SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Financial Statements and Supplemental Information

September 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

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Table of Contents

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Letter of Transmittal

(Unaudited)

Introduction

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

Background

The System is among the largest public health systems in Florida. The full-service organization is a regional referral center offering inpatient, outpatient and extended care services, with 36,000 inpatient visits and over one million outpatient and physician visits annually. The System offers a complete continuum of care, including a 839-bed hospital (a 829-bed hospital as of September 30, 2018), a freestanding emergency room, network of urgent care centers, physician practice groups, laboratory and imaging centers, rehabilitation programs, a behavioral health hospital and a skilled nursing and rehabilitation center. It is Sarasota County's only provider of obstetrical services, pediatrics, neonatal intensive care and psychiatric services for patients of all ages. With over 6,000 staff, the System is among the region's largest employers. It also includes 960 medical staff members representing 54 specialties as well as 339 Advanced Practice Professionals. The organization also has approximately 625 community members who volunteer their time and expertise.

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

The District consists of Sarasota Memorial Hospital (SMH, Sarasota Memorial or the Hospital) and a network of outpatient services; corporate services, which consist of various support departments; Sarasota Memorial Nursing and Rehabilitation Center (NRC); SMH Health Care, Inc., a corporation providing leased personnel services to all System entities; and SMH Physician Services, Inc. d/b/a First Physicians Group, a provider of primary, obstetrical and gynecological physician services as well as several specialty services.

Sarasota Memorial's Recent Accomplishments Include:

State Approval of New Hospital in Venice

In July 2018, the District received final approval from Florida's Agency for Health Care Administration (AHCA) to establish a new hospital on Laurel Road, just off Interstate 75 in Venice in south Sarasota County. The new full service hospital — the most significant expansion in Sarasota Memorial's 93-year history — will open with 90 acute care beds, 20 observation beds and a 28-bed Emergency Care Center. The facility will have the capacity to expand based on future community needs. The new hospital will bring Sarasota Memorial's high-quality care to a rapidly growing community. Construction is anticipated to start in mid-2019 and the hospital is expected to open in the Fall of 2021.

Physician Residency Expansion

Sarasota Memorial continued to take major strides to improve the community's access to care by welcoming its second class of 13 Internal Medicine resident physicians in July, 2018. Because physicians frequently choose to practice in communities where they have completed their residencies, the program is a substantial investment in the health of the region. Working side-by-side and under the supervision of Sarasota Memorial's attending physicians, the residents work in the hospital and provide primary care in the Internal Medicine Practice in Newtown, offering continuity of care to a vulnerable and underserved population.

The Internal Medicine residency program will have a total of 39 residents when at full capacity in 2019.

Sarasota Memorial and academic partner Florida State University also are working to open a second physician residency program in the specialty of Emergency Medicine. The hospital expects to welcome the first nine Emergency Medicine residents in July of 2019 and have 27 residents by 2021.

Development of New Cancer Institute

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

New State-of-the-Art Rehabilitation Pavilion Expands Capacity

Sarasota Memorial opened an advanced new Rehabilitation Pavilion in 2017 to care for the complex medical, rehabilitation and mobility needs of patients with brain injury, stroke, spinal cord injury, amputation, neurological disorders and orthopedic and musculoskeletal conditions. In the fall of 2018, the Pavilion opened 10 additional beds to meet increased patient volumes, and now has 54 private patient rooms. The facility also features a full array of outpatient rehabilitation services and a mobility garden to help patients navigate a variety of surfaces.

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

Sarasota Memorial is the only hospital in Florida to consistently earn the federal Centers for Medicare & Medicaid Services' highest five-star rating for overall quality and safety since the rating system launched in 2016. Sarasota Memorial's Nursing & Rehabilitation Center and Home Care program also earned five-star ratings from the federal government.

Five Consecutive "A" Grades for Patient Safety

In 2018, Sarasota Memorial received its fifth consecutive "A" grade for patient safety from The Leapfrog Group, a national organization that evaluates hospitals' efforts to protect patients from preventable injuries and harm. The safety grade is based on 28 measures of publicly available hospital safety data.

U.S. News High Performer

Sarasota Memorial earned "high performing" ratings – the top score – in the following surgical procedures and chronic conditions evaluated in *U.S. News'* 2018-19 "Best Hospitals" report: Abdominal Aortic Aneurysm Repair, Aortic Valve Surgery, Heart Bypass Surgery, Heart Failure, Colon Cancer Surgery, Hip Replacement, Knee Replacement and Lung Cancer Surgery.

Highest Ratings for Five Procedures by the Society of Thoracic Surgeons

Sarasota Memorial earned the highest ratings from The Society of Thoracic Surgeons (STS) for patient care and clinical outcomes in isolated aortic valve replacement (AVR), coronary artery bypass grafting (CABG),

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combination AVR/CABG, isolated mitral valve replacement/repair (MVRR) and combination MVRR/CABG. Sarasota Memorial was one of only three participating cardiac surgery programs in the U.S. and Canada to earn the top rating (three stars) across the board, in all five evaluated categories.

Cardiovascular Center of Excellence

Sarasota Memorial's heart program is an accredited American Heart Association Cardiovascular Center of Excellence. In 2018, Sarasota Memorial was the first in Florida and only the fourth in the U.S. to earn this designation for exemplary comprehensive care.

Gallup Great Workplace Award

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

Ongoing Magnet Designation

Sarasota Memorial has earned Magnet Nursing Services Recognition four times - a challenge accomplished by fewer than 1 percent of the nation’s hospitals. Independently sponsored research projects suggest that Magnet facilities have positive outcomes for patients, nurses and workplaces. The organization is currently the only provider in the region with Magnet Recognition, which is given by the American Nurses’ Credentialing Center. SMH has been continuously designated since 2003.

National Joint Commission Accreditation

Sarasota Memorial was accredited by the Joint Commission following a rigorous on-site survey in 2018 to confirm the hospital’s compliance with national standards for quality and safety.

Baby-Friendly Recognition

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

NICHE Hospital for Commitment to Older Adults

Sarasota Memorial has been designated as a NICHE health system for its commitment to excellence in elder care. NICHE, or Nurses Improving Care for Health system Elders, is the premier national geriatric nursing program addressing the needs of hospitalized older adults (65 and older).

Comprehensive Stroke Center

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

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Hip/Knee Replacement Certification

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

Comprehensive Bariatric Accreditation

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

Beacon Awards for Nursing Units

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

Columbia University Affiliation

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

Most Wired Recognition

In 2018, Sarasota Memorial was recognized as one of the world's "Most Wired" hospitals. Results from the 20th Annual HealthCare's Most Wired® survey, released at the College of Healthcare Information Management Executives (CHIME) Fall CIO Forum in San Diego, named Sarasota Memorial among the world's most tech-savvy hospitals pioneering technologies that promote better and more secure patient care.

The Community's Health Care Safety Net

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

Sarasota Memorial is the sole provider of obstetrical services, Level III neonatal intensive care and inpatient pediatric services in Sarasota County. SMH also is the only hospital in Sarasota County providing psychiatric services to patients of all ages.

Sarasota Memorial's newly expanded Community Specialty Clinic provides a wide range of free specialty care to uninsured/underinsured residents who meet eligibility criteria.

The System provides traditional charity care to those patients who meet certain criteria established by the State of Florida. In addition, the District provides services to patients that meet other financial criteria that indicate an economic hardship and inability to pay for services, but who either do not meet the strict eligibility requirements for traditional charity care or who do not complete all necessary paperwork to qualify for traditional charity care. These services are referred to as community support.

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The System also offers a sliding scale discount program that offers significantly reduced rates to lower-income, uninsured patients. The program's goal is to make health care more affordable for the uninsured and allow eligible patients to pay what they can. Our discount plan treats patients with dignity and compassion, and encourages the uninsured to take care of their health needs promptly, before conditions become catastrophic.

Sarasota Memorial registered about 123,000 emergency cases in fiscal year 2018 in the main campus Emergency Care Center and freestanding Emergency Room (ER) in North Port. In addition to the ER, the North Port center also has physician offices and outpatient programs including laboratory services, radiology services and rehabilitation services.

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

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

Economic Driving Force

Among the largest employers in Sarasota County, the System is a significant economic engine for the region, creating and sustaining jobs and income for over 6,000 staff and a large number of local businesses and vendors. All of our earnings are re-invested into patient care, technology, and assets that benefit the community. Examples of this community investment during the past year include:

- $431 million in total payroll – supports local workforce,
- $796 million in total operating expenses that help support a variety of local businesses and community members,
- $1.6 million investment in workforce development and staff training and education, and
- $63.1 million for facility and equipment upgrades in 2018.

Finance

Operational Improvements

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

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

- Implemented new electronic outpatient physician order entry system to ensure ease of doing business with the Hospital
- Installed a new patient scheduling system which makes scheduling procedures easier for patients and physician staff
- Continued strong front end processes including electronic out-of-pocket estimates for patients
- Selected Computer Assisted Coding, Clinical Documentation Integrity, and Quality software to be implemented in 2019
- Clinical documentation teams continue to expand their focus into other areas to ensure clear physician documentation resulting in more accurate case mix and improved severity of illness and risk of mortality measures
- Expansion of voice recognition software improved timeliness of dictation to the chart and decreased cost of transcription services
- Successfully implemented cloud based, automated pre-bill analysis during the coding process to ensure efficient and compliant coding
- Timely and accurate medical record coding and revenue cycle department communications resulting in decreased late charges and improved claims processing timeline
- Engaged firm for dedicated collection of international accounts
- Successful denial management process resulting in industry leading appeal overturn rate
- Successful negotiation of multiple agreements with managed care payors
- Value analysis teams continue to evaluate products and product utilization in order to reduce overall product spend
- Continued utilization of productivity management tools combined with emphasis on proactive recruitment, resulting in premium pay savings along with a reduction in off-season utilization of traveling nurse staffing services

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Independent Auditors' Report

The Board Members
Sarasota County Public Hospital District:

Report on the Financial Statements

We have audited the accompanying financial statements of the Sarasota County Public Hospital District (the District), as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sarasota County Public Hospital District, as of September 30, 2018 and 2017, and the changes in its financial position, and its cash flows, thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note (1)(d) to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during 2018. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 10 through 22, schedule of the changes in the net pension liability and related ratios, schedule of the District's pension contributions and schedule of changes in the total OPEB liability and related ratios on pages 71 to 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

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

KPMG

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

KPMG LLP

January 24, 2019

This section of the annual financial report of the Sarasota County Public Hospital District (the District) provides management's discussion and analysis of the organization for the fiscal years ended September 30, 2018 and 2017. The District includes Sarasota Memorial Hospital (the Hospital) among other entities. This discussion has been prepared along with the financial statements and related note disclosures, which should be read in conjunction with one another. This narrative, the financial statements, and notes are the responsibility of the District's management.

Required Financial Statements

The basic financial statements of the District report information about the District using accounting methods prescribed by the Governmental Accounting Standards Board (GASB). These statements provide current and long-term financial information about the District's activities. The following statements are included in this package:

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

Summary of Financial Highlights and Trends

The District's cash and board designated investments increased by $17.4 million and $76.8 million in the fiscal years ended September 30, 2018 and 2017, respectively. Long-term debt (including current portion) increased by $269.4 million and decreased $11.3 million in the years ended September 30, 2018 and 2017, respectively. The excess of revenue over expenses were $119.7 million and $99.2 million for the years ended September 30, 2018 and 2017, respectively. Net position increased by $120.5 million in fiscal 2018, and by $99.9 million in fiscal 2017. In 2018 and 2017, Hospital payor mix reflected a decrease in managed care and commercial payors and an increase in Medicare.

	2018	2017	2016
Medicare	59.6 %	58.0 %	57.4 %
Managed care and commercial	25.1	26.1	27.0
Self-pay and other	6.3	6.8	6.7
Medicaid	9.0	9.1	8.9
	100.0 %	100.0 %	100.0 %

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Operating Statistics

Based on the most recent data available from the Health Planning Council of Southwest Florida, Inc., for the twelve months ended September 30, 2018, admissions volume increased across the Sarasota County area 6.2% over the same period in the prior year. The Hospital's admissions outperformed the overall market with an increase of 8.3% during the twelve months ended September 30, 2018. Relative to other acute care facilities in Sarasota County, the Hospital's inpatient market share for the twelve months ended September 30, 2018 was 64.7%. The Hospital outpatient volume, excluding emergency room visits, increased by 5.6% and 2.2% during the years that ended September 30, 2018 and 2017, respectively. Emergency Care Center visits increased 0.2% and decreased 1.1% during the years that ended September 30, 2018 and 2017, respectively.

