

MARION COUNTY HOSPITAL DISTRICT

**FINANCIAL STATEMENTS,
INDEPENDENT AUDITOR'S REPORT, AND
REQUIRED SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2019

MARION COUNTY HOSPITAL DISTRICT
FINANCIAL STATEMENTS,
INDEPENDENT AUDITOR’S REPORT, AND
REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2019

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Marion County Hospital District
Ocala, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Marion County Hospital District (the District) and the Munroe Regional Health System (the System) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Certified Public Accountants

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

The Board of Trustees
Marion County Hospital District
Ocala, Florida

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the blended component unit of the District as of September 30, 2019, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 7 and Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Contributions, and Schedule of Pension Investment Returns on pages 27 and 28, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Purvis, Gray and Company, LLP

January 22, 2020
Ocala, Florida

**MARION COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

This section of the Marion County Hospital District (the District) annual financial report presents the District's analysis of its financial performance as of September 30, 2019. Please read this analysis in conjunction with the basic financial statements, which follow this section.

Overview of the Financial Statements

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

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

Balance Sheet

The balance sheet presents the assets, liabilities, deferred inflows of resources and net position of the District and the Health System as of September 30, 2019. Net position, or the difference between total assets, deferred inflows of resources and total liabilities, is one indicator of the current financial condition of the District's business-type activities. At September 30, 2019, the total net position of the business-type activities was approximately \$225 million. Changes in net position are an indicator of whether the overall financial condition of the organization has improved or worsened over a period of time. During 2019, net position of the business-type activities increased by approximately \$8 million. Assets and liabilities are generally measured using current values, with the exception of capital assets, which are stated at historical cost less allowances for depreciation.

A summary of the business-type activities balance sheet at September 30, 2019 and 2018, is presented below (amounts in thousands):

	2019	2018
Current assets	\$ 1,180	\$ 2,385
Investments	266,749	252,430
Capital assets, net	1,532	375
Other assets	1,469	9,853
Deferred outflow of resources	-	1,411
Total assets and deferred outflows	<u>270,930</u>	<u>266,454</u>
Current liabilities	2,942	3,662
Long-term liabilities	42,083	45,583
Deferred inflow of resources	837	
Total liabilities and deferred inflows	<u>45,862</u>	<u>49,245</u>
Net position:		
Net investment in capital assets	1,532	361
Restricted	1,003	1,000
Unrestricted	<u>222,533</u>	<u>215,848</u>
Total net position	<u>225,068</u>	<u>217,209</u>
Total liabilities and net position	<u>\$ 270,930</u>	<u>\$ 266,454</u>

**MARION COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

Cash and cash equivalents decreased by approximately \$735 thousand since September 30, 2018. See the "Statement of Cash Flows" section that follows for further information regarding cash flow activity. Other current assets decreased by approximately \$470 thousand since September 30, 2018, due primarily to the payments received on Receivables.

Capital assets increased by approximately \$1.2 million during 2019, due to the recognition of depreciation expense shown in Note 3 to the financial statements and the purchase of the property and equipment.

Current liabilities decreased by approximately \$720 thousand during 2019, due to the reduction of the pledge payable to Central Florida College and the reduction to self-insured liabilities related to workers' compensation and professional liability included in Note 5 to the financial statements.

Long-term liabilities (noncurrent portion), including long-term capital lease obligations decreased approximately \$3.5 million during 2019, primarily due to the decrease in the net pension liability included in Note 6 and the decrease in the unearned lease revenue included in Note 7 to the financial statements.

Statement of Revenues, Expenses, and Changes in Net Position

The following table presents the business-type activities condensed statement of revenues, expenses, and changes in net position for the years ended September 30, 2019 and 2018, (amounts in thousands):

	2019	2018
Net patient service revenue	\$ (117)	\$ (348)
Lease revenue	1,093	1,093
Other operating revenue	27	19
Total operating revenues	1,003	764
Operating expenses	(4,401)	(4,965)
Operating (loss) income	(3,398)	(4,201)
Nonoperating revenues (expenses), net	11,257	11,520
Excess of revenues over expenses	7,859	7,319
Change in net position	<u>\$ 7,859</u>	<u>\$ 7,319</u>

Operating Revenues

Operating revenues increased in 2019 due to a lower charge back in the current year from AHCA for years prior to 2014.

Operating Expenses

Operating expenses for 2019 was approximately \$4.4 million, a decrease primarily due to the \$500 thousand decrease in Pension expense included in Note 6 to the financial statements a \$750 thousand decrease in expenditures for consulting fees coupled with the increasing investments in the community through health improvement initiatives and demonstration grant expense.

