increase of \$1.7 million related to the 403(b) match and employer contribution, a decrease in payroll taxes of \$0.1 million related to the decrease in FTEs, an increase in other employee benefits of \$0.5 million, and a decrease in group health claims paid of \$2.5 million.

Supplies Expense. Supply costs decreased \$1.3 million, or 5.5%. Medical and surgical supplies decreased approximately \$0.2 million, or 1.7%. This decrease was primarily related to continued group purchasing organization ("GPO") contract compliance, renegotiated cardiac implant contracts, and refreshed GPO medical surgical contract pricing. Medications costs decreased \$0.2 million, or 3.7%. A \$0.5 million decrease related to the dialysis center program transfer to the joint venture offset primarily by an increase

in medications related to the increase in Ophthalmology procedures and the increase in length of stay. Administrative supplies and other expenses decreased \$0.9 million, or 13.9%. The decrease in administrative supplies and other expenses results principally from a decrease of \$0.7 million in office administrative and other expenses, a decrease of \$0.1 million in information systems purchased software, and a decrease of \$0.1 million in marketing expense.

Professional Expenses. Professional fees and contract services increased \$0.1 million, or 0.3%. Contract labor costs decreased \$1.5 million, or 49.2%, due to a decrease of \$0.2 million in the finance division by converting contract positions to staffed FTE's and consolidated responsibilities, a decrease of \$1.3 million in Emergency Department, Echo Vascular, Diabetes Management, and dietary services. Contract service arrangements with outside providers increased \$1.5 million, or 6.8%. Contract services increased primarily due to increases in attorney fees \$0.9 million, administrative consulting \$1.8 million and collection fees \$0.1 million. These increases were offset by decreases of \$1.3 million in Rehab services, Wound care management, Lab services, Diabetes education, Human resources, and lobby services, due to contract restricting. Physician fees increased approximately \$0.1 million, or 6.0%, due to an increase in anesthesia contract services of \$0.3 million, offset by a decrease of \$0.2 million in Cath lab fees.

Capital Expenses. Capital expenses, which include depreciation and interest expense, decreased approximately \$1.0 million, or 6.8%. Depreciation expense decreased approximately \$0.9 million, or 7.8%, due to capitalized buildings reaching their useful depreciable lives. Interest expense decreased by approximately \$0.1 million, or 3.8%. This is due to a reduction of interest expense of \$0.1 million related to the pay down of principal on the 2008 and 2014 Bonds.

Other Expenses. Other operating expenses increased \$1.0 million, or 8.7%. Repair and maintenance costs increased \$1.7 million, or 25.9%, due to an increase of \$0.6 million in plant services repairs and maintenance supplies and purchased repair services mainly related to the two hurricanes, an increase of \$1.0 million in IT network equipment and software, an increase of \$0.1 million in grounds service contract (full year) and an increase of \$0.1 million in clinic equipment repairs. These increases were offset by a decrease of \$0.1 million for environmental services. Rents and leases decreased \$0.1 million, or 3.7%, due to a decrease of \$0.1 million for IT network equipment, a decrease of \$0.1 million for Radiology equipment, offset by an increase of \$0.1 million in echo/vascular equipment. Utilities costs remained unchanged from 2016. Finally, there was a decrease of \$0.6 million, or 110.3%, in our total insurance costs, mainly due to a \$0.4 million decrease in malpractice costs and a decrease of \$0.2 million in property and general liability insurance.

CURRENT BUDGET

The District prepares an annual operating budget, approved by its Board of Directors. The budget is in effect for the entire fiscal year, which begins October 1 and ends on September 30. Significant changes are possible during the year to fund unplanned programs approved by the Board. A fiscal year 2018 budget comparison and analysis is presented monthly in the District's interim financial statements. A comparison of actual revenues and expenses to the approved budget is summarized in Table 5 below:

TABLE 5
Revenues and Expenses
Budget vs. Actual
(in thousands)

	Actual 2018	Budget 2018	Over (Under)	% Difference
Net patient service revenue	\$132,146	\$134,201	\$ (2,055)	-1.5%
Other operating revenue	368	113	255	225.7%
Total operating revenues	132,514	134,314	(1,800)	-1.3%
Employee expenses	57,639	61,850	(4,211)	-6.8%
Supplies expense	24,730	23,063	1,667	7.2%
Professional expenses	22,223	20,332	1,891	9.3%
Capital expenses	10,613	12,364	(1,751)	-14.2%
Other expenses	11,944	12,645	(701)	-5.5%
Total operating expenses	127,149	130,254	(3,105)	-2.4%
Operating income	5,365	4,060	1,305	32.1%
Nonoperating revenue (expenses), net	(11,053)	(10,232)	(821)	8.0%
(Loss) before capital contributions	(5,688)	(6,172)	484	-7.8%
Capital contributions	105	-	105	100.0%
Change in net position	\$ (5,583)	\$ (6,172)	\$ 589	-9.5%

The District completed its fiscal year with a favorable variance of a \$0.6 million increase in net position, compared to budget. The following significant variances and their impact on operations are noted below:

Net Patient Service Revenue. Net patient service revenue was under budget by \$2.1 million, or 1.5%. The most significant cause for this was a decline in admissions of 7.8%, lower than budgeted ER visits, 5.2% offset by an increase in length of stay of 4.3%.

Other Operating Revenue. Other operating revenue exceeded budget by \$0.3 million, or 225.7%. The increase over budget was principally due to \$0.2 million in FEMA funds received related to hurricane Matthew and \$0.1 million in various other miscellaneous revenue items.

Employee Expenses. Employee expenses were \$4.2 million, or 6.8%, below budget. Employee expenses include both salaries and benefits. Salaries were below budget by \$0.3 million, or 0.6%, and benefits were under budget \$3.9 million, or 23.7%. Salaries were below budget due to FTE's running 17 below budget, or 1.9%. Benefits were under budget by \$3.9 million, or 23.7%, due to a decrease of \$0.7 million related to reduced GASB 67/68 expenses and the board's decision to pay all future defined benefit plan expenses directly from the plan assets, a decrease of \$2.6 million in group health costs related to the change in third party administrators for managing the health plan benefit and the management of the employee clinic, a decrease in other benefits of \$0.2 million, and a decrease of \$0.4 million in workers compensation benefits.

Supplies Expense. Total supply costs were higher than expected by \$1.7 million, or 7.2%, compared to budget. Medical and surgical supplies were over budget by \$0.7 million, or 6.1%, due to an increase in Orthopedic and Ophthalmology implant costs of \$0.6 million, or 22.3%, related to outpatient surgical and diagnostic volume increases from budget, an increase of \$0.3 million, or 13.8%, in Cath Lab costs due to increased volume, offset by a decrease of \$0.2 million in Lab/Blood expenses. Medications were over budget by \$1.3 million, or 23.1%, primarily due to an increase in Ophthalmology and Infusion cases. Other supply costs, such as administrative supplies, were below budget \$0.3 million, or 4.8%. This decrease is primarily related to a decrease of \$0.2 million in marketing and communication expenses and a decrease of \$0.1 million in administrative supplies, travel, and information systems minor equipment and software.

Professional Expenses. Professional fees and contract services were \$1.9 million, or 9.3%, above budget. Contract labor was over budget by approximately \$0.1 million, or 23.4%, due to unbudgeted short-term needs in various departments. Total contract service fees were above budget by approximately \$1.5 million, or 8.7%. Legal fees exceeded budget by \$0.9 million, contract costs related to the outsourcing of IT services was an unbudgeted expense of \$2.0 million – reductions in employee expense and other expenses offset the unbudgeted expense in professional expenses. These were offset by consulting fees below budget by \$0.2 million related to continued collection efforts of the accounts receivable, consulting fees related to health information management were below budget by \$0.2 million, offset by reductions in health information management coding contract services by \$0.2 million, reductions in lobby service by \$0.1 million, and a reduction of \$0.5 million in rehab management services due to renegotiated contracts. Physician fees were \$0.3 million, or 8.7%, over budget. Anesthesia support decreased \$0.3 million, and other medical services fees increased by \$0.6 million.

Capital Expenses. Capital expenses, which include interest and depreciation, were \$1.8 million, or 14.2%, under budget. Interest expense was \$0.2 million below budget due to the advanced refunding of the Series 2008 Bonds which had a fixed rate of 5.69% with the 2017 Bonds which have a 3.22% fixed rate. Depreciation expense was \$1.6 million, or 17.6%, below budget, caused by timing differences of assets reaching their fully depreciated state.

Other Expenses. Other operating expenses were under budget by \$0.7 million, or 5.5%. Utilities, which include electricity, gas, and water, were under budget by \$0.1 million due to actual rates being lower than anticipated budget increases. Rents were below budget by \$0.2 million, or 9.7%. IT equipment rental was under budget by \$0.1 million, and due to the bed replacement project, bed rental was below budget by \$0.1 million. Repairs and maintenance were under budget by approximately \$0.2 million, or 2.7%, related to Plant services contracts. Insurance costs were lower than budget by \$0.2 million, or 47.2%, due to a reduction in medical malpractice insurance of \$0.2 million.

Nonoperating Revenue/(Expense). Net nonoperating expense was over budget by \$0.8 million, or 8.0%. Compared to budget, the net loss from physician practices exceeded budget by \$2.0 million. This loss is offset by investment gains which exceed budget by \$1.7 million, or 47.3%, and net other nonoperating expenses being less than budget by \$1.1 million.

CAPITAL ASSETS

During fiscal year 2018, the District invested approximately \$3.4 million in capital assets included in Table 6 below:

TABLE 6
Capital Assets
(in thousands)

	FY2017	FY2018	Dollar Change	Total % Change
Land	\$ 9,351	\$ 9,351	\$ -	0.00 %
Land improvements	5,786	5,786	-	0.00 %
Buildings and improvements	133,853	140,108	6,255	4.67 %
Equipment	88,054	75,150	(12,904)	(14.65)%
Subtotal	237,044	230,395	(6,649)	(2.80)%
Less: accumulated depreciation	(165,451)	(160,882)	4,569	(2.76)%
Construction in progress	7,476	935	(6,541)	(87.49)%
Net capital assets	\$ 79,069	\$ 70,448	\$ (8,621)	(10.90)%

Net property, plant, and equipment decreased \$8.6 million, or 10.9%, due to the net effect of capital assets purchased and depreciation expense recognized. Capital expenditures for the year were \$2.7 million and were funded by cash flows from operations, offset by retirements of \$15.9 million and net negative accumulated depreciation of \$4.6 million. The breakdown of the \$2.7 million in capital expenditures is approximately \$1.4 million for the development and construction of Parrish Healthcare - Titusville; \$0.1 million for the software and renovation for the Teletracking and Mission Control project; \$0.1 million for the development and construction of Parrish Healthcare - Port Canaveral; \$0.2 million for improvement of an off-site building; and \$0.9 million in routine capital equipment replacement. More information about the District's capital assets is presented in the Notes to Basic Financial Statements.

LONG-TERM DEBT AND CAPITAL LEASE OBLIGATION

On July 30, 2008, due to the auction rate bond market turmoil, PMC issued \$99,975,000 in Revenue Refunding Bonds, Series 2008, maturing October 1, 2043. The Series 2008 Bonds' proceeds were used for the purpose of (i) financing all or a portion of the acquisition, construction, and equipping of an outpatient healthcare center; a cardiac catheterization lab; and certain routine capital projects; (ii) refunding the District's outstanding Auction Rate Revenue Bonds, Series 2000, and outstanding Auction Rate Revenue Bonds, Series 2005; (iii) funding a reserve fund; and (iv) paying certain costs with respect to the issuance of the Series 2008 Bonds. The Series 2008 Bonds bear a fixed interest rate of 5.69%.

On September 24, 2014, PMC completed its refunding of a portion of the Revenue Refunding Bonds, Series 2008 (the "Series 2008 Bonds") and issued \$70,000,000 in Refunding Bonds, Series 2014 (the "Series 2014 Bonds"), maturing October 1, 2043. The proceeds from the Series 2014 Bonds were used for the purpose of (i) refunding a portion (\$62,575,000) of the Series 2008 term bonds maturing in 2028, 2038, and 2043 through defeasance; and (ii) establishment of an escrow account with TD Bank, National Association, as escrow agent, sufficient to pay when due the interest and principal on the bonds, at a price equal to 100% of the principal amount thereof (the "Redemption Price"), together with accrued interest thereon to October 1, 2018 (the "Redemption Date"). The Series 2014 Bonds bear a fixed interest rate of 3.0% through October 1, 2029. The interest rate on the Series 2014 Bonds will be remarketed after October 1, 2029, based on then prevailing rates.

On November 14, 2017, PMC satisfied its remaining obligations for debt service related to the Series 2008 Bonds and issued \$25,000,000 in refunding bonds, Series 2017 (the "Series 2017 Bonds"), maturing October 1, 2027. The proceeds from the Series 2017 Bonds were used for the purpose of (i) refunding the

remaining portion (\$26,800,000) of the Series 2008 term bonds maturing in 2018, 2028, 2038, and 2043 through defeasance and (ii) establishment of an escrow account with TD Bank, National Association, as escrow agent, sufficient to pay when due the interest and principal on the bonds, at a price equal to 100% of the principal amount thereof (the "Redemption Price"), together with accrued interest thereon to October 1, 2018 (the "Redemption Date"). The Series 2017 Bonds bear a fixed interest rate of 3.22% through October 1, 2027. The interest rate on the Series 2017 Bonds will be remarketed after October 1, 2027, based on then prevailing rates. As part of the refinancing, the difference between the amounts funded into the irrevocable trust and the carrying value of the Series 2008 Bonds will be recognized as a deferred outflow and amortized into interest expense over the term of the Series 2017 Bonds.

The District recognized a deferred outflow related to the defeasance of a portion of the Series 2008 Bonds of which represents the difference between the amounts funded into the escrow account and the carrying value of principal and associated bond discounts. Deferred outflows on defeasance of approximately \$11,356,000 and \$10,366,000 at September 30, 2018 and 2017, respectively, are presented net of accumulated amortization of approximately \$1,653,000 and \$1,205,000, respectively.

The Master Indenture requires PMC to maintain certain financial ratios and places restrictions on various activities, such as the transfer of assets and incurrence of additional indebtedness. For the years ended September 30, 2018 and 2017, the District was in compliance with all such covenants.

The District has entered into certain lease and loan agreements to finance the purchase of certain operating equipment and construction upgrades. The lease is payable in varying installments through 2023, with rates ranging from 3.8% to 6.0%. The leases have been recognized as capital leases. At September 30, 2018 and 2017, the District's leased assets of approximately \$2,502,000 are recorded net of accumulated depreciation of approximately \$2,139,000 and \$2,068,000, respectively.

At September 30, 2018, PMC had \$92,591,130 in short-term and long-term debt and capital lease obligations. Of this amount, \$25,000,000 was the Series 2017 Bonds offering issued November 14, 2017, \$67,197,000 was the Series 2014 Bonds issued September 24, 2014, and \$394,130 was the capital lease obligation. A more detailed description of the bonds and information about PMC's long-term debt is presented in the Notes to Basic Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's Board and management considered many factors when establishing the fiscal year 2018 budget. Of primary importance was the status of the economy, which takes into account market forces and environmental factors, such as the following:

- Medicare and Medicaid legislation;
- Security legislation (HIPAA);
- Competitive factors in the District's market area;
- Workforce shortages;
- Impact of the tightening of the credit markets and impact on the District's access to capital funds;
- Impact of the significant fluctuations in the stock market and impact on pension fund assets;
- Impact of the fixed income markets on the District's \$85,700,000 investment portfolio;
- New insurance products that allow for high deductibles;
- Physician recruitment;
- Parrish Healthcare Center Port Canaveral and Titusville expanded services;
- Increasing pressure to determine/establish the appropriate physician alignment strategy;
- Dealing with the impacts of the healthcare reform on operations of PMC, as well as providing health insurance to PMC employees;
- Increasing costs of health insurance and pension costs;
- Managed care penetration;
- Physician competition with free-standing, ambulatory surgery center; and
- Employed physician practices continuing to operate at a loss.

The other major consideration was to understand the dynamics of the District's potential for increasing bad debt and community care costs, while maintaining control of the cost structure necessary to support operations given the impact from the economy on hospital volumes. The desire of the Board and Executive Management is to establish the appropriate physician alignment strategy, to meet the needs of our medical staff, and be in compliance with federal regulations. This is a very sensitive issue, yet critical to successfully meeting the healthcare needs in our community.

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is intended to provide our citizens, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for its funding. If you have any questions about this report or need additional financial information, please contact the District's Finance Department at 951 North Washington Avenue, Titusville, Florida 32796.