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

	Fiscal year ended September 30				
	2018	2017	2016	2015	2014
Average number of beds in service:					
Medical/surgical intensive care	62	62	50	50	42
Cardiac telemetry, acute, and intensive care	156	132	108	108	108
Other medical/surgical	404	402	401	401	349
Total medical/surgical	622	596	559	559	499
Obstetrics	30	30	30	30	35
Psychiatric and substance abuse	60	60	60	60	60
Rehabilitation	44	44	34	34	34
Pediatrics	28	18	18	18	18
Total hospital	784	748	701	701	646
Combined admissions and observation cases:					
Admissions	36,016	33,262	31,946	28,042	27,488
Observation cases	8,694	8,940	8,680	9,227	8,431
Total admissions and observation cases	44,710	42,202	40,626	37,269	35,919
Admissions:					
Total medical/surgical	28,569	26,094	24,808	21,302	20,858
Obstetrics	3,730	3,639	3,652	3,405	3,328
Psychiatric and substance abuse	2,101	2,123	2,171	2,185	2,206
Rehabilitation	1,048	915	800	785	655
Pediatrics	568	491	515	365	441
Total hospital	36,016	33,262	31,946	28,042	27,488

	Fiscal year ended September 30				
	2018	**2017**	**2016**	**2015**	**2014**
Average length of stay:					
Total medical/surgical	4.72	4.85	4.98	5.08	4.75
Obstetrics	2.45	2.38	2.33	2.59	2.61
Psychiatric and substance abuse	5.88	5.22	5.06	5.31	5.17
Rehabilitation	13.70	12.86	12.73	12.31	12.68
Pediatrics	3.50	3.16	3.33	4.37	3.44
Total hospital	4.79	4.80	4.85	4.99	4.69
Number of patient days:					
Medical/surgical intensive care	15,204	14,661	13,999	10,843	9,657
Cardiac telemetry, acute, and intensive care	35,159	32,396	33,933	25,351	24,325
Other medical/surgical	84,346	79,385	75,520	71,946	65,083
Total medical/surgical	134,709	126,442	123,452	108,140	99,065
Obstetrics	9,141	8,649	8,496	8,807	8,672
Psychiatric and substance abuse	12,344	11,092	10,976	11,607	11,406
Rehabilitation	14,357	11,770	10,184	9,665	8,304
Pediatrics	1,989	1,550	1,713	1,596	1,519
Total hospital	172,540	159,503	154,821	139,815	128,966
Percentage occupancy (admitted patients):					
Medical/surgical intensive care	67.2 %	64.8 %	76.5 %	59.4 %	63.0 %
Cardiac telemetry, acute, and intensive care	61.7	67.2	85.8	64.3	61.7
Other medical/surgical	57.2	54.1	51.5	49.2	51.1
Total medical/surgical	59.3	58.1	60.3	53.0	54.4
Obstetrics	83.5	79.0	77.4	80.4	67.9
Psychiatric and substance abuse	56.4	50.6	50.0	53.0	52.1
Rehabilitation	89.4	73.3	81.8	77.9	66.9
Pediatrics	19.5	23.6	26.0	24.3	23.1
Total hospital	60.3 %	58.4 %	60.3 %	54.6 %	54.7 %

(Continued)

	Fiscal year ended September 30				
	2018	**2017**	**2016**	**2015**	**2014**
Licensed beds	829	829	819	819	819
Beds in service	784	748	701	701	646
Average daily census	473	437	423	383	353
Percent occupancy	60.3	58.4	60.3	54.6	54.7
Patient days	172,540	159,503	154,821	139,815	128,966
Admissions	36,016	33,262	31,946	28,042	27,488
Adjusted admissions (1)	59,786	56,378	55,244	51,218	50,566
Average length of stay	4.79	4.80	4.85	4.99	4.69
Emergency Room Visits/Registration	122,942	122,654	124,065	116,377	108,462
Surgery Cases	23,369	22,195	21,347	19,918	19,313
Radiology procedures	342,059	326,129	329,830	302,375	278,662
Cardiac Catheterization procedures	14,930	14,257	12,675	11,910	11,955

(1) Inpatient admissions adjusted for equivalent hospital outpatient volume.

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Statements of Revenues, Expenses and Changes in Net Position

A summary of the District's Statements of Revenues, Expenses and Changes in Net Position for fiscal years 2018, 2017, and 2016 is presented below (in thousands):

		2018	2017 (as restated)	Change	2016 (as restated)	Change
Net patient service revenue	$	861,236	772,201	89,035	702,550	69,651
Other revenue		19,885	20,878	(993)	16,882	3,996
Total operating revenues		881,121	793,079	88,042	719,432	73,647
Total operating expenses		796,180	731,395	64,785	677,019	54,376
Operating income		84,941	61,684	23,257	42,413	19,271
Total nonoperating items		34,765	37,558	(2,793)	64,537	(26,979)
Excess of revenues over expenses		119,706	99,242	20,464	106,950	(7,708)
Other changes in net position		807	670	137	1,064	(394)
Net position, beginning of year (as restated)		1,029,298	929,386	99,912	821,372	108,014
Net position, end of year	$	1,149,811	1,029,298	120,513	929,386	99,912

As a result of the implementation of GASB Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75) during the year, the information presented for 2017 and 2016 has been restated to conform to the new accounting standard.

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

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

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

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

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

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

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

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

(Continued)

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

Supplies expenses increased in fiscal 2018 by $17.9 million. The increase was largely a result of increased volume and mix of services. Supplies expense as a percentage of net patient revenue decreased in fiscal 2018 to 20.9%, compared to 21.0% in fiscal 2017. Implants increased $7.1 million; drug costs increased $3.3 million; medical supplies increased $4.8 million; lab and blood products increased $1.1 million; small equipment increased $0.8 million; and food supplies increased $0.4 million.

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

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

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

Professional fees increased by $1.0 million in fiscal 2018, largely as a result a $1.7 million increase in physician fees, partially offset by a $0.7 million decrease in legal fees. Professional fees increased by $2.3 million in fiscal 2017, largely as a result of the legal proceedings related to strategic projects.

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

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

As a result of the above-noted changes in operating costs, total operating costs declined from 94.7% to 92.4% of net patient revenue. Total operating cost per adjusted admission, adjusted for the change in case mix index, increased 3.7% in fiscal year 2018 and increased 6.3% in fiscal year 2017.

(Continued)

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

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

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

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

Balance Sheets

The following table is a summary of the balance sheets as of September 30, 2018, 2017, and 2016 (in thousands):

	2018	2017 (as restated)	Change	2016 (as restated)	Change
Cash and cash equivalents	$ 50,217	27,824	22,393	18,098	9,726
Patient accounts receivable, net	82,953	77,778	5,175	69,262	8,516
Other current assets	33,257	30,420	2,837	27,484	2,936
Total current assets	166,427	136,022	30,405	114,844	21,178
Restricted and board designated investments	1,178,876	834,333	344,543	766,675	67,658
Capital assets, net	606,187	591,902	14,285	583,320	8,582
Other assets	36,216	32,073	4,143	27,918	4,155
Interest rate swaps	21,727	24,712	(2,985)	24,818	(106)
Noncurrent assets	1,843,006	1,483,020	359,986	1,402,731	80,289
Deferred outflows	45,051	58,788	(13,737)	85,163	(26,375)
Total assets and deferred outflows	$ 2,054,484	1,677,830	376,654	1,602,738	75,092
Current liabilities	$ 133,582	135,361	(1,779)	131,327	4,034
Noncurrent liabilities	729,089	482,736	246,353	523,807	(41,071)
Total liabilities	862,671	618,097	244,574	655,134	(37,037)
Deferred inflows	42,002	30,435	11,567	18,218	12,217
Net position:					
Net investment in capital assets	334,722	242,139	92,583	224,189	17,950
Restricted for specific purposes	2,354	2,460	(106)	1,541	919
Unrestricted	812,735	784,699	28,036	703,656	81,043
Total net position	1,149,811	1,029,298	120,513	929,386	99,912
Total liabilities, deferred inflows and net position	$ 2,054,484	1,677,830	376,654	1,602,738	75,092

As a result of the implementation of GASB 75 during the year, the information presented for 2017 and 2016 has been restated to conform to the new accounting standard.

(Continued)

At September 30, 2018, the District's cash and board designated investments totaled $876.6 million, compared to long-term debt, including the current portion, of $650.0 million. The number of days cash on hand was 419 which exceeds the median of 252 days cash on hand for Moody's Investor Services (Moody's) "A1" rated, freestanding hospitals and single and multi-state healthcare systems (2018 median, based on 2017 data).

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

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

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

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

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

Capital assets increased by $14.3 million in fiscal 2018. There were $63.1 million of capital additions during fiscal year 2018. The additions were partially offset by annual depreciation of $48.8 million. Of the $63.1 million in fiscal 2018 additions, the largest projects accounted for about $59.3 million of expenditures: $10.0 million to complete renovations of the ninth and tenth floors of a main campus bed tower; $10.6 million for other main campus renovations and improvements; $6.9 million for a new parking garage; $5.2 million for laboratory equipment and automation; $3.7 million for further development of a cancer care institute; $3.3 million for operating room equipment and systems; $2.2 million for an electrophysiology lab; $1.4 million for energy center projects; $1.4 million to acquire property contiguous to the main hospital campus; $1.3 million for automated medication tracking system improvements; $1.2 million for a new ambulatory care center; $1.1 million for other information systems projects; $1.1 million for physician office buildouts; $1.0 million to begin development of a new hospital in Venice; and $8.9 million for various other medical and technology infrastructure and equipment. Additional information on the District's capital assets can be found in note 5 to the financial statements.

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

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

In fiscal 2018 and 2017, other assets increased by $4.1 million and $4.2 million, respectively, related to an increase in the equity in LeeSar and an increase in deferred retirement plan assets for employees.

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

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

Deferred amounts related to other postemployment benefits result from differences between expected and actual experience, changes in assumptions, and contributions made by the District during the year. Please refer to note 8 to the financial statements for a more detailed discussion of the District's other postemployment benefits plan.

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

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

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

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

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

In fiscal 2017, noncurrent liabilities decreased $41.1 million, primarily as a result of decreases in long-term debt, net pension liability and interest rate swap liabilities, partially offset by an increase in other long-term liabilities.

Profitability, Liquidity, and Capital Ratios

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

	2018	2017	2016	2017 Moody's A1 median
Profitability ratios:				
Operating margin	13.1 %	11.7 %	9.9 %	2.6 %
Excess margin	14.8	13.3	12.6	5.6
Return on assets	8.4	7.1	6.7	3.8
Total EBIDA%	21.7	19.8	19.3	n/a
Operating cash flow margin	20.1	18.4	16.8	9.0
Liquidity ratios:				
Days cash on hand	419	446	440	252
Net days in receivables	35	37	36	50
Capitalization ratios:				
Maximum debt service coverage ratio	5.5	6.1	5.5	5.3
Cash to debt	136.3 %	224.7 %	198.7 %	191.6 %

(EBIDA – Earnings Before Interest, Depreciation and Amortization)

Discussion of Ratios

To be consistent with rating agency calculations, tax revenues are considered operating revenues and interest expense, excess swap receipts, net and bond issue costs are considered operating expenses for the ratio calculations above.

The profitability and liquidity ratios noted above and the maximum debt service coverage ratio were favorable compared to the Moody's A1 medians. The cash to debt ratio reflected the defeasance of the 2009A bonds using existing resources and the issuance of the Series 2018 bonds to partially finance two large construction projects.

In 2018, Moody's Investors Services affirmed the District's unenhanced long-term ratings on its outstanding bonds of A1 and Fitch Ratings affirmed the District's unenhanced long term ratings on its outstanding bonds of AA-. The rating agencies have noted the District's financial performance, strong liquidity, and strong service area characteristics.