**MARION COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

Programs Funded by the District:

During the years ended September 30, 2019 and 2018, the District provided funding to the following Programs:

	2019	2018
Active Marion Project	\$ 267,940	\$ 344,934
Fitness and Nutrition in Schools	728,795	951,143
Beacon Point	42,372	-
Barrett Liner and Buss	20,000	50,000
Bellevue, City of	22,500	-
Boys and Girls Club	134,944	180,750
College of Central Florida	256,250	75,000
College of Central Florida Health Ed Bldg	-	600,000
Community Foundation	100,000	-
Dynamic Therapy and Wellness	-	25,000
Estella Byrd Whitman Wellness	8,465	-
Heart of Florida	290,423	-
Hope Clinic	8,800	-
Interfaith Emergency Services	174,500	186,679
Kids Central	87,448	-
Kimberly's Center	59,546	40,500
Langley Project Health	252,400	203,074
Marion County BOCC	53,000	26,618
Marion County Children's Alliance	85,536	89,961
Project Lift	42,004	-
Quit Doc	39,543	138,609
Rural Woman's Health Project	-	10,271
The Center's	-	56,212
United Hands, Inc Dental	207,494	246,930
United Hands, Inc Mental Health	552,792	-
Total	<u>\$ 3,434,752</u>	<u>\$ 3,225,681</u>

Non-Operating Gains and Losses, Net

Non-operating revenues and expenses, net for 2019, was approximately \$11.3 million. Investment income of \$11 million is included in non-operating revenues in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Statement of Cash Flows

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

Total cash and cash equivalents decreased in fiscal year 2019 by approximately \$757 thousand. This decrease is attributed to the purchase of property and equipment. Cash and cash equivalents for the District were mainly used to support the operations of the District and fund the pension plan for the former employees of MRHS.

**MARION COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

Debt Outstanding

As of September 30, 2019, the business-type activities had \$0 debt outstanding compared to approximately \$14 thousand in 2018, due to payments on the note during the year, included in Note 4 to the financial statements.

Capital Assets

The business-type activities had approximately \$1.5 million in net capital assets as of September 30, 2019. This represents an increase of approximately \$1.2 million from 2018 as a result of purchasing the Beacon Point property, normal depreciation expense, and work in progress. Additional information on the business-type activities capital assets is included in Note 3 to the financial statements.

	<u>2019</u>	<u>2018</u>
Land	\$ 437,625	\$ 143,825
Work in progress	41,994	11,500
Buildings and fixed equipment	949,641	159,926
Movable equipment	9,256	9,023
Software	<u>93,726</u>	<u>50,390</u>
Total capital assets, net	<u>\$ 1,532,242</u>	<u>\$ 374,664</u>

Outlook

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

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

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

The District is focusing its strategies and objectives in the following targeted health concerns:

**MARION COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

- Dental – Support uninsured and Medicaid-eligible dental services through matching funds to Federally Qualified Health Centers (FQHC's) for our safety-net programs. Invest in Heart of Florida's Low Income Pool funding and increase capacity to serve low-income citizens through investment in their new facility. Continue to support Langley Health's Low Income Pool funding and the Mobile Dental Bus for uninsured citizens. Support the monthly FreeDOM Dental clinics for uninsured citizens throughout the county. Invest in the College of Central Florida's Science & Technology building and increase capacity at the Hampton Center for dental hygienists and dental assistants.
- Diabetes/Obesity – Combating chronic disease through two county-wide wellness programs, AMP (Active Marion Project) and FANS (Fitness and Nutrition in Schools). Establishing Diabetes initiatives and partnerships at new locations which include intensive diabetes education and programming with Advent Health and the FQHC's. Continued coordination of AMP, Department of Health, Florida Blue, and County and City Parks to establish wellness programs in the community. Investing in the new Community Center in Ocala, which will provide opportunities for exercise and wellness programs to families on the west side of Ocala.
- Mental Health – Focus on outpatient behavioral health and substance use treatment gaps in the community at Beacon Point (for low-income citizens of Marion County). Establishing Medication Assisted Treatment (MAT) in collaboration with Lutheran Services and Department of Children and Families (DCF). Provide primary care, including dental and vision services in collaboration with Advent Health. Support life skills, job skills, GED, and trades via grants to improve the future of program participants. Establish peer support programs and Phoenix-style recovery therapy into a therapeutic exercise facility at Beacon Point.
- Tobacco Avoidance & Cessation – Health Education through the FANS program, which will impact up to 42,000 students, parents and 6,600 employees. Target Workplace Wellness through AMP by incorporating Suwannee River AHEC.
- Nursing Shortage – Increase the number of available nurses in Marion County through the funding of the College of Central Florida Science & Technology Building. Continue to support the Muns Scholarship Fund for nursing scholarships for students within Marion County.
- Policy Development – To expand water fluoridation and the use of dental therapists to improve dental health. Work with legislators to ban the sale of substances used to falsify Urinalyses/Drug tests. Work with the Schools System, the City of Ocala, and Marion County to expand accessibility to exercise options for the community. Work through legislation to raise the age to purchase tobacco to 21 in Marion County.