NORTH BREVARD COUNTY HOSPITAL DISTRICT

BALANCE SHEETS
SEPTEMBER 30, 2018 AND 2017

	2018	2017 As Restated
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents - Note 3	\$ 6,959,900	\$ 6,036,400
Restricted assets - Held by trustee and required for current liabilities - Note 3	1,028,552	2,209,415
Patient accounts receivable - net of estimated uncollectibles of \$13,532,430 and \$14,643,871, respectively - Note 10	17,528,207	16,391,099
Supplies	2,433,782	2,318,009
Prepaid expenses and other assets	5,917,307	5,665,048
Total current assets	<u>33,867,748</u>	<u>32,619,971</u>
RESTRICTED ASSETS - Note 3:		
Temporarily donor-restricted net position	333,139	279,971
Funded depreciation	60,891,701	65,281,628
Held by trustee - Note 5	-	3,012,511
Total restricted assets, less current portion	<u>61,224,840</u>	<u>68,574,110</u>
OTHER ASSETS:		
Net pension asset - Note 6	15,096,057	14,745,419
Deposits and other assets	4,559,431	4,348,448
Investments - Note 3	17,868,143	16,037,195
Total other assets	<u>37,523,631</u>	<u>35,131,062</u>
CAPITAL ASSETS - Note 4:		
Land	9,351,346	9,351,346
Improvements to land	5,785,878	5,785,878
Buildings and improvements	140,108,114	133,853,131
Equipment	75,149,795	88,053,961
Construction in progress	935,235	7,475,636
	<u>231,330,368</u>	<u>244,519,952</u>
Less accumulated depreciation	<u>(160,882,378)</u>	<u>(165,450,615)</u>
Net capital assets	<u>70,447,990</u>	<u>79,069,337</u>
DEFERRED OUTFLOWS:		
Pension	9,004,260	8,382,602
Series 2008 Bond refunding	11,356,331	10,366,260
Other post employment benefits	12,989	15,144
Total deferred outflows	<u>20,373,580</u>	<u>18,764,006</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 223,437,789</u>	<u>\$ 234,158,486</u>

NORTH BREVARD COUNTY HOSPITAL DISTRICT

BALANCE SHEETS
SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u> <u>As Restated</u>
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 15,622,084	\$ 18,514,628
Accrued health insurance and workers' compensation - Note 6	1,419,694	1,717,374
Accrued employee personal leave bank - Note 11	3,315,870	2,934,693
Accrued salaries	1,422,118	2,093,274
Accrued medical malpractice - Note 11	531,524	281,881
Other current liabilities	2,760,209	2,777,141
Estimated third-party settlements - Note 2	430,353	1,054,116
Current portion of long-term debt and capital lease obligations - Note 5	2,564,301	2,521,206
Total current liabilities	<u>28,066,153</u>	<u>31,894,313</u>
OTHER LIABILITIES:		
Accrued medical malpractice - Note 11	1,969,917	1,175,966
Accrued other post employment benefits	1,058,937	1,052,906
Total other liabilities	<u>3,028,854</u>	<u>2,228,872</u>
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS:		
Net of current portion - Note 5	<u>90,026,829</u>	<u>93,794,863</u>
Total liabilities	<u>121,121,836</u>	<u>127,918,048</u>
DEFERRED INFLOWS:		
Pension	4,675,860	3,071,292
Other post employment benefits	53,928	-
Total deferred inflows	<u>4,729,788</u>	<u>3,071,292</u>
NET POSITION:		
Net invested in capital assets	3,282,570	5,108,610
Restricted by donors - Note 7	333,139	279,971
Restricted for debt service	1,028,552	5,221,926
Unrestricted	92,941,904	92,558,639
Total net position	<u>97,586,165</u>	<u>103,169,146</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	<u>\$ 223,437,789</u>	<u>\$ 234,158,486</u>

See notes to basic financial statements.

(Concluded)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUE:		
Net patient service revenue - net of provision for bad debt of \$16,758,681 and \$20,396,773, respectively - Note 2	\$ 132,146,235	\$ 129,227,119
Other operating revenue	367,904	3,101,571
Total operating revenue	<u>132,514,139</u>	<u>132,328,690</u>
OPERATING EXPENSES:		
Salaries and wages	45,027,210	46,575,990
Employee benefits	12,612,402	1,986,076
Medications and supplies	24,729,631	23,202,511
Professional fees and contractual services	22,223,054	27,457,389
Other operating expenses	11,944,336	12,874,170
Depreciation	7,647,159	10,617,015
Interest expense	2,965,497	3,593,479
Total operating expenses	<u>127,149,289</u>	<u>126,306,630</u>
OPERATING INCOME	<u>5,364,850</u>	<u>6,022,060</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income, net - Note 3	5,155,675	6,747,074
Other nonoperating expenses, net - Note 1	(16,208,481)	(15,444,044)
Total nonoperating revenue (expenses), net	<u>(11,052,806)</u>	<u>(8,696,970)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(5,687,956)	(2,674,910)
CAPITAL CONTRIBUTIONS	<u>104,975</u>	<u>4,654</u>
CHANGE IN NET POSITION	(5,582,981)	(2,670,256)
NET POSITION:		
Beginning of year	<u>103,169,146</u>	<u>105,839,402</u>
End of year	<u>\$ 97,586,165</u>	<u>\$ 103,169,146</u>

See notes to basic financial statements.

NORTH BREVARD COUNTY HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from third-party payors and patients	\$ 130,385,364	\$ 132,019,025
Other receipts and payments, net	367,904	3,101,571
Payments to employees	(45,698,366)	(45,910,090)
Payments to suppliers and contractors	(72,183,216)	(74,463,085)
	<u>12,871,686</u>	<u>14,747,421</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest, dividends, and net realized gains on investments	3,995,784	3,856,911
Change in funded depreciation and investments	2,551,677	(2,929,904)
	<u>6,547,461</u>	<u>927,007</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Other nonoperating expenses	(10,400,010)	(5,407,810)
Depreciation and amortization - nonoperating	1,710,518	1,005,393
	<u>(8,689,492)</u>	<u>(4,402,417)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds on sale of property and equipment	1,546,779	6,190,302
Purchases of property and equipment	(3,508,744)	(12,010,139)
Interest paid on long-term debt	(2,192,175)	(3,741,391)
Proceeds on issuance of Series 2018 Bonds	25,000,000	-
Principal payments on long-term debt	(28,960,000)	(2,073,000)
Principal payments on capital lease obligation	(359,015)	(364,931)
Payments made on Series 2008 Bond advanced refunding	(1,437,975)	-
Capital grants and contributions	104,975	4,654
	<u>(9,806,155)</u>	<u>(11,994,505)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	923,500	(722,494)
CASH AND CASH EQUIVALENTS - Beginning of year	6,036,400	6,758,894
CASH AND CASH EQUIVALENTS - End of year	\$ 6,959,900	\$ 6,036,400

(Continued)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2018 ND 2017

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 5,364,850	\$ 6,022,060
Adjustments to reconcile operating income from to net cash provided by operating activities:		
Depreciation	7,647,159	10,617,015
Amortization of deferred outflows on bonds	460,906	19,795
Provision for bad debts	16,758,681	20,396,773
Interest expense considered capital financing activity	2,192,175	3,741,391
Loss on disposal of property and equipment	484,247	101,956
Increase in patient accounts receivable	(17,895,789)	(18,344,418)
Increase in supplies	(115,773)	(25,385)
(Increase) decrease in prepaid expenses and other assets	(252,259)	432,036
(Increase) decrease in temporarily donor-restricted funds	(53,168)	21,017
Decrease (increase) in net pension asset	688,355	(12,708,014)
Increase in deposits and other assets	(232,412)	(2,278,493)
(Decrease) increase in accounts payable	(1,996,557)	5,231,095
Increase in accrued health insurance and workers' compensation	(297,680)	(127,054)
Increase (decrease) in accrued employee personal leave bank	381,177	(206,986)
(Decrease) increase in accrued salaries	(671,156)	665,900
Increase in accrued medical malpractice	1,043,594	257,541
(Decrease) increase in estimated third-party settlements	(623,763)	739,551
Increase in other post employment benefits	6,031	89,790
(Decrease) increase in other current liabilities	(16,932)	101,851
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 12,871,686</u>	<u>\$ 14,747,421</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES:		
Assets acquired but unpaid for and included in accounts payable	\$ 310,505	\$ 1,206,492
Property and equipment acquired through capital lease	\$ 130,177	\$ -

See notes to basic financial statements.

(Concluded)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS YEARS ENDED SEPTEMBER 30, 2018 AND 2017

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The North Brevard County Hospital District (the "District") was created under the laws of the state of Florida in 1953 and operates Parrish Medical Center ("PMC"), a community hospital providing inpatient and outpatient healthcare services in North Brevard County, Florida. The basic financial statements of the District include the balances of North Brevard Medical Support, Inc. ("NBMS"), a not-for-profit, non-stock corporation and blended component unit of the District, organized under the laws of the state of Florida solely to benefit and further the interests of the District through physician recruitment and the provision of medical goods and services.

The District's primary activity is the operation of a general acute care hospital licensed for 210 beds.

The District has entered into employment agreements with certain local physicians to ensure that adequate professional and medical services are available in its service area. The District managed a total of 17 physicians' practices with 45 physicians as of September 30, 2018, and 16 physicians' practices with 46 physicians as of September 30, 2017.

During 2003, NBMS entered into a letter of agreement with Physicians Professional Liability Risk Retention Group ("PPLRRG") to purchase 500,000 shares of PPLRRG's Class E common stock. The purpose of this investment is to provide local physicians practicing at PMC with an alternative and affordable primary layer of malpractice insurance coverage (see Note 3).

The District may levy taxes upon all real and personal taxable property in the District for operating purposes and debt service, not to exceed five mills for all purposes. Effective September 19, 1994, the Board of Directors adopted a tax rate of zero mills; subsequently, no taxes have been assessed, including fiscal years 2018 and 2017.

During fiscal year 1995, the Florida Legislature approved an amendment to the District's enabling legislation, which allowed the District to participate with other hospitals and healthcare providers to provide services within and beyond the boundaries of the District. The District is expressly prohibited from using any funds derived from the assessment of ad valorem taxes on property within the District to support any such joint participation beyond the boundaries of the District.

All intercompany balances and transactions between PMC and NBMS have been eliminated.

Basis of Presentation - The District applies the provisions of Governmental Accounting Standards Board ("GASB") pronouncements. The GASB has established standards for external financial reporting for all state and local governmental entities, which include a balance sheet, a statement of revenue and expenses, a statement of changes in net position, and a direct method statement of cash flows. Net position is classified into three components: net invested in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- *Net Invested in Capital Assets*: This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted*: This component of net position consists of contributed assets whose use is restricted through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted:* This component of net position consists of net position that does not meet the definition of “restricted” or “net invested in capital assets.”

Enterprise Fund Accounting - The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

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 basic financial statements, and the reported amounts of revenues and expenses during the reporting period. The more significant areas subject to management estimates include estimated reserves for professional liability, workers’ compensation and health insurance claims, net pension asset/liability, allowances for uncollectible patient accounts receivable, and third-party payor settlements. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less and excludes otherwise qualifying amounts which are internally designated by the Board of Directors for a specific purpose and reported in restricted assets.

Supplies - Supplies are stated at the lower of cost or market, determined by the first-in, first-out method.

Restricted Assets - Cash, investments, and pledges receivable limited in use under terms of debt indentures, trust agreements, or other similar arrangements, and internally designated assets set aside by the Board of Directors for future capital improvements (“funded depreciation”), over which the Board retains control and may, at its discretion, subsequently use for other purposes, are considered to be restricted assets. Investments, consisting of marketable debt securities, are carried at fair value. Amounts required to meet current liabilities of the District are presented as current assets in the balance sheets.

Investments - Marketable securities included in the District’s investment portfolios are carried at fair value based on quoted market prices (see Note 3). Changes in fair value are included in investment income in the statements of revenues, expenses, and changes in net position.

Capital Assets - Capital assets are recorded at cost, except for donated assets, which are recorded at fair value at the time of donation. Expenditures, which materially increase values, change capacities, or extend useful lives, are capitalized, as is interest cost during the period of construction. Depreciation is computed using the straight-line method over the estimated useful lives of the various assets. Equipment under capital lease obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Amortization is included in depreciation in the statements of revenues, expenses, and changes in net position. Gains and losses on dispositions are recorded in the year of disposal and are included in other nonoperating revenues (expenses) in the statements of revenues, expenses, and changes in net position. Estimated useful lives used in computing depreciation range as follows:

Improvements to land	5 to 20 years
Buildings and improvements	5 to 40 years
Equipment	3 to 15 years

PMC has a policy of funding depreciation on certain assets. The funds are held in cash and investment accounts and recorded as part of restricted assets (see Note 3).

The District considers impairment whenever indicators of impairment are present, such as when the decline in service utility of the capital asset is large in magnitude and unexpected. Pursuant to these guidelines, management has determined that no impairments of capital assets existed at September 30, 2018 and 2017.

Capitalized Interest - The District capitalizes the interest cost of restricted, tax-exempt borrowings less any interest earned on temporary investment of the proceeds of those borrowings from the date of borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use. As a result, the balance sheets reflect an increase of approximately \$0-and \$123,000 to construction in progress, representing net interest expense capitalized for the years ended September 30, 2018 and 2017, respectively.

Deferred Outflows / Deferred Inflows - In addition to assets, the District reports a separate section for deferred outflows of resources on its balance sheets. Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources until then. The District has three items that qualify for reporting as deferred outflows of resources.

Deferred Outflow on Partial Refunding of the Series 2008 Bonds - The defeasance costs related to the partial refunding of the Series 2008 Bonds are included in deferred outflows and are being amortized over the period the bonds are outstanding. Amortization expense related to these costs is included in other nonoperating expenses as interest expense.

Deferred Outflow Related to Pensions - These deferred outflows of resources are an aggregate of items related to pensions, as calculated in accordance with GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (“GASB No. 68”). The deferred outflows related to pensions will be recognized as either pension expense or a reduction in net pension asset in future reporting years. Details on the composition of the deferred outflows of resources related to pension are further discussed in Note 6.

Deferred Outflow Related to Other post-employment benefits (OPEB) – These deferred outflows of resources are an aggregate of items related to OPEB, as calculated in accordance with GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB No. 75”). The deferred outflows related to OPEB will be recognized as either employee benefit expense or a change in accrued other post-employment benefits in future reporting years. Details on the composition of the deferred outflows of resources related to OPEB are further discussed in Note 6.

In addition to liabilities, the District reports a separate section for deferred inflows of resources on its balance sheets. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources until then. The District has two item that qualify for reporting as deferred inflows of resources.

Deferred Inflows Related to Pensions - These deferred inflows of resources are an aggregate of items related to pensions, as calculated in accordance with GASB 68. The deferred inflows related to pensions will be recognized as a reduction to pension expense or a change in net pension asset/liability in future reporting years (see Note 6).

Deferred Inflows Related to OPEB – These deferred inflows of resources are an aggregate of items related to OPEB, as calculated in accordance with GASB 75. The deferred inflows related to OPEB will be recognized as a reduction to employee benefit expense or a change in accrued OPEB in future reporting years (see Note 6)

Risk Management - The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the prior three years. PMC is self-insured for employee health and workers’ compensation benefits. PMC was self-insured for medical malpractice prior to October 1, 2016; subsequently, PMC now purchases insurance from a captive insurance company formed by the District (see Notes 9 and 11). The estimated liabilities for such self-insured programs include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Medical Malpractice Liability – The liability for losses (including loss adjustment expenses) represents the estimated ultimate cost of all reported and unreported losses that are unpaid as of the balance sheet date. The liability for unpaid losses is estimated using individual case-basis valuations and statistical analyses, and is not discounted. Although considerable variability is inherent in such estimates, management believes that the liability for losses and loss adjustments expenses represents its best estimate of the ultimate cost of unpaid claims. The methods for making such estimates and for establishing the resulting liabilities are periodically reviewed and any adjustments are recorded in the period determined.

Reinsurance – The District relies on ceded reinsurance to limit its retained insurance risk (see Note 11). In entering into reinsurance agreements, management considers a variety of factors, including the creditworthiness of reinsurers. In the event that the reinsurers are unable to meet their obligations under the reinsurance agreements, the District would be contingently liable for such amounts. Management has determined that no provision for uncollectable reinsurance recoveries was necessary at September 30, 2018 and 2017, respectively.

Statements of Revenues, Expenses, and Changes in Net Position - For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as operating revenue or operating expenses. Nonoperating revenues (expenses) represent the net operations of activities or transactions incidental or peripheral to the direct care of patients within the hospital setting and primarily include the District's funding of NBMS, physician practices, health and fitness center, rental activities, and investment income. Approximately \$9,637,000 and \$8,521,000 of net loss related to the physician practice operations, \$6,420,000 and \$6,833,000 of other nonoperating expenses, and \$151,000 net loss and \$90,000 of net income from health and fitness is included in other net nonoperating expenses in the 2018 and 2017 statements of revenues, expenses, and changes in net position, respectively. When an expense is incurred for purposes in which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position, to the extent such are available.

Net Patient Service Revenue - Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others when services are rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Bad debts are reported as a component of net patient service revenue.

Charity Care - The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Contributed Resources - Resources restricted by donors for specific operating purposes are held as restricted funds until expended for the intended purpose and are reported as other operating revenue. Resources restricted by donors for additions to property and equipment, which are reported as capital contributions, are held as restricted funds until expended, at which time they are reported as transfers to unrestricted net position. Gifts, grants, and bequests not restricted by donors are initially reported as other operating revenue regardless of the use for which they might be designated by the Board of Directors.

Income Taxes - NBMS 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 ("IRC"). Income earned in furtherance of the District's tax-exempt or governmental purpose is exempt from federal and state income taxes. The IRC provides for taxation of unrelated business income under certain circumstances. Management has determined that the District has no significant unrelated business income. Accordingly, these financial statements include no provision or liability for income taxes.

Fair Value of Financial Instruments - The carrying value of net accounts receivable, accrued liabilities, and accounts payable approximates fair value due to the short-term nature of these accounts.

Accrued Public Assessment Assistance - The District is required to make quarterly payments to The Public Medical Assistance Trust Fund ("PMATF") based on a prescribed percentage (1.5% for inpatient and 1.0% for outpatient) of prior period revenue, as prescribed by the Agency for Health Care Administration. The District has elected to recognize a liability for the PMATF based on the calculated amount currently due, representing the District's estimate of the termination liability.

Other Postemployment Benefits - The GASB requires state and local governmental employers to account for and report their annual cost of postemployment healthcare and other non-pension benefits ("OPEB") and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs are based on actuarially determined amounts that, if paid on an ongoing basis,

generally would provide sufficient resources to pay benefits as they become due. As described in Note 6, the District's defined-benefit pension retirement plan includes a health insurance subsidy benefit of \$100 per month. The District's net OPEB obligation was approximately \$1,059,000 and \$1,053,000 as of September 30, 2018 and 2017 (as restated), respectively, which is included within the other liabilities section of the balance sheets. The District has elected to fund the OPEB obligation on a pay-as-you-go basis.

Restatement Due to Adoption of New Accounting Pronouncement - Effective October 1, 2017, the District adopted GASB No. 75, which requires the District to recognize the accrued OPEB on the balance sheets and to report a more comprehensive measure of OPEB expense in the statements of revenues, expenses, and changes in net assets. Additionally, GASB No. 75 requires enhanced disclosures and new required supplemental information. GASB No. 75 also requires that the impact of the adoption be applied retrospectively to the earliest period presented. The net impact of this reporting change on the District's financial statements as of and for the fiscal year ended September 30, 2017, is presented below.