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Contacting the District for Additional Financial Information

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

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Balance Sheets

September 30, 2018 and 2017

Assets		**2018**	**2017 (as restated)**
Current assets:			
Cash and cash equivalents	$	50,216,905	27,823,710
Patient accounts receivable, less allowance for uncollectible accounts of $137,875,765 in 2018 and $131,963,819 in 2017		82,952,728	77,778,468
Inventories of supplies		14,159,332	14,001,797
Prepaid expenses and other assets		17,968,614	15,275,552
Due from related organizations		1,129,517	1,143,064
Total current assets		166,427,096	136,022,591
Noncurrent assets:			
Restricted investments		352,472,491	2,936,118
Board designated investments		826,403,640	831,396,423
Capital assets, net		606,186,753	591,901,590
Other assets		36,216,389	32,073,179
Interest rate swaps		21,726,847	24,711,820
Total noncurrent assets		1,843,006,120	1,483,019,130
Total assets		2,009,433,216	1,619,041,721
Deferred Outflows of Resources			
Deferred outflows related to pensions and OPEB		15,728,735	24,658,250
Deferred amounts on debt refundings		28,661,822	30,473,577
Deferred effective interest rate swap outflows		660,071	3,656,011
Total deferred outflows of resources		45,050,628	58,787,838
Total assets and deferred outflows of resources	$	2,054,483,844	1,677,829,559
Liabilities			
Current liabilities:			
Accounts payable	$	28,243,392	32,017,870
Employee compensation and benefits payable		56,393,282	51,765,489
Other accrued expenses		7,990,199	8,562,096
Estimated third-party settlements		20,934,810	22,558,873
Due to related organizations		1,261	192
Current portion of State of Florida medical assistance assessment		9,643,787	8,685,991
Current portion of long-term debt		10,375,000	11,770,000
Total current liabilities		133,581,731	135,360,511
Noncurrent liabilities:			
Long-term debt, less current portion		639,578,412	368,741,251
Long-term companion debt, less current portion		21,093,942	22,054,892
Net pension liability		11,896,237	28,649,970
State of Florida medical assistance assessment, less current portion		5,213,955	4,693,126
Other long-term liabilities		39,794,188	35,848,217
Interest rate swaps		11,512,757	22,748,384
Total noncurrent liabilities		729,089,491	482,735,840
Total liabilities		862,671,222	618,096,351
Deferred Inflows of Resources			
Deferred inflows related to pensions and OPEB		9,289,227	3,775,210
Deferred effective interest rate swap inflows		32,713,217	26,660,187
Total deferred inflows of resources		42,002,444	30,435,397
Net Position			
Net investment in capital assets		334,721,846	242,138,976
Restricted for specific purposes		2,353,569	2,459,696
Unrestricted		812,734,763	784,699,139
Total net position		1,149,810,178	1,029,297,811
Total liabilities, deferred inflows of resources and net position	$	2,054,483,844	1,677,829,559

See accompanying notes to financial statements.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Statements of Revenues, Expenses and Changes in Net Position

Years ended September 30, 2018 and 2017

		2018	2017 (as restated)
Operating revenues:			
Net patient service revenue, net of provision for bad debts of $162,730,098 in 2018 and $163,278,669 in 2017	$	861,236,665	772,201,300
Other revenue		19,884,691	20,877,688
Total operating revenues		881,121,356	793,078,988
Operating expenses:			
Salaries, wages and fringe benefits		430,586,007	393,902,523
Supplies		180,213,886	162,304,420
Purchased services		100,530,004	98,348,027
Professional fees		25,624,227	24,641,190
State of Florida medical assistance assessment		10,427,911	9,676,205
Depreciation and amortization		48,798,307	42,522,959
Total operating expenses		796,180,342	731,395,324
Operating income		84,941,014	61,683,664
Nonoperating items:			
Ad valorem tax		54,313,958	50,663,808
Interest expense		(15,556,104)	(14,260,410)
Interest rate swap receipts, net		1,594,999	699,621
Bond issue costs		(3,016,338)	—
Loss on defeasance		(3,860,311)	—
Investment income		16,816,734	13,644,371
Unrealized gains and losses on investments, net		(16,862,278)	(11,966,536)
Change in fair value of ineffective interest rate swaps		(798,315)	(2,682,182)
Other nonoperating income		2,132,385	1,459,629
Total nonoperating items		34,764,730	37,558,301
Excess of revenues over expenses		119,705,744	99,241,965
Other changes in net position:			
Contributions restricted for capital purposes		806,623	670,341
Increase in net position		120,512,367	99,912,306
Net position, beginning of year, as restated (Note 1(d))		1,029,297,811	929,385,505
Net position, end of year	$	1,149,810,178	1,029,297,811

See accompanying notes to financial statements.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Statements of Cash Flows

Years ended September 30, 2018 and 2017

	2018	2017 (as restated)
Cash flows from operating activities:		
Received from patient care services	$ 855,012,696	766,325,246
Received from nonpatient sources	20,718,136	19,604,426
Payments to employees	(428,016,037)	(384,981,302)
Payments to suppliers	(319,796,022)	(293,249,702)
Net cash provided by operating activities	127,918,773	107,698,668
Cash flows from noncapital financing activities:		
Ad valorem taxes	54,313,958	50,663,808
Net cash provided by noncapital financing activities	54,313,958	50,663,808
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	350,000,000	—
Premium on issuance of long-term debt	6,653,412	—
Payment of bond issue costs	(3,016,338)	—
Proceeds from donations restricted for capital purposes	804,123	660,341
Interest rate swap payments paid, net	(23,260)	(738,803)
Purchases of capital assets	(65,792,842)	(59,583,791)
Proceeds from disposals of capital assets	4,700	16,500
Interest payments	(12,222,747)	(11,921,112)
Repayment of long-term debt	(89,085,000)	(11,345,000)
Loss on defeasance	(3,860,311)	—
Net cash provided (used) in capital and related financing activities	183,461,737	(82,911,865)
Cash flows from investing activities:		
Investment income received	17,317,867	13,876,073
Purchase of investments	(698,558,801)	(299,859,828)
Proceeds from sales and maturities of investments	337,963,876	221,085,162
Net cash used in investing activities	(343,277,058)	(64,898,593)
Increase in cash and cash equivalents	22,417,410	10,552,018
Cash and cash equivalents, beginning of year	29,289,811	18,737,793
Cash and cash equivalents, end of year	$ 51,707,221	29,289,811
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	$ 50,216,905	27,823,710
Cash and cash equivalents in restricted investments	1,490,316	1,466,101
Total cash and cash equivalents	$ 51,707,221	29,289,811
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 84,941,014	61,683,663
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	48,798,307	42,522,959
Provision for bad debts	162,730,098	163,278,669
Changes in:		
Patient accounts receivable	(167,904,358)	(171,794,731)
Other current and noncurrent assets	3,312,141	8,367,115
Current liabilities and other liabilities	(3,958,429)	3,640,993
Net cash provided by operating activities	$ 127,918,773	107,698,668
Noncash capital and related financing activities:		
Accrued purchases of capital assets	$ 2,744,937	5,406,618
Unrealized losses on investments, net	(16,862,278)	(11,966,536)
Change in equity investment	981,345	976,913

See accompanying notes to financial statements.

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

(a) Operations and Organization

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

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

(b) Mission Statement

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

(c) Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Accounting Standards

The District recognizes revenues and expenses on the accrual basis of accounting in accordance with the standards established by the Governmental Accounting Standards Board (GASB).

Effective for periods beginning after June 15, 2017, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multi-Employer Plans*. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense related to postemployment benefits other than pensions provided to employees of state and local governmental employers. Note disclosure and required supplementary information requirements are also addressed in GASB 75. GASB 75 requires the liability of employers to employees for postemployment benefits other than pensions (OPEB) to be measured as the portion of the present value of projected benefit payments to be provided through an OPEB plan to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of an OPEB plan's fiduciary net position. Changes made to comply with this statement are reported as an adjustment of prior periods and financial statements presented for the periods affected are restated. The District implemented GASB 75 in the fiscal year ended September 30, 2018. As a result of implementation, net position was reduced by $4,528,457 at September 30, 2016 from $933,913,962 to $929,385,505. Salaries, wages and benefits decreased $51,194 for the year ended September 30, 2017 as a result of implementation and accordingly the previously reported increase in net position for the year ended September 30, 2017 increased from $99,861,111 to $99,912,306. A total OPEB liability of $10,348,597 and $10,036,685 was recorded as of September 30, 2018 and 2017, respectively, and is included in other long-term liabilities on the balance sheet. The total OPEB liability of $5,545,603 as of September 30, 2016 was increased by $4,936,562 to $9,585, 608. As a result of the implementation of GASB 75, the District reported deferred outflows of resources of $101,463 and $9,820 at September 30, 2018 and 2017, respectively, and deferred inflows of resources of $277,660 and $0 at September 30, 2018 and 2017, respectively.

Effective for periods beginning after June 15, 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* (GASB 86). This Statement establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the purpose of extinguishing debt. When the trust meets certain criteria, GASB 86 requires that debt no longer be reported as a liability in the financial statements. Any difference between the reacquisition price and the net carrying amount of the debt, together with any deferred outflows or inflows of resources from prior refundings, should be recognized as a separately identified gain or loss in the period of in-substance defeasance. The District implemented GASB 86 in the fiscal year ended September 30, 2018. As a result of implementation, the Series 2009A bonds were recognized as defeased and the debt is not reported as a liability in the September 30, 2018 balance sheet. In addition, a loss on defeasance of $3,860,911 is included in the Statement of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2018.

(e) Community Programs

The District is a public health care provider established to meet the needs of Sarasota County. Accordingly, services are being provided to the community at no charge or for which only partial payments are received. The following is a summary of the cost, net of actual and estimated reimbursements, if any, of the District's community programs provided during the years ended September 30, 2018 and 2017:

		2018	2017
Bad debts	$	29,913,109	31,755,600
Traditional charity care		18,493,894	15,664,526
Medicare losses		39,532,587	36,424,451
Medicaid losses		31,587,905	20,864,573
Trauma and Emergency care center call pay and subsidies		8,920,384	8,960,455
Anesthesiologist, hospitalist, and psychiatric coverage		8,603,063	7,657,250
Clinics and other community programs		3,237,407	3,289,058
Indigent care fund payments		10,427,911	9,676,205
	$	150,716,260	134,292,118

The District provides traditional charity care to those patients who meet certain criteria under its charity care policy. A patient is classified as a charity patient by reference to certain established policies of the District. Amounts determined to qualify as traditional charity care are not reported as revenue. Included in bad debts are estimated community support costs of $11,517,000 and $11,915,000 for the years ended September 30, 2018 and 2017, respectively. Community support recognizes the cost of providing care for those patients that met other financial criteria which indicated an economic hardship and inability to pay for their services, but who either did not meet the strict eligibility requirements for traditional charity care or who did not complete all necessary paperwork to qualify for traditional charity care.

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

(f) Net Patient Service Revenue

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

The difference between customary charges and the contractually established rates is accounted for as a contractual adjustment. The District's customary charges, contractual adjustments, and provision for bad debts for the years ended September 30, 2018 and 2017 are as follows:

		2018	2017
Gross patient charges	$	4,249,943,216	3,700,330,046
Contractual adjustments		(3,225,976,453)	(2,764,850,077)
Provision for bad debts		(162,730,098)	(163,278,669)
Net patient service revenue	$	861,236,665	772,201,300

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

(i) Medicare

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

The Hospital's Medicare cost reports have been audited and final settlements determined by the Medicare intermediary for all years through September 30, 2016. Retroactive adjustments for cost reports and other settlements are accrued on an estimated basis in the period when the related services are rendered and adjusted in future periods when final settlements are determined.

(ii) Medicaid

Effective May 1, 2014, the Florida Medicaid program implemented a new system through which Medicaid enrollees receive services. The program is called the Statewide Medicaid Managed Care Medical Assistance Program. The program is comprised of several types of managed care plans including Health Maintenance Organizations, Provider Service Networks, and a Children's Services Network. The program is designed to emphasize patient centered care, personal responsibility and active patient participation, provide for fully integrated care through alternative delivery models with access to providers and services through a uniform statewide program, and implement innovations in reimbursement methodologies, plan quality and plan accountability. Most Medicaid recipients must enroll in the program. Providers and the managed care plans negotiate mutually agreed upon rates and terms of payment for the provision of services as part of the contract between the provider and the managed care plan. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Unless stated in the law, managed care plans do not have to pay in the same way that providers are paid under the fee for service Medicaid program. Before implementation of this system, reimbursement was cost-based subject to ceilings and limits. Final settlement was determined through the Medicaid Cost Report. The State completed rate setting audits for these cost based years through June 30, 2014.

Final combined Medicare and Medicaid amounts estimated related to prior years resulted in an increase in net patient service revenue of $3,423,642 and $633,077 for the years ended September 30, 2018 and 2017, respectively.

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

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

Provisions have been recorded in the financial statements for open cost report years through 2018.

(iii) Other

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

(g) Cash and Cash Equivalents

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

(h) Investments and Investment Income

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

(i) Inventories of Supplies

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

(j) Capital Assets

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

	Estimated useful lives (years)
Land improvements	3–25
Buildings	5–50
Leasehold improvements	3–25
Moveable equipment	2–25

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

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

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

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

(l) Other Noncurrent Liabilities

Other noncurrent liabilities consist of State of Florida medical assistance assessment and unearned revenue and other long-term liabilities. The changes in other noncurrent liabilities for the years ended September 30, 2018 and 2017 are as follows:

		2018				
		Beginning balance	Accrual/ assessments	Payments	Ending balance	Amounts due within one year
State of Florida medical assistance assessment	$	13,379,117	10,427,911	(8,948,286)	14,858,742	9,643,787
Other long-term liabilities		39,848,122	5,605,874	(1,804,531)	43,649,465	3,855,277
Total	$	53,227,239	16,033,785	(10,752,817)	58,508,207	13,499,064

		2017				
		Beginning balance	Accrual/ assessments	Payments	Ending balance	Amounts due within one year
State of Florida medical assistance assessment	$	12,316,311	9,386,253	(8,323,447)	13,379,117	8,685,991
Other long-term liabilities, restated		36,040,634	5,905,783	(2,098,295)	39,848,122	3,999,905
Total	$	48,356,945	15,292,036	(10,421,742)	53,227,239	12,685,896

(m) Pensions

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

(n) Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated paid time off (PTO A) balances for vacations, holidays, personal needs and sickness and unpaid, accumulated and vested short term disability leave (PTO B) balances. PTO A is earned by eligible employees at varying rates, up to a maximum balance of 320 hours. The unused balance of PTO A is paid at time of employment termination. The liability for PTO A has been calculated based on the unused hours and current rates of pay for each employee and is included in employee compensation and benefits payable on the balance sheets. PTO B is earned by eligible employees up to a maximum balance of 800 hours. Employees hired prior to October 1, 1998 who terminate with ten years minimum years of service are vested in PTO B and will receive one half of accumulated unused PTO B hours. Employees hired on or after October 1, 1998 will not receive any accumulated hours in PTO B. The liability for PTO B has been calculated for vested employees based on half of the unused hours and current rates of pay for each employee. The current and noncurrent portions are estimated based on historical payment experience. The current portion is included in employee compensation and benefits payable on the balance sheets. The noncurrent portion is included in other long-term liabilities on the balance sheets.