Request for Information

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

BALANCE SHEET
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
SEPTEMBER 30, 2019

ASSETS

	Marion County Hospital District	Munroe Regional Health System	Total Business-Type Activities
Current Assets			
Cash and Cash Equivalents	\$ 66,519	\$ 690,523	\$ 757,042
Accounts Receivable, Other	-	14,864	14,864
Notes Receivable, Current	-	17,519	17,519
Accrued Interest on Investments	293,385	-	293,385
Patient Accounts Receivable	-	48,645	48,645
Prepaid Expenses and Other Current Assets	-	48,813	48,813
Total Current Assets	359,904	820,364	1,180,268
 Non-Current Assets			
Non-Current Cash and Investments:			
Investments	266,748,402	-	266,748,402
Assets Limited as to Use - Cash and Investments:			
Board Designated	-	56,775	56,775
Restricted Investments	-	1,395,931	1,395,931
	-	1,452,706	1,452,706
 Total Non-Current Cash and Investments	266,748,402	1,452,706	268,201,108
Notes Receivable, Non-Current	-	16,566	16,566
Capital Asset, Net of Accumulated Depreciation	1,532,242	-	1,532,242
Total Non-Current Assets	268,280,644	1,469,272	269,749,916
 Total Assets	\$ 268,640,548	\$ 2,289,636	\$ 270,930,184

See accompanying notes.

LIABILITIES, DEFERRED INFLOW, AND NET POSITION

	Marion County Hospital District	Munroe Regional Health System	Total Business-Type Activities
Current Liabilities			
Accounts Payable	\$ 180,012	\$ 480,137	\$ 660,149
Accrued Liabilities:			
Self-Insured Liabilities	-	50,000	50,000
Liabilities for Amounts Held for Others	-	58,480	58,480
Estimated Third-Party Payer Settlements	-	2,173,561	2,173,561
Net Pension Liability	-	2,835,126	2,835,126
Total Current Liabilities	<u>180,012</u>	<u>5,597,304</u>	<u>5,777,316</u>
Non-Current Liabilities			
Self-Insured Liabilities	-	1,191,927	1,191,927
Unearned Lease Revenue	37,721,361	-	37,721,361
Liabilities for Amounts Held for Others	-	334,822	334,822
Total Non-Current Liabilities	<u>37,721,361</u>	<u>1,526,749</u>	<u>39,248,110</u>
Total Liabilities	<u>37,901,373</u>	<u>7,124,053</u>	<u>45,025,426</u>
Deferred Inflow of Resources			
Deferred Amount on Pension Liability	-	837,017	837,017
Total Deferred Inflow of Resources	<u>-</u>	<u>837,017</u>	<u>837,017</u>
Total Liabilities and Deferred Inflows of Resources	<u>37,901,373</u>	<u>7,961,070</u>	<u>45,862,443</u>
Net Position			
Net Investment in Capital Assets	1,532,242	-	1,532,242
Restricted:			
For Donor Purposes - Capital, Scholarships, and Community Outreach Program	-	1,002,629	1,002,629
Unrestricted	229,206,933	(6,674,063)	222,532,870
Total Net Position	<u>230,739,175</u>	<u>(5,671,434)</u>	<u>225,067,741</u>
Total Liabilities, Deferred Inflow and Net Position	<u>\$ 268,640,548</u>	<u>\$ 2,289,636</u>	<u>\$ 270,930,184</u>

See accompanying notes.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Marion County Hospital District	Munroe Regional Health System	Total Business-Type Activities
Operating Revenues			
Patient Service Revenue	\$ -	\$ -	\$ -
Third Party Chargebacks	-	(117,406)	(117,406)
Net Patient Service Revenue	-	(117,406)	(117,406)
Lease Revenue	1,093,368	-	1,093,368
Other Income	-	27,375	27,375
Total Operating Revenues	1,093,368	(90,031)	1,003,337
Operating Expenses			
Salaries and Benefits	-	512,682	512,682
Pension Expense	-	101,522	101,522
Purchased Services and Other	-	262,088	262,088
Health Improvement Initiatives	-	1,039,107	1,039,107
Depreciation and Amortization	53,715	-	53,715
Grant Expense	-	2,404,645	2,404,645
Other Expense	-	27,664	27,664
(Total Operating Expenses)	(53,715)	(4,347,708)	(4,401,423)
Operating Income	1,039,653	(4,437,739)	(3,398,086)
Non-Operating Revenues (Expenses)			
Investment Revenue	4,043,058	498,327	4,541,385
Interest and Dividend Income	6,429,777	-	6,429,777
Grant Revenue	400,000	-	400,000
Other (Expense) Income	(129,151)	14,830	(114,321)
Total Non-Operating Revenues (Expenses), Net	10,743,684	513,157	11,256,841
Excess/(Deficiency) of Revenues Over/(Under) Expenses	11,783,337	(3,924,582)	7,858,755
Transfers (out)/in	4,727,777	(4,727,777)	-
Change in Net Position	16,511,114	(8,652,359)	7,858,755
Net Position, Beginning of Year	214,228,061	2,980,925	217,208,986
Net Position, End of Year	\$ 230,739,175	\$ (5,671,434)	\$ 225,067,741

See accompanying notes.