	September 30, 2017 As previously Reported	GASB No. 75 Adoption Adjustment	September 30, 2017 As Restated
Balance Sheets:			
Assets:			
Deferred outflows - Other post employment benefits	\$ -	\$ 15,144	\$ 15,144
Liabilities:			
Accrued Other post employment benefits	\$ 876,697	\$ 176,209	\$ 1,052,906
Net Position:			
Unrestricted	\$ 92,719,704	\$ (161,065)	\$ 92,558,639

Subsequent Events - The District evaluated subsequent events for recognition and disclosure through December 21, 2018, which is the date the basic financial statements were issued.

2. NET PATIENT SERVICE REVENUE

PMC has agreements with third-party payors that provide for payments to PMC at amounts different from its established rates. Major third-party payors are summarized below:

Medicare - Inpatient acute care services and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and use of capital related to Medicare beneficiaries are paid based on a cost-reimbursement methodology. PMC is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by PMC and audits thereof by the Medicare Fiscal Intermediary (reports audited through 2016). PMC's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization.

Reimbursement for Medicare Outpatient services is made in accordance with the Ambulatory Payment Classification ("APC") system called for under the Outpatient Prospective Payment System. Unlike the Inpatient Prospective Payment System ("DRG"), with one DRG payment per inpatient discharge, each outpatient encounter under the APC system could result in the assignment of multiple APC payments. Regulations allow providers to reduce or waive the beneficiary's co-insurance, as well as provide for additional payments for new devices, drugs, or biologicals. PMC has determined not to reduce or waive beneficiary co-insurance during 2018 and 2017.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are reimbursed using an APR-DRG methodology. Florida Medicaid Program DRG payments cover all services and items furnished during the inpatient stay and are made up of two parts; a base DRG and a level of severity.

Reimbursement for Medicaid Outpatient services is made using an enhanced Ambulatory Patient Grouping ("EAPG"). Florida Medicaid program EAPG payments are made on a per-visit basis, where the payment is directed to the main significant procedure or treatment provided during an outpatient visit; considering the average costs of ancillary services and moving away from cost-based reimbursement to a prospective payment system. In addition to the EAPG base rate, an Add On (Per service Automatic Enhancement Payment) is paid on each payable line based on the provider's attributes.

Final determination of amounts earned pursuant to the Medicare and Medicaid programs for open years is subject to review by appropriate governmental authorities or their agents. It is management's opinion that settlements for cost reporting years after 2016 for Medicare and 2015 for Medicaid, when reached, will not vary significantly from the estimated amounts. During 2018 and 2017, PMC received additional assessments and reimbursement from the Medicare and Medicaid programs, primarily related to increased reimbursement levels and funding for disproportionate share services. The increase to historically claimed reimbursements were processed and approved by the various Intermediaries through lump-sum settlements and retroactive rate adjustments during the current year. In 2018 and 2017, PMC recorded an increase and a decrease to net patient service revenue of approximately \$271,000 and \$465,000, respectively, relating to prior-year, estimated third-party settlement, and other payment issues. The net estimated third-party payable to Medicare and Medicaid as of September 30, 2018 and 2017, of approximately \$430,000 and \$1,054,000, respectively, is recorded in estimated third-party settlements in the current liabilities section of the balance sheets.

Other Third-Party Payors - PMC also has various payment arrangements for inpatient and outpatient services rendered to commercial insurance carriers, health maintenance organizations, and preferred provider organizations. These agreements include prospectively determined discharge rates, per diems, and discounts from established rates.

Following is a summary of net patient service revenue for fiscal years 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Gross patient service revenue	\$ 624,815,717	\$ 616,464,238
Less provision for contractual adjustments	(459,388,346)	(455,179,143)
Less provision for charity adjustments	(16,522,455)	(11,661,203)
Less provision for bad debt	<u>(16,758,681)</u>	<u>(20,396,773)</u>
Net patient service revenue	<u>\$ 132,146,235</u>	<u>\$ 129,227,119</u>

3. CASH, CASH EQUIVALENTS, INVESTMENTS, AND OTHER

Investments are stated at fair value, which is estimated based upon quoted market prices for those or similar instruments. The composition of the District's cash and cash equivalents, investments, and restricted assets at September 30, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Restricted Assets		
Restricted cash and cash equivalents:		
Temporarily donor-restricted net position	\$ 333,139	\$ 279,971
Held by trustee - net of current portion	-	3,012,511
Total restricted cash and cash equivalents	<u>333,139</u>	<u>3,292,482</u>
Cash and cash equivalents and investments for funded depreciation:		
Marketable securities	60,686,394	65,050,438
Accrued interest receivable	<u>205,307</u>	<u>231,190</u>
Total cash and investments for funded depreciation	<u>60,891,701</u>	<u>65,281,628</u>
Total restricted assets - noncurrent portion	61,224,840	68,574,110
Current portion included in current assets - held by trustee	<u>1,028,552</u>	<u>2,209,415</u>
Total restricted assets	<u>\$ 62,253,392</u>	<u>\$ 70,783,525</u>
Other Assets - Investments		
Marketable securities	\$ 17,814,788	\$ 15,980,401
Accrued interest receivable	<u>53,355</u>	<u>56,794</u>
Total other assets - investments	<u>\$ 17,868,143</u>	<u>\$ 16,037,195</u>

The composition of PMC's marketable securities, including related accrued interest, as of September 30, 2018 and 2017, is as follows:

September 30, 2018	Fair Value	Investment Maturities			
		One year or Less	1-5 Years	6-10 Years	More Than 10 Years
U.S. Government Obligations	\$ 1,097,594	\$ -	\$ -	\$ -	\$ 1,097,594
Municipal Obligations	466,736	224,181	242,555	-	-
Corporate Bonds	12,708,875	2,924,350	5,667,507	2,871,702	1,245,316
U.S. Agency Mortgage-Backed Securities	5,326,988	-	-	650,014	4,676,974
Collateralized Mortgage Obligations	1,748,946	-	182,303	-	1,566,643
	<u>21,349,139</u>	<u>\$ 3,148,531</u>	<u>\$ 6,092,365</u>	<u>\$ 3,521,716</u>	<u>\$ 8,586,527</u>
Domestic Equities	34,866,563				
International Equities	6,404,991				
Mutual Funds:					
Short Term Bond Fund	663,438				
Equity	735,951				
Fixed Income	1,307,780				
Intermediate Term Bond Fund	8,362,553				
Alternative Investments - Real Estate	2,909,519				
Real Estate EFTs	2,159,910				
Total Marketable Securities	<u>\$ 78,759,844</u>				

	Ratings				
	AAA	AA	A	BBB	Not Rated
U.S. Government Obligations	\$ 1,097,594	\$ -	\$ -	\$ -	\$ -
Municipal Obligations	293,064	173,672	-	-	-
Corporate Bonds	817,058	5,131,267	1,510,281	4,837,799	412,470
U.S. Agency Mortgage-Backed Securities	5,326,988	-	-	-	-
Collateralized Mortgage Obligations	1,748,946	-	-	-	-
Domestic Equities	-	-	-	-	34,866,563
International Equities	-	-	-	-	6,404,991
Mutual Funds	-	-	-	-	11,069,722
Alternative Investments - Real Estate	-	-	-	-	2,909,519
Real Estate EFTs	-	-	-	-	2,159,910
Total Marketable Securities	<u>\$ 9,283,650</u>	<u>\$ 5,304,939</u>	<u>\$ 1,510,281</u>	<u>\$ 4,837,799</u>	<u>\$ 57,823,175</u>

September 30, 2017	Fair Value	Investment Maturities			
		One year or Less	1-5 Years	6-10 Years	More Than 10 Years
U.S. Government Obligations	\$ 1,433,355	\$ -	\$ -	\$ 1,433,355	\$ -
Municipal Obligations	1,631,339	-	1,110,984	520,355	-
Corporate Bonds	16,494,205	1,379,953	7,881,467	5,248,678	1,984,107
U.S. Agency Mortgage-Backed Securities	4,165,552	-	-	1,636,798	2,528,754
Collateralized Mortgage Obligations	236,734	-	-	236,734	-
	<u>23,961,185</u>	<u>\$ 1,379,953</u>	<u>\$ 8,992,451</u>	<u>\$ 9,075,920</u>	<u>\$ 4,512,861</u>
Domestic Equities	35,019,785				
International Equities	4,478,641				
Mutual Funds:					
Short Term Bond Fund	8,052,160				
Intermediate Term Bond Fund	4,634,172				
Alternative Investments - Real Estate	2,672,829				
Real Estate EFTs	<u>2,500,051</u>				
Total Marketable Securities	<u>\$ 81,318,823</u>				

	Ratings				
	AAA	AA	A	BBB	Not Rated
U.S. Government Obligations	\$ 1,433,355	\$ -	\$ -	\$ -	\$ -
Municipal Obligations	-	368,785	520,355	-	742,199
Corporate Bonds	174,665	1,161,054	6,233,362	8,705,443	219,681
U.S. Agency Mortgage-Backed Securities	4,165,552	-	-	-	-
Collateralized Mortgage Obligations	236,734	-	-	-	-
Domestic Equities	-	-	-	-	35,019,785
International Equities	-	-	-	-	4,478,641
Mutual Funds	-	-	-	-	12,686,332
Alternative Investments - Real Estate	-	-	-	-	2,672,829
Real Estate EFTs	-	-	-	-	2,500,051
Total Marketable Securities	<u>\$ 6,010,306</u>	<u>\$ 1,529,839</u>	<u>\$ 6,753,717</u>	<u>\$ 8,705,443</u>	<u>\$ 58,319,518</u>

The District adopted generally accepted accounting standards for fair value measurements which provides a single definition of fair value and established a three-tier hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 Inputs other than quoted prices in active markets within Level 1 that are either directly or indirectly observable
- Level 3 Significant unobservable inputs for the asset or liability in which little or no market data exists

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for instruments measured at fair value.

If available, quoted market prices are used to value investments. U.S. Government Obligations, Municipal Obligations, Corporate Bonds, U.S. Agency Mortgage-Backed Securities, Collateralized Mortgage Obligations, Domestic Equities, International Equities, and Real Estate ETFs are valued at the closing price reported on the major market on which the individual securities are traded. Mutual funds and alternative investments – real estate are valued using a market approach at the recorded closing net asset value (“NAV”) of the funds. The NAV is based on the fair value of the underlying investments. The District’s bonds payable are valued at quoted prices considering yields for the same or similar types of borrowings, taking into account the underlying terms.

September 30, 2018

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Government Obligations	\$ 1,097,594	\$ -	\$ -	\$ 1,097,594
Municipal Obligations	466,736	-	-	466,736
Corporate Bonds	12,708,875	-	-	12,708,875
U.S. Agency Mortgage-Backed Securities	5,326,988	-	-	5,326,988
Collateralized Mortgage Obligations	1,748,946	-	-	1,748,946
Domestic Equities	34,866,563	-	-	34,866,563
International Equities	6,404,991	-	-	6,404,991
Mutual Funds	11,069,722	-	-	11,069,722
Alternative Investments - Real Estate	-	-	2,909,519	2,909,519
Real Estate ETFs	2,159,910	-	-	2,159,910
Marketable debt securities	<u>\$ 75,850,325</u>	<u>\$ -</u>	<u>\$ 2,909,519</u>	<u>\$ 78,759,844</u>
Liabilities:				
Bonds payable	\$ -	\$ 92,197,000	\$ -	\$ 92,197,000

September 30, 2017

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Government Obligations	\$ 1,433,355	\$ -	\$ -	\$ 1,433,355
Municipal Obligations	1,631,339	-	-	1,631,339
Corporate Bonds	16,494,205	-	-	16,494,205
U.S. Agency Mortgage-Backed Securities	4,165,552	-	-	4,165,552
Collateralized Mortgage Obligations	236,734	-	-	236,734
Domestic Equities	35,019,785	-	-	35,019,785
International Equities	4,478,641	-	-	4,478,641
Mutual Funds	12,686,332	-	-	12,686,332
Alternative Investments - Real Estate	-	-	2,672,829	2,672,829
Real Estate ETFs	2,500,051	-	-	2,500,051
Marketable debt securities	<u>\$ 78,645,994</u>	<u>\$ -</u>	<u>\$ 2,672,829</u>	<u>\$ 81,318,823</u>
Liabilities:				
Bonds payable	\$ -	\$ 97,917,000	\$ -	\$ 97,917,000

Credit Risk - State of Florida Statutes, Section 218.415, provides for each unit of local government or political subdivision to adopt investment policies that are commensurate with the nature and size of public funds within their custody. These policies must include consideration for safety of capital, liquidity of funds, diversification of investments, investment income, maturity requirements, and performance measurement. Section 218.415, Florida Statutes, authorizes the District to invest in (1) the Local Government Surplus Funds Trust Fund, which is administered by the State Board of Administration; (2) obligations of, or obligations for which the principal and interest are unconditionally guaranteed by the U.S. Government; (3) interest-bearing time deposits or savings accounts in banks and savings and loans organized under laws of the United States of America; (4) obligations of the Federal Farm Credit Banks, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, the Federal National Mortgage Association, and obligations guaranteed by the Government National Mortgage Association; and (5) other investments authorized by resolution by the governing board of a special district.

The District has a Board-approved policy for the investment of funds. The District has investment management agreements which provide for selected investment managers to invest and manage the District’s Board-designated and excess operating funds in accordance with the District’s investment policy. The funds are pooled

and invested according to established investment criteria and the nature of intended use. Long-term designation of investments is based on the maturity dates underlying investments and/or the intent of management to hold the investments for long-term purposes. Investment securities are classified as available for sale, as the investment managers have the ability to liquidate investments in order to avoid losses from changes in market conditions. Funds held under the Bond Indenture are required to be invested in qualified investments, as defined in the Bond Indenture. All other funds are required to be invested according to the District's investment policy, which was updated in December 2018. The objectives of the District's investment policy are prioritized in the following order: (1) safety of principal, (2) liquidity, (3) generation of income, (4) inflation protection, (5) return on investment/yield, and (6) understanding of risk.

Concentration of Credit Risk - Investments in any one issuer that represent 5% or more of an entity's investment portfolio are required to be disclosed. 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. Based on the nature of the District's investments, no concentration of credit risk exists for the District.

Custodial Credit Risk - As of September 30, 2018 and 2017, all of the District's cash and cash equivalents are held in the name of the District or NBMS (or wholly owned subsidiaries of NBMS (see Note 9)). Accordingly, no custodial credit risk exists for the District.

Deposit Risk - In addition to insurance provided by the Federal Deposit Insurance Corporation, all of the District's demand deposits are held in banking institutions approved by the State of Florida State Treasurer to hold public funds. Under the Florida Statutes, Chapter 280, *Florida Security for Public Deposits Act* ("Chapter 280"), the state treasurer requires all qualified public depositories to deposit with the treasurer or another banking institution eligible collateral equal to amounts ranging from 50% to 125% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. Government and Agency Securities, state or local government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a qualified public depository failure, the remaining public depositories would be responsible for covering any resulting losses in excess of amounts insured and collateralized. Amounts held by the bank are insured or fully collateralized by Government Securities.

Interest Rate Risk - The District's investment policy includes certain limitations on investment maturities; however, the District's primary means of managing exposure to fair value losses arising from increasing interest rates is based upon the composition of its investment portfolio, which includes marketable securities, which are unconditionally guaranteed by the U.S. Government and have limited interest rate variability.

The effective yield earned on the District's investments as of September 30, 2018 and 2017, was approximately 2.8% and 2.5%, respectively.

Investment income, net, consists of the following for the years ended September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Investment income:		
Interest and dividends earned on investments	\$ 2,305,528	\$ 2,166,655
Realized gain on marketable securities	2,645,255	1,690,256
Change in unrealized gain on marketable securities	<u>204,892</u>	<u>2,890,163</u>
Investment income, net	<u>\$ 5,155,675</u>	<u>\$ 6,747,074</u>

During the year ended September 30, 2003, NBMS purchased \$500,000 of Class E common stock of PPLRRG to create an alternative malpractice insurance vehicle in which the medical staff could obtain malpractice insurance at more affordable rates than commercially available in the local market. Six local physicians are currently taking advantage of the program as of September 30, 2018. This investment is recorded at cost in deposits and other assets in the balance sheets. The Class E common stock of PPLRRG is nonvoting, and NBMS owns approximately 6% of the total outstanding common stock of PPLRRG. As a Class E shareholder of PPLRRG, NBMS has certain rights and obligations, as defined under the PPLRRG's Articles of Incorporation.

4. CAPITAL ASSETS

A summary of changes in capital assets during 2018 and 2017 is as follows:

	2018			
	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
Land	\$ 9,351,346	\$ -	\$ -	\$ 9,351,346
Improvements to land	5,785,878	-	-	5,785,878
Buildings and improvements	133,853,131	6,254,983	-	140,108,114
Equipment	88,053,961	3,031,345	(15,935,511)	75,149,795
Construction in progress	7,475,636	(6,540,401)	-	935,235
Total capital assets	244,519,952	2,745,927	(15,935,511)	231,330,368
Less: accumulated depreciation	(165,450,615)	(9,336,248)	13,904,485	(160,882,378)
Capital assets - net	<u>\$ 79,069,337</u>	<u>\$ (6,590,321)</u>	<u>\$ (2,031,026)</u>	<u>\$ 70,447,990</u>
	2017			
	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
Land	\$ 9,946,078	\$ -	\$ (594,732)	\$ 9,351,346
Improvements to land	3,074,797	2,816,060	(104,979)	5,785,878
Buildings and improvements	138,345,550	1,087,016	(5,579,435)	133,853,131
Equipment	86,958,898	2,924,230	(1,829,167)	88,053,961
Construction in progress	5,134,333	4,385,719	(2,044,416)	7,475,636
Total capital assets	243,459,656	11,213,025	(10,152,729)	244,519,952
Less: accumulated depreciation	(157,688,679)	(11,622,407)	3,860,471	(165,450,615)
Capital assets - net	<u>\$ 85,770,977</u>	<u>\$ (409,382)</u>	<u>\$ (6,292,258)</u>	<u>\$ 79,069,337</u>

Depreciation expense for 2018 and 2017 was approximately \$9,300,000 and \$11,600,000, respectively, and has been included in operating and nonoperating expenses in the statements of revenues, expenses, and changes in net position based on the District's policy for reporting related activities, as defined in Note 1. At September 30, 2018, the District had fully depreciated capital assets of approximately \$94,400,000 that were still in use.

5. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATION

On July 30, 2008, PMC completed its refunding of the Auction Rate Revenue Bonds, Series 2000 (the "Series 2000 Bonds"), and Auction Rate Revenue Bonds, Series 2005 (the "Series 2005 Bonds"), and issued \$99,975,000 in the Revenue Refunding Bonds, Series 2008 (the "Series 2008 Bonds"). The proceeds from the Series 2008 Bonds were used for the purpose of (i) financing all or a portion of the acquisition, construction, and equipping of an outpatient healthcare center, a cardiac catheterization lab, and certain routine capital projects; (ii) refunding the District's outstanding Auction Rate Revenue Bonds, Series 2000, and outstanding Auction Rate Revenue Bonds, Series 2005; (iii) funding a reserve fund; and (iv) paying certain costs with respect to the issuance of the Series 2008 Bonds. The Series 2008 Bonds bear a fixed interest rate of 5.695%.

On September 24, 2014, PMC completed its refunding of a portion of the Series 2008 Bonds and issued \$70,000,000 in Refunding Bonds, Series 2014 (the "Series 2014 Bonds"), maturing October 1, 2043. The proceeds from the Series 2014 Bonds were used for the purpose of (i) refunding a portion (\$62,575,000) of the Series 2008 term bonds maturing in 2028, 2038, and 2043 through defeasance and (ii) establishment of an escrow account with TD Bank, National Association, as escrow agent, sufficient to pay when due the interest and principal on the bonds, at a price equal to 100% of the principal amount thereof (the "Redemption Price"), together with accrued interest thereon to October 1, 2018 (the "Redemption Date"). The Series 2014 Bonds bear a fixed interest rate of 3.0% through October 1, 2029. The interest rate on the Series 2014 Bonds will be remarketed after October 1, 2029, based on then prevailing rates.

On November 14, 2017, PMC satisfied its remaining obligations for debt service related to the Series 2008 Bonds and issued \$25,000,000 in refunding bonds, Series 2017 (the "Series 2017 Bonds"), maturing October 1, 2027. The proceeds from the Series 2017 Bonds were used for the purpose of (i) refunding the remaining portion (\$26,800,000) of the Series 2008 term bonds maturing in 2018, 2028, 2038, and 2043 through defeasance and (ii) establishment of an escrow account with TD Bank, National Association, as escrow agent, sufficient to pay when due the interest and principal on the bonds, at a price equal to 100% of the principal amount thereof (the "Redemption Price"), together with accrued interest thereon to October 1, 2018 (the "Redemption Date"). The Series 2017 Bonds bear a fixed interest rate of 3.22% through October 1, 2027. The interest rate on the Series 2017 Bonds will be remarketed after October 1, 2027, based on then prevailing rates. As part of the refinancing, the difference between the amounts funded into the irrevocable trust and the carrying value of the Series 2008 Bonds will be recognized as a deferred outflow and amortized into interest expense over the term of the Series 2017 Bonds.

The District recognized a deferred outflow related to the defeasance of a portion of the Series 2008 as the difference between the amounts funded into the escrow account and the carrying value of principal and associated bond discounts. Deferred outflows on defeasance of approximately \$11,356,000 and \$10,366,000 at September 30, 2018 and 2017, respectively, are presented net of accumulated amortization of approximately \$1,653,000 and \$1,205,000, respectively. The Series 2017, Series 2014, and Series 2008 Bonds are collateralized by and are payable solely from an obligation issued under the Master Trust Indenture (the "Master Indenture") between TD Bank, as Master Trustee (the "Master Trustee"), and PMC, as well as certain monies held under the trust indenture governing the Series 2008 Bonds (the "Bond Indenture"). The obligation issued under the Master Indenture is collateralized by a pledge of and a security interest in the net revenues of the District and any future member of the Obligated Group that is a Governmental Unit and the net revenue and accounts of any future member of the Obligated Group that is a corporation or other business entity. Currently, PMC is the sole member of the Obligated Group.

Under the terms of the Bond Indenture, various amounts are being held on deposit with the Master Trustee, as trustee, for bond redemption and interest payments. Such amounts are not available for current operations of PMC. The Master Indenture requires the Obligated Group to maintain sinking fund deposits equal to the maximum annual debt service requirement of the Series 2008 Bonds. Amounts on deposit in the sinking fund as of September 30, 2018 and 2017, were approximately \$0- and \$3,013,000, respectively. Effective with the defeasance of the remaining 2008 Bonds, a sinking fund is no longer required. In addition, the Master Indenture requires the Obligated Group to maintain certain financial ratios and places restrictions on various activities,

such as the transfer of assets and incurrence of additional indebtedness. At September 30, 2018, PMC was in compliance with all such covenants.

The District has entered into certain lease and loan agreements to finance the purchase of certain operating equipment and construction upgrades. The lease is payable in varying installments through 2023, with rates ranging from 3.8% to 6.0%. The leases have been recognized as capital leases. At September 30, 2018 and 2017, the District's leased assets of approximately \$2,635,000 and \$2,502,000 are recorded net of accumulated depreciation of approximately \$2,139,000 and \$2,068,000, respectively.

Long-term debt and capital lease obligations as of September 30, 2018 and 2017, consist of the following:

	<u>2018</u>	<u>2017</u>
Revenue Refunding Bonds, Series 2008, principal payable in variable annual installments beginning in 2009 through final payoff on October 1, 2018, interest payable October 1 and April 1 at the average coupon rate of 5.695%.	\$ -	\$ 28,210,000
Refunding Bonds, Series 2014, principal payable monthly beginning in 2014 through 2043, interest payable monthly at the fixed rate of 3.0%.	67,197,000	67,947,000
Revenue Refunding Bonds, Series 2017, principal payable in variable annual installments beginning in 2018 through 2027, interest payable October 1 and April 1 at the fixed rate of 3.22%.	25,000,000	-
Capital lease obligation	394,130	619,975
Principal maturities	92,591,130	96,776,975
Unamortized bond discount	-	(460,906)
Total long-term debt	92,591,130	96,316,069
Less current installments	(2,564,301)	(2,521,206)
Long-term portion	<u>\$ 90,026,829</u>	<u>\$ 93,794,863</u>

A summary of changes in long-term debt and capital lease obligations during 2018 and 2017 is as follows:

2018					
	Beginning Balance	Additions	Repayments	Ending Balance	Amounts Due Within One Year
Series 2008					
Fixed rate refunding bonds	\$ 28,210,000	\$ -	\$ 28,210,000	\$ -	\$ -
Series 2014					
Fixed rate refunding bonds	\$ 67,947,000	\$ -	\$ 750,000	\$ 67,197,000	\$ 1,729,000
Series 2017					
Fixed rate refunding bonds	\$ -	\$ 25,000,000	\$ -	\$ 25,000,000	\$ 600,000
Capital lease obligations	\$ 619,975	\$ 133,169	\$ 359,014	\$ 394,130	\$ 235,201
2017					
	Beginning Balance	Additions	Repayments	Ending Balance	Amounts Due Within One Year
Series 2008					
Fixed rate refunding bonds	\$ 29,555,000	\$ -	\$ 1,345,000	\$ 28,210,000	\$ 1,410,000
Series 2014					
Fixed rate refunding bonds	\$ 68,675,000	\$ -	\$ 728,000	\$ 67,947,000	\$ 750,000
Capital lease obligations	\$ 984,906	\$ -	\$ 364,931	\$ 619,975	\$ 361,206

As of September 30, 2018, the District has the following outstanding bonds, which were funded by the placement of assets in an irrevocable trust to be used for satisfying debt service requirements; therefore, the debt and related assets are not reported in the financial statements.

Description of Obligation	Fiscal Year Defeased	Original Issue	Amount Outstanding
Series 2008 Fixed Rate Bonds	2014	\$ 62,575,000	\$ 62,575,000
Series 2008 Fixed Rate Bonds	2017	\$ 37,400,000	\$ 26,800,000

On October 1, 2018, TD Bank, National Association, as the escrow agent, repaid in full the final remaining principal and interest due to the holders of the Series 2008 Fixed Rate Bonds.

Annual scheduled principal maturities and interest on long-term debt and capital lease obligations as of September 30, 2018, are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2019	\$ 2,564,301	\$ 2,817,788
2020	2,558,040	2,743,676
2021	2,641,631	2,656,473
2022	2,732,383	2,571,776
2023	2,788,775	2,484,811
2024-2028	15,163,000	11,070,069
2029-2033	17,678,000	8,522,843
2034-2038	20,622,000	5,557,345
2039-2043	24,953,000	2,086,484
2044	890,000	975
	\$ 92,591,130	\$ 40,512,240

The annual scheduled interest requirements included above related to the Series 2014 Bonds are based on a fixed rate of 3.0% per annum, and the Series 2017 Bonds are based on a fixed rate of 3.22% per annum.

The total future lease payments on the capital lease included in the schedule above is approximately \$394,000; the interest portion is \$29,000.

6. EMPLOYEE BENEFIT PLANS

Employees' Retirement System

Plan Freeze - Effective September 30, 2016, the District's defined benefit pension plan was frozen. All benefit accruals under that plan ceased; therefore, average monthly earnings on or after October 1, 2016 shall not be considered. Continuous service will continue to be credited to participants after September 30, 2016 for vesting purposes, for purposes of determining normal and early retirement date and for purposes of eligibility for disability benefits. Effective October 1, 2016, PMC contributes to a 403(b) defined contribution plan with an employer discretionary match and discretionary noncontributory employer contribution.

Plan Description - PMC contributes to a noncontributory, single-employer, defined-benefit pension retirement plan, Parrish Medical Center, Inc. Pension Plan ("the Plan"), administered by the Pension Administrative Committee. The Plan was established under the authority of the District's Board of Directors. Additionally, all amendments and changes to PMC's obligation to contribute to the Plan are covered by this authority. The average rating for investments held in the Plan's portfolio is an average of AA. Separate financial statements are not available for the Plan.

Benefits Provided - The Plan covers all permanent, full-time PMC employees and all permanent, part-time employees who customarily work at least 20 hours per week and five months per year, and who complete at least 1,000 hours of service per year, after completion of one year of continuous service. The Plan was frozen effective September 30, 2016. Normal retirement age is determined as the earlier of:

1. Age 65, regardless of continuous service;
2. Age 60 and 25 years of continuous service; or
3. 30 years of continuous service, regardless of age.

Normal retirement benefits are determined as 1.75% of average monthly earnings up to \$1,000, plus 1.50% of average monthly earnings in excess of \$1,000, times continuous service.

Early retirement age is determined as age 55 and 20 years of continuous service. Early retirement accrued benefits are reduced 6.67% for each of the first five years and 3.33% for each of the next five years by which the benefit Commencement Date precedes age 65.

The vesting schedule is as follows:

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 5	None
5	50%
6	60%
7	70%
8	80%
9	90%
10 or more	100%

Members will receive the vested portion of their accrued benefit payable at otherwise early age (reduced) or age 65.

Disability benefits are based on the normal retirement benefit accrued to the date of disability. Employees are eligible after 10 years of continuous service. Death benefits are based on the accrued benefit as of the date of death and are payable as a lump sum. Employees are eligible after 5 years of continuous service.

Plan Membership - The Plan membership was as follows as of October 1, 2016 (date of actuarial valuation):

Inactive Plan members or beneficiaries currently receiving benefits	77
Inactive Plan members entitled but not yet receiving benefits	188
Active Plan members	<u>734</u>
	<u>999</u>

Funding Policy - PMC contributes the amount necessary to meet the minimum required employer contribution, as calculated by the actuary. Employee contributions are not permitted.

Net Pension Liability -

The measurement date is September 30, 2017.

The measurement period for the pension expense was October 1, 2016 to September 30, 2017.

The reporting period is October 1, 2017 through September 30, 2018.

The Sponsor's Net Pension Liability was measured as of September 30, 2017.

The Total Pension Liability used to calculate the Net Pension Liability was determined as of that date.

Assumptions and Other Inputs - Total Pension Liability was determined by an actuarial valuation as of October 1, 2016, updated to September 30, 2017, using the following actuarial assumptions:

Inflation	2.80%
Salary Increases	3.80% - 4.90% *Inclusive of 2.8% inflation assumption
Discount Rate	7.60%
Investment Rate of Return	7.60%

Mortality Rate Healthy Lives -

Female: RP2000 Generational, 100% Annuitant White Collar, Scale BB.

Male: RP2000 Generational, 50% annuitant White Collar / 50% Annuitant Blue Collar, Scale BB.

Mortality Rate Disabled Lives -

Female: 100% RP2000 Disabled Female set forward two years.

Male: 100% RP2000 Disabled Male setback four years.

The actuarial assumptions used in the October 1, 2015 valuation were based on the results of an actuarial experience study for the period 2007-2013.

The Long-Term Expected Rate of Return on the Plan's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of the Plan's investment expenses and inflation) are developed for each major asset class. For 2017, the inflation rate assumption of the investment advisor was 2.25%. These ranges are combined to produce the Long-Term Expected Rate of Return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Pension Plan's target asset allocation as of September 30, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Large Cap Equity	35%	10%
Mid and Small Cap	20%	10%
International Equity	5%	10%
Alternatives	10%	10%
Fixed Income	30%	4%
	<u>100%</u>	

Discount Rate - The Discount Rate used to measure the Total Pension Liability was 7.60%. The projection of cash flows used to determine the Discount Rate assumed that Plan member contributions will be made at the current contribution rate and that District contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the Long-Term Expected Rate of Return on Plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - The District's Net Pension Asset was measured as of September 30, 2018 and 2017. The Total Pension Liability used to calculate the Net Pension Asset was determined as of that date.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension (Asset) Liability
	(a)	(b)	(a)-(b)
Balances at September 30, 2017	\$ 44,339,503	\$ 59,084,922	\$ (14,745,419)
Changes for a year:			
Service cost	584,454	-	584,454
Interest	3,192,364	-	3,192,364
Differences between expected and actual experience	3,366,776	-	3,366,776
Changes of assumptions	-	-	-
Change of benefit terms	-	-	-
Contributions - employer	-	279,252	(279,252)
Contributions - Employee	-	-	-
Contributions - Buy Back	-	-	-
Current year amortization of experience difference	-	-	-
Current year amortization of change in assumptions	-	-	-
Net investment income	-	7,214,980	(7,214,980)
Benefit payments, including refunds of employee contributions	(5,838,344)	(5,838,344)	-
Net changes	<u>1,305,250</u>	<u>1,655,888</u>	<u>(350,638)</u>
Balances at September 30, 2018	<u>\$ 45,644,753</u>	<u>\$ 60,740,810</u>	<u>\$ (15,096,057)</u>

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension (Asset) Liability
	(a)	(b)	(a)-(b)
Balances at September 30, 2016	\$ 55,964,095	\$ 55,538,635	\$ 425,460
Changes for a year:			
Service cost	690,793	-	690,793
Interest	3,252,842	-	3,252,842
Differences between expected and actual experience	(562,243)	-	(562,243)
Changes of assumptions	3,656,761	-	3,656,761
Change of benefit terms	(13,325,988)	-	(13,325,988)
Contributions - employer	-	1,440,995	(1,440,995)
Current year amortization of experience difference	-	-	-
Current year amortization	-	-	-
Net investment income	-	7,442,049	(7,442,049)
Benefit payments, including refunds of employee contributions	(5,336,757)	(5,336,757)	-
Net changes	<u>(11,624,592)</u>	<u>3,546,287</u>	<u>(15,170,879)</u>
Balances at September 30, 2017	<u>\$ 44,339,503</u>	<u>\$ 59,084,922</u>	<u>\$ (14,745,419)</u>

On September 30, 2018 and 2017, the District reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

	<u>September 30, 2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Balances at September 30, 2017	\$ 8,382,602	\$ 3,071,292
Differences between expected and actual experience	3,366,776	-
Current year amortization of experience difference	(613,449)	(80,321)
Net difference between projected and actual earnings on pension plan investments	-	2,935,771
Current year amortization of change in assumptions	(614,409)	-
Contributions - employer	(279,252)	-
Current year amortization	<u>(1,238,008)</u>	<u>(1,250,882)</u>
Balances at September 30, 2018	<u>\$ 9,004,260</u>	<u>\$ 4,675,860</u>

	<u>September 30, 2017</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Balances at September 30, 2016	\$ 7,872,482	\$ 98,307
Differences between expected and actual experience	3,656,761	562,243
Changes of assumptions	(746,890)	(80,321)
Net difference between projected and actual earnings on pension plan investments	-	3,154,789
Current year amortization	(1,238,008)	(663,726)
Contributions - employer	(1,440,995)	-
Employer contributions subsequent to the measurement date	<u>279,252</u>	<u>-</u>
Balances at September 30, 2017	<u>\$ 8,382,602</u>	<u>\$ 3,071,292</u>

The outcome of Deferred Outflows of resources related to pensions resulting from the employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset in the year ending September 30, 2018. Other amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions will be recognized in Pension Expense as follows:

<u>Year Ended September 30,</u>	
2019	\$1,134,664
2020	\$1,167,434
2021	\$ (70,574)
2022	\$ 560,384
2023	\$1,055,524
Thereafter	\$ 480,968

Sensitivity of the Net Pension Asset to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.60% at September 30, 2018 and 2017, respectively, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Current Discount		
	1% Decrease	Rate	1% Increase
At September 30, 2018	6.60%	7.60%	8.60%
Sponsor's Net Pension Liability (Asset)	\$ (13,280,826)	\$ (15,096,057)	\$ (16,719,915)
At September 30, 2017	6.60%	7.60%	8.60%
Sponsor's Net Pension Liability (Asset)	\$ (8,405,527)	\$ (14,745,419)	\$ (20,028,909)

Pension Plan Fiduciary Net Position - Detailed information about the pension Plan's fiduciary net position is available in the separately issued Plan financial report.