(o) Net Position

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

(p) Operating Revenues and Expenses

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

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

(q) Income Taxes

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

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

(r) Ad Valorem Taxes

Tax monies received are based on assessments by the District to Sarasota County real property owners for purposes stated in the Millage resolutions. Ad valorem taxes are recorded in the period for which the taxes are levied and amounted to $54,313,958 and $50,663,808 for the years ended September 30, 2018 and 2017, respectively.

(s) Derivative Instruments

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

(t) Impairment of Long-Lived Assets

Management evaluates whether there has been a significant unexpected decline in the utility of a capital asset that could indicate an impairment in the capital asset. If there is an indication that the asset may be impaired, the District follows GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, to determine if the impairment loss should be recognized. The amount of impairment, if any, is determined by comparing the historical carrying value of the asset to the valuation method which most appropriately reflects the decline in service utility of the capital asset. The District concluded that no impairments existed as of September 30, 2018 and 2017.

(2) Cash and Investments

(a) Cash Deposits

For the years ended September 30, 2018 and 2017, the District’s governmental bank balances are held in accounts protected under Chapter 280, Florida Statutes in institutions classified as qualified public depositories. The District’s nongovernmental bank balances of $3,870,987 and $2,057,784 were covered by federal depository insurance to the applicable limits for the years ended September 30, 2018 and 2017, respectively.

(Continued)

(b) Investments

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

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

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

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

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

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

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

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

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

Although the policy typically prohibits U.S. Government Agency investment maturities greater than 10 years, for asset-backed or similar securities the investment policy limitation is based on weighted average life rather than maturity. At September 30, 2018, the weighted average life was less than 10 years. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy provides guidelines for its fund managers and lists specific allowable investments. The policy provides for the utilization of varying styles of managers so that portfolio diversification is maximized and total portfolio efficiency is enhanced. GASB No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, requires that disclosure be made as to the credit quality ratings of investments in debt securities except for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. As of September 30, 2018, the credit rating agency ratings of the District's investments range from A – to AAA except for the corporate bond noted below, which was rated at Baa1 by Moody's and BBB+ by Standard and Poors. As of September 30, 2017, the credit rating agency ratings of the District's investments ranged from A – to AAA.

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

The investment policy limits corporate debt investments to interest-bearing bonds, debentures, and other such evidence of indebtedness with a fixed maturity of any domestic corporation within the United States which is listed on any one or more of the recognized national stock exchanges in the United States and conforms with the periodic reporting requirements under the Securities Exchange Act of 1934. Such obligation shall either carry ratings in one of the three highest classifications of at least two nationally recognized debt rating agencies; or be secured by a letter of credit provided by a commercial bank, which bank or its holding company carries a credit rating in one of the three highest alphabetical categories from at least two nationally recognized debt rating agencies. As of September 30, 2018, at the request of its investment manager, a specific temporary exception to the policy limits was approved for one corporate bond in the amount of $999,189. As of September 30, 2017, there were no exceptions to the policy limits.

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

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

At September 30, 2018, the District's governmental deposits and investments were not exposed to custodial credit risk since the full amount was insured or registered, or securities held by the District or its agent, in the District's name. The District's investment policy states that District securities be held with a third-party custodian and all securities purchased by, and all collateral obtained by, the District shall be properly designated as an asset of the District. Other entities of the District have deposits in a financial institution in excess of federally insured limits and which are not collateralized.

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. Disclosure is required for investments in any one issuer that represent 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The District's investment policy states that no single corporate fixed income issuer shall represent more than 10% of the portfolio. The policy further states that the District's investments shall be diversified to the extent practicable to control the risk of loss resulting from over concentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which financial instruments are bought and sold. At September 30, 2018 and 2017, there were no investment holdings above the applicable concentration of credit risk limits.

(Continued)

(3) Restricted Investments and Board Designated Investments

Restricted investments and board designated investments as of September 30, 2018 and 2017 are as follows:

		2018	2017
Under bond indenture agreements held by trustees, at fair value plus accrued interest, held for:			
Payment of principal and interest	$	507,438	275,060
Project funds		349,219,229	—
Bond issue costs		100,015	—
		349,826,682	275,060
Restricted funds designated by donors or grantors, at fair value plus accrued interest, held for:			
Specific purposes		142,992	184,955
Plant replacement and expansion		2,502,817	2,476,103
		2,645,809	2,661,058
Total restricted investments	$	352,472,491	2,936,118
Unrestricted funds designated by the Board, at fair value plus accrued interest, held for:			
Capital improvements	$	826,403,640	831,396,423

(4) Fair Value Measurements

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the inputs used in valuation and gives the highest priority to unadjusted quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuations are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, to unobservable inputs.

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

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

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

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each investment. The tables below show the fair value leveling of the System's board designated investments as of September 30, 2018 and 2017.

	2018			
	Fair value measures using			
Investments by fair value level	**Quoted prices in active markets for identical assets Level 1**	**Significant other observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
Obligations:				
U.S. government securities	$ 160,607,554	—	—	160,607,554
U.S. government agency securities	—	206,877,371	—	206,877,371
Corporate bonds	—	386,428,511	—	386,428,511
Municipal securities	—	23,186,490	—	23,186,490
Cash equivalents	49,303,714	—	—	49,303,714
Total board designated investments by fair value level	$ 209,911,268	616,492,372	—	826,403,640

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

(Continued)

The tables below show the fair value leveling of the System's restricted investments as of September 30, 2018 and 2017.

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

	2017			
	Fair value measures using			
Investments by fair value level	**Quoted prices in active markets for identical assets Level 1**	**Significant other observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
Cash equivalents	$ —	1,466,101	—	1,466,101
Total restricted investments by fair value level	$ —	1,466,101	—	1,466,101

The above tables exclude certain assets classified as restricted investments on the District's balance sheets, and total to $350,982,175 and $1,470,017 as of September 30, 2018 and 2017, respectively. Such other assets include trustee-held bond funds at September 30, 2018, are valued at cost, and, therefore, are not included in the leveling tables above.

(Continued)

The tables below show the fair value leveling of the System's assets related to deferred compensation arrangements which are included in other long term assets in the accompanying balance sheets as of September 30, 2018 and 2017.

	2018			
	Fair value measures using			
Investments by fair value level	**Quoted prices in active markets for identical assets Level 1**	**Significant other observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
Mutual funds	$ 16,631,851	—	—	16,631,851
Total deferred compensation investments by fair value level	$ 16,631,851	—	—	16,631,851

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

The tables below show the fair value leveling of the System's derivative instruments as of September 30, 2018 and 2017.

		2018			
		Fair value measures using			
Investments by fair value level		**Quoted prices in active markets for identical assets Level 1**	**Significant other observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
Interest rate swap assets	$	—	21,726,847	—	21,726,847
Interest rate swap liabilities	$	—	(11,512,757)	—	(11,512,757)

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

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

(5) Capital Assets

The changes in capital assets for the years ended September 30, 2018 and 2017 are as follows:

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

	2017				
	Beginning balance	Additions	Transfers in/ transfers out	Disposals	Ending balance
Nondepreciable:					
Land	$ 52,537,025	—	—	—	52,537,025
Land held for future expansion	26,924,385	344,688	—	—	27,269,073
Construction in progress	47,512,207	34,648,203	(65,926,900)	—	16,233,510
Total nondepreciable	126,973,617	34,992,891	(65,926,900)	—	96,039,608
Depreciable:					
Land improvements	10,568,524	67,132	3,895	—	10,639,551
Buildings	554,558,002	1,531,716	49,535,477	—	605,625,195
Leasehold improvements	5,899,208	45,291	—	(11,871)	5,932,628
Moveable equipment	346,723,175	14,480,352	16,387,528	(7,438,855)	370,152,200
Total depreciable	917,748,909	16,124,491	65,926,900	(7,450,726)	992,349,574
	1,044,722,526	51,117,382	—	(7,450,726)	1,088,389,182
Less accumulated depreciation	(461,403,000)	(42,522,959)	—	7,438,367	(496,487,592)
Capital assets, net	$ 583,319,526	8,594,423	—	(12,359)	591,901,590

The District has expansion and renovation programs involving various Hospital departments, patient care areas, ambulatory centers and support services. Total estimated cost to complete all projects in progress is approximately $686.7 million as of September 30, 2018, including $436.2 for a new hospital campus in Venice; $190.9 million to complete a comprehensive cancer center on the main campus; $26.3 million for a radiation oncology facility; $7.7 million for completion of renovations on the ninth and tenth floors of a main campus bed tower; and $5.3 million for completion of a new parking garage on the main campus.

(6) Long-Term Debt

The District was obligated under long-term debt as of September 30, 2018 and 2017 as follows:

		2018	2017
Sarasota County Public Hospital District, Municipal Inflation Linked Exempt Bonds Series 1997A, $5,000,000 due October 1, 2020 and $10,000,000 due October 1, 2021. Interest paid semi-annually in the sum of 2.05% plus or minus a floating rate which will increase or decrease each semi-annual period based on the Consumer Price Index, as defined. Both components of the interest rates totaled 5.39% at September 30, 2018.	$	15,000,000	15,000,000
Sarasota County Public Hospital District, Fixed Rate Hospital Revenue Refunding Bonds, Series 1998B, due in annual amounts through 2028 at annual interest rates from 5.25% to 5.50%.		90,000,000	93,000,000
Sarasota County Public Hospital District, Variable Rate Demand Hospital Revenue Refunding Bonds, Series 2008B, due in annual amounts through 2037 at variable interest rates, 1.55% at September 30, 2018.		60,625,000	63,700,000
Sarasota County Public Hospital District, Fixed Rate Hospital Revenue Bonds, Series 2009A, due in annual amounts through 2039 at interest rates from 5.0% to 5.625% (less unamortized bond issuance discount in the amount of $0 and $1,873,749 at September 30, 2018 and 2017, respectively).		—	77,211,251
Direct bank note payable to Northern Trust Company, due in annual amounts through 2037. Interest payable monthly at a rate of 80% of Libor plus 50 basis points, 2.23% at September 30, 2018.		66,775,000	67,825,000
Direct bank note payable to DNT Asset Trust, due in annual amounts through 2037. Interest payable monthly at a rate of 79% of Libor plus 65 basis points, 2.31% at September 30, 2018.		60,900,000	63,775,000
Sarasota County Public Hospital District, Fixed Rate Hospital Revenue Bonds, Series 2018, due in amounts through 2048. at interest rates from 3% to 5% (plus unamortized bond issuance premium in the amount of $6,653,412 at September 30, 2018).		356,653,412	—
		649,953,412	380,511,251
Less current portion		(10,375,000)	(11,770,000)
	$	639,578,412	368,741,251

Long-term debt activity for the years ended September 30, 2018 and 2017 was as follows:

	2018				
	Beginning balance	**Additions**	**Reductions**	**Ending balance**	**Amounts due within one year**
Hospital Revenue Refunding Fixed Rate Bonds (1998B)	$ 93,000,000	—	(3,000,000)	90,000,000	3,000,000
Municipal Inflation Linked Exempt Variable Rate Bonds (1997A)	15,000,000	—	—	15,000,000	—
Hospital Revenue Variable Rate Demand Bonds (2008B)	63,700,000	—	(3,075,000)	60,625,000	3,200,000
Hospital Revenue Fixed Rate Bonds (2009A)	79,085,000	—	(79,085,000)	—	—
Direct bank note payable to Northern Trust Company	67,825,000	—	(1,050,000)	66,775,000	1,125,000
Direct bank note payable to DNT Asset Trust	63,775,000	—	(2,875,000)	60,900,000	3,050,000
Hospital Revenue Fixed Rate Bonds (2018)	—	350,000,000	—	350,000,000	—
	382,385,000	350,000,000	(89,085,000)	643,300,000	10,375,000
Plus (less) original issue premium (discount)	(1,873,749)	6,657,870	1,869,291	6,653,412	—
Total long-term debt	$ 380,511,251	356,657,870	(87,215,709)	649,953,412	10,375,000

	2017				
	Beginning balance	**Additions**	**Reductions**	**Ending balance**	**Amounts due within one year**
Hospital Revenue Refunding Fixed Rate Bonds (1998B)	$ 96,000,000	—	(3,000,000)	93,000,000	3,000,000
Municipal Inflation Linked Exempt Variable Rate Bonds (1997A)	15,000,000	—	—	15,000,000	—
Hospital Revenue Variable Rate Demand Bonds (2008B)	66,550,000	—	(2,850,000)	63,700,000	3,075,000
Hospital Revenue Fixed Rate Bonds (2009A)	80,805,000	—	(1,720,000)	79,085,000	1,770,000
Direct bank note payable to Northern Trust Company	68,850,000	—	(1,025,000)	67,825,000	1,050,000
Direct bank note payable to DNT Asset Trust	66,525,000	—	(2,750,000)	63,775,000	2,875,000
	393,730,000	—	(11,345,000)	382,385,000	11,770,000
Less original issue discount	(1,924,113)	—	50,364	(1,873,749)	—
Total long-term debt	$ 391,805,887	—	(11,294,636)	380,511,251	11,770,000