STATEMENT OF CASH FLOWS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Marion County Hospital District	Munroe Regional Health System	Total Business-Type Activities
Cash Flows from Operating Activities			
Cash Received from Patients and Third-Party Payers	\$ -	\$ 209,288	\$ 209,288
Cash Paid to Suppliers and Grantees	6,320	(4,604,223)	(4,597,903)
Cash Paid to Employees	-	(512,682)	(512,682)
Cash Paid for Pension Expense	-	(199,982)	(199,982)
Net Cash Provided by (Used in) Operating Activities	<u>6,320</u>	<u>(5,107,599)</u>	<u>(5,101,279)</u>
Cash Flows from Noncapital Activities			
Net Operating Transfers in/(out)	<u>4,727,777</u>	<u>(4,727,777)</u>	<u>-</u>
Net Cash Provided by (Used in) Noncapital Activities	<u>4,727,777</u>	<u>(4,727,777)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities			
Purchase of Capital Assets	(1,212,732)	-	(1,212,732)
Proceeds from Capital Grant	400,000	-	400,000
Loss on Disposal of Capital Asset	1,439	-	1,439
Principal Payments on Notes Payable	(13,750)	-	(13,750)
Principal Payments Received for Notes Receivable	-	8,576,871	8,576,871
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(825,043)</u>	<u>8,576,871</u>	<u>7,751,828</u>
Cash Flows Provided by (Used in) Investing Activities			
Purchase of Investments - Restricted and Unrestricted	(108,937,813)	-	(108,937,813)
Proceeds from Sale and Maturity of Investments	98,727,996	10,318	98,738,314
Cash Received for Interest and Dividends	6,300,728	513,157	6,813,885
Net Cash Flows Provided by (Used in) Investing Activities	<u>(3,909,089)</u>	<u>523,475</u>	<u>(3,385,614)</u>
Increase/(Decrease) in Cash and Cash Equivalents	(35)	(735,030)	(735,065)
Cash and Cash Equivalents, Beginning of Year	<u>66,554</u>	<u>1,425,553</u>	<u>1,492,107</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 66,519</u></u>	<u><u>\$ 690,523</u></u>	<u><u>\$ 757,042</u></u>

See accompanying notes.

STATEMENT OF CASH FLOWS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Marion County Hospital District	Munroe Regional Health System	Total Business-Type Activities
Cash Flows from Operating Activities			
Operating Income (Loss)	\$ 1,039,653	\$ (4,437,739)	\$ (3,398,086)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Depreciation and Amortization	53,715	-	53,715
Changes in Operating Assets and Liabilities:			
Patient Accounts Receivable	-	191,355	191,355
Other Receivables	-	5,386	5,386
Inventories, Prepaid Expenses, and Other Current Assets	-	4,260	4,260
Accounts Payable	6,320	(722,464)	(716,144)
Deferred Revenue	(1,093,368)	-	(1,093,368)
Accrued Payroll, Employee Benefits, Compensated Absences, and Net Pension Liability	-	(2,346,726)	(2,346,726)
Deferred Outflow on Pension Liability	-	1,411,249	1,411,249
Deferred Inflow on Pension Liability	-	837,017	837,017
Self-Insurance Liabilities	-	(125,604)	(125,604)
Other Liabilities	-	(32,297)	(32,297)
Third-Party Settlements	-	107,964	107,964
Net Cash Provided by (Used in) Operating Activities	\$ 6,320	\$ (5,107,599)	\$ (5,101,279)

See accompanying notes.

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

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

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

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

Basis of Presentation

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

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

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Use of Estimates

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

Cash and Cash Equivalents

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

Investments

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

Assets Limited as to Use and Restricted Investments

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

Capital Assets

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

Estimated useful lives by major asset classification are summarized below:

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

Deferred Outflows of Resources

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

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Net Position Classification

Net position is displayed in three (3) components:

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

Classification of Revenues and Expenses

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

Net Patient Service Revenue

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

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

Medicare—Inpatient acute care services, inpatient rehabilitative services, and hospital outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain outpatient services rendered to Medicare beneficiaries are paid based upon a cost-reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative interim rate with final settlement determined after submission of annual cost reports and audits by the Medicare fiscal intermediary.

The Medical Center's Medicare cost reports have been audited and final settlements determined by the Medicare intermediary for all fiscal years through March 31, 2015. Retroactive adjustments for cost report settlements are accrued on an estimated basis in the period when the related services are rendered and adjusted in future periods when final settlements are determined.

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

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

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

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

Income Taxes

The Health System has been recognized by the Internal Revenue Service as a tax-exempt organization, as described in Section 501(c)(3) of the Internal Revenue Code (the Code). Income earned in furtherance of the Health System's tax-exempt purpose is exempt from federal and state income taxes. The Code provides for taxation of unrelated business income under certain circumstances. The Health System's unrelated business income was not significant for the year ended September 30, 2019.