Employee Health Plan

PMC has established a self-insured program for health benefits covering substantially all employees. During both 2018 and 2017, the plan covers healthcare services up to \$185,000 per claim and provides unlimited commercial insurance coverage for cases exceeding these amounts for each covered employee or dependent. Health insurance expense, which includes medical expense provided by outside providers, dental and life benefits, and administrative costs (net of employee contributions), was approximately \$6,287,000 and \$7,617,000 in 2018 and 2017, respectively. Medical services provided to covered employees at PMC are recorded as a contractual adjustment when service is provided. Contractual adjustments under this plan amounted to approximately \$6,022,000 and \$6,936,000 in 2018 and 2017, respectively. At September 30, 2018 and 2017, the liability for reported and estimated unreported employee health plan claims incurred was approximately \$207,000 and \$447,000, respectively, and is included as a component of accrued health insurance and workers' compensation in the accompanying balance sheets.

Workers' Compensation Plan

PMC has established a self-insured program for workers' compensation benefits covering all employees. The plan covers employees up to \$650,000 per claim for 2018 and 2017 and is limited to approximately \$3.0 million per year in the aggregate for 2018 and 2017 and provides for commercial insurance relating to cases exceeding these amounts. Workers' compensation insurance expense, which includes payments for administrative fees, wages, and outside medical services, amounted to approximately \$401,000 and \$583,000 in 2018 and 2017, respectively. Medical services provided by PMC under this plan are recorded as contractual adjustments when the service is provided. These services amounted to approximately \$295,000 and \$167,000 in 2018 and 2017, respectively. At September 30, 2018 and 2017, the liability for reported and estimated unreported workers' compensation claims incurred was approximately \$1,213,000 and \$1,270,000, respectively, and is included as a component of accrued health insurance and workers' compensation liabilities in the balance sheets. The total accrual includes estimates of the ultimate costs of both reported claims and claims incurred but not reported, as determined by an actuary in 2015 and discounted at 4%, and are actuarially determined every other year.

Other Postemployment Obligations

Effective October 1, 2017, the District adopted GASB No. 75, which requires the District to recognize the accrued OPEB on the balance sheets and to report a more comprehensive measure of OPEB expense in the statements of revenues, expenses, and changes in net assets.

General Information about the OPEB Plan

Plan Description:

The Parrish Medical Center's Retiree Health Care Plan (Plan) is a single-employer defined benefit post-employment health care plan that covers eligible retired employees of the Parrish Medical Center. The Plan, which is administered by the Parrish Medical Center, allows employees who retire and meet retirement eligibility requirements under the Parrish Medical Center's retirement plan to continue medical insurance coverage as a participant in the Parrish Medical Center's plan. For purposes of applying Paragraph 4 under Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, the Plan does not meet the requirements for an OPEB plan administered through a trust.

Employees Covered by Benefit Terms. At October 1, 2016, the following employees were covered by the benefit terms:

Inactive Plan Members, or Beneficiaries Currently Receiving Benefits	1
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	-
Active Plan Members	<u>878</u>
	<u>879</u>

Benefits Provided:

The benefits provided are the same as those provided for active employees. Spouses and dependents of eligible retirees are also eligible for medical coverage. All employees of the Parrish Medical Center are eligible to receive postemployment health care benefits. Retirees participating in the group insurance plans offered by the Parrish Medical Center are required to contribute 100% of the active premiums.

Total OPEB Liability

The measurement date is September 30, 2017.

The measurement period for the OPEB expense was October 1, 2016 to September 30, 2017. The reporting period is October 1, 2017 through September 30, 2018.

The Sponsor's Total OPEB Liability was measured as of September 30, 2017.

Note - The Sponsor's Total OPEB Liability for the Parrish Medical Center's ledger adjustment was measured as of September 30, 2016 using a discount rate of 3.06%. The Total OPEB Liability was "rolled-back" from September 30, 2017 at 3.06%, thus producing no experience gain or loss for the period from October 1, 2016 to September 30, 2017.

Actuarial Assumptions:

The Total OPEB Liability was determined by an actuarial valuation as of October 1, 2016 using the following actuarial assumptions:

Inflation	2.50%
Salary Increase Rate(s)	4.50%
Discount Rate	3.64%
Initial Trend Rate	8.50%
Ultimate Trend Rate	4.00%
Years to Ultimate	55

Mortality rates were based on the RP-2000 mortality tables. For female lives, 100% of the white collar table was used. For male lives, a 50% white collar table and 50% blue collar table blend was used. All tables include fully generational adjustments for mortality improvements using improvement scale BB. For disabled lives, mortality rates were based on the RP-2000 sex-distinct disabled mortality tables with female lives set forward two (2) years, male lives set back four (4) years. Disabled mortality has not been adjusted for mortality improvements.

Discount Rate:

Given the Parrish Medical Center's decision not to fund the program, all future benefit payments were discounted using a high quality municipal bond rate of 3.64%. The high quality municipal bond rate was based on the week closest but not later than the measurement date of the Bond Buyer.

20-Bond Index, as published by the Federal Reserve. The 20-Bond Index consists of 20 general obligation bonds that mature in 20 years. The average rating of the 20 bonds is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

	<u>Increases and (Decreases) in Total OPEB Liability</u>
Reporting Period Ending September 30, 2017	\$ 1,052,906
Changes for the Year:	
Service Cost	49,147
Interest	33,542
Differences between Expected and Actual Experience	-
Changes of assumptions	(64,714)
Changes of benefit terms	-
Contributions - Employer	-
Benefit Payments	(11,944)
Other Changes	-
Net Changes	<u>6,031</u>
Reporting Period Ending September 30, 2018	\$ 1,058,937

Changes in assumptions reflect a change in the discount rate from 3.06% for the reporting period ended September 30, 2017, to 3.64% for the reporting period ended September 30, 2018.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate:

The following presents the Total OPEB Liability of the Sponsor, as well as what the Sponsor's Total OPEB Liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage-point higher than the current discount rate:

	<u>Current Discount</u>		
	1% Decrease	Rate	1% Increase
<u>At September 30, 2018</u>	2.64%	3.64%	4.64%
Total OPEB Liability (asset)	\$ 1,173,403	\$ 1,058,937	\$ 957,549

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates:

The following presents the Total OPEB Liability of the Sponsor, as well as what the Sponsor's Total OPEB Liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

	Healthcare Costs		
	1% Decrease	Trend Rate	1% Increase
At September 30, 2018	3.00% - 7.50%	4.00% - 8.50%	5.00% - 9.50%
Total OPEB Liability (asset)	\$ 929,020	\$ 1,058,937	\$ 1,213,543

OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended September 30, 2018, the Sponsor will recognize OPEB Expense of approximately \$75,000. On September 30, 2018, the Sponsor reported Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	53,928
Employer contributions subsequent to the measurement date	12,989	-
Total	\$ 12,989	\$ 53,928

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,

2019	\$ (10,786)
2020	\$ (10,786)
2021	\$ (10,786)
2022	\$ (10,786)
2023	\$ (10,784)
Thereafter	\$ -

Components of OPEB Expense
(For the Year Ended September 30, 2018)

	Total OPEB Liability	Deferred Inflows	Deferred Outflows	OPEB Expense
Balances at September 30, 2017	\$ 1,052,906	\$ -	\$ 15,144	\$ -
Employer Contributions made after September 30, 2017	-	-	12,989	-
Total OPEB Liability Factors:				
Service cost	49,147	-	-	49,147
Interest	33,542	-	-	33,542
Change in benefit terms	-	-	-	-
Differences between expected and actual experience with regard to economic or demographic assumptions	-	-	-	-
Current year amortization of experience difference	-	-	-	-
Change in assumptions about future economic or demographic factors or other inputs	(64,714)	64,714	-	-
Current year amortization of change in assumptions	-	(10,786)	-	(10,786)
Benefit Payments	(11,944)	-	-	-
Net Change	<u>\$ 6,031</u>	<u>\$ 53,928</u>	<u>\$ 12,989</u>	<u>\$ 71,903</u>
Pay-As-You Go related Costs:				
Contributions - Employer	\$ 15,144	\$ -	\$ (15,144)	\$ -
Benefit Payments	(11,944)	-	-	-
Administrative Expenses	(3,200)	-	-	3,200
Other	-	-	-	-
Net Change	<u>-</u>	<u>-</u>	<u>(15,144)</u>	<u>3,200</u>
Balances at September 30, 2018	<u>\$ 1,058,937</u>	<u>\$ 53,928</u>	<u>\$ 12,989</u>	<u>\$ 75,103</u>

The Plan is not funded through a trust, however, certain "Pay-As-You-Go" related costs must still be considered when developing the OPEB expense.

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

Calculations are based upon the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of sharing of costs between the employer and plan members to that point. Calculations reflect a long-term prospective, so methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the October 1, 2016 actuarial valuation, with a measurement date of September 30, 2017 for Fiscal Year End September 30, 2018 (the most recent calculation available), the Entry Age Normal Actuarial Cost Method was used. The actuarial assumptions included a 3.64% discount rate and an annual healthcare cost trend rate of 4.00% - 8.50%, which is expected to decrease 0.25% each year until the ultimate trend rate of 4.0% in fiscal 2073. The funded ratio was 0.0%, as the plan is unfunded and, thus, the unfunded actuarial accrued liability of approximately \$1,058,937 is equal to the actuarial accrued liability. Covered payroll under the plan was approximately \$41,070,000, resulting in a ratio of 2.58% as compared to the unfunded actuarial liability.

The following is a summary of the activity in the accrued health insurance, workers' compensation, and OPEB accounts for the years ended September 30, 2018 and 2017:

	Beginning		Additions		Reductions		Ending
	Balance						Balance
2018	\$ 2,770,280	\$	3,776,896	\$	4,068,545	\$	2,478,631
2017	\$ 2,631,335	\$	5,555,852	\$	5,416,907	\$	2,770,280

7. DONOR-RESTRICTED NET POSITION

Donor-restricted net position is available for the following programs at September 30, 2018 and 2017:

	2018	2017
Foundation	\$ 77,745	\$ 4,954
Cancer Programs	60,221	83,140
Diabetes	47,740	47,124
Education/Training	41,389	33,789
Chain of Lakes - Health Village	30,157	30,157
Women's Services - Lactate/Birthing	24,812	30,180
Stereotactic Breast Biopsy	17,931	17,931
Wellness	8,000	8,000
ASPR	5,815	5,815
Circle of Giving	4,092	4,092
All Other	15,237	14,789
	<u>\$ 333,139</u>	<u>\$ 279,971</u>

8. CHARITY AND OTHER UNREIMBURSED CARE

The District's mission is to provide high-quality, affordable healthcare to the community. In pursuing its commitment to serve all members of the community, the District provides services to the financially disadvantaged, despite the lack or adequacy of payment for those services. The District maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. The District also provides a charity care revenue deduction for those with billed charges equal to or greater than 125% of their annual salary. Charges forgone, based upon established rates, due to the provision of charity care to patients, amounted to approximately \$16,522,000 and \$11,661,000 in 2018 and 2017, respectively. Associated costs to provide charity care to patients amounted to approximately \$3,220,000 and \$2,620,000 in 2018 and 2017, respectively. Charity care is also provided through reduced price services and fee programs offered throughout the year based upon activities and services, which the District believes will serve a community health need. These activities include the Brevard Health Alliance, wellness programs, community education programs, and health fairs.

9. RELATED-PARTY TRANSACTIONS AND RELATIONSHIPS

North Brevard Medical Support, Inc. - Other than earnings on investments, NBMS has no other material sources of revenue with which to continue its operations or meet its obligations as they become due. However, NBMS receives funding from PMC in the form of grants. NBMS can obtain grants from PMC in any fiscal year equal to the lesser of the net patient service revenue of PMC for its preceding fiscal year, or 2.5% of PMC's gross revenue for its preceding fiscal year. PMC funded a grant of approximately \$3,169,000 in 2018 for NBMS to meet its fiscal year 2018 obligations and a grant of \$3,299,000 in 2017 for NBMS to meet its fiscal year 2017 obligations, which is recorded in other net nonoperating expenses in the statements of revenues, expenses, and changes in net position. The grant is eliminated in consolidation. The operating activities of NBMS are included in other net nonoperating expenses in the statements of revenues, expenses, and changes in net position for the years ended September 30, 2018 and 2017.

Florida Health Network, Inc. - In March 2007, Parrish Health Network (the "Network") was formed. The primary purpose of the Network is to create a community network with clinical integration, which combines the resources, strengths, knowledge, and expertise of our local healthcare providers in order to offer the community exceptional, comprehensive care. The Network is a wholly owned subsidiary of NBMS.

The operating activities of the Network are included in other net nonoperating expenses in the statements of revenues, expenses, and changes in net position for the years ended September 30, 2018 and 2017.

Jess Parrish Medical Foundation, Inc. - The Jess Parrish Medical Foundation, Inc. (the "Foundation") is a separate Florida 501(c)(3) corporation, which raises money to support the District's programs and for the general advancement of healthcare organizations and objectives. The District has determined that the Foundation's financial statements are immaterial for inclusion in the District's financial statements. As such, the District has elected to exclude the Foundation's activities from the District's financial statements.

Home Health Program - Effective September 2016, NBMS has a 25% joint venture interest in the Parrish Home Health Program. The operating activities of the Program after this date are included in other net nonoperating expenses in the statements of revenues, expenses, and changes in net position for the years ended September 30, 2018 and 2017.

Dialysis Program - In December 2016, the District sold its Dialysis program to a third party and recognized a gain of approximately \$2.5 million. The operations of the Dialysis program prior to the sale are included in net patient service revenue and the gain on sale of the Dialysis program is in other operating revenue in the statements of revenues, expenses, and changes in net position for the years ended September 30, 2017.

Effective December 2016, NBMS has a 40% joint venture interest in the Dialysis program. The operating activities of the Dialysis program after this date are included in other net nonoperating expenses in the statements of revenues, expenses, and changes in net position for the year ended September 30, 2018 and 2017.

Florida Medical Insurance Corporation - In August 2016, Florida Medical Insurance Corporation (the "Captive") was issued a license permitting it to transact business as a domestic captive insurer by the State of Florida Office of Insurance Regulation. The Captive is a wholly owned subsidiary of NBMS. PMC paid insurance premiums to the Captive of approximately \$1,379,000 and \$1,723,000 in 2018 and 2017, respectively, which was recorded in operating expenses in the statements of revenues, expenses, and changes in net position. The premium expense is eliminated in consolidation.

10. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the District to credit risk consist principally of patient accounts receivable. Patient accounts receivable consist of amounts due from Medicare, Medicaid, insurance companies, and self-pay patients.

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 receivables from patients and third-party payors at September 30, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	33.0 %	33.8 %
Medicaid	7.7 %	6.6 %
Commercial and other	49.8 %	50.6 %
Self-pay	<u>9.5 %</u>	<u>9.0 %</u>
	<u>100.0 %</u>	<u>100.0 %</u>

All balances, net of related contractual discounts and collectability allowances, are expected to be collected within the subsequent fiscal year.

11. COMMITMENTS AND CONTINGENCIES

Operating Leases - The District leases certain office space and equipment under noncancelable operating leases, expiring in various years through 2029. Payments under these obligations, which are not subject to cancellation, are based on fixed monthly amounts.

Additionally, the District has entered into a lease arrangement, as amended, with a vendor for certain heating, cooling, and other energy related equipment. Commencing March 1, 2019, the net quarterly rental payments by the District will be based on a calculation of actual energy savings, as defined in the underlying agreement, through the end of the lease term of February 2032. The District has the option of purchasing the equipment from the vendor at the fair value of the equipment at the end of the lease. Estimated rental payments have been included in the table below.

The following is a summary, by year, of the approximate future minimum lease payments for the operating leases:

2019	\$ 3,368,000
2020	3,433,000
2021	3,354,000
2022	3,197,000
2023	2,580,000
Thereafter	<u>13,463,000</u>
	<u>\$ 29,395,000</u>

Total rental expense was approximately \$4,077,000 and \$3,487,000 in 2018 and 2017, respectively.

Accrued Medical Malpractice - Prior to July 1987, PMC maintained malpractice coverage through the Florida Hospital Trust Fund and the Florida Hospital Excess Trust Fund B for the purpose of paying malpractice claims against PMC. On July 21, 1987, PMC elected to rely on sovereign immunity with respect to liability claims against PMC, subject to the limited waiver provisions of Section 768.28, Florida Statutes (\$200,000 per claim, \$300,000 per incident) for 2018 and 2017. PMC terminated its participation in the Florida Hospital Trust Fund and Florida Hospital Excess Trust Fund B, purchased insurance coverage for non-reported acts prior to July 22, 1987, and engaged an actuary for the purpose of projecting future malpractice liability on a self-insured basis. Based upon the actuary's analysis and the possibility of a special act of the Florida Legislature, as provided in Section 768.29(5), Florida Statutes, PMC has recorded a total accrued liability for reported and unreported claims of approximately \$2,501,000 and \$1,458,000 (net of claims paid) for the period July 22, 1987 through September 30, 2018 and 2017, respectively. The total accrual includes estimates of the ultimate costs of both reported claims and claims incurred but not reported and are discounted at 4%.

The following is a summary of the activity in the accrued medical malpractice liability accounts for the years ended September 30, 2018 and 2017:

	Beginning Balance	Additions	Reductions	Ending Balance
2018	\$ 1,457,847	\$ 1,088,845	\$ 45,251	\$ 2,501,441
2017	\$ 1,200,306	\$ 345,008	\$ 87,467	\$ 1,457,847

At September 30, 2018 and 2017, the estimated current portion of the total accrued liability was approximately \$532,000 and \$282,000, respectively. The statements of revenues, expenses, and changes in net position reflects no change for 2018 and reflects no change for 2017.

