



**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Financial Statements and Supplemental Information  
and Reports as Required by Chapter 10.550, *Rules of Auditor General*

September 30, 2020

(With Independent Auditors' Report Thereon)

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**  
Financial Statements and Supplemental Information  
September 30, 2020

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# SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Letter of Transmittal

(Unaudited)

## Introduction

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

## Background

The System is among the largest public health systems in Florida. The full-service organization is a regional referral center offering inpatient, outpatient and extended care services, with 41,700 inpatient visits and more than 1 million outpatient and physician visits annually. The System offers a complete continuum of care, including an 839-bed hospital, a freestanding emergency room, network of urgent care and outpatient centers, laboratory and imaging services, rehabilitation programs, a behavioral health hospital, large physician practice group and a skilled nursing and rehabilitation center.

SMHCS serves as the community's health care safety net, and is Sarasota County's only provider of trauma care, obstetrical services, pediatrics, neonatal intensive care and psychiatric services for patients of all ages.

With nearly 6,700 staff, the System is among the region's largest employers. Its medical staff includes over 1,100 physicians representing 60 specialties, and more than 380 Advanced Practice Professionals. In addition, community volunteers support many areas of the System.

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. First Physicians Group includes more than 180 physicians in 27 specialties in 42 practice locations.

## Patient-Centered, Patient-Safe Care to Combat COVID-19

For much of 2020, SMHCS was on the front lines in the battle against COVID-19. While the pandemic created unprecedented challenges, the System has had a great deal of experience in preparing for crises ranging from hurricanes to disease outbreaks. The hospital has an extensive emergency preparedness plan and incident command structure in place, and works closely with local, state and federal emergency management and public health officials to coordinate the response to health threats.

Early in calendar year 2020, the health care team, led by epidemiology and infection control staff, began planning the System's COVID-19 response. When the first cases surfaced in March, SMH activated a command center to monitor admissions, capacity, staffing, supplies, CDC guidance and other indicators on a 24/7 basis.

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A separate emergency triage area was established, with suspected and confirmed COVID-19 patients quickly placed in isolation.

As cases increased in the community and at the hospital, SMH implemented additional measures to prevent the spread of the virus, including screenings and temperature checks at entrances, visitor limits and universal masking. Tru-D ultraviolet disinfection robots have provided an extra layer of sanitation to supplement continual cleaning by staff.

Patient Care teams developed detailed plans to manage patient surges. The hospital's ICU capacity was expanded, and additional equipment, ventilators, personal protective equipment (PPE) and other critical supplies were obtained. The hospital brought in contract nurses to help augment staffing.

The outbreak also spurred innovation and research. SMH joined several national clinical trials aimed at discovering lifesaving treatments. The System's Laboratory launched in-house COVID-19 testing, speeding up the turnaround time for test results. Medical staff increased the use of telehealth, providing face-to-face patient visits without sacrificing social distancing.

From the pandemic's outset through September, the System invested \$1.4 million on equipment to treat patients and protect staff, including ventilators, disinfection and lab testing equipment. An additional \$6.8 million was spent on PPE, infection control precautions, extra staffing for patient care, and other COVID-related needs. Operating revenue dropped sharply in March and April after Florida's governor issued an executive order temporarily prohibiting elective procedures and the hospital also closed several outpatient programs. Volumes rebounded after the state's elective surgery ban was rescinded in early May and the hospital reopened its outpatient programs.

As the pandemic continues, the System's top priority is protecting patients and staff. SMH continues to stockpile PPE and disinfection supplies, enhance its testing capacity, maintain staffing and bed capacity to safely care for COVID and non-COVID patients, and adhere to rigorous infection control precautions.

#### **New Facilities and Programs to Enhance the Community's Access to Services**

##### *Venice Hospital on Schedule to Open in Fall of 2021*

Construction of SMHCS' new full-service hospital in Venice is on schedule to be complete in the fall of 2021. The new Sarasota Memorial Hospital-Venice will initially open with 110 private patient suites, a 28-bed Emergency Care Center and eight surgical suites. The 65-acre medical campus also will include a medical office building and have the capacity to expand to 300 private suites, a 50-room ER and 16 surgical suites. The new facility will bring SMHCS' high-quality care to a rapidly growing community.