Note 2 - Deposit and Investments

At September 30, 2019, the District had cash and cash equivalents and investments at fair value, including the following:

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Cash and Cash Equivalents:	
Deposits	\$ 66,519
Total Cash and Cash Equivalents	<u>\$ 66,519</u>
Investments:	
Bank of New York - Massey Quick	\$ 88,390,891
Bank of New York - SunTrust	91,014,368
Bank of New York – Berman	<u>87,343,143</u>
Total Investments	<u>\$ 266,748,402</u>

As of September 30, 2019, the Health System had the following cash and cash equivalents and investments, including assets limited as to use, at fair value, including the following:

Cash and Cash Equivalents:	
Deposits	\$ 690,523
Total Cash and Cash Equivalents	<u>\$ 690,523</u>
Assets Limited as to Use:	
Board Designated:	
Cash	\$ 56,775
Total Assets Limited as to Use	<u>\$ 56,775</u>
Restricted Investments:	
Cash	\$ 19,147
Short-Term Investments	97
Mutual Funds – Fixed Income	578,397
Mutual Funds – Equity	460,162
Mutual Funds – International	153,503
Real Assets	26,390
Alternative Investments	<u>158,235</u>
Total Restricted Investments	<u>\$ 1,395,931</u>

Deposits

The District and the Health System require bank deposits to be secured per Chapter 280 Florida Statutes. This Statute requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida and creates the Public Deposits Trust Fund, a multiple financial institutions pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2019, the District and the Health System's deposits were entirely covered by federal deposit insurance or by collateral pledged with the State Treasurer pursuant to Chapter 280, Florida Statutes.

Investments

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

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

	<u>Fair Value</u>	<u>Weighted Average Duration (Years)</u>	<u>Credit Rating</u>
District Investments:			
Cash and Cash Equivalents	\$ 7,742,934	N/A	AAA
Equities	15,252,989	N/A	N/A
Fixed Income:			
Corporate Notes	4,144,244	4.120	A-
FGLMC Notes	1,395,943	4.262	AA+
FNMA Notes	3,602,278	4.180	AA+
FHLMC	851,807	0.730	AA+
GNMA Bonds	171,572	2.622	AA+
T-Bills	339,516	0.079	A-1+
Treasury Inflated Protection Securities	2,229,843	1.750	AA+
U.S. Government Securities	6,486,635	4.757	AA+
	<u>19,221,838</u>		
Mutual Funds:			
Closed-End Fund	970,130	N/A	N/A
Exchange Traded Fund (ETF)	71,014,078	N/A	N/A
Open-End Fund	107,142,548	N/A	N/A
	<u>179,126,756</u>		
Alternatives	45,403,885	N/A	N/A
Total District Investments	<u><u>\$ 266,748,402</u></u>		
Health System Investments:			
Cash	\$ 19,147	N/A	N/A
Short-term Investments	97	N/A	N/A
Mutual Funds - Fixed Income	578,397	0.000	AA-BBB
Mutual Funds - Equity	460,162	N/A	N/A
Mutual Funds - International	153,503	N/A	N/A
Real Assets	26,390	N/A	N/A
Alternative Investments	158,235	N/A	N/A
Total Health System Investments	<u><u>\$ 1,395,931</u></u>		

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Government Accounting Standards Board Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements are as follows at September 30, 2019:

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	Fair Value Measurements Using:			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
District Investments:				
Cash and Cash Equivalents	\$ 7,742,934	\$ 7,742,934	\$ -	\$ -
Equities	15,252,989	15,252,989	-	-
Fixed Income:				
Corporate Notes	4,144,244	-	4,144,244	-
FGLMC Notes	1,395,943	-	1,395,943	-
FNMA Notes	3,602,278	-	3,602,278	-
GNMA Bonds	171,572	-	171,572	-
FHLMC	851,807	-	851,807	-
T-BILL	339,516	339,516	-	-
Treasury Inflated Protection Securities	2,229,843	2,229,843	-	-
U.S. Government Securities	6,486,635	6,486,635	-	-
Mutual Funds:				
Closed-End Fund	970,130	970,130	-	-
Exchange Traded Fund (ETF)	71,014,078	71,014,078	-	-
Open-End Fund	107,142,548	107,142,548	-	-
Alternative Investments	45,403,885	9,988,855	-	35,415,030
Total Hospital District	\$ 266,748,402	\$ 221,167,528	\$ 10,165,844	\$ 35,415,030
Health System Investments:				
Cash	\$ 19,147	\$ 19,147	\$ -	\$ -
Short-Term Investments	97	97	-	-
Mutual Funds - Fixed Income	578,397	578,397	-	-
Mutual Funds - Equity	460,162	460,162	-	-
Mutual Funds - International	153,503	153,503	-	-
Real Assets	26,390	26,390	-	-
Alternative Investments	158,235	158,235	-	-
Total Health System Investments	\$ 1,395,931	\$ 1,395,931	\$ -	\$ -

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

Interest Rate Risk—Interest rate risk is the risk that the fair value of investments will decrease as a result of an increase in interest rates. The District's investment policy seeks to control risk and reduce the volatility of its portfolio through diversification. Short-term volatility is characteristic of the securities markets and will be tolerated if such volatility is consistent with the volatility of similar investment portfolios. Unless matched to a specific cash flow requirement, the District will not directly invest in securities

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maturing more than 10 years from the date of purchase. The Health System's investments, which are held in trust agreements, have a moderate risk tolerance stating that they have a medium tolerance for risk but moderate down years in investment performance are acceptable. The investment horizon is 11+ years.

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

At September 30, 2019, the District and Health System's fixed-income investments are rated in the table above.