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

	Total	Principal	Interest
Year ending September 30:			
2019	$ 30,390,822	10,375,000	20,015,822
2020	33,939,313	10,775,000	23,164,313
2021	33,974,541	11,220,000	22,754,541
2022	36,379,882	13,875,000	22,504,882
2023	37,398,350	15,000,000	22,398,350
2024-2028	183,824,146	76,125,000	107,699,146
2029-2033	188,667,348	89,860,000	98,807,348
2034-2038	188,872,879	109,840,000	79,032,879
2039-2043	189,517,200	137,490,000	52,027,200
2044-2048	189,517,800	168,740,000	20,777,800
	$ 1,112,482,281	643,300,000	469,182,281

Debt service on the Series 1997A and 1998B Bonds in the above table is based upon the execution of an interest rate exchange agreement in which the District will be paying rates based on the Securities Industry and Financial Markets Municipal Swap Index (SIFMA Index). The assumed rate to calculate debt service is the average rate for the year ended September 30, 2018. Debt service on the direct bank note with Northern Trust Company, the Series 2008B Bonds, and the direct bank note with DNT Asset Trust in the above table is based upon the execution of interest rate exchange agreements in which the District will be paying fixed rates of 3.61%, 3.766%, and 3.697%, respectively. All bonds and bank notes were issued by the District pursuant to a Master Trust Indenture dated September 1, 1996, as supplemented and amended, between the District and U.S. Bank National Association as master trustee. As of September 30, 2018 and 2017, the District was the only member of the obligated group under the Master Trust Indenture; however, members may be admitted to the obligated group or may cease membership in accordance with the terms of the Master Trust Indenture.

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

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

On September 2, 2008, to refinance existing debt, the District issued the $76,875,000 Variable Rate Demand Hospital Revenue Refunding Bonds, Series 2008A bonds, and the $81,725,000 Variable Rate Demand Hospital Revenue Refunding Bonds, Series 2008B bonds. Both of these series were supported by separate bank credit facilities in the form of a direct pay letter of credit. The 2008A letter of credit was no longer needed and cancelled in 2015, as noted below. The 2008B letter of credit expires on October 1, 2022. There were no drawings or loans on the letter of credit during the year ended September 30, 2018.

To reduce exposure to the variable rate demand obligation market, the District refinanced the Series 2008A bonds on April 8, 2015 through a $71,100,000 direct bank loan with Northern Trust. The Series 2008A letter of credit was no longer needed and was cancelled. The bank loan agreement is for a period of ten years, but maintains the same schedule of principal payments from the original refinanced Series 2008A bonds through 2037. The loan agreement called for the District to pay 67% of 1 month LIBOR plus 65 basis points in interest each month. In February 2018, the Tax Cuts and Jobs Act was signed which reduced the corporate tax rate to 21%. This invoked a clause in the agreement to increase the interest by 1.22%. The bank had the option of terminating the note on April 8, 2025. Effective September 28, 2018 the District and Northern Trust negotiated a new variable rate and revised the optional termination date on the bank note. The new rate is 80% of 1 month Libor plus 50 basis points, and the new optional termination date is September 28, 2025.

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

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

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

To reduce exposure to the variable rate demand obligation market, the District refinanced the Series 2009B bonds on April 8, 2015 through a $70,750,000 bank loan with DNT Asset Trust, an affiliate of JP Morgan. The related letter of credit was no longer needed and was cancelled. The bank loan agreement is for a period of ten years, but maintains the same schedule of principal payments from the original refinanced Series 2009B bonds through 2037. The bank had the option of terminating the note on April 8, 2025. The loan agreement called for the District to pay 67% of 1 month LIBOR plus 84 basis points in interest each month. In February 2018, the Tax Cuts and Jobs Act was signed which reduced the corporate tax rate to 21%. This invoked a clause in the agreement to increase the interest rate by 1.22%. Effective September 28, 2018 the District and DNT Asset negotiated a new variable rate and a new optional termination date on the bank note. The new rate is 79% of 1 month Libor plus 65 basis points, and the new optional termination date is April 8, 2028.

(Continued)

On September 24, 2018 the District issued $350,000,000 of Fixed Rate Revenue Bonds, Series 2018, to provide partial funding for a new 90 bed hospital in Venice, Florida, and a new regional cancer institute building on the Hospital's main campus. The bonds were issued with interest rates ranging from 3.0% to 5.0% at yields ranging from 2.68% to 4.13%, resulting in a total net original issuance premium of $6,657,870 which is being amortized using the effective interest method over the life of the bonds which mature in varying amounts through 2048.

The Hospital Revenue Bonds described above are collateralized by a lien on and a pledge of the net revenues of the District and all monies held in funds created by the bond resolution. The debt agreements contain various covenants, which provide for, among other things, the maintenance of specified debt service coverage ratios. Management believes the District was in compliance with all debt covenants at September 30, 2018 and 2017.

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

Approximately $688,000 and $746,000 of interest expense was capitalized in connection with the District's construction programs for the years ended September 30, 2018 and 2017, respectively.

(a) Hedging Derivative Instruments

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

Terms at September 30, 2018:

Associated bond issue	Notional amount of swap	Counterparty	Effective date	District pays	District receives	Termination date	Fair value at September 30, 2018 (1)	Net cash flows during 2018
1998B	$ 90,000,000	Goldman Sachs	9/15/1998	SIFMA	Fixed rates per maturities	7/1/2028	$ 13,183,380	3,264,964
2015 NT Bank Note	66,775,000	Deutsche Bank	11/19/2010	3.610%	67% of 1-month LIBOR	7/1/2037	(10,852,686)	(1,658,621)
2008B	60,625,000	Deutsche Bank	7/3/2013	3.766%	61.7% of 1-month LIBOR plus 0.26%	7/1/2037	(660,071)	(765,790)
2015 DNT Asset Trust Bank Note	60,900,000	U.S. Bank	7/4/2013	3.697%	61.7% of 1-month LIBOR plus 0.26%	6/28/2023	3,425,147	(755,965)

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

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

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

Terms at September 30, 2017:

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

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

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

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

Risks

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

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

Basis risk: The District is exposed to basis risk on its pay-fixed, receive variable interest rate swaps because the variable rate payments received by the District are based on an index other than the interest rates the District pays on its hedged variable rate demand obligations, which are remarketed either daily or weekly, depending on the series. As of September 30, 2018, the average rate on the District's hedged variable rate debt was 2.5% while the LIBOR-based variable receiver rates were 1.39% and 1.65% on the pay-fixed, receive variable interest rate swaps.

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

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

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

Simultaneously with the novations, confirmations were entered into with the new counterparties that modified the terms of the original swaps. The 2008B swap fixed payment rate was increased 16.8 basis points to 3.766% and the counterparty no longer has any option to terminate early. The variable payment rate remains the same at 61.7% of the 1-month LIBOR rate plus 0.26%. The 2008B swap is in the notional amount of $73,000,000 with reductions tied to the Series 2008B Bond principal payments, and the termination date is July 1, 2037.

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

In accordance with GASB No. 53, the novations resulted in a termination of hedge accounting for the replaced Citi swaps. As a result of the terminations of the 2008B and 2009B swaps, losses on termination were recorded in fiscal 2013 in the amounts of $13,739,010 and $13,029,959, respectively. The new swaps were considered to be hybrid instruments consisting of a “companion instrument” and an at-the-market swap. The noncurrent portion of the total companion instrument liability is included in the balance sheets as “long term companion debt, less current portion” and the current portion is included in other accrued expenses. The companion instrument is amortized over the term of the related swaps. During the fiscal year ended September 30, 2018, the amortization of the companion debt resulted in an increase to interest expense of $511,494 and an increase in interest rate swap receipts, net, of 1,451,533. During the fiscal year ended September 30, 2017, the amortization of the companion debt resulted in an increase to interest expense of $531,949 and an increase in interest rate swap receipts, net, of $1,451,534.

In accordance with GASB No. 53, the 2015 refinancing of the Series 2008A and Series 2009B bonds resulted in a termination of hedge accounting for the related Deutsche Bank and U.S. Bank swaps, respectively. As a result, the related deferred effective interest rate swap outflows at April 8, 2015 were reclassified to deferred outflows related to refinancing and are being amortized as interest expense over the related remaining debt service maturity schedule. The amount of amortization for the years ended September 30, 2018 and 2017 was $1,394,222 and $1,394,222, respectively.

Long-term companion debt activity for the year ended September 30, 2018 and 2017 was as follows:

	2018				
	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
2008B Swap companion debt	$ 11,804,816	—	(481,936)	11,322,880	492,722
2015 DNT Asset Trust Bank Note Swap companion debt	11,190,116	—	(458,104)	10,732,012	468,228
Total long-term companion debt	$ 22,994,932	—	(940,040)	22,054,892	960,950

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

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

	Total	Principal	Interest
Year ending September 30:			
2019	$ 1,451,533	960,950	490,583
2020	1,451,534	982,325	469,209
2021	1,451,533	1,004,175	447,358
2022	1,451,534	1,026,512	425,022
2023	1,451,533	1,049,345	402,188
2024–2028	7,257,666	5,607,403	1,650,263
2029–2033	7,257,667	6,258,328	999,339
2034–2038	5,443,247	5,165,854	277,393
	$ 27,216,247	22,054,892	5,161,355

(Continued)

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

(b) Investment Derivative Instruments

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

Terms as of September 30, 2018:

Associated bond issue	Notional amount of swap	Counterparty	Effective date	District pays	District receives	Termination date	Fair value at September 30, 2018 (1)	Net cash flows during 2018
1997A	$ 10,000,000	CitiGroup	6/24/2005	SIFMA Swap index	62.4% of 1-month LIBOR + 0.705%	10/1/2021	$ 137,293	54,791
1997A	15,000,000	Goldman Sachs	11/19/2010	SIFMA Swap index + 0.04%	Floating CPI rate + 2.05%	10/1/2021	864,074	552,093
1998B	84,000,000	CitiGroup	6/24/2005	SIFMA Swap index	62.4% of 1-month LIBOR + 0.757%	7/1/2028	2,108,095	516,973
2015 NT Bank Note	66,775,000	J.P. Morgan	4/24/2003	SIFMA Swap index	67% of 1-month LIBOR plus 0.655%	7/1/2037	2,008,858	386,554

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

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

Terms as of September 30, 2017:

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

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

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

Risks

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

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

Basis risk: The District is exposed to basis risk on its swap in which it pays based on SIFMA and receives a payment based on the six-month change based on the CPI index because the variable rate payments received by the District are based on an index other than the interest rates the District pays on its hedged variable rate demand obligations. As of September 30, 2018, the rate the District paid the counterparty was 1.60% and the rate received was 5.4%.

The District is also exposed to basis risk on the three swaps in which the District payment is based on the SIFMA index and receives a payment based on the one-month LIBOR index. As of September 30, 2018, the SIFMA index was 1.56% and the one-month LIBOR index was 2.26%.

Termination risk: The District or its counterparties may terminate each of the derivative instruments if the other party fails to perform under the terms of the contract. Additionally, the District can terminate the contracts without cause at any time. Any termination of a contract would cause a settlement payment or receipt at the fair value of the instrument.

(7) Retirement Plan

(a) General Information about the Defined Benefit Retirement Plan

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

The Plan is a governmental plan under Internal Revenue Code Section 414(d), which defines a governmental plan as "a plan established and maintained for its employees by the Government of the United States, by the government of any State or political subdivision thereof, or by any agency or instrumentality of any of the foregoing." During the year ended September 30, 2003, the District clarified the status of the Plan as a governmental plan that is exempt from ERISA requirements. The Department of Labor was notified of this clarification through communications with the Pension Benefit Guarantee Corporation. On March 26, 2003, the District formally requested a private letter ruling from the Internal Revenue Service (IRS) confirming the status of the pension plan as a governmental plan. On January 22, 2007, the IRS informed the District that the IRS would not issue letter rulings on whether or not a plan is a "governmental plan" because the IRS intends to publish new guidance regarding the meaning of a "governmental plan". To date, no such guidance has been published and the IRS continues to refuse to rule on whether any particular retirement plan is a "governmental plan" under Internal Revenue Code Section 414(d). However, on November 24, 2010, the IRS confirmed that the plan sponsor (SMH Health Care, Inc.) is a governmental entity. Management believes, based on discussions with legal counsel, that the pension plan is a governmental plan under Internal Revenue Code Section 414(d) and that if this is ever examined by the IRS, a favorable outcome will ultimately be granted. However, if the IRS were to determine that the Plan is not a "governmental plan", it is estimated that no additional contribution would be necessary for the Plan to be 80% funded on an ERISA plan basis (including the changes under the Pension Protection Act which impacts ERISA plans starting with 2008 plan years) as of October 1, 2017. This estimate includes any adjustments for the funding relief legislation passed in July 2012, August 2014, and in November 2015.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Continued)

(b) Employees Covered by Benefit Terms.