##### *Development of the Brian D. Jellison Cancer Institute*

In the fall of 2020, SMHCS and the Sarasota Memorial Healthcare Foundation announced a \$25 million donation from the Brian and Sheila Jellison Family Foundation to help advance the mission of the System's Cancer Institute. In recognition of the gift, the cancer program is now known as the Brian D. Jellison Cancer Institute. The institute encompasses several new facilities that will give patients throughout the region greater access to the latest treatments, technologies and clinical trials. The cornerstone of the Jellison Cancer Institute is an eight-story oncology tower under construction on the hospital's main campus and scheduled to open in the fall of 2021. An outpatient radiation oncology center, which opened in August of 2020 on Sarasota

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Memorial's University Parkway campus, and all future buildings and services that are part of the Cancer Institute, also will bear the Jellison name.

### *Plans Move Forward for New Behavioral Health Pavilion*

In August of 2020, the Sarasota County Public Hospital Board approved a \$65 million plan to replace the System's aging behavioral health hospital with a new, state-of-the-art pavilion that centralizes and enhances care to people affected by mental and behavioral health challenges. Construction is expected to be complete in 2023.

### *Physician Training Programs Continue to Grow*

In partnership with Florida State University's College of Medicine, Sarasota Memorial graduated its first class of Internal Medicine residents, welcomed its second class of Emergency Medicine residents and launched the area's first Hospice and Palliative Medicine Fellowship in 2020.

### **National Recognition for Top-Quality Care**

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

Sarasota Memorial is the only hospital in Florida and one of only 45 nationally to earn the federal Centers for Medicare & Medicaid Services' highest five-star rating for overall quality and safety in every reporting period since the rating system launched in 2016.

#### *"A" Grade for Patient Safety*

In the April of 2020, Sarasota Memorial earned an "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 System has earned straight A's since it began participating in Leapfrog's voluntary hospital safety survey in 2016.

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

*U.S. News & World Report* named Sarasota Memorial among 37 "standout" hospitals with top ratings in all 10 chronic conditions and medical procedures evaluated in its "Best Hospitals" guide for 2020-2021.

#### *IBM Watson Top 100 Hospital*

Sarasota Memorial was listed among the nation's Top 100 Hospitals by IBM Watson Health for 2020. The System was chosen from 3,134 hospitals across the country for outperforming peer hospitals on all performance benchmarks in the study, including: inpatient mortality and complications, healthcare-associated infections, readmission rates, length of stay, costs of care and patient satisfaction.

#### *Newsweek Best Hospital*

In 2020, *Newsweek* magazine named Sarasota Memorial one of the world's best hospitals in a global ranking for the second year in a row. Hospitals were selected based on medical performance indicators that included low mortality, complication and readmission rates, as well as recommendations from medical professionals and patient survey results.

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#### *Ongoing Magnet Designation*

In November of 2018, Sarasota Memorial earned Magnet Nursing Services Recognition for the fourth time – a challenge accomplished by fewer than 1% of the nation’s hospitals. Independently sponsored research projects suggest that Magnet facilities have positive outcomes for patients, nurses and workplaces. The organization is currently the only provider in the region with Magnet Recognition, which is given by the American Nurses’ Credentialing Center. The hospital has been continuously designated since 2003.

#### *American Heart Association/American Stroke Association Honors for Excellence*

In 2020, Sarasota Memorial once again received top honors and recognition for medical outcomes and excellence from the American Heart Association and the American Stroke Association as part of the organizations’ annual “Get With The Guidelines” assessments.

The yearly awards recognize hospitals that not only meet top standards of care but do so consistently, month to month and year to year. This year, SMH was awarded three designations: “Gold Plus Target: Heart Failure Honor Roll,” “Gold Plus Target: Stroke Elite Honor Roll,” and “Target: Type 2 Diabetes Honor Roll.”