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

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

The District's investment policies establish limitations on portfolio composition by investment type to limit its exposure to concentration of credit risk. The target allocation of investment by type is as follows: Cash (5%), Fixed Income (40%), U.S. Equity (30%), Non-U.S. Equity Securities (10%), Alternatives (10%) and Illiquid Alternatives (5%). The investment policy provides various factors that the investment advisors should consider when creating an investment portfolio including general economic conditions, the possible effect of inflation or deflation, the expected total return from income, and the appreciation of investments. Management and investment decisions about an individual asset will be made not in isolation but in the context of the portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the portfolio goals of the District. The District does not invest directly in investments that would be classified as derivatives; however, there are underlying assets within commingled or pooled investments which may be classified as derivatives. Information related to investments held in commingled funds has not been separately disclosed in the financial statements or the accompanying footnotes.

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

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Note 3 - Capital Assets

The capital asset activity for the District is as follows:

	September 30, 2018	Additions/ Transfers	Deletions	September 30, 2019
Capital Assets Not Being Depreciated:				
Land	\$ 143,825	\$ 293,800	\$ -	\$ 437,625
Work in Process	11,500	41,994	(11,500)	41,994
Total Capital Assets Not Being Depreciated	155,325	335,794	(11,500)	479,619
Capital Assets Being Depreciated:				
Buildings and Fixed Equipment	351,610	816,156	-	1,167,766
Moveable Equipment	175,624	10,082	(3,900)	181,806
Software	58,200	62,200	-	120,400
Total Capital Assets Being Depreciated	585,434	888,438	(3,900)	1,469,972
Less Accumulated Depreciation:				
Buildings and Fixed Equipment	(191,684)	(26,441)	-	(218,125)
Moveable Equipment	(166,601)	(8,410)	2,461	(172,550)
Software	(7,810)	(18,864)	-	(26,674)
Total Accumulated Depreciation	(366,095)	(53,715)	2,461	(417,349)
Total Depreciable Capital Assets, Net	219,339	834,723	(1,439)	1,052,623
Total Capital Assets, Net	\$ 374,664	\$ 1,170,517	\$ (12,939)	\$ 1,532,242

Note 4 - Risk Management

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

The Health System has a self-insurance program for its medical malpractice exposure. The Health System claims entitlement to the protections of Sovereign Immunity under Section 768.28, Florida Statutes. In addition, the Health System purchases excess professional liability coverage for claims exceeding the self-insured retention amounts of \$3 million per medical incident up to \$25 million per claim and in the aggregate. Claims of approximately \$420,614 as of September 30, 2019, are included in the balance sheet based upon the expected ultimate cost of the expenses to date (including a provision for unknown incidents). During the year ended September 30, 2019, the Health System recorded a \$0 decrease in medical malpractice expense estimate based on an analysis performed by independent actuaries employed by the Health System to estimate the actual costs. In management's opinion, an adequate reserve for loss contingencies has been recorded in the accompanying financial statements.

The Health System is self-insured for workers' compensation up to \$600,000 per occurrence subsequent to October 1, 2010, and has purchased excess coverage from commercial carriers up to the amount allowed by Florida Statutes. Workers' compensation claims of approximately \$821,313 as of September 30, 2019, is accrued and included in the balance sheet based on an analysis performed by independent actuaries employed by the Health System to estimate the expected costs. In management's opinion, an adequate reserve for loss contingencies has been recorded in the accompanying financial statements.

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

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

	Medical Malpractice	Workers' Compensation	Total
Balance at September 30, 2018	\$ 423,976	\$ 943,555	\$ 1,367,531
Claims and Changes in Estimates	-	-	-
Claim Payments	(3,362)	(122,242)	(125,604)
Balance at September 30, 2019	<u>\$ 420,614</u>	<u>\$ 821,313</u>	<u>\$ 1,241,927</u>

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

Note 5 - Benefit Plans

Defined Benefit Pension Plan

Plan Description

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

Plan Amendments

On March 24, 2014, the Health System amended the Plan to provide that all Plan participants are immediately and fully vested in their accrued retirement benefit. The amendment also provides that any terminated vested Plan participants not already in pay status may elect a lump sum distribution of the accrued retirement benefit. With the Health System termination of the lease of the hospital on March 31, 2014, the Health System terminated all active employees. A Voluntary Correction Plan (VCP) has been approved by the IRS for the Plan and the payout for the affected Plan participants is expected in the near future. The Plan was amended to terminate as of July 21, 2019. The final distribution of assets is expected to occur during 2020.

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Benefits Provided

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

Employee membership data related to the Plan, as of October 1, 2019, was as follows:

Retirees and Beneficiaries Currently Receiving Benefits	-
Terminated Employees Entitled to but not yet Receiving Benefits	311
Active Plan Members	<u>230</u>
	<u>541</u>

The actuarial valuation was based on personnel information from Munroe Regional Health Systems, Inc. records as of October 1, 2019.

Contributions

The participants do not contribute to the Plan. The contribution requirements of the Health System are based upon the actuarially determined minimum required contribution. During the year ended September 30, 2019, the Health System contributed \$139,103 to the Plan.