Excess Insurance - Effective June 13, 2014, PMC purchased a claims-made umbrella policy with a \$5 million limit covering PMC and employed physicians. The umbrella policy is excess over the sovereign immunity limits of \$200,000/\$300,000. If sovereign immunity does not apply, the policy is excess over a professional liability limit of \$1.0 million/\$3.0 million, which is the self-insured retention. Effective May 30, 2014, PMC purchased a claims-made professional liability excess policy for contract physicians working in the Florida Health Network. These physicians carry their own underlying insurance policy for the first \$250,000 per claim and \$750,000 per physician. The excess policy covers an additional \$750,000 per claim and \$2.25 million per physician, bringing the total coverage to \$1 million/\$3 million limits. Both policies were purchased as a result of membership in the Mayo Clinic Care Network.

Effective October 1, 2016, the Captive provides, on a claims-made basis, hospitals and physicians professional liability for both employed and Parrish Health Network (PHN) non-employed physicians to the District. The hospital and employed physicians professional liability coverage has a limit of \$6,000,000 per claim and in the aggregate. The Captive has purchased a reinsurance layer on this coverage with limits of \$5,250,000 excess \$750,000 per occurrence and in the aggregate. PHN non-employed physicians professional liability coverage has a limit of \$750,000 excess \$250,000 per claim with a \$3,000,000 annual aggregate. The Captive has purchased a reinsurance layer on this coverage with limits of \$250,000 excess \$750,000 per occurrence and in the aggregate. At September 30, 2018 and 2017, the District recognized approximately \$735,000 and \$344,000, respectively, of estimated recoveries from reinsurance within prepaid and other current assets.

Effective October 1, 2016, the Captive provides, on an occurrence basis, commercial general liability and property deductible reimbursement coverages to the District. The commercial general liability coverage has a limit of up to \$6,000,000 per claim and in the aggregate. The property deductible reimbursement coverage has a limit of \$250,000 per claim with no annual aggregate.

Insurance Capital and Surplus – The NAIC has established risk-based capital (“RBC”) requirements to help State regulators monitor the financial strength and stability of property and casualty insurers by identifying those companies that may be inadequately capitalized. The calculated RBC level based on the annual statements as filed by the Captive was in excess of the threshold requirements as of September 30, 2018.

The Captive is required to maintain a minimum capital and surplus of \$250,000 pursuant to insurance regulations. As of September 30, 2018, the Captive is above the minimum capital and surplus.

The payment of dividends is subject to regulatory restrictions and requires approval from the Florida Office of Insurance Regulation. There were no dividends declared or paid during the years ended September 30, 2018 and 2017.

Accrued Employee Personal Leave Bank - PMC provides a benefit program entitled “Personal Leave Bank.” This program allows all eligible employees to earn personal leave in lieu of traditional sick days, vacation days, or holidays. Accrual of personal leave time is based upon length of service with PMC. The personal leave bank is charged for hours taken off from work. All employees may request payment for up to 120 hours total per year of earned personal leave at two specified times during the fiscal year. The first 80 hours are paid at 100%, the next 40 hours are paid at 80% of the employee’s current pay rate. The accrued liability under this program amounted to approximately \$3,316,000 and \$2,935,000 at September 30, 2018 and 2017, respectively.

Litigation - The District is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a material, adverse effect on the future financial position, results of operations, or cash flows of the District.

* * * * *

**REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - UNAUDITED SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIOS FOR THE YEARS ENDED SEPTEMBER 30,

	2018	2017	2016	2015	2014
Total pension liability					
Service cost	\$ 584,454	\$ 690,793	\$ 1,836,604	\$ 1,998,932	\$ 1,850,863
Interest	3,192,364	3,252,842	4,207,238	3,998,329	3,796,320
Differences between expected and actual experience	3,366,776	(562,243)	1,059,852	-	-
Changes of assumptions	-	3,656,761	-	736,112	-
Changes of benefit terms	-	(13,325,988)	-	-	-
Contributions - buy back	-	-	-	1,474	-
Benefit payments, including refunds of employee contributions	(5,838,344)	(5,336,757)	(3,786,952)	(4,135,338)	(2,404,947)
Net change in total pension liability	1,305,250	(11,624,592)	3,316,742	2,599,509	3,242,236
Total pension liability - beginning	44,339,503	55,964,095	52,647,353	50,047,844	46,805,608
Total pension liability - ending (a)	<u>\$ 45,644,753</u>	<u>\$ 44,339,503</u>	<u>\$ 55,964,095</u>	<u>\$ 52,647,353</u>	<u>\$ 50,047,844</u>
Plan fiduciary net position					
Contributions - employer	\$ 279,252	\$ 1,440,995	\$ 1,691,990	\$ 3,126,488	\$ 3,166,212
Contributions - employee	-	-	-	-	-
Contributions - buy back	-	-	-	1,474	-
Net investment income	7,214,980	7,442,049	(1,539,953)	4,572,243	6,113,059
Benefit payments, including refunds of employee contributions	(5,838,344)	(5,336,757)	(3,786,952)	(4,135,338)	(2,404,947)
Administrative expense	-	-	-	-	(497)
Other changes	-	-	-	-	-
Net change in plan fiduciary net position	1,655,888	3,546,287	(3,634,915)	3,564,867	6,873,827
Plan fiduciary net position - beginning	59,084,922	55,538,635	59,173,550	55,608,683	48,734,856
Plan fiduciary net position - ending (b)	<u>\$ 60,740,810</u>	<u>\$ 59,084,922</u>	<u>\$ 55,538,635</u>	<u>\$ 59,173,550</u>	<u>\$ 55,608,683</u>
Net pension liability (asset) - ending (a) - (b)	<u>\$ (15,096,057)</u>	<u>\$ (14,745,419)</u>	<u>\$ 425,460</u>	<u>\$ (6,526,197)</u>	<u>\$ (5,560,839)</u>
Plan fiduciary net position as a percentage of the total pension liability	133.07%	133.26%	99.24%	112.40%	111.11%
Covered employee payroll	N/A	\$ 36,342,540	\$ 38,581,076	\$ 32,463,253	\$ 36,159,641
Net pension asset as a percentage of covered employee payroll	N/A	-40.57%	1.10%	-20.10%	-15.38%

Note: The District implemented GASB Statement No. 68 for the fiscal year ended September 30, 2016, including a restatement as of September 30, 2014. Information for prior years is not available.

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - UNAUDITED SCHEDULE OF PENSION CONTRIBUTIONS

<u>Fiscal Year Ended</u>	<u>Actuarially Determined Contribution</u>	<u>Contributions in relation to the Actuarially Determined Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Employee Payroll</u>	<u>Contribution as a percentage of Covered Employee Payroll</u>
9/30/2018	\$ -	\$ 287,857	\$ (287,857)	N/A	N/A
9/30/2017	\$ -	\$ 279,252	\$ (279,252)	N/A	N/A
9/30/2016	\$ 1,440,995	\$ 1,440,995	\$ -	\$ 36,342,540	3.97%
9/30/2015	\$ 1,691,990	\$ 1,691,990	\$ -	\$ 38,851,076	4.36%
9/30/2014	\$ 3,126,488	\$ 3,126,488	\$ -	\$ 32,463,253	9.63%
9/30/2013	\$ 3,166,212	\$ 3,166,212	\$ -	\$ 36,159,641	8.76%

Note: The District implemented GASB Statement No. 68 for the fiscal year ended September 30, 2016, including a restatement as of September 30, 2014. Information for prior years is not available.

NORTH BREVARD COUNTY HOSPITAL DISTRICT

**SUPPLEMENTARY INFORMATION - UNAUDITED SCHEDULE OF INVESTMENT RETURNS
FOR THE YEARS ENDED SEPTEMBER 30,**

	2018	2017	2016	2015	2014
Annual Money - Weighted Rate of Return Net of Investment Expenses	10.51%	12.69%	13.57%	-2.65%	8.35%

Note: The District implemented GASB Statement No. 68 for the fiscal year ended September 30, 2016, including a restatement as of September 30, 2014. Information for prior years is not available.

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - UNAUDITED SCHEDULE OF CHANGES IN THE SPONSOR'S TOTAL OPEB LIABILITY AND RELATED RATIOS

Reporting Period Ending	9/30/2018
Measurement Date	<u>9/30/2017</u>
Total OPEB Liability	
Service Cost	\$ 49,147
Interest	33,542
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions	(64,714)
Benefit Payments	(11,944)
Net Change in Total OPEB Liability	<u>6,031</u>
Total OPEB Liability - Beginning	<u>1,052,906</u>
Total OPEB Liability - Ending	<u>\$ 1,058,937</u>
Covered Employee Payroll (Projected)*	\$ 41,070,015
Total OPEB liability as a percentage of covered employee payroll	2.6%

*Covered Employee Payroll was projected one year forward from the valuation date for the reporting period ending September 30, 2018.

Note: The District implemented GASB Statement No. 75 for the fiscal year ended September 30, 2018, including a restatement as of September 30, 2017. Information for prior years is not available.

Notes to Schedule:

Changes of assumptions. Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

FY 2018	3.64%
FY 2017	3.06%

NORTH BREVARD COUNTY HOSPITAL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) YEARS ENDED SEPTEMBER 30, 2018 AND 2017

Pension Assumptions

Valuation Date: 10/01/2016

Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Cost Method: Aggregate Actuarial Cost Method.

Interest Rate: 7.6% per year compounded annually, gross of investment-related expenses. This assumption is consistent with the Plan's investment policy and long-term expected return by asset class.

Inflation: 2.8% per year

Lump Sum Assumptions: The minimum guaranteed lump sum (the frozen vested accrued benefit as of January 9, 2006) is based on the Plan-specific 1971 Group Annuity Mortality Table for Males and an assumed PBGC discount rate as of each October 1 of the valuation year (decreased from 1.25% to 0.50% per annum for the October 1, 2016 valuation) compounded annually. The base lump sum is based on the long term discount rate of 7.6% per annum compounded annually and the mortality table prescribed by the Secretary of the Treasury (the "Secretary") in accordance with Section 417(e)(3)(A)(ii)(I) of the Internal Revenue Code, as applicable for the year in which the valuation is performed. All benefits to participants are assumed to be paid as lump sums, except for those who already terminated or retired as of the valuation date and who did not yet receive lump sum payouts.

Mortality Rates: Healthy Lives:
Female: RP2000 Generational, 100% Annuitant White Collar, Scale BB.
Male: RP2000 Generational, 50% Annuitant White Collar / 50% Annuitant Blue Collar, Scale BB.
Disabled Lives:
Female: 100% RP2000 Disabled Female set forward two years
Male: 100% RP2000 Disabled Male setback four years.

Post Retirement COLA: Not applicable.

Payroll Growth Assumption: None necessary for amortization purposes under the Aggregate Actuarial Cost Method.

Administrative Expenses: None assumed.

Funding Method: Aggregate Actuarial Cost Method.

Actuarial Asset Method: All assets are valued at market value with an adjustment made to uniformly spread actuarial investment gains and losses (as measured by actual market value investment return against expected market value investment return) over a five-year period.

Normal Retirement: The below rates were adopted by the Board as the result of an Experience Study performed for the period October 1, 1993 through October 1, 2013.

Number of Years after first Eligible	Retirement Probability
0-3	15%
4 or more	100%

Early Retirement: Commencing at eligibility for Early Retirement (Age 55 with 20 years of Credited Service), Members are assumed to retire with an immediate benefit at the rate of 6% per year. This assumption was adopted by the Board as the result of an Experience Study performed for the period October 1, 1993 through October 1, 2013.

Disability Rates:

Age	Disability Rates
20	0.07%
25	0.09%
30	0.11%
35	0.14%
40	0.19%
45	0.30%
50	0.51%
55	0.96%
60	1.66%
65	---

The above rates are consistent with those utilized by other Florida non-special risk retirement programs.

Termination Rate:

Age	Termination Rates
Less than 20	75.0%
20-24	19.0%
25-39	12.0%
40-64	6.0%
65 and Older	0.0%

The above rates were adopted by the Board as the result of an Experience Study performed for the period October 1, 1993 through October 1, 2013.

Salary Increases: Not Applicable. Benefits are frozen as of October 2016

Lump Sum Elections: Members are assumed to take a lump sum when eligible.

NORTH BREVARD COUNTY HOSPITAL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) YEARS ENDED SEPTEMBER 30, 2018 AND 2017

OPEB Actuarial Assumptions and Funding Methods

Actuarial Assumptions

Valuation Date	October 1, 2016
Measurement Date	September 30, 2017
Fiscal Year End	September 30, 2018
Actuarial Value of Assets	Market Value
Mortality Rate	Healthy Lives: Female: RP2000 Generational, 100% Annuitant White Collar, Scale BB Male: RP2000 /Generational, 50% Annuitant White Collar/ 50% Annuitant Blue Collar, Scale BB Disabled Lives: Female: 100% RP2000 Disabled Female set forward two years. Males: 100% RP2000 Disabled Male setback four years

Retirement Rates

Normal Retirement:	
Number of Years after first Eligible	Retirement Probability
0 – 3	15%
4 or more	100%
Early Retirement:	

Commencing at eligibility for Early Retirement (Age 55 with 20 years of Credited Service), Members are assumed to retire with an immediate benefit at the rate of 6% per year.

Inflation	2.50% per year.
Salary Increase Rate	4.50% per year.
Marital Status	50% assumed married, with male spouses 3 years older than female spouses.
Health Care Participation	20% participation assumed pre-65, 0% participation assumed post-65, with 50% electing spouse coverage

Health Care Inflation

Initial rate of 8.75% in fiscal 2017, then 8.50% in fiscal 2018, grading down to the ultimate trend rate of 4.00% in fiscal 2073.

Fiscal Year	Rate
2017	8.75%
2018	8.50%
2019	8.00%
2020	7.75%
2021	7.25%
2022	7.00%
2023	6.75%
2024	6.25%
2025	6.00%
2026	5.75%
2027-2038	5.50%
2039-2041	5.25%
2042-2049	5.00%
2050-2065	4.75%
2066-2068	4.50%
2069-2072	4.25%
2073+	4.00%

Termination Rate

Age	Termination Rates
Less than 20	75.0%
20-24	19.0
25-39	12.0
40-64	6.0
65 and Older	0.0

The above rates were adopted by the Board as the result of an Experience Study performed for the period October 1, 1993 through October 1, 2013.

Disability Rates

Age	Disability Rates
20	0.07%
25	0.09
30	0.11
35	0.14
40	0.19
45	0.30
50	0.51
55	0.96
60	1.66
65	---

The above rates are consistent with those utilized by other Florida non-special risk retirement programs.

Medical Aging Factors

4% per year prior to age 65;
3% per year between ages 65 and 75;
2% per year between ages 75 and 85;
0% per year thereafter.

Health Claims

Developed using age-adjusted active insured premium rates.

Funding Method

Entry Age Cost Method (Level Percentage of Pay)

**OTHER SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING BALANCE SHEET SEPTEMBER 30, 2018

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 4,605,930	\$ 2,353,970	\$ -	\$ 6,959,900
Restricted assets - held by trustee and required for current liabilities	1,028,552	-	-	1,028,552
Patient accounts receivable - net	17,528,977	-	(770)	17,528,207
Supplies	2,433,782	-	-	2,433,782
Prepaid expenses and other assets	6,155,873	1,447,427	(1,685,993)	5,917,307
Total current assets	31,753,114	3,801,397	(1,686,763)	33,867,748
RESTRICTED ASSETS:				
Temporarily donor-restricted net position	333,139	-	-	333,139
Funded depreciation	60,891,701	-	-	60,891,701
Total restricted assets, less current portion	61,224,840	-	-	61,224,840
OTHER ASSETS:				
Net pension asset	15,096,057	-	-	15,096,057
Deposits and other assets	5,383,903	4,534,293	(5,358,765)	4,559,431
Investments	15,824,412	2,043,731	-	17,868,143
Total other assets	36,304,372	6,578,024	(5,358,765)	37,523,631
CAPITAL ASSETS:				
Land	9,201,346	150,000	-	9,351,346
Improvements to land	5,785,878	-	-	5,785,878
Buildings and improvements	136,736,460	3,371,654	-	140,108,114
Equipment	74,060,079	1,089,716	-	75,149,795
Construction in progress	935,235	-	-	935,235
	226,718,998	4,611,370	-	231,330,368
Less accumulated depreciation	(157,847,991)	(3,034,387)	-	(160,882,378)
Net capital assets	68,871,007	1,576,983	-	70,447,990
DEFERRED OUT FLOWS:				
Pension	9,004,260	-	-	9,004,260
Series 2008 Bond refunding	11,356,331	-	-	11,356,331
Other post employment benefits	12,989	-	-	12,989
Total deferred outflows	20,373,580	-	-	20,373,580
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 218,526,913	\$ 11,956,404	\$ (7,045,528)	\$ 223,437,789

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING BALANCE SHEET SEPTEMBER 30, 2018

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
LIABILITIES, DEFEERED INFLOWS, AND NET POSITION				
CURRENT LIABILITIES:				
Accounts payable	\$ 15,545,031	\$ 1,763,816	\$ (1,686,763)	\$ 15,622,084
Accrued health insurance and workers' compensation	1,419,694	-	-	1,419,694
Accrued employee personal leave bank	3,315,870	-	-	3,315,870
Accrued salaries	1,422,118	-	-	1,422,118
Accrued medical malpractice	44,873	486,651	-	531,524
Other current liabilities	2,760,209	-	-	2,760,209
Estimated third-party settlements	430,353	-	-	430,353
Current portion of long-term debt & capital lease obligations	2,524,705	39,596	-	2,564,301
Total current liabilities	27,462,853	2,290,063	(1,686,763)	28,066,153
OTHER LIABILITIES:				
Accrued medical malpractice	460,294	1,509,623	-	1,969,917
Accrued other post employment benefits	1,058,937	-	-	1,058,937
Other liabilities	-	5,358,765	(5,358,765)	-
Total other liabilities	1,519,231	6,868,388	(5,358,765)	3,028,854
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS:				
Net of current portion	89,868,000	158,829	-	90,026,829
Total liabilities	118,850,084	9,317,280	(7,045,528)	121,121,836
DEFERRED INFLOWS:				
Pension	4,675,860	-	-	4,675,860
Other post employment benefits	53,928	-	-	53,928
Total deferred inflows	4,729,788	-	-	4,729,788
NET POSITION:				
Net invested in capital assets	1,705,587	1,576,983	-	3,282,570
Restricted by donors	333,139	-	-	333,139
Restricted for debt service	1,028,552	-	-	1,028,552
Unrestricted	91,879,763	1,062,141	-	92,941,904
Total net position	94,947,041	2,639,124	-	97,586,165
TOTAL LIABILITIES, DEFEERED INFLOWS, AND NET POSITION	\$ 218,526,913	\$ 11,956,404	\$ (7,045,528)	\$ 223,437,789

See Independent Auditor's Report.