#### *Comprehensive Stroke Center Designation*

Sarasota Memorial has earned Comprehensive Stroke Center Certification from DNV Healthcare, one of the leading accrediting organizations in the nation. The System also has earned the American Heart Association/Stroke Association’s Get with the Guidelines’ “Gold Plus” award and national “Elite” honor roll status.

#### *Hip/Knee Replacement Certification*

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

#### *Designated Chest Pain Center*

Sarasota Memorial has earned full accreditation from the American College of Cardiology as a designated Chest Pain Center with Primary PCI and Resuscitation, in recognition of the System’s demonstrated expertise in treating patients with chest pain.

#### *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.

#### *Age-Friendly Status*

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

#### *Baby-Friendly Recognition*

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

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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.

### *Beacon Awards for Nursing Units*

In 2020, Sarasota Memorial's Cardiovascular Thoracic Stepdown/Cardiac Progressive 3 Unit received a silver-level Beacon Award for Excellence from the American Association of Critical-Care Nurses, becoming the third nursing unit at the hospital to earn the national award for high-quality care. The hospital's Critical Care Unit also has earned a silver award, while the Cardiac Acute/Cardiac Progressive 1 Unit has received a gold award. To earn the honors, the units have demonstrated excellence in categories including leadership structures and systems; appropriate staffing and staff engagement; effective communication, knowledge management and learning and development; evidence-based practice and processes; and outcome measurement.

### *Honor Roll for Improving Care for People with Serious Illness*

Sarasota Memorial was among 95 organizations to receive national recognition in the inaugural honor roll of the John A. Hartford Foundation Tipping Point Challenge for developing innovative programs and completing specialized training that is improving care for people living with serious illness by the Center to Advance Palliative Care (CAPC).

### *Clinical Affiliations*

Sarasota Memorial has longstanding clinical affiliations and partnerships with New York's Columbia University Medical Center and Johns Hopkins All Children's Hospital that bring additional research, resources and advanced treatments to the Sarasota community.

### *Most Wired Honor*

Sarasota Memorial was named among America's 2020 "Most Wired" hospitals for pioneering IT systems that promote safety, security and clinical innovation.

### *Patient Centered Medical Home Certification*

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

### **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. The System cares for the majority of the county's inpatient Medicaid and uninsured cases and provides many vital services that other local hospitals do not.

SMHCS is the sole provider of trauma care, obstetrical services, neonatal intensive care and inpatient pediatric services in Sarasota County. It also is the only hospital in Sarasota County providing psychiatric services to patients of all ages.

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The hospital's Community Specialty Clinic offers a wide range of free specialty care to eligible uninsured/underinsured residents.

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

The System also offers a sliding scale discount program that offers significantly reduced rates to lower-income, uninsured patients. The program's goal is to make health care more affordable for the uninsured and allow eligible patients to pay what they can. The 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 112,000 emergency cases in fiscal year 2020 in its main campus Emergency Care Center and freestanding Emergency Room (ER) in North Port. In addition to emergency care, the North Port center also has physician offices and outpatient programs including laboratory, radiology and rehabilitation services.

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

In addition to its safety net programs, Sarasota Memorial also offers an array of disease management programs that provide patients with chronic health conditions cost-effective, high-quality alternatives to the emergency room and hospitalization. These services include a Heart Failure Treatment Center, Anti-Coagulation Clinics and a Secondary Stroke & TIA Prevention Clinic.

### *Economic Driving Force*

Among the largest employers in the region, Sarasota Memorial is a significant economic engine, creating and sustaining jobs and income for nearly 6,700 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:

- \$527 million in total payroll – supports local workforce,
- \$941 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
- \$276.5 million for facility and equipment upgrades in 2020.