At October 1, 2017, the following employees were covered by the benefit terms:

Inactive employees (or their beneficiaries) currently receiving benefits	1,369
Inactive employees entitled to but not yet receiving benefits	516
Active employees	920
	2,805

Contributions. The Board reserves the right at any time, by majority consent in writing or by a meeting, to amend, suspend or terminate the Plan, any contributions thereunder, the Trust or any contract issued by an insurance carrier forming a part of the Plan, in whole or in part and for any reason and without the consent of any Participating Company, Member, other Employee, Beneficiary or Surviving Spouse. Subject to certain provisions, no amendment or modification can be made which would (i) retroactively impair any right to any benefit under the Plan which any Member, Beneficiary or Surviving Spouse would otherwise have had at the date of such amendment by reason of the contributions theretofore made, or (ii) make it possible for any part of the funds of the Plan (other than such part as is required to pay taxes, if any, and administrative expenses as provided in Section 14.4) to be used for or diverted to any purposes other than for the exclusive benefit of Members and their Beneficiaries and Surviving Spouses under the Plan prior to the satisfaction of all liabilities with respect thereto. Subject to the above, the District contributes to the Plan, the amounts recommended by the Actuary as necessary to maintain the Plan on a sound actuarial basis, in accordance with Florida law and the Internal Revenue Service Code. The District contributed $10,824,970 and $12,139,689, during the years ended September 30, 2018 and 2017, respectively. The Plan recognized contributions of $12,139,689 and $14,551,924, as additions to the Plan’s fiduciary net position during the fiscal years ended September 30, 2018 and 2017, respectively.

(c) Net Pension Liability

The District’s net pension liability at September 30, 2018 was measured as of September 30, 2017 using an actuarial valuation as of October 1, 2016. The District's net pension liability at September 30, 2017 was measured as of September 30, 2016 using an actuarial valuation as of October 1, 2015. The total pension liabilities used to calculate the net pension liability were determined by an actuarial valuation as of October 1, 2016 and 2015 rolled-forward to September 30, 2017 and 2016, respectively, using standard roll-forward techniques.

Actuarial assumptions. The total pension liability in the October 1, 2016 and 2015 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 %
Investment rate of return	7.00

Salary increases, 2018

Based on actual plan experience	
Age	**% increase at attained age**
Less than 35	5.00 %
35-49	4.50
50-54	4.00
55-59	3.50
60 or older	3.00

Salary increases, 2017

Based on actual plan experience	
Age	**% increase at attained age**
Less than 30	6.50 %
30–44	6.00
45–54	5.00
56 or older	4.00

Healthy and disabled mortality rates were based on the RP-2014 healthy and disabled mortality tables for males and females, respectively, with the MP-2014 projection scale backed out to 2006 and then projected forward generationally using Scale BB (male). The long-term expected rate of return on retirement plan investments was determined using the October 1, 2017 Willis Towers Watson

U.S. Capital Market assumptions investment return model. The Plan asset allocation and long-term rate of return as of September 30, 2017 was:

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

Based on the target allocation, the mean return over 15 and 20 years ranged from 6.90% to 7.00%, respectively. The median return over 15 and 20 years ranged from 6.95% and 7.00%, respectively.

Discount rate. The discount rate used to determine the actuarial accrued liability for funding and the total pension liability for expense is equal to the expected return on assets of 7.0%. The projection of cash flows used to determine the discount rate was based on expected benefit payments and employer contributions based on the actuarially determined contributions. Based on those assumptions, the pension plan fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long term expected rate of return on retirement plan investments was applied to all periods of projected benefit payments to determine the total pension liability and does not incorporate a municipal bond rate.

(d) Changes in the Net Pension Liability

		Increase (decrease)	
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (c)
Balances at September 30, 2016	$ 359,861,225	316,809,892	43,051,333
Changes for the year:			
Service cost	9,619,975	—	9,619,975
Interest	24,231,700	—	24,231,700
Demographic (gains)/losses	(520,626)	—	(520,626)
Change in actuarial assumptions	(2,669,926)	—	(2,669,926)
Net investment income	—	30,898,892	(30,898,892)
Contributions-employer	—	14,551,924	(14,551,924)
Benefits payments	(21,007,051)	(21,007,051)	—
Administrative expense	—	(388,330)	388,330
Net changes	9,654,072	24,055,435	(14,401,363)
Balances at September 30, 2017	369,515,297	340,865,327	28,649,970
Changes for the year:			
Service cost	8,237,830	—	8,237,830
Interest	25,040,903	—	25,040,903
Demographic (gains)/losses	(3,234,518)	—	(3,234,518)
Change in actuarial assumptions	493,692	—	493,692
Net investment income	—	35,432,192	(35,432,192)
Contributions-employer	—	12,139,689	(12,139,689)
Benefits payments	(18,094,587)	(18,094,587)	—
Administrative expense	—	(280,241)	280,241
Net changes	12,443,320	29,197,053	(16,753,733)
Balances at September 30, 2018	$ 381,958,617	370,062,380	11,896,237

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the District, calculated using the discount rate of 7.0%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease (6.0)%	Current discount (7.0)%	1% Increase (8.0)%
District's net pension liability, 2018	$ 44,377,952	11,896,237	(15,920,944)

		1% Decrease (6.0)%	Current discount (7.0)%	1% Increase (8.0)%
District's net pension liability, 2017	$	61,024,664	28,649,970	935,355

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

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

The District recognized pension expense of $8,328,752 and $13,816,537, respectively, for the years ended September 30, 2018 and 2017 and is included in salaries, wages and fringe benefits on the statement of revenues, expenses, and changes in net position. At September 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		2018	
		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	—	3,451,874
Changes in assumptions		4,802,302	1,334,962
Net difference between projected and actual earnings on pension plan investments		—	4,224,731
Contributions made by the District during the year ended September 30, 2018		10,824,970	—
	$	15,627,272	9,011,567

District contributions subsequent to the measurement date of $10,824,970 will be recognized as a reduction of the net pension liability during the fiscal year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:		
2019	$	557,389
2020		2,468,275
2021		(4,866,331)
2022		(2,368,598)
	$	(4,209,265)

At September 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

(f) General Information about the Defined Contribution Plan

Employees hired on or after October 1, 2009 participate in a defined contribution plan named the SMHCS Retirement Savings Plan (RSP Plan), whereby the District contributes a stated percentage of qualified earnings into the RSP Plan. The stated contribution rate for the fiscal years ended September 30, 2018 and 2017 was 4.0% of qualified earnings and does not require a matching contribution by the employee. The expense of the RSP Plan for the years ended September 30, 2018 and 2017 was $6,512,893 and $5,730,367, respectively, and is included in salaries, wages and fringe benefits on the statements of revenues, expenses and changes in net position.

(8) Postemployment Benefits Other Than Pensions (OPEB)

(a) General Information about postemployment benefits

Plan description and benefits provided. The District provides other postemployment health care benefits (OPEB Plan) to all employees who retire from the District under the OPEB Plan after 20 or more years of service, 41,600 or more total hours of service and age 55, or after 30 years of service. Premiums paid by retirees are based on the projected average plan cost of the District's self-insured health benefit program for the year.

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

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

Contributions. The OPEB Plan is funded on a pay as you go basis. The District may make additional contributions as desired. No additional contributions have been made to date.

(b) ***Employees covered by benefit terms.*** At October 1, 2016, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	653
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	4,323
	4,976

(c) Total OPEB liability

The District's total OPEB liability of $10,348,597 at September 30, 2018 was measured as of September 30, 2017 using an actuarial valuation as of October 1, 2016. The District's total OPEB liability of $10,036,685 at September 30, 2017 was measured as of September 30, 2016 using an actuarial valuation as of October 1, 2015. Liabilities measured as of September 30, 2017 and 2016 were projected from the valuation dates using standard roll-forward methodology.

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

Salary increases	Age Graded Rates:	
	Age	% increase at attained age
	Less than 25	6.00%
	25-34	5.00%
	35-49	4.50%
	50-59	3.50%
	60-64	3.00%
	65 and older	2.50%
Discount Rate, 2017		3.10%
Discount Rate, 2018		3.50%
Current Health Care Cost Trend Rate, 2017		7.25%
Current Health Care Cost Trend Rate, 2018		7.00%
Ultimate Health Care Cost Trend Rate		5.00%
Year of Ultimate Trend Rate		2024
Participation Assumptions		
Medical Coverage		35.00%
Medical Dependent Coverage, 2017		25.00%
Medical Dependent Coverage, 2018		20.00%

The discount rates for 2018 and 2017 were based on a 20-year municipal bond rate as of the Measurement Date. The change in discount rate from 2017 to 2018 is reflected as a Changes in Assumptions in the following table. The discount rates used in these valuations were determined using the 20-year yields on the Fidelity AA Municipal General Obligation Fund. Mortality rates were based on RP-2014 Healthy morality table for male or females, as appropriate, with adjustment backward to 2006 with MP-2014, generationally projected using Scale BB. The actuarial assumptions used in September 30, 2017 valuation with the measurement period ending on October 1, 2016 were based on the results of a 4-year actuarial study based on pay and participant data from 2012 through 2016.

(Continued)

(d) Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at September 30, 2016 (as restated)	$ 9,585,608
Changes for the year:	
Service cost	272,925
Interest cost	298,742
Changes of benefit terms	-
Differences between expencted and actual experience	-
Changes of assumptions	-
Benefit payments	(120,590)
Net changes	451,077
Balance at September 30, 2017 (as restated)	10,036,685
Changes for the year:	
Service cost	290,331
Interest cost	348,432
Changes of benefit terms	-
Differences between expencted and actual experience	99,459
Changes of assumptions	(416,490)
Benefit payments	(9,820)
Net changes	311,912
Balance at September 30, 2018	$ 10,348,597

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

	1% Decrease (2.5%)	Discount Rate (3.5%)	1% Increase (4.5%)
Total OPEB Liability	$ 12,156,844	$ 10,348,597	$ 8,929,031

The following presents the total OPEB liability of the District as of September 30, 2017, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.1 percent) or 1-percentage-point higher (4.1 percent) than the current discount rate:

	1% Decrease (2.1%)	Discount Rate (3.1%)	1% Increase (4.1%)
Total OPEB Liability	$ 11,839,247	$ 10,036,685	$ 8,628,839

(Continued)

Sensitivity of total OPEB liability to changes in healthcare cost trend rates. The following presents the total OPEB liability of the District as of September 30, 2018, as well as what the district's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.0 percent decreasing to 4.0 percent) or 1-percentage-point higher (8.0 percent decreasing to 6.0% percent) than the current healthcare cost trend rates:

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

The following presents the total OPEB liability of the District as of September 30, 2017, as well as what the district's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.5 percent decreasing to 4.5 percent) or 1-percentage-point higher (8.5 percent decreasing to 6.5% percent) than the current healthcare cost trend rates:

	1% Decrease (6.5% decreasing to 4.5%)	Healthcare Cost Trend Rates (7.5% decreasing to 5.5%)	1% Increase (8.5% decreasing to 6.5%)
Total OPEB Liability	$ 10,446,276	10,036,685	9,682,672

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

For the years ended September 30, 2018 and 2017, the District recognized OPEB expense of $533,086 and $571,667, respectively. At September 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 66,306	$ -
Changes in assumptions	-	277,660
Benefit payments made by the District during the year ended September 30, 2018	35,157	-
	$ 101,463	$ 277,660

Deferred outflows of resources resulting form benefit payments made by the District during the year ended September 30, 2018 will be recognized as a reduction of the total OPEB liability in the year ending September 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:	
2019	$ (105,677)
2020	(105,677)
	$ (211,354)

The total OPEB liability is included in other long-term liabilities in the balance sheets.