Net Pension Liability

The District's net pension liability was measured as of September 30, 2019, and the total pension liability to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability in the September 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

The actuarial assumptions used in the September 30, 2019, valuation were methods and assumptions used in the October 1, 2018 funding valuation under IRC 430. The minimum required contribution under IRC 430 is calculated on the first day of the plan year. The actuarial cost method utilized is the unit credit. The amortization method is a layered amortization under PPA/ERISA with the period of 7 years. The asset valuation method using a smoothing period of 24 months with a corridor of 20% to 110% of fair market value. In addition, mortality rates were based on the 2018 static mortality table for annuitants and non-annuitants per 1.430(h)(3)-1(e) based on 2006 base rates from the RP-2014 mortality study.

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The assumption for the long-term expected rate of return is determined by adding expected inflation to the expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per the actuary's investment consulting practice as of June 30, 2019.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Arithmetic Real Rate of Return</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>
US Cash	1.61%	0.57%	0.57%
US Core Fixed Income	89.28%	2.00%	1.64%
US Long Gvt Bonds	9.11%	1.21%	0.68%

Discount Rate

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

Changes in Plan's Net Pension Liability

Shown below are details regarding the Total Pension Liability as determined by an actuarial valuation for the measurement period from October 1, 2018 through September 30, 2019:

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (c)=(a)-(b)</u>
Balance Recognized at October 1, 2018	\$ 18,374,541	\$ 13,192,689	\$ 5,181,852
Changes Recognized for the Fiscal Year:			
Service Cost	-	-	-
Interest on the Total Pension Liability	713,993	-	713,993
Effect of Economic/Demographic Gains and Losses	(1,248,101)	-	(1,248,101)
Effect of Assumptions Changes or Inputs	485,362		485,362
Benefit Payments	(1,059,826)	(1,059,826)	-
Employer Contributions	-	199,982	(199,982)
Member Contributions	-	-	-
Net Investment Income	-	2,584,113	(2,584,113)
Administrative Expense	-	(486,115)	486,115
Net Changes	(1,108,572)	1,238,154	(2,346,726)
Balance Recognized at September 30, 2019	<u>\$ 17,265,969</u>	<u>\$ 14,430,843</u>	<u>\$ 2,835,126</u>

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

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

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

	<u>1% Decrease (3%)</u>	<u>Current Rate (4%)</u>	<u>1% Increase (5%)</u>
Total Pension Liability	\$ 19,497,429	\$ 17,265,969	\$ 15,483,576
Plan Fiduciary Net Position	<u>14,430,843</u>	<u>14,430,843</u>	<u>14,430,843</u>
Net Pension Liability	<u>\$ 5,066,586</u>	<u>\$ 2,835,126</u>	<u>\$ 1,052,733</u>

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2019, the District recognized pension expense of \$101,522. On September 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Actual and Expected Experience	\$ -	\$ -
Assumption Changes	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	<u>837,017</u>	<u>-</u>
Total	<u>\$ 837,017</u>	<u>\$ -</u>

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

<u>Year Ended September 30</u>	<u>Amount</u>
2020	\$ (199,612)
2021	(28,799)
2022	(191,993)
2023	(416,613)
2024	-

Note 6 - Capital Lease Agreement

Trustee Execution of Lease/Purchase Agreement (LPA)

On April 1, 2014, the Health System and District executed a 40-year lease and purchase agreement (LPA) with Munroe HMA Hospital, LLC, an affiliate of Community Health Systems (CHS); thereby, terminating

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

the revised hospital and operations lease between the Health System and the District. Under the LPA, control of the hospital transferred to CHS, including control of land, buildings, and equipment with a net book value at the time of transfer of approximately \$132 million; and inventory, prepaids, investments in joint ventures, and various assumed obligations with a net book value of approximately \$6 million. The District received approximately \$196 million of cash and consideration under the LPA on April 1, 2014. Net proceeds of the LPA after settlement and closing costs was approximately \$110,535,000. Included in the settlement of the LPA proceeds were refunding of bond payables, prepayment of pension contributions, and closing costs of approximately \$4,788,000. The remaining amount of \$37,721,361 is reported as unearned lease revenues and amortized over the life of the lease with annual amortization of deferred income in the amount of approximately \$1,093,000 each year.

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

Note 7 - Commitments

The District has contractual grant and project commitments as of September 30, 2019 of the following:

	Total Commitment
College of Central Florida Nursing School Building	\$ 4,800,000
College of Central Florida Additional Floor/Renovate Hampton Center	3,500,000
Marion County Parks (Sunsets 12/21/2020)	1,000,000
Ocala Community Center	2,300,000
Marion County BOCC - Mental Health Service Provider	1,877,171
	<u>\$ 13,477,171</u>