### **Finance**

#### *Operational Improvements*

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



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

- Prompt and responsive labor management during elective surgery moratorium while maintaining staff commitment to the organization
- Integrated Quality Department with Coding's Artificial Intelligence workflow, in real-time to reduce inappropriate value based payment reductions
- Utilization of Business Intelligence software to develop interactive organizational denial dashboard in-order to transition from denial management to denial prevention
- Implementation of new online payment portal; creating self-service functionality, paperless statements, accelerated cash flow, and Follow My Health integration
- Utilized scheduling platform to create electronic surgery booking sheets, driving workflow efficiencies in both the physicians' office and the hospital
- Go-live of Artificial Intelligence software to support Utilization Review processes resulting in improved medical necessity documentation, reduced denials, and workflow efficiency
- Go-live of Power Dialer technology to improve pre-registration and scheduling outreach; resulting in reduced no-shows, improved point of service collections, and patient satisfaction

Go-live of Go-Scheduler web application to allow patients to self-schedule, re-schedule, or cancel certain procedures in order to improve the patient's experience.



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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, 2020 and 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 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, 2020 and 2019, and the changes in its financial position, and its cash flows, thereof for the years then ended in accordance with U.S. generally accepted accounting principles.



## Other Matters

### Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 10 through 24, 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 77 to 82 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Supplementary and Other Information

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

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

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

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2021 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 22, 2021

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Management's Discussion and Analysis (Unaudited)

September 30, 2020 and 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, 2020 and 2019. The District includes Sarasota Memorial Hospital (the Hospital) among other entities. This discussion has been prepared along with the financial statements and related note disclosures, which should be read in conjunction with one another. This narrative, the financial statements, and notes are the responsibility of the District's management.

### Required Financial Statements

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

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

### COVID-19

The period this report covers includes the initial months of the COVID-19 pandemic in Florida, including the period of time that Florida hospitals were prohibited by the governor's Executive Order #20-72 from performing "...any medically unnecessary, non-urgent or non-emergency surgery of procedure...", referred to herein as the "Moratorium". The first publicly disclosed COVID-19 case in Florida occurred on or around March 10, 2020. The Moratorium was in effect from March 20, 2020 through May 4, 2020.

Although the full impact of the public health crisis on the District cannot be estimated with any degree of certainty at this time and will depend on the duration of the public health crisis, and state and federal response, the District is providing the following information which includes known impacts and measures the District has taken in response.

In response to the COVID-19 pandemic beginning in March 2020, the District undertook a variety of proactive measures to mitigate the financial and operational impact. These measures include:

- Leadership and Infrastructure:
  - Quickly established incident command center for coordinated leadership
    - Daily conference calls to share status reports from all areas of operation

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Management's Discussion and Analysis (Unaudited)

September 30, 2020 and 2019

- CEO provides frequent email updates and bi-weekly video messages
- 24/7 command center to respond to staff's questions
- Continuous monitoring of CDC guidance
- Moratorium on work-related travel
- Developed contingency plans to enhance capacity for potential surge
- Created separate Emergency triage area to assess patients with COVID-19 signs
- Controlled access to hospital:
  - No visitors with very limited exceptions (i.e. NICU, birth support, end of life)
  - Taking temperature of everyone entering facility
  - Transitioned many staff into work-from-home
- Added equipment with funds donated by the Sarasota Memorial Health Care Foundation:
  - Ventilators, respiratory care and patient monitoring equipment
  - Lab equipment
  - Disinfection units
  - Telemedicine units
- Patient Care:
  - Quickly developed an aggressive COVID-19 testing process and worked with numerous external labs to improve turnaround times
  - Launched rapid in-house testing on our own platform once supplies became available
  - Increased clinical staffing for increased number of patients in isolation
  - Personal Protective Equipment (PPE):
    - Segregated inventories and established clinical criteria based on CDC guidance to ensure appropriate utilization
    - Developed alternative sources to obtain PPE
    - Worked with manufacturers to implement safe disinfection of N-95 masks
  - Expanded the use of telemedicine throughout the health system
  - Developed plan to expand ICU capacity from 62 to 100 beds, if needed
  - Joined three national clinical trials to test COVID-19 treatments, including a study of the antiviral drug Remdesivir, a trial evaluating the use of convalescent plasma, and a clinical trial to assess REGN COV-2, a new antibody cocktail
  - Increased staffing of Employee Health Department to support staff

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Management's Discussion and Analysis (Unaudited)