At September 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2017 Deferred Outflows of Resources
Differences between expected and actual experience	$ -
Changes in assumptions	-
Benefit payments made by the District during the year ended September 30, 2017	9,820
	$ 9,820

(9) Related Organizations

The District is related to various organizations through several provisions contained in the articles of incorporation and bylaws of the entities. These related organizations are not component units of the District because while they are legally separate, the District does not appoint the voting majority of the organizations' Boards, they are not fiscally dependent on the District, the District does not have access to the entities' resources nor is it responsible for the entities' debts, and it would not be misleading to not include the entity as a component unit. Net amounts due from/to these related organizations and investments in related organizations as of September 30, 2018 and 2017 are as follows:

	2018	2017
Current assets:		
Community Health Corporation	$ 1,428	1,499
Physician Hospital Organization, Inc.	58,089	71,565
LeeSar Inc.	1,070,000	1,070,000
Total current assets	$ 1,129,517	1,143,064
Noncurrent assets (included in other assets):		
Investment in LeeSar Inc.	$ 19,584,538	18,603,193
Total noncurrent assets	$ 19,584,538	18,603,193
Current liabilities:		
Other	$ 1,261	192
Total current liabilities	$ 1,261	192

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

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

During 1998, the Hospital entered into a joint venture with another southwest Florida area governmental hospital. The purpose of the joint venture was to develop a regional service center, LeeSar HealthTrust Partners, L.C. (LeeSar), to meet the materials services and distribution needs of both hospitals. The hospitals agreed to fund initial costs of opening LeeSar and working capital needs through an established line of credit. Each hospital provided a revolving credit loan not to exceed $3,000,000 to assist in funding LeeSar purchases, capital costs, and operational costs. The terms of the amended agreement stated the entire principal and accrued interest would be due and payable on September 30, 2005. The District voted in November 2003 to convert the LeeSar loan to an equity form of investment, effective September 30, 2003, due to LeeSar's inability to repay the loan under the current terms. Each organization had a 50% ownership interest through the year ended September 30, 2010. During 2010, the partners sold 5.555% each, of their respective ownership interest to a central Florida hospital. As a result, the Hospital now has a 44.445% ownership interest. The Hospital is accounting for the joint venture under the equity method of accounting. LeeSar's excess of revenues over expenses was approximately $2,208,000 and $2,198,000 for the years ended September 30, 2018 and 2017, respectively. Effective October 1, 2009, LeeSar Healthtrust Partners, L.C. merged with LeeSar Inc. LeeSar Inc., the surviving corporation, is a 501(c)(3) not-for-profit Florida corporation.

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

The District has pledges receivable from the Foundation of approximately $1,155,000 and $1,195,000 which are included in restricted investments as of September 30, 2018 and 2017, respectively. The District received $2,384,000 and $3,004,000 from the Foundation during the years ended September 30, 2018 and 2017, respectively.

(10) Malpractice Insurance

The District is subject to malpractice claims and litigation. Losses incurred have been estimated and accrued in the accompanying financial statements. The District is potentially liable for losses in excess of amounts accrued. However, in management's opinion, such excess, if any, should not have a material adverse effect on the results of operations or financial position of the District. Effective September 12, 1986, the District, as a "state agency or subdivision," eliminated its malpractice insurance coverage and invoked sovereign immunity for medical malpractice claims in excess of $100,000 per individual and $200,000 per occurrence. Effective October 1, 2011, the sovereign immunity limits increased to $200,000 per individual and $300,000 per occurrence. The District has accrued for the Hospital and Sarasota Memorial Nursing and Rehabilitation Center $6,956,000 and $6,744,000 as of September 30, 2018 and 2017, respectively, for estimated professional liability claims. The current portion of this is included in other accrued expenses and the noncurrent portion is included in other long-term liabilities in the accompanying balance sheets.

PSI is subject to malpractice claims and litigation. Losses incurred have been estimated and accrued in the accompanying financial statements. PSI is potentially liable for losses in excess of amounts accrued. However, in management's opinion, such excess, if any, should not have a material adverse effect on the results of operations or financial position of PSI. PSI has received a favorable ruling on a court decision that its physicians are covered under the doctrine of sovereign immunity. Effective December 1, 2003, PSI as a "state agency or subdivision," eliminated its malpractice insurance coverage and invoked sovereign immunity for medical malpractice claims in excess of $100,000 per individual and $200,000 per occurrence. As noted above, effective October 1, 2011, the sovereign immunity limits increased to $200,000 per individual and $300,000 per occurrence. PSI accrued $3,912,000 and $3,527,000 as of September 30, 2018 and 2017, respectively, for professional liability claims. The current portion of this liability is included in other accrued expenses and the noncurrent portion is included in other long-term liabilities in the accompanying balance sheets.

Activity related to these self-insured professional liability claims included as a component of other accrued expenses and other long-term liabilities in the accompanying balance sheets for the years ended September 30, 2018, 2017, and 2016 is reflected in the tables below:

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

		2017			
		Self-insured liabilities September 30, 2016	Insurance expense (credit)	Payments	Self-insured liabilities September 30, 2017
Professional liabilities	$	9,824,000	1,448,714	(1,001,714)	10,271,000

The District had no significant reductions in insurance coverage during the fiscal year ended September 30, 2018. There were no settlements which exceeded the District's insurance coverage in any of the past three fiscal years.

(Continued)

(11) Commitments and Contingencies

The District has various contractual arrangements for employment contracts, leased office space related to medical practices, and equipment leases. Some of the employment contracts and operating leases have initial or remaining noncancelable lease terms in excess of one year. Total operating lease expense for the years ended September 30, 2018 and 2017 was approximately $9,382,000 and $9,209,000, respectively.

Minimum payments required under contractual employment agreements and operating leases as of September 30, 2018 are approximately as follows:

		Employment contracts	Operating leases	Total
Year ending September 30:				
2019	$	17,041,935	8,214,655	25,256,590
2020		—	8,331,470	8,331,470
2021		—	6,042,291	6,042,291
2022		—	5,576,901	5,576,901
2023		—	3,249,851	3,249,851
All years after September 30, 2023		—	8,784,163	8,784,163
	$	17,041,935	40,199,331	57,241,266

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

(12) Concentrations of Credit Risk

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

The District places its cash and cash equivalents with what management believes to be high credit quality financial institutions. As stated in note 2, the custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District’s deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution’s trust department or agent but not held in the District’s name. The District’s governmental bank balances are held in accounts protected under Chapter 280, Florida Statutes in institutions classified as qualified public depositories under Chapter 280 for the years ended September 30, 2018 and 2017. Other entities of the District have deposits in a financial institution in excess of federally insured limits and which are not collateralized.

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

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors as of September 30, 2018 and 2017 was as follows:

	2018	2017
Medicare	31.0 %	31.5 %
Self-pay and others	28.4	30.0
Managed care and commercial	26.8	23.7
Medicaid	13.8	14.8
	100.0 %	100.0 %

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Required Supplemental Information

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

September 30, 2018 and 2017

	2018	2017	2016	2015	2014
Total pension liability:					
Service cost	$ 8,237,830	9,619,975	9,357,119	9,593,252	10,036,918
Interest	25,040,903	24,231,700	23,572,643	21,938,676	21,187,578
Demographic (gains)/losses	(3,234,518)	(520,626)	(745,239)	(2,337,885)	—
Change in actuarial assumptions	493,692	(2,669,926)	11,080,081	—	—
Benefit payments	(18,094,587)	(21,007,051)	(19,641,173)	(17,407,572)	(18,905,723)
Net change in total pension liability	12,443,320	9,654,072	23,623,431	11,786,471	12,318,773
Total pension liability – beginning	369,515,297	359,861,225	336,237,794	324,451,323	312,132,550
Total pension liability – ending (a)	381,958,617	369,515,297	359,861,225	336,237,794	324,451,323
Plan fiduciary net position:					
Contributions-employer	12,139,689	14,551,924	49,810,358	16,606,485	98,258,981
Net investment income	35,432,192	30,898,892	(9,642,501)	26,103,829	22,947,703
Benefit payments	(18,094,587)	(21,007,051)	(19,641,173)	(17,407,572)	(18,905,723)
Administrative expense	(280,241)	(388,330)	(344,878)	(294,193)	(349,092)
Net change in plan fiduciary net position	29,197,053	24,055,435	20,181,806	25,008,549	101,951,869
Plan fiduciary net position – beginning	340,865,327	316,809,892	296,628,086	271,619,537	169,667,668
Plan fiduciary net position – ending (b)	370,062,380	340,865,327	316,809,892	296,628,086	271,619,537
Net pension liability – ending (a)-(b)	$ 11,896,237	28,649,970	43,051,333	39,609,708	52,831,786

(Continued)

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Required Supplemental Information

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

September 30, 2018 and 2017

		2018	2017	2016	2015	2014
Plan fiduciary net position as a percentage of the total pension liability		96.9 %	92.2 %	88.0 %	88.2 %	83.7 %
Covered-employee payroll	$	118,225,538	124,949,986	127,730,377	133,004,920	139,579,218
Net pension liability as a percentage of covered-employee payroll		10.1 %	22.9 %	33.7 %	29.8 %	37.9 %

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

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

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Required Supplemental Information

Schedule of the District’s Pension Contributions (Unaudited)

September 30, 2018 and 2017

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	$ 10,824,970	12,139,689	14,551,924	19,810,358	16,606,485	23,258,981	23,698,368	22,664,712	22,648,703	19,296,545
Contributions in relation to the actuarially determined contribution	10,824,970	12,139,689	14,551,924	49,810,358	16,606,485	98,258,981 (a)	23,698,368	22,664,712	22,648,703	19,296,545
Contribution deficiency/(excess)	$ —	—	—	(30,000,000)	—	(75,000,000)	—	—	—	—
Covered-employee payroll	$ 114,623,636	118,225,538	124,949,986	127,730,377	133,004,920	139,579,218	153,291,551	161,452,376	166,667,613	150,848,731
Contributions as a% of covered-employee payroll	9.4 %	10.3 %	11.6 %	39.0 %	12.5 %	70.4 %	15.5 %	14.0 %	13.6 %	12.8 %

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

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

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Required Supplemental Information

Schedule of Changes in the Total OPEB Liability and Related Ratios (Unaudited)

September 30, 2018 and 2017

	2018	2017
Total OPEB liability:		
Service cost	$ 290,331	$ 272,925
Interest	348,432	298,742
Changes of benefit terms	—	—
Differences between expected and actual experience	99,459	—
Changes of assumptions	(416,490)	—
Benefit payments	(9,820)	(120,590)
Net change in total pension liability	311,912	451,077
Total OPEB liability – beginning	10,036,685	9,585,608
Total OPEB liability – ending	$ 10,348,597	$ 10,036,685
Covered-employee payroll	$ 262,680,254	$ 230,474,125
Total OPEB liability as a percentage of covered payroll	3.94%	4.35%

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

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

(1) Schedule of the District's Pension Contributions

Actuarially determined contributions are calculated two years prior to the end of the fiscal year in which contributions are reported. The most recent actuarial valuation was performed as of October 1, 2017. Contributions are made one fiscal year prior to the fiscal year in which the contributions are reported. Contributions made in the most recent fiscal year are reported on the balance sheets as deferred outflows related to pensions, and reverse in the following year.

Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal; prior to 10/1/2014 Valuation Date, projected unit credit was used
Amortization method	Level dollar amount over working life expectancy; prior to 10/1/2012 level dollar amount over 30 years was used
Remaining amortization period	7 years (based on average remaining expected service of active plan participants as of 10/1/2015)
Asset valuation method	5 year smoothed market
Inflation	2.5% for 10/1/2013 and later; rates from 2.75% to 3.0% for prior periods
Salary increases	4.0%, average, including inflation; In the 2008, 2012, 2016, and 2017 actuarial valuations, expected salary increases were adjusted to age-graded rates to more closely reflect actual experience. Prior to 2008, 5.5%.
Investment rate of return	7%, net of pension plan investment expense, including inflation; 7.25% was used for the 2011 actuarial valuation; 7.5% was used for the 2008 through 2010 actuarial valuations; 8.0% was used prior to 2008
Retirement age	Age graded rates from 50 to 75; Prior to 2015, age-graded rates from 50 to 70. Expected retirement rates were adjusted in 2010 and 2015 to more closely reflect actual experience.
Mortality	In the 2016 valuation, assumed life expectancies were adjusted based on the State mandated tables of the combined RP-2000 Mortality Tables for males and females projected generationally from 2000 using Scale BB for males and females In the 2014 and 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP 2014 employee/annuitant mortality tables for males and females with the MP 2014 projection scale backed out to 2006 and then projected forward generationally using Scale BB (male). In the 2012 and 2013 actuarial valuations, assumed life expectancies were adjusted as a result of adopting the RP 2000 combined mortality tables for males and females projected to 10 years past the valuation date using Scale AA. For the 2008 through 2011 valuations, assumed life expectancies were adjusted as a result of adopting the RP 2000 combined mortality tables for males and females projected to 2015 using Scale AA. Prior to the 2008 actuarial valuation, assumed life expectancies were adjusted ‘based on the 1983 Group Annuity Mortality Table for males and females.
Other information:	The plan was closed to new or rehired employees on or after 10/1/2009.

(2) Schedule of Changes in the Total OPEB Liability and Related Ratios

The assumptions disclosed below are for the fiscal years ending September 30, 2017 and September 30, 2018 financial reporting under GASB 75. GASB 75 was first implemented for the fiscal year ended September 30, 2018 with restatement of the fiscal year ending September 30, 2017 results under GASB 75.

The discount rate was increased from 3.10% for fiscal year ending September 30, 2017 to 3.50% for fiscal year ending September 30, 2018 to reflect current market conditions as of the measurement date.