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA

Schedule of Changes in Net Pension Liability and Related Ratios

	2019*	2018*	2017*	2016*	2015*	2014*
Total Pension Liability						
Service Cost	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
Interest Cost	713,993	814,137	842,039	720,945	1,803,979	N/A
Changes in Benefit Terms	-	-	-	-	-	N/A
Effect of economic/demographic						
Gains or Losses	(1,248,101)	(530,915)	1,662,521	4,894,520	10,793	N/A
Effect of assumption changes or inputs	485,362	(48,934)	(151,685)	(326,555)	-	N/A
Benefit Payments, Including Refunds of						
Member Contributions	(1,059,826)	(4,383,341)	(1,743,418)	(2,769,636)	(55,038,769)	N/A
Net Change in Total Pension Liability	(1,108,572)	(4,149,053)	609,457	2,519,274	(53,223,997)	
Total Pension Liability (Beginning)	18,374,541	22,523,594	21,914,137	19,394,863	72,618,860	68,611,461
Total Pension Liability (Ending)	\$ 17,265,969	\$ 18,374,541	\$ 22,523,594	\$ 21,914,137	\$ 19,394,863	\$ 72,618,860
Plan Fiduciary Net Position						
Contributions - Employer						
Contributions - Employee	\$ 199,982	\$ -	\$ 7,600,000	\$ 4,388,128	\$ -	N/A
Net Investment Income	2,584,113	(480,163)	(179,001)	1,305,953	(266,768)	N/A
Benefits Payments, Including Refunds of						
Member Contributions	(1,059,826)	(4,383,341)	(1,743,418)	(2,769,636)	(55,038,769)	N/A
Administrative Expenses	(486,115)	(417,544)	(399,963)	(432,062)	(885,890)	N/A
Other	-	-	-	-	-	N/A
Net Change in Total Pension Liability	1,238,154	(5,281,048)	5,277,618	2,492,383	(56,191,427)	N/A
Total Pension Liability (Beginning)	13,192,689	18,473,737	13,196,119	10,703,736	66,895,163	N/A
Total Pension Liability (Ending)	\$ 14,430,843	\$ 13,192,689	\$ 18,473,737	\$ 13,196,119	\$ 10,703,736	\$ 66,895,163
Net Pension Liability (Ending)	\$ 2,835,126	\$ 5,181,852	\$ 4,049,857	\$ 8,718,018	\$ 8,691,127	\$ 5,723,697
Net Position as a % of Pension Liability	83.58%	71.80%	82.02%	60.22%	55.19%	92.12%
Covered - Employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A
Net Pension Liability as a % of Payroll	N/A	N/A	N/A	N/A	N/A	N/A

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

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

Schedule of Contributions

	2019*	2018*	2017*	2016*	2015*	2014*
Actuarially Determined Contribution	\$ 109,103	\$ -	\$ 1,149,743	\$ 1,050,729	\$ 2,522,934	\$ -
Actual Employer Contribution	199,982	-	7,600,000	4,388,128	-	
Contribution Deficiency (Excess)	(60,879)	-	(6,450,257)	(3,337,399)	2,522,934	-
Covered-Employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a % of Payroll	N/A	N/A	N/A	N/A	N/A	N/A

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

Schedule of Pension Investment Returns

	2019*	2018*	2017*	2016*	2015*	2014*
Annual Money-Weighted Rate of Return, Net of Investment Expense	20.97%	(3.0%)	(1.1%)	11.6%	(0.69%)	2.46%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The following changes in actuarial assumptions occurred in 2019:

- The 2018 static mortality table for annuitants and non-annuitants per 1.430(h)(3)-1e based on 2006 base rates from the RP-2014 mortality study.

The following changes in actuarial assumptions occurred in 2018:

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

The following changes in actuarial assumptions occurred in 2017:

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

The following changes in actuarial assumptions occurred in 2016:

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the blended component unit, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Marion County Hospital District's (the District) basic financial statements, and have issued our report thereon dated January 22, 2020.

Internal Control over Financial Reporting

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

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

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

Certified Public Accountants

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

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

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

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, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



January 22, 2020
Ocala, Florida

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

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

We have examined the Marion County Hospital District (the District) and the Munroe Regional Health System's (the Health System) compliance with the requirements of Section 218.415, Florida Statutes, as of and for the year ended September 30, 2019, as required by Section 10.556(10)(a), *Rules of the Auditor General*. Management is responsible for the District's and the Health System's compliance with those requirements. Our responsibility is to express an opinion on the District and Health System's compliance based on our examination.

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

In our opinion, the District and the Health System complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2019.

Purvis, Gray and Company, LLP

January 22, 2020
Ocala, Florida

Certified Public Accountants

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MANAGEMENT LETTER

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

Report on the Financial Statements

We have audited the financial statements of the Marion County Hospital District (the District) and the Munroe Regional Health System (the System) as of and for the fiscal year ended September 30, 2019, and have issued our report thereon dated January 22, 2020.

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 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 examination conducted in accordance with American Institute of Certified Public Accountants Professional Standards, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports and schedule, which are dated January 22, 2020, should be considered in conjunction with this management letter.

Prior Audit Findings

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

Official Title and Legal Authority

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

Certified Public Accountants

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

MANAGEMENT LETTER

Financial Condition

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

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

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

Additional Matters

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

Purpose of this Letter

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



January 22, 2020
Ocala, Florida