(Concluded)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING BALANCE SHEET SEPTEMBER 30, 2017 - AS RESTATED

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 2,513,369	\$ 3,523,031	\$ -	\$ 6,036,400
Restricted assets - held by trustee and required for current liabilities	2,209,415	-	-	2,209,415
Patient accounts receivable - net	16,406,442	-	(15,343)	16,391,099
Supplies	2,318,009	-	-	2,318,009
Prepaid expenses and other assets	6,031,425	755,994	(1,122,371)	5,665,048
Total current assets	29,478,660	4,279,025	(1,137,714)	32,619,971
RESTRICTED ASSETS:				
Temporarily donor-restricted net position	279,971	-	-	279,971
Funded depreciation	65,281,628	-	-	65,281,628
Held by trustee	3,012,511	-	-	3,012,511
Total restricted assets, less current portion	68,574,110	-	-	68,574,110
OTHER ASSETS:				
Net pension asset	14,745,419	-	-	14,745,419
Deposits and other assets	5,113,934	4,334,614	(5,100,100)	4,348,448
Investments	16,037,195	-	-	16,037,195
Total other assets	35,896,548	4,334,614	(5,100,100)	35,131,062
CAPITAL ASSETS:				
Land	9,201,346	150,000	-	9,351,346
Improvements to land	5,785,878	-	-	5,785,878
Buildings and improvements	130,682,380	3,170,751	-	133,853,131
Equipment	86,983,882	1,070,079	-	88,053,961
Construction in progress	7,475,636	-	-	7,475,636
	240,129,122	4,390,830	-	244,519,952
Less accumulated depreciation	(162,685,960)	(2,764,655)	-	(165,450,615)
Net capital assets	77,443,162	1,626,175	-	79,069,337
DEFERRED OUTFLOWS:				
Pension	8,382,602	-	-	8,382,602
Series 2008 Bond refunding	10,366,260	-	-	10,366,260
Other post employment benefits	15,144	-	-	15,144
Total deferred outflows	18,764,006	-	-	18,764,006
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 230,156,486	\$ 10,239,814	\$ (6,237,814)	\$ 234,158,486

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING BALANCE SHEET SEPTEMBER 30, 2017 - AS RESTATED

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
LIABILITIES, DEFEERED INFLOWS, AND NET POSITION				
CURRENT LIABILITIES:				
Accounts payable	\$ 18,355,620	\$ 1,296,722	\$ (1,137,714)	\$ 18,514,628
Accrued health insurance and workers' compensation	1,717,374	-	-	1,717,374
Accrued employee personal leave bank	2,934,693	-	-	2,934,693
Accrued salaries	2,093,274	-	-	2,093,274
Accrued medical malpractice	172,775	109,106	-	281,881
Other current liabilities	2,777,141	-	-	2,777,141
Estimated third-party settlements	1,054,116	-	-	1,054,116
Current portion of long-term debt & capital lease obligations	2,483,911	37,295	-	2,521,206
Total current liabilities	31,588,904	1,443,123	(1,137,714)	31,894,313
OTHER LIABILITIES:				
Accrued medical malpractice	563,422	612,544	-	1,175,966
Accrued other post employment benefits	1,052,906	-	-	1,052,906
Other liabilities	-	5,100,100	(5,100,100)	-
Total other liabilities	1,616,328	5,712,644	(5,100,100)	2,228,872
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS:				
Net of current portion	93,596,438	198,425	-	93,794,863
Total liabilities	126,801,670	7,354,192	(6,237,814)	127,918,048
DEFERRED INFLOWS:				
Pension	3,071,292	-	-	3,071,292
Total deferred inflows	3,071,292	-	-	3,071,292
NET POSITION:				
Net invested in capital assets	3,508,442	1,600,168	-	5,108,610
Restricted by donors	279,971	-	-	279,971
Restricted for debt service	5,221,926	-	-	5,221,926
Unrestricted	91,273,185	1,285,454	-	92,558,639
Total net position	100,283,524	2,885,622	-	103,169,146
TOTAL LIABILITIES, DEFFERED INFLOWS, AND NET POSITION	\$ 230,156,486	\$ 10,239,814	\$ (6,237,814)	\$ 234,158,486

See Independent Auditor's Report.

(Concluded)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEAR ENDED SEPTEMBER 30, 2018

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
OPERATING REVENUE:				
Net patient service revenue	\$ 132,146,235	\$ -	\$ -	\$ 132,146,235
Other operating revenue	367,904	-	-	367,904
Total operating revenue	132,514,139	-	-	132,514,139
OPERATING EXPENSES:				
Salaries and wages	45,027,210	-	-	45,027,210
Employee benefits	12,612,402	-	-	12,612,402
Medications and supplies	24,754,890	-	(25,259)	24,729,631
Professional fees and contractual services	22,223,054	-	-	22,223,054
Other operating expenses	13,323,336	-	(1,379,000)	11,944,336
Depreciation	7,647,159	-	-	7,647,159
Interest expense	2,965,497	-	-	2,965,497
Total operating expenses	128,553,548	-	(1,404,259)	127,149,289
OPERATING INCOME	3,960,591	-	1,404,259	5,364,850
NONOPERATING REVENUES (EXPENSES):				
Investment income, net	5,154,197	1,478	-	5,155,675
Other nonoperating expenses, net	(11,387,644)	(3,416,578)	(1,404,259)	(16,208,481)
Internal grants	(3,168,602)	3,168,602	-	-
Total nonoperating revenues (expenses), net	(9,402,049)	(246,498)	(1,404,259)	(11,052,806)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(5,441,458)	(246,498)	-	(5,687,956)
CAPITAL CONTRIBUTIONS	104,975	-	-	104,975
CHANGE IN NET POSITION	\$ (5,336,483)	\$ (246,498)	\$ -	\$ (5,582,981)

See Independent Auditor's Report.

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEAR ENDED SEPTEMBER 30, 2017

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
OPERATING REVENUE:				
Net patient service revenue	\$ 129,227,119	\$ -	\$ -	\$ 129,227,119
Other operating revenue	3,101,571	-	-	3,101,571
Total operating revenue	132,328,690	-	-	132,328,690
OPERATING EXPENSES:				
Salaries and wages	46,575,990	-	-	46,575,990
Employee benefits	1,986,076	-	-	1,986,076
Medications and supplies	23,228,107	-	(25,596)	23,202,511
Professional fees and contractual services	27,457,389	-	-	27,457,389
Other operating expenses	14,597,170	-	(1,723,000)	12,874,170
Depreciation	10,617,015	-	-	10,617,015
Interest expense	3,593,479	-	-	3,593,479
Total operating expenses	128,055,226	-	(1,748,596)	126,306,630
OPERATING INCOME	4,273,464	-	1,748,596	6,022,060
NONOPERATING REVENUES (EXPENSES):				
Investment income, net	6,745,859	1,215	-	6,747,074
Other nonoperating expenses, net	(10,941,332)	(2,754,116)	(1,748,596)	(15,444,044)
Internal grants	(3,298,842)	3,298,842	-	-
Total nonoperating revenues (expenses), net	(7,494,315)	545,941	(1,748,596)	(8,696,970)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(3,220,851)	545,941	-	(2,674,910)
CAPITAL CONTRIBUTIONS	4,654	-	-	4,654
CHANGE IN NET POSITION	\$ (3,216,197)	\$ 545,941	\$ -	\$ (2,670,256)

See Independent Auditor's Report.

OTHER REPORT



Certified Public Accountants

**INDEPENDENT AUDITOR'S 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**

Board of Directors and Audit Committee
North Brevard County Hospital District
Titusville, 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 North Brevard 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, and have issued our report thereon dated December 21, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

Pursuant to the provisions of *Chapter 10.500, Rules of the Auditor General*, we reported certain matters to management of the District in an Independent Auditor's Management Letter dated December 21, 2018.

Purpose of this Report

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

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.

Certified Public Accountants

Tampa, Florida
December 21, 2018



Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH BOND COVENANTS**

Board of Directors and Audit Committee
North Brevard County Hospital District
Titusville, Florida

We have audited, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the balance sheet of North Brevard County Hospital District (the "District") as of September 30, 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and have issued our report thereon dated December 21, 2018.

Other Matter

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the terms, covenants, provisions, or conditions of Article Three, Section 3.7, of the Master Trust Indenture by and between TD Bank, National Association, as Master Trustee (the "Master Trustee"), and the District dated July 1, 2008, as modified by the Supplemental Indenture for Obligation No. 1 by the Master Trustee and the District dated July 1, 2008, with the Master Trustee insofar as they relate to accounting matters. However, our audit was not directed toward obtaining knowledge of noncompliance with such section. Accordingly, had we performed additional procedures, other matters may have come to our attention insofar as they relate to accounting matters.

Restricted Use Relating to the Other Matter

This report is intended solely for the information and use of the District's Board of Directors, its Audit Committee, its management, and the Master Trustee, and is not intended to be, and should not be, used by anyone other than these specified parties.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.

Certified Public Accountants

Tampa, Florida
December 21, 2018

**NORTH BREVARD COUNTY
HOSPITAL DISTRICT**

**COMMUNICATIONS WITH THE
BOARD OF DIRECTORS AND
AUDIT COMMITTEE**

YEAR ENDED SEPTEMBER 30, 2018



Certified Public Accountants

Board of Directors and Audit Committee
North Brevard County Hospital District
Titusville, Florida

To the Board of Directors and Audit Committee:

Professional standards require us to advise you of the following matters relating to our recently completed audit of North Brevard County Hospital District (the "District") as of September 30, 2018. The matters discussed herein are those that we have noted as of December 21, 2018, and we have not updated our procedures regarding these matters since that date to the current date.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

As stated in our engagement letter, our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. An audit in accordance with generally accepted auditing standards, and the standards applicable to financial statements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, does not provide absolute assurance or guarantee the accuracy of the financial statements and is subject to the inherent risk that errors or fraud, if they exist, have not been detected. Such standards also require that we obtain a sufficient understanding of the District's internal control to plan the audit. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

In addition, our expertise for this engagement is limited to accounting and auditing matters, rather than operational, clinical, or legal matters. Accordingly, our procedures focus on areas that normally are subject to internal controls relevant to financial reporting. Further, an audit conducted in accordance with auditing standards generally accepted in the United States of America does not include rendering an opinion or any form of assurance on an entity's compliance with laws and regulations.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you. We discussed our audit plan, the audit strategy, and our identified areas of focus with the District's Audit Committee on June 13, 2018.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. There were no significant changes in accounting policies from the prior year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the basic financial statements prepared by Management and are based on Management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from Management's current judgments. We believe that the District's estimates for the following represent particularly sensitive accounting estimates:

- Allowance for bad debts and charity care;
- Contractual allowances and third-party settlements;
- Fair value of debt; and
- Actuarial assumptions and self-insurance reserves, including:
 - Pension (net pension asset);
 - Professional liability (medical malpractice);
 - Group health;
 - Workers' compensation; and
 - Other post-employment expenses.

We have made tests of the estimates and deemed them to be appropriate.

The disclosures in the basic financial statements are neutral, consistent, and clear.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of Management.

Posted Adjustments – There were no posted audit entries.

Waived Adjustments – There were no proposed adjustments that were waived.

Additionally, as permitted by GASB, entities that would qualify for inclusion in the basic financial statements can be excluded if they are deemed insignificant to the reporting entity. The District's Management has elected to exclude from the financial statements the Jess Parrish Medical Foundation, Inc., a separate 501(c)(3) corporation.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter which could be significant to the District's basic financial statements or the audit report. We are pleased to report that no such disagreements arose during the course of our audit.

CONSULTATION WITH OTHERS

There may be circumstances where the District considers the need to consult with other professionals on matters that would affect financial reporting. We are not aware of any such consultations during the year.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with Management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to Management's Discussion and Analysis ("MD&A"), which is required supplementary information ("RSI") that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We are pleased to inform you that there were no difficulties encountered and that your accounting department was able to accommodate our requests for information on a timely basis.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from Management that are included in the management representation letter dated December 21, 2018. We have attached a copy of the management representation letter.

INDEPENDENCE

We are not aware of any relationships between our Firm and the District, which, in our professional judgment, may reasonably be thought to bear on our independence. Services provided to the District by Moore Stephens Lovelace, P.A. during the twelve-month period ended on the date of this letter consist of the annual audit of the financial statements.

We hereby confirm that as of the date of this letter, we are independent accountants with respect to the District, within the meaning of the independence standards developed by the American Institute of Certified Public Accountants.

We appreciate the opportunity to serve as your accountants and advisors, and we very much appreciate the complete cooperation we received from Mr. Michael Sitowitz and his professional staff. Without their assistance, we would not have been able to accomplish our work. If you have any questions or require additional information, we would be pleased to meet with you at your convenience.

Pursuant to Chapter 119, Florida Statutes, this communication letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of Management, the Board of Directors, and the Audit Committee, and is not intended to be, and should not be, used by anyone other than these specified parties.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Tampa, Florida
December 21, 2018

Attachment



PARRISH HEALTHCARE

951 North Washington Ave.
Titusville, FL 32796
P: 321-268-6111
parrishmed.com

Moore Stephens Lovelace, P.A.
Certified Public Accountants and
Management Consultants
201 E. Kennedy Blvd, Suite 650
Tampa, FL 33602

We are providing this letter in connection with your audits of the of the financial statements of North Brevard County Hospital District (the "District"), including North Brevard Medical Support, Inc. ("NBMS") (a blended component unit of the District), which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP)..

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm we are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with U.S. generally accepted governmental accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

GENERAL

We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 13, 2018, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.

We believe the financial statements referred to above are fairly presented in conformity with governmental accounting principles generally accepted in the United States of America.

We have made available to your representatives all financial records and related data.

We have provided you with:

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
- Additional information that you have requested from us for the purpose of the audit.
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

We recognize that we are responsible for adjusting the financial statements to correct material misstatements.

There were no proposed adjustments.

In addition:

- a. We do not believe the Jess Parrish Medical Foundation (the "Foundation") meets the criteria of the Governmental Accounting Standards Board's codification ("GASB"), and thus, have excluded including the Foundation resources and other activities in the District's financial statements. We believe the exclusion of this entity does not materially misstate the District's financial statements.
- b. The financial statements include all other related entities as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations that are significant. The captive, known as Florida Medical Insurance Corporation, (the "Captive") was issued a license permitting it to transact business as a domestic captive insurer by the State of Florida Office of Insurance Regulation. The Captive is a wholly-owned subsidiary of NBMS and was consolidated into the District via NBMS as of September 30, 2018 and for the year then ended September 30, 2018 and has been properly disclosed.
- c. The financial statements properly classify all funds and activities.
- d. Net position components (invested in capital assets, net of related debt; restricted; and unrestricted) and net position reserves and designations are properly classified, and, if applicable, approved.
- e. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

- f. Deposits and investment securities are properly classified in the category of custodial credit risk.
- g. Capital assets are properly capitalized, reported, and if applicable, depreciated.
- h. Required supplementary information is measured and presented within prescribed guidelines.
- i. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
- j. There are no omitted disclosures that are more than inconsequential either quantitatively or qualitatively.

MINUTES AND CONTRACTS

We have made available to you all minutes of the meetings of:

- a. Summaries of actions of the District's (a) Board of Directors, including the District and the North Brevard Medical Support, Inc. ("NBMS") (b) Audit Committee (c) Budget and Finance Committee and Corporate Compliance Committee.
- b. Financial records and related data for all financial transactions of the District and for all funds administered by the District. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the District and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
- c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
- d. Fiscal intermediary, and third-party payor reports and information.

There have been no:

- a. Actions taken by District management that contravenes the provisions of federal laws and Florida laws and regulations or of contracts and grants applicable to the District.
- b. Communications (oral or written from regulatory agencies, governmental representatives, employees, or others concerning noncompliance with laws and regulations in any jurisdiction (including those related to the Medicare and Medicaid

antifraud and abuse statutes) or noncompliance with or deficiencies in financial reporting practices.

We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. For the year ended September 30, 2018, the District was in compliance with the Series 2014 and 2017 Bonds' required calculated debt service coverage ratio.

We have a process to track the status of audit findings and recommendations. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented. We understand that there were no current year or prior year written recommendations under Section 10.554(1)(i)2., *Rules of the Auditor General*, that require the auditor to address in the management letter any recommendations to improve financial management.

INSTANCES OF FRAUD AND CONFLICTS OF INTEREST

We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have no knowledge of any fraud or suspected fraud affecting the District involving management or employees who have significant roles in the system of internal accounting control.

We have no knowledge of any fraud or suspected fraud affecting the District involving others that could have a material effect on the financial statements.

There are no instances where any officer or employee of the District has an interest in a company with which the District does business which would be considered a "conflict of interest." Such an interest would be contrary to District policy.

We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others.

CONTINGENT LIABILITIES

There have been no violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

Corporate compliance has previously identified and reported to the appropriate regulatory parties certain findings on physician's practices. Based on current information, no additional accruals would need to be recorded at September 30, 2018 as the current allowance reserves and settlement payable liabilities are considered to be adequate to cover any estimated repayments that may be due.

There are no unasserted claims or assessments that are probable of assertion and must be disclosed in accordance with generally accepted governmental accounting principles.

The District has elected to rely on sovereign immunity with respect to medical malpractice claims subject to the limited waiver provisions of Section 768.28, Florida Statutes (\$200,000 per claim or judgment, and when totaled with all other claims and judgments arising out of the same incident shall not exceed \$300,000). Accordingly, the District may have claims for malpractice settlement in excess of sovereign immunity limitations. As such, the actuarially determined liability for malpractice and other professional liability cases as of September 30, 2018, includes estimated payments (if any) in excess of the aforementioned Florida Statutes.