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

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

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

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

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Supplemental Information – Combining Balance Sheet Information

September 30, 2018

Assets	Sarasota Memorial Hospital	Corporate Division	Sarasota Memorial Nursing & Rehabilitation Center	Eliminations	Sarasota County Public Hospital District	SMH Health Care, Inc.	SMH Physician Services, Inc.	Eliminations	Total
Current assets:									
Cash and cash equivalents	$ 43,901,104	933,132	2,101,283	—	46,935,519	134,864	3,146,522	—	50,216,905
Patient accounts receivable, less allowance for uncollectible accounts	76,592,124	—	1,570,926	—	78,163,050	—	4,789,678	—	82,952,728
Inventories of supplies	14,097,882	—	61,450	—	14,159,332	—	—	—	14,159,332
Prepaid expenses and other assets	14,621,203	1,258,401	28,232	—	15,907,836	89,221	1,971,557	—	17,968,614
Due from related organizations	1,862,620	9,857,003	469,589	(10,228,602)	1,960,610	75,757,434	711	(76,589,238)	1,129,517
Total current assets	151,074,933	12,048,536	4,231,480	(10,228,602)	157,126,347	75,981,519	9,908,468	(76,589,238)	166,427,096
Noncurrent assets:									
Restricted investments	352,472,491	—	—	—	352,472,491	—	—	—	352,472,491
Board designated investments	826,403,640	—	—	—	826,403,640	—	—	—	826,403,640
Capital assets, net	481,649,146	119,103,882	2,742,807	—	603,495,835	—	2,690,918	—	606,186,753
Other assets	19,584,538	—	—	—	19,584,538	16,631,851	—	—	36,216,389
Interest rate swaps	20,725,480	1,001,367	—	—	21,726,847	—	—	—	21,726,847
Total noncurrent assets	1,700,835,295	120,105,249	2,742,807	—	1,823,683,351	16,631,851	2,690,918	—	1,843,006,120
Total assets	1,851,910,228	132,153,785	6,974,287	(10,228,602)	1,980,809,698	92,613,370	12,599,386	(76,589,238)	2,009,433,216
Deferred Outflows of Resources									
Deferred outflows related to pensions and OPEB	—	—	—	—	—	15,728,735	—	—	15,728,735
Deferred amounts on debt refundings	28,661,822	—	—	—	28,661,822	—	—	—	28,661,822
Deferred effective interest rate swap outflows	660,071	—	—	—	660,071	—	—	—	660,071
Total deferred outflows of resources	29,321,893	—	—	—	29,321,893	15,728,735	—	—	45,050,628
Total assets and deferred outflows of resources	$ 1,881,232,121	132,153,785	6,974,287	(10,228,602)	2,010,131,591	108,342,105	12,599,386	(76,589,238)	2,054,483,844

(Continued)

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Supplemental Information – Combining Balance Sheet Information

September 30, 2018

Liabilities	Sarasota Memorial Hospital	Corporate Division	Sarasota Memorial Nursing & Rehabilitation Center	Eliminations	Sarasota County Public Hospital District	SMH Health Care, Inc.	SMH Physician Services, Inc.	Eliminations	Total
Current liabilities:									
Accounts payable	$ 25,744,363	785,434	445,464	—	26,975,261	8,117	1,260,014	—	28,243,392
Employee compensation and benefits payable	—	—	—	—	—	56,393,282	—	—	56,393,282
Other accrued expenses	6,466,128	495,721	166,707	—	7,128,556	—	861,643	—	7,990,199
Estimated third-party settlements	20,736,481	—	198,329	—	20,934,810	—	—	—	20,934,810
Due to related organizations	41,919,210	42,310,644	79,397	(10,228,602)	74,080,649	—	2,509,850	(76,589,238)	1,261
Current portion of State of Florida medical assistance assessment	9,643,787	—	—	—	9,643,787	—	—	—	9,643,787
Current portion of long-term debt	10,339,034	35,966	—	—	10,375,000	—	—	—	10,375,000
Total current liabilities	114,849,003	43,627,765	889,897	(10,228,602)	149,138,063	56,401,399	4,631,507	(76,589,238)	133,581,731
Noncurrent liabilities:									
Long-term debt, less current portion	622,636,248	16,942,164	—	—	639,578,412	—	—	—	639,578,412
Long-term companion debt, less current portion	21,093,942	—	—	—	21,093,942	—	—	—	21,093,942
Net pension liability	—	—	—	—	—	11,896,237	—	—	11,896,237
State of Florida medical assistance assessment, less current portion	5,213,955	—	—	—	5,213,955	—	—	—	5,213,955
Other long-term liabilities	5,332,000	53,946	320,000	—	5,705,946	30,755,242	3,333,000	—	39,794,188
Interest rate swaps	11,512,757	—	—	—	11,512,757	—	—	—	11,512,757
Total noncurrent liabilities	665,788,902	16,996,110	320,000	—	683,105,012	42,651,479	3,333,000	—	729,089,491
Total liabilities	780,637,905	60,623,875	1,209,897	(10,228,602)	832,243,075	99,052,878	7,964,507	(76,589,238)	862,671,222
Deferred Inflows of Resources									
Deferred inflows related to pensions and OPEB	—	—	—	—	—	9,289,227	—	—	9,289,227
Deferred effective interest rate swap inflows	32,713,217	—	—	—	32,713,217	—	—	—	32,713,217
Total deferred inflows of resources	32,713,217	—	—	—	32,713,217	9,289,227	—	—	42,002,444
Net Position									
Net investment in capital assets	227,162,369	102,125,752	2,742,807	—	332,030,928	—	2,690,918	—	334,721,846
Restricted for specific purposes	2,353,569	—	—	—	2,353,569	—	—	—	2,353,569
Unrestricted	838,365,061	(30,595,842)	3,021,583	—	810,790,802	—	1,943,961	—	812,734,763
Total net position	1,067,880,999	71,529,910	5,764,390	—	1,145,175,299	—	4,634,879	—	1,149,810,178
Total liabilities, deferred inflows of resources and net position	$ 1,881,232,121	132,153,785	6,974,287	(10,228,602)	2,010,131,591	108,342,105	12,599,386	(76,589,238)	2,054,483,844

See accompanying independent auditors' report.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

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

Year ended September 30, 2018

	Sarasota Memorial Hospital	Corporate Division	Sarasota Memorial Nursing & Rehabilitation Center	Eliminations	Sarasota County Public Hospital District	SMH Health Care, Inc.	SMH Physician Services, Inc.	Eliminations	Total
Operating revenues:									
Net patient service revenue, net of provision for bad debts	$ 788,693,853	—	13,507,790	—	802,201,643	—	59,035,022		861,236,665
Other revenue	12,832,357	28,683,924	614,073	(21,479,084)	20,651,270	432,029,495	5,188,259	(437,984,333)	19,884,691
Total operating revenues	801,526,210	28,683,924	14,121,863	(21,479,084)	822,852,913	432,029,495	64,223,281	(437,984,333)	881,121,356
Operating expenses:									
Salaries, wages, and fringe benefits	331,015,043	18,392,501	7,685,363	—	357,092,907	431,661,182	73,493,100	(431,661,182)	430,586,007
Supplies	174,708,395	236,914	1,601,811	—	176,547,120	—	3,666,766	—	180,213,886
Purchased services	103,828,052	10,132,494	3,102,337	(21,392,942)	95,669,941	368,313	8,460,586	(3,968,836)	100,530,004
Professional fees	25,362,888	2,550,730	124,095	(86,142)	27,951,571	—	26,971	(2,354,315)	25,624,227
State of Florida medical assistance assessment	10,427,911	—	—	—	10,427,911	—	—	—	10,427,911
Depreciation and amortization	43,938,747	3,917,908	374,696	—	48,231,351	—	566,956	—	48,798,307
Total operating expenses	689,281,036	35,230,547	12,888,302	(21,479,084)	715,920,801	432,029,495	86,214,379	(437,984,333)	796,180,342
Operating income (loss)	112,245,174	(6,546,623)	1,233,561	—	106,932,112	—	(21,991,098)	—	84,941,014
Nonoperating items:									
Ad valorem tax	54,313,958	—	—	—	54,313,958	—	—	—	54,313,958
Interest expense	(14,714,795)	(841,309)	(766)	766	(15,556,104)	—	—	—	(15,556,104)
Interest rate swap receipts, net	988,115	606,884	—	—	1,594,999	—	—	—	1,594,999
Bond issue costs	(3,016,338)	—	—	—	(3,016,338)	—	—	—	(3,016,338)
Loss on defeasance	(3,860,311)	—	—	—	(3,860,311)	—	—	—	(3,860,311)
Investment income	16,797,828	—	983	(766)	16,798,045	—	18,689	—	16,816,734
Unrealized gains and losses on investments, net	(16,862,278)	—	—	—	(16,862,278)	—	—	—	(16,862,278)
Change in fair value of ineffective interest rate swaps	(265,787)	(532,528)	—	—	(798,315)	—	—	—	(798,315)
Other nonoperating income	2,132,385	—	—	—	2,132,385	—	—	—	2,132,385
Total nonoperating items	35,512,777	(766,953)	217	—	34,746,041	—	18,689	—	34,764,730
Excess (deficit) of revenues over expenses	147,757,951	(7,313,576)	1,233,778	—	141,678,153	—	(21,972,409)	—	119,705,744
Other changes in net position:									
Contributions restricted for capital purposes	806,623	—	—	—	806,623	—	—	—	806,623
Net transfers from (to) other component units	(23,403,123)	2,500	100,623	—	(23,300,000)	—	23,300,000	—	—
Increase (decrease) in net position	125,161,451	(7,311,076)	1,334,401	—	119,184,776	—	1,327,591	—	120,512,367
Net position, beginning of year, as restated	942,719,548	78,840,986	4,429,989	—	1,025,990,523	—	3,307,288	—	1,029,297,811
Net position, end of year	$ 1,067,880,999	71,529,910	5,764,390	—	1,145,175,299	—	4,634,879	—	1,149,810,178

See accompanying independent auditors' report.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Supplemental Information – Budgetary Comparison Schedule (Unaudited)

Year ended September 30, 2018

	Budget	Actual	Variance
Operating revenues:			
Net patient service revenue, net of provision for bad debts	$ 773,676,871	861,236,665	87,559,794
Other revenue	16,621,227	19,884,691	3,263,464
Total operating revenues	790,298,098	881,121,356	90,823,258
Operating expenses:			
Salaries, wages, and fringe benefits	426,394,269	430,586,007	(4,191,738)
Supplies	169,328,401	180,213,886	(10,885,485)
Purchased services	103,252,602	100,530,004	2,722,598
Professional fees	25,296,073	25,624,227	(328,154)
State of Florida medical assistance assessment	9,452,614	10,427,911	(975,297)
Depreciation and amortization	46,394,779	48,798,307	(2,403,528)
Total operating expenses	780,118,738	796,180,342	(16,061,604)
Operating income	10,179,360	84,941,014	74,761,654
Nonoperating items:			
Ad valorem tax	54,050,867	54,313,958	263,091
Interest expense	(14,867,952)	(15,556,104)	(688,152)
Interest rate swap receipts, net	1,024,908	1,594,999	570,091
Bond issue costs	(4,900,000)	(3,016,338)	1,883,662
Loss on Defeasance	—	(3,860,311)	(3,860,311)
Investment income	19,635,201	16,816,734	(2,818,467)
Unrealized gains and losses on investments, net	—	(16,862,278)	(16,862,278)
Changes in fair value of ineffective interest rate swaps	—	(798,315)	(798,315)
Other nonoperating income	2,000,000	2,132,385	132,385
Total nonoperating items	56,943,024	34,764,730	(22,178,294)
Excess of revenues over expenses	67,122,384	119,705,744	52,583,360
Other changes in net position:			
Contributions restricted for capital purposes	2,000,000	806,623	(1,193,377)
Increase in net position	69,122,384	120,512,367	51,389,983
Net position, beginning of year, as restated	1,029,297,811	1,029,297,811	—
Net position, end of year	$ 1,098,420,195	1,149,810,178	51,389,983

See accompanying independent auditors' report.

KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602-5145

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board Members
Sarasota County Public Hospital District:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Sarasota County Public Hospital District (the District) which comprise the balance sheet as of September 30, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 24, 2019 which includes an emphasis of matter for adopting the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

January 24, 2019

KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602-5145

January 24, 2019

The Board Members
Sarasota County Public Hospital District:

Report on the Financial Statements

We have audited the financial statements of the Sarasota County Public Hospital District (the District), Florida, as of and for the fiscal year ended September 30 2018, and have issued our report thereon dated January 24, 2019*.*

Auditor's Responsibility

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

Other Reporting Requirements

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

Prior Audit Findings

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

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 in 1949 under the provision of Chapter 26468 of the laws of Florida. The District's component units are disclosed in the notes to the financial statements*.*

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require us to apply appropriate procedures and communicate 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 to identify the specific conditions 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.b. and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures for the District. 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 review of financial information provided by same.

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

Additional Matters

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

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, 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.

Very truly yours,

KPMG LLP

KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602-5145

Independent Accountants' Report

The Board Members
Sarasota County Public Hospital District:

We have examined Sarasota County Public Hospital District's (the District) compliance with Section 218.415, Florida Statutes as of September 30, 2018. Management of the District is responsible for the District's compliance with the specified requirements. Our responsibility is to express an opinion the District's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the District complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the District complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide 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 Sarasota County Public Hospital District complied, in all material respects, Section 218.415, Florida Statutes as of September 30, 2018.

KPMG LLP

January 24, 2019