September 30, 2020 and 2019

- Finance:
  - Modeled the financial impact of lost business due to sheltering-at-home and Governor DeSantis' Moratorium. Based on the relationship of net patient revenues to budget from October 1, 2019 through February 29, 2020, we estimated lost net patient revenues from March 1, 2020 through May 31, 2020, in the amounts of \$49.5 million at Sarasota Memorial Hospital and \$5.7 million for SMH Physicians Services, Inc. d/b/a First Physicians Group of Sarasota.
  - "Right-sized" staffing and reduced non-payroll expenses in response to the reduction in volumes. Approximately 640 staff members were furloughed in April, in May many returned to work, and by June no staff were on furlough.
  - Tracking COVID-19 expenses. Through September 30, 2020, there were \$11.6 million attributed to extra labor and other expenses directly related to the treatment of COVID-19 at Sarasota Memorial Hospital.
  - Received \$34 million grant during 2020 from the Provider Relief Fund. These receipts are included on the balance sheet as of September 30, 2020 in unearned grant receipts, and are not included in the revenues of the District for the year ended September 30, 2020.
  - Applied for and received CMS Advance Payments from Medicare totaling \$146 million. These receipts are included on the balance sheet as of September 30, 2020 in current and noncurrent portions of advanced payments from third parties. Beginning in April 2021, these funds will be paid back to CMS as an offset to future Medicare claim payments.
  - Received \$1.7 million in grants from the Sarasota Memorial Healthcare Foundation to help offset the costs of equipment and supplies to fight COVID-19
- Community:
  - Sarasota Memorial physicians and administrators participating in media briefings and updates on social media
  - Assisted Sarasota Department of Health in establishing community COVID-19 testing
  - Launched COVID-19 hot line to provide updates for the community

While the ultimate impact of this pandemic is largely unknown, the District has taken immediate and appropriate measures to deal with the crisis. Plans will be adjusted as warranted by the evolving circumstances.

### Summary of Financial Highlights and Trends

The District's cash and board designated investments, which included \$146 million of Advance Payments from Medicare, increased by \$309.8 million and \$140.4 million in the fiscal years ended September 30, 2020 and 2019, respectively. Long-term debt (including current portion) decreased by \$11.1 million and decreased by \$10.7 million in the years ended September 30, 2020 and 2019, respectively. The excess of revenue over expenses were \$150.9 million and \$200.6 million for the years ended September 30, 2020 and 2019, respectively. Net position increased by \$155.0 million in fiscal 2020, and by \$204.3 million in fiscal 2019. In

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Management's Discussion and Analysis (Unaudited)

September 30, 2020 and 2019

2020, Hospital payor mix reflected an increase in Medicare, with decreases in each of the other 3 payor categories. In 2019, Hospital overall payor mix was very similar to fiscal 2018.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Medicare	61.0 %	59.7 %	59.6 %
Managed care and commercial	24.8	25.2	25.1
Self-pay and other	6.1	6.5	6.3
Medicaid	8.1	8.6	9.0
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

**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, 2020, admissions volume decreased across the Sarasota County area 4.0% from the same period in the prior year. The Hospital's admissions outperformed the overall market with a decrease of 3.2% during the twelve months ended September 30, 2020. Sarasota Memorial Hospital inpatient market share in the Sarasota County area for the twelve months ended September 30, 2020 was 68.2%. The Hospital outpatient volume, excluding emergency room visits, decreased by 8.7% and increased by 1.6% during the years that ended September 30, 2020 and 2019, respectively. Emergency Care Center visits decreased 14.1% and increased 1.8% during the years that ended September 30, 2020 and 2019, respectively.