There have been no violations of Medicare and Medicaid antifraud and abuse statutes, including but not limited to the Anti-Kickback Act, Limitations on Certain Physician Referrals (commonly referred to as the "Stark Law"), and the False Claims Act, in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. Billings to third-party payors comply in all respects with applicable coding principles and laws and regulations (including those dealing with Medicare and Medicaid antifraud and abuse), and only reflect charges for goods and services that were medically necessary, properly approved by regulatory bodies (e.g. the Food and Drug Administration), if required and properly rendered.

There have been no communications from regulatory agencies or government representatives, employees or others concerning investigations or allegations of noncompliance with laws or regulations in any jurisdiction (including those related to the Medicare and Medicaid antifraud and abuse statutes) or deficiencies in financial reporting practices or other matters that could have a material adverse effect on the financial statements.

There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted governmental accounting principles other than those accrued or disclosed in the financial statements nor are there any accruals for loss contingencies included

in the balance sheet which are not in conformity generally accepted governmental accounting principles.

There are no oral or written guarantees under which the District may be liable.

Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

The District has not elected to participate in the assessment of ad-valorem taxes on property located within the district.

Accruals for losses from malpractice, workers compensation, and other types of self-insured risk, including accruals for claims incurred but not reported have been properly recorded and disclosed in the financial statements. We verified with our provider for the self-funded employee health plan that there are no denied claims that would result in material payments that would need to be evaluated in model to estimate the accrual.

The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP for governments.

INTERNAL ACCOUNTING CONTROL

There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

We recognize that we are responsible for establishing and maintaining a system of internal accounting control the objectives of which are to provide us with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed as authorized and recorded properly to permit preparation of such financial statements.

We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of the Rule of the Florida Auditor General, and provisions of grants and contracts relating to the District's operations. We are responsible for establishing and maintaining the components of internal control related to our activities, in order to achieve the objectives of providing reliable financial reports, effective and efficient

operations, and compliance with laws and regulations. The District is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

The District's investment policy is in compliance with Section 218.415 of the Florida Statutes. There were no qualifying investments exceeding 5% under GASB that would require disclosure in the financial statements. We have reviewed the separate Report of Independent Certified Public Accountants with respect to Section 218.415 and agree with the conclusions that the District is in compliance.

We understand that as required by Sections 10.554(1)(i)5.c. and 10.556(8), *Rules of the Auditor General*, you have noted that the District had certain negative trending of the financial condition assessment indicators on the Auditor General's website. We have read and have no material modifications related to your summary for these negative indicators in your Independent Auditor's Management Letter. The District has not experienced any deteriorating financial conditions as defined by the rules of the Auditor General.

There are no material weaknesses in the system of internal accounting control, including any for which we believe the cost of corrective actions exceeds the benefits. There have been no changes in the system of internal accounting control since September 30, 2018 that would significantly affect the system.

OWNERSHIP AND PLEDGING OF ASSETS

The District has satisfactory title to all assets appearing in the balance sheet. There are no liens or encumbrances on such assets nor has any asset been pledged. All assets to which the District has satisfactory title appear in the balance sheets.

RELATED-PARTY TRANSACTIONS

GASB defines related parties as follows: Affiliates of the enterprise; entities for which investments are accounted for by the equity method by the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

Transactions with related parties, as defined in generally accepted governmental accounting principles, and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees, have been properly recorded and disclosed in the financial statements.

We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.

ACCOUNTING ESTIMATES

We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates and the underlying assumptions are reasonable in the circumstances.

The development of accounting estimates has been consistently computed between reporting periods. Disclosures related to accounting estimates are complete and appropriate

All significant estimates and material concentrations known to management that are required to be disclosed in accordance with the generally accepted governmental accounting principles, have been properly disclosed in the financial statements. We understand significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

With regards to the fair value measurements and disclosures of certain assets, liabilities, and net assets we believe that:

- a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied.
- b. The completeness and adequacy of the disclosures related to fair values are in conformity with governmental accounting principles generally accepted in the United States of America.
- c. No events have occurred subsequent to September 30, 2018 that require adjustments to the fair value measurements and disclosures included in the financial statements.

The methods and significant assumptions used to determine fair values of financial instruments, including confirmation with independent brokers, used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.

We agree with the findings of the District's third party specialists in evaluating the pension valuation, workers compensation, other post retirement benefits and malpractice liabilities (including Florida Medical Insurance Corporation) and have adequately considered the qualifications of the specialists in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to the specialists with respect to the values or amounts derived in an

attempt to bias their work, and we are not aware of any matters that have affected the independence or objectivity of the specialists.

There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that near term means the period within one year of the date of the financial statements. No subsequent events have occurred that would require adjustment to the accounting estimates or disclosures included in the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the company vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.

RECEIVABLES

Receivables represent valid claims against the debtors indicated and do not include amounts for services provided subsequent to September 30, 2018.

Receivables have not been recorded for goods shipped on consignment or approval or other types of arrangements not constituting sales.

Adequate provision has been made for losses, costs and expenses that may be incurred subsequent to September 30, 2018 in respect of sales and services rendered prior to that date and for uncollectible accounts, discounts, returns and allowances, etc., that may be incurred in the collection of receivables at that date (including physician accounts receivable included within prepaid expenses and other current assets). We believe the amounts recognized for net patient accounts receivable is recorded at net realizable value and is within the reasonable range for estimates.

Adequate provision has been made for estimated adjustments to revenue, such as for denied claims and changes to "diagnosis-related group (DRG) assignments," audit adjustments, to cost reports, and third party adjustments.

Recorded valuation allowances are necessary; appropriate, and properly supported.

All peer review organizations, fiscal intermediaries, and third-party payor reports and information have been made available to you.

All required Medicare, Medicaid and similar reports have been properly filed and all related audit reports have been made available to you.

Management is responsible for the accuracy and propriety of all cost reports filed.

All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payors.

The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.

Adequate consideration has been given to, and appropriate provision made for, audit adjustments by intermediaries, third-party payors, or other regulatory agencies.

All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in our cost reports.

Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based on historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes the District is entitled to all amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.

We believe amounts recorded as receivables for the physician practices are recorded at their net realizable value as of September 30, 2018.

Management believes that the presentation of the net loss related to the physician practice operations is properly included in other nonoperating revenues (expenses). The business purpose for entering into such physician employment agreements is to ensure that adequate professional and medical services are available in the District's service area.

Management believes that the District has fully met the eligibility requirements to receive Medicare and Medicaid disproportionate share payments for the year ended September 30, 2018. Accordingly, all such payments received have been properly recorded in net patient service revenue.

There were no identified adjustments needed to the September 30, 2018 from assessments made under CMS's Recovery Audit Contractor ("RAC") program or other recovery audit programs of which we are aware.

SUPPLIES

Supplies, including goods which are imperfect, slow-moving, obsolete or unusable are stated at amounts not in excess of their estimated net realizable values.

Physical counts and measurements of supplies were made by competent employees under the supervision of management, and book records were appropriately adjusted after giving recognition to cutoffs for materials received and products shipped.

Adequate provision has been made for goods which are imperfect, slow-moving, obsolete or unusable at September 30, 2018.

There have been no reductions of the selling prices of finished goods subsequent to September 30, 2018 and none are contemplated.

INVESTMENTS

We are responsible for the estimation methods and assumptions used in measuring financial assets and liabilities reported or disclosed at fair value. The methods and significant assumptions used to determine fair values of financial assets, including financial assets that do not have readily determinable fair values, are appropriately disclosed in the financial statements. We believe that the methods and significant assumptions used are reasonable. Our valuation methodologies have been consistently applied from period to period and we believe that the methods and significant assumptions used in our fair value measurements and disclosures were made in accordance with required accounting guidance for fair value disclosures, and represent our best estimate of fair value as of the District's year-end.

None of the District's other investments has permanently declined in value to an amount less than the carrying value in the balance sheet. Undistributed earnings of subsidiaries (and investee companies accounted for as a joint venture) will be reinvested indefinitely.

All debt securities are reported at fair value with unrealized gains and losses included in the statements of revenues, expenses, and changes in net assets.

Credit rating disclosures are appropriate and reasonable based on the District's debt instrument portfolio.

There are no material modifications needed to the amounts and disclosures related to the defeasance refinancing of the Series 2008 Bonds with Series 2014 Bonds and 2017 Bonds.

The District has properly classified in its financial statements investments in debt securities on the balance sheet as available-for-sale, as it is not the District's interest to resell the securities with the objective of generating profits. In addition, the District has properly recorded all individual available for-sale debt securities as either current or noncurrent.

LONG-LIVED ASSETS, INCLUDING INTANGIBLE ASSETS

We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of assets might not be recoverable and have appropriately recorded the adjustment. No

events or circumstances have occurred that indicate the carrying amount of long-lived assets to be held and used may not be recoverable.

ARRANGEMENTS WITH FINANCIAL INSTITUTIONS

There are no arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.

We are unaware of any events of default related to the District's tax-exempt bonds. The District is in compliance with the debt service coverage ratio for the year ended September 30, 2018.

Tax-exempt bonds issued have maintained their tax exempt status.

All required arbitrage calculations and filings related to the tax-exempt bonds have been prepared.

The District has elected to amortize bond issuance costs and bond discounts using the straight-line method over the life of the bonds. Management believes this approximates the effective interest method.

NET POSITION

Activity and balances of temporarily and permanently restricted net position and disclosure regarding the nature of their restrictions have been properly recorded and disclosed in the financial statements.

The District has recorded all contributions received during the year and has maintained an appropriate composition of assets in amounts needed to comply with all donor restrictions.

The net invested in capital assets represents the net position of capital assets offset by the outstanding balances of any obligations that are attributable to those capital assets as defined by GASB.

PENSION AND OTHER POST RETIREMENT BENEFITS

We do not plan to make frequent amendments to our pension plan and other post retirement benefits plan.

We have disclosed to you all changes to the existing pension plan and other post retirement benefits plan including the adoption of GASB Statement No. 75 and properly disclosed the impact on all prior periods shown comparatively.

We have reviewed the actuarial assumptions utilized in the GASB Statement No. 68 actuarial valuation report as of October 1, 2017 and 2015 for fiscal year 2018 and 2017, respectively . There are no material modifications needed to the amounts and disclosures. We understand that the actuary has represented that information is not available for the reporting periods prior to September 30, 2014 because such years could not be developed under GASB Statement No. 68.

We have reviewed the actuarial assumptions utilized in the GASB Statement No. 75 actuarial valuation report as of October 1, 2016 for fiscal year 2018 and 2017. We understand that the actuary has represented that information is not available for the reporting periods prior to September 30, 2017. In connection with the implementation of GASB Statement No. 75 we restated the Districts' net position as of September 30, 2017. There are no material modifications needed to the amounts and disclosures as September 30, 2018 and 20167 and for the years then ended.

We believe the actuarial assumption and methods used to measure the net pension asset and costs for financial accounting purposes are appropriate in the circumstances. The recorded amounts for other post retirement benefits represent the actuarial determined best estimate of the amounts to be paid.

We have no intention of terminating our pension plan or taking any other action that could result in an effective termination or reportable event for the plan. We are not aware of any occurrences that could result in the termination of our pension plan. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.

Management has determined that the District's 403b Plan and Pension Plan is not subject to ERISA, and thus, is excluded from the audit requirements effective for the years ended September 30, 2018, 2017 and prior.

ACTUARIAL VALUATIONS

We have provided all actuarial valuations performed for the District. The assumptions utilized in the actuarial reports are appropriate and represents management's best estimate. Valuations are performed on a timely basis. When the actuarial valuation is not expected to change significantly from one period to the next, the District may elect to waive having an annual valuation performed. The most recent actuarial valuation performed related to professional liability, workers compensation, pension, and other post retirement benefits is a reasonable estimate for the recorded values as of September 30, 2018.

PURCHASE AND SALE COMMITMENTS

At September 30, 2018 the District had no purchase commitments for supplies in excess of normal requirements or at prices which were in excess of market at that date, and no important sales commitments which it is unable to fulfill or which were at prices less than costs.

There were no agreements or commitments to repurchase assets previously sold. There were no commitments outstanding at September 30, 2018 for futures contracts, short sales, or hedge transactions.

COMMITMENTS AND CONTINGENCIES

During the year ended September 30, 2018 the District entered into a lease arrangement with a vendor for certain heating and cooling equipment. Net quarterly rental payments under the lease agreement were to be based on a calculation of actual energy savings through the end of the lease term of February 2032. In November 2018, the vendor agreed to suspend all current payments due while the savings are reanalyzed, payments are expected to resume in March 2019. The District considers the accounting to be that of an operating lease because the District will not own the equipment and there is no bargain purchase option as the purchase option will be based on the fair value of the equipment at the end of the lease. Estimated contingent lease payments are included in the five-year commitment note disclosure which is included in Note 11 of the financial statements

FEDERAL EMERGENCY MANAGEMENT AGENCY FUNDS

During the year ended September 30, 2018, the District received approximately \$200,000 in Federal Emergency Management Agency ("FEMA") funds related to hurricane Mathew. We have evaluated the impact of receiving such funds and have determined that the District is not subject to a Single Audit. We do not anticipate any required payback of funds received.

CONCENTRATIONS

There are no concentrations existing at the date of the financial statements that make the District vulnerable to the risk of a near-term severe impact that have not been disclosed in the financial statements. We understand that concentrations include individual or group concentrations of customers, suppliers, lenders, products, services, or markets.

Financial instruments with significant individual or group concentrations of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.

OTHER

The presentation of the net change in assets limited to use and investments as presented in the Statement of Cash Flows are in accordance with GASB.

The District is in compliance with the provisions of Internal Revenue Code (IRC) Sec. 501(c)3 and is exempt from federal tax under IRC Sec. 501(a), as evidenced by a determination letter, dated November 16, 1981, and all information returns have been filed on a timely basis.

The District is not in a state of financial emergency as a consequence of conditions described in Section 218.503(1) of the Florida Statutes.

We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

We are responsible for the presentation of the supplemental information in accordance with applicable criteria.

We believe the supplemental information, including its form and content, is fairly presented in accordance with the applicable criteria.

The methods or measurement or presentation of the supplemental information have not changed from those used in the prior period.

There were no significant assumptions of interpretations underlying the measurement or presentation of the supplemental information that differ from those used in the preparation of the financial statements.

There are no material modifications related to the amounts and disclosures related to the sale of the Dialysis.

SUBSEQUENT EVENTS

There are no other events or transactions have occurred since September 30, 2018 which would have a material effect upon the financial statements at that date or for the period then ended, or which are of such significance in relation to the District's affairs as to require mention in a note to the financial statements in order to make them not misleading as to the financial position, results of operations or cash flows of the District.

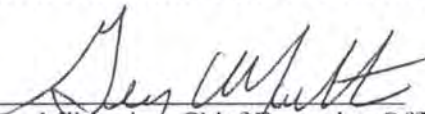
NON-ATTEST SERVICES

In regard to the preparation of financial statements services performed by you, we have—

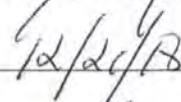
- Assumed all management responsibilities.
- Designated Michael Sitowitz CPA, Vice President of Finance, who has suitable skill, knowledge, or experience to oversee the services.
- Evaluated the adequacy and results of the services performed.
- Accepted responsibility for the results of the services.

Very truly yours,

NORTH BREVARD COUNTY HOSPITAL DISTRICT



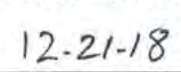
George Mikitarian, Chief Executive Officer



Date



Michael Sitowitz CPA, Vice President of Finance



Date



Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REPORT

Board of Directors and Audit Committee
North Brevard County Hospital District
Titusville, Florida

We have examined the North Brevard County Hospital District's (the "District") compliance with the requirements of Section 218.415, Florida Statutes, during the fiscal year ended September 30, 2018. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District'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 compliance with specified requirements.

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

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Tampa, Florida
December 21, 2018



Certified Public Accountants

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Board of Directors and Audit Committee
North Brevard County Hospital District
Titusville, Florida

Report on the Financial Statements

We have audited the financial statements of North Brevard County Hospital District (the "District") as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated December 21, 2018.

Auditor's Responsibility

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 of America and Chapter 10.550, *Rules of the Florida Auditor General*.

Other Reports

We have also issued our Independent Auditor's Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*; Independent Auditor's Report on Compliance with Bond Covenants; and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated December 21, 2018, 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 audit findings.

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. The District was established under the laws of the state of Florida in 1953 under an original act included in Chapter 28924, House Bill 1370, and operates Parrish Medical Center, a community hospital providing inpatient and outpatient healthcare services in North Brevard County, Florida. The legal authority is disclosed in the notes to the financial statements.

Financial Condition

Section 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether or not the District 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 did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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 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.

For the year ended September 30, 2018, we noted that the District had negative trending on certain financial condition assessment indicators from the Auditor General's website. The negative indicators are generally caused by non-cash adjustments, such as depreciation and bad debt allowances, that result in reported financial losses and a decline in unrestricted net position. However, the District continues to generate significant cash flows from operations. During 2018, there were several indicators that showed improvement over the prior years as a result of improvements made.

Management's Responses (unaudited): The District's management, as part of its analysis of the District's financial condition, highlighted the following in its own analysis:

- (a) Continued positive cash flows in operations;
- (b) Positive current ratio and working capital positions;
- (c) Overall balance sheet that includes liquidity and long-term reserves; and
- (d) A sustainable long-term debt repayment schedule.

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2018, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2018. In connection with our audit, we determined that these two reports were in agreement.

Special District Component Units

Section 10.554(1)(i)5.d., *Rules of the Auditor General*, requires that we determine whether or not a special district that is a component unit of a county, municipality, or special district, provided the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. The District is a primary government, and thus, this is not applicable to the financial statements of the District.

Other Matters

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

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address 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 have 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, the Board of Directors, and applicable management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Tampa, Florida
December 21, 2018