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

	<u>Fiscal year ended September 30</u>				
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Average number of beds in service:					
Medical/surgical intensive care	62	62	62	62	50
Cardiac telemetry, acute, and intensive care	156	156	156	132	108
Other medical/surgical	438	438	404	402	401
Total medical/surgical	656	656	622	596	559
Obstetrics	30	30	30	30	30
Psychiatric and substance abuse	60	60	60	60	60
Rehabilitation	54	54	44	44	34
Pediatrics	28	28	28	18	18
Total hospital	<u>828</u>	<u>828</u>	<u>784</u>	<u>748</u>	<u>701</u>

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	<b>Fiscal year ended September 30</b>				
	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Combined admissions and observation cases:					
Admissions	41,744	43,120	36,016	33,262	31,946
Observation cases	6,316	7,168	8,694	8,940	8,680
Total admissions and observation cases	<u>48,060</u>	<u>50,288</u>	<u>44,710</u>	<u>42,202</u>	<u>40,626</u>
Admissions:					
Total medical/surgical	33,139	34,677	28,569	26,094	24,808
Obstetrics	4,035	4,049	3,730	3,639	3,652
Psychiatric and substance abuse	2,265	2,333	2,101	2,123	2,171
Rehabilitation	1,389	1,286	1,048	915	800
Pediatrics	916	775	568	491	515
Total hospital	<u>41,744</u>	<u>43,120</u>	<u>36,016</u>	<u>33,262</u>	<u>31,946</u>
Average length of stay:					
Total medical/surgical	4.82	4.54	4.72	4.85	4.98
Obstetrics	2.38	2.43	2.45	2.38	2.33
Psychiatric and substance abuse	5.43	5.29	5.88	5.22	5.06
Rehabilitation	13.44	12.80	13.70	12.86	12.73
Pediatrics	2.80	2.82	3.50	3.16	3.33
Total hospital	<u>4.86</u>	<u>4.60</u>	<u>4.79</u>	<u>4.80</u>	<u>4.85</u>
Number of patient days:					
Medical/surgical intensive care	15,792	14,339	15,204	14,661	13,999
Cardiac telemetry, acute, and intensive care	38,517	39,736	35,159	32,396	33,933
Other medical/surgical	105,510	103,439	84,346	79,385	75,520
Total medical/surgical	159,819	157,514	134,709	126,442	123,452
Obstetrics	9,595	9,838	9,141	8,649	8,496
Psychiatric and substance abuse	12,291	12,341	12,344	11,092	10,976
Rehabilitation	18,671	16,462	14,357	11,770	10,184
Pediatrics	2,561	2,187	1,989	1,550	1,713
Total hospital	<u>202,937</u>	<u>198,342</u>	<u>172,540</u>	<u>159,503</u>	<u>154,821</u>



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	<b>Fiscal year ended September 30</b>				
	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Percentage occupancy (admitted patients):					
Medical/surgical intensive care	69.6 %	63.4 %	67.2 %	64.8 %	76.5 %
Cardiac telemetry, acute, and intensive care	67.5	69.8	61.7	67.2	85.8
Other medical/surgical	65.8	64.7	57.2	54.1	51.5
Total medical/surgical	66.6	65.8	59.3	58.1	60.3
Obstetrics	87.4	89.8	83.5	79.0	77.4
Psychiatric and substance abuse	56.0	56.4	56.4	50.6	50.0
Rehabilitation	94.5	83.5	89.4	73.3	81.8
Pediatrics	25.0	21.4	19.5	23.6	26.0
Total hospital	<u>67.0 %</u>	<u>65.6 %</u>	<u>60.3 %</u>	<u>58.4 %</u>	<u>60.3 %</u>
Licensed beds	839	839	829	829	819
Average number of beds in service	828	828	784	748	701
Average daily census	554	543	473	437	423
Percent occupancy	67.0	65.6	60.3	58.4	60.3
Patient days	202,937	198,342	172,540	159,503	154,821
Admissions	41,744	43,120	36,016	33,262	31,946
Adjusted admissions <sup>(1)</sup>	65,989	68,937	59,786	56,378	55,244
Average length of stay	4.86	4.60	4.79	4.80	4.85
Emergency Room Visits/Registration	107,579	125,195	122,942	122,654	124,065
Surgery Cases	23,068	24,685	23,369	22,195	21,347
Radiology procedures	339,012	358,746	342,059	326,129	329,830
Cardiac Catheterization procedures	15,353	15,823	14,930	14,257	12,675

<sup>(1)</sup> 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 2020, 2019, and 2018 is presented below (in thousands):

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>	<u>Change</u>
Net patient service revenue	\$ 961,916	962,714	(798)	861,236	101,478
Other revenue	24,313	22,699	1,614	19,885	2,814
Total operating revenues	986,229	985,413	816	881,121	104,292
Total operating expenses	940,759	893,882	46,877	796,180	97,702
Operating income	45,470	91,531	(46,061)	84,941	6,590
Total nonoperating items	105,411	109,034	(3,623)	34,765	74,269
Excess of revenues over expenses	150,881	200,565	(49,684)	119,706	80,859
Other changes in net position	4,094	3,714	380	807	2,907
Net position, beginning of year	1,354,090	1,149,811	204,279	1,029,298	120,513
Net position, end of year	\$ <u>1,509,065</u>	<u>1,354,090</u>	<u>154,975</u>	<u>1,149,811</u>	<u>204,279</u>

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

Net patient service revenue decreased by \$0.8 million, or 0.1%, during fiscal year 2020. From October 2019 to mid-March 2020 the District continued to experience growth in inpatient census but volumes tapered off in mid-March due to the COVID-19 pandemic hitting Florida; overall hospital activity in the second half of March was approximately half of normal volume. April volumes were severely impacted by the public sheltering-at-home as well as by the Moratorium, and patient service revenue for April 2020 was \$23.6 million lower than in April 2019. Volumes in May through September 2020 recovered significantly resulting in patient service revenue being \$6.4 million higher than May through September 2019. Hospital admissions decreased 3.2% from fiscal year 2019. The inpatient average daily census was 554 in fiscal year 2020 compared to 543 in fiscal year 2019; longer average length of stay for COVID-19 patients drove the census higher despite fewer admissions. Outpatient hospital registrations (excluding emergency care center visits) in fiscal year 2020 were lower by 8.7% compared to fiscal year 2019, and emergency care center visits were 14.1% lower. Surgery cases in fiscal year 2020 were 6.0% lower than the fiscal year 2019, and cardiac catheterization procedures were 3.0% lower, but electrophysiology cases were 11.3% higher than fiscal year 2019. Net patient service revenue from employed physicians increased \$2.2 million as a result of the recruitment of new physicians serving the community in primary and specialty care.

Net patient service revenue increased by \$101.5 million, or 11.8%, during fiscal year 2019. The increase in net revenues is attributed to increased hospital and employed physician volumes and improved hospital reimbursement as a result of renegotiated contracts. Hospital admissions increased 19.7% from fiscal year 2018. Factors driving the increase in inpatient activity included a 10.6% increase in births, a 11.6% increase in inpatient surgery cases, including a 6.0% increase in open heart surgery cases, a 19.9% increase in inpatient cardiac catheterization lab cases, and a 10.8% increase in inpatient electrophysiology (EP) lab cases. In

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addition to the increase in inpatient volumes, outpatient surgery cases increased 2.4% and outpatient EP lab cases increased 9.6%. In addition, registrations at the Hospital's urgent care centers increased 8.4% compared to fiscal year 2018. Net patient service revenue from employed physicians increased \$12.4 million as a result of the recruitment of new physicians serving the community in primary and specialty care.

Operating expenses increased in fiscal 2020 by \$46.9 million, or 5.2%. Salaries and wages increased by \$31.5 million, fringe benefits increased by \$7.2 million, supplies increased by \$7.5 million, purchased services increased \$0.3 million, professional fees decreased by \$0.7 million, and depreciation and amortization increased \$1.1 million.

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

Salaries and wages increased \$31.5 million, or 7.6%, in 2020. The increase included COVID-19 specific salary costs of \$4.9 million. The remainder of the increase is largely as a result of a 1.4% increase in acute patient days, a 5.1% increase in the average hospital acute length of stay, plus a 3.7% rise in the hospital average hourly wage, in addition to a 3.0% increase in the number of hospital and corporate division Full Time Equivalent (FTEs). Hospital and Corporate Division FTEs increased from 4,945 in fiscal year 2019 to 5,091 in fiscal year 2020. Total System FTEs increased from 5,604 in fiscal year 2019 to 5,822 in fiscal year 2020. Also contributing to the overall increase in salaries and wages was a \$7.0 million increase in SMH Physicians Services, Inc. related to expanded services, including primary care, hospitalist, gastrointestinal, urological, maternal fetal medicine, bariatrics, and neurological services.

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

Fringe benefits increased by \$7.2 million in 2020 compared to 2019. Fringe benefits as a percentage of salaries and wages increased from 17.6% in 2019 to 18.0% in 2020. The increase in overall benefit cost was primarily due to a \$6.8 million increase in retirement plan expenses, a \$2.1 million increase in wage-related employment tax costs, a \$0.7 million increase in other post-employment benefit costs, partially offset by a \$1.4 million decrease in self-insured health and dental plan costs, and a \$0.7 decrease in workers compensation expenses.

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

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Supplies expenses increased in fiscal 2020 by \$7.5 million. Supplies expense as a percentage of net patient revenue increased to 21.7% in fiscal 2020 compared to 20.9% in fiscal 2019. The increase was primarily related to increased costs related to COVID-19 for medical and laboratory and blood supplies and pharmaceuticals. Drug costs increased \$2.2 million; medical supplies increased \$2.8 million; lab and blood products increased \$1.8 million; and Implants increased \$0.7 million.

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

Purchased services increased by \$0.3 million in fiscal 2020, representing a 0.2% increase compared to 2019. The overall increase was the result of various increases and decreases.

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

Professional fees decreased by \$0.7 million in fiscal 2020, as a result a \$0.5 million decrease in physician fees, and a \$0.2 million decrease in legal fees. Professional fees increased by \$2.2 million in fiscal 2019, as a result a \$1.1 million increase in physician fees, and a \$1.1 million increase in legal fees.

Depreciation expense increased by \$1.1 million in fiscal 2020 due to completion of various construction and renovation and information technology projects, including a radiation oncology center and a PET/CT center at the University Parkway ambulatory care center, completion of renovations of the ninth and tenth floors of a main campus bed tower, and renovation of an office building in downtown Sarasota, and other renovations and equipment purchases.

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

As a result of the above-noted changes in operating costs, total operating costs increased from 92.9% to 97.8% of net patient revenue. Total operating cost per adjusted admission, adjusted for the change in case mix index, increased 6.9% in fiscal year 2020 and increased 1.1% in fiscal year 2019.

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Nonoperating items decreased by \$3.6 million in fiscal year 2020. The decrease is due to a \$9.4 million decrease in unrealized gain on the change in market value of investments, a \$0.6 million decrease in interest expense, net of interest rate swap receipts, a \$0.6 million decrease in investment income, a change from a \$1.2 million net unrealized gain on the change in fair value of ineffective interest rate swaps to a \$0.1 million net unrealized loss thereon, a \$3.5 million increase in ad valorem tax revenue related to an increase in area property values, and a \$3.6 million increase in other nonoperating income. The increase in other nonoperating income was largely a result of receipts of two class action settlement distributions relating to prior years, including a receipt from a Florida Attorney General LIBOR litigation case.

Of note, the District received approximately \$34 million of grant funds from the Department of Health & Human Services ("HHS") Provider Relief Fund. As of September 30, 2020 the District has recorded these funds as unearned grant receipts liability due to the uncertainty of the terms and conditions published by HHS. The District expects the terms and conditions to be clarified in fiscal 2021.

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

Excess of revenues over expenses for fiscal year 2020 was \$150.9 million, compared to an excess of revenues over expenses in fiscal year 2019 of \$200.6 million. The \$49.7 million decrease is a result of operating revenues increasing by \$0.8 million, operating expenses increasing by \$46.9 million, and nonoperating items decreasing by \$3.6 million.

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

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**Balance Sheets**

The following table is a summary of the balance sheets as of September 30, 2020, 2019, and 2018 (in thousands):

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>	<u>Change</u>
Cash and cash equivalents	\$ 40,328	62,059	(21,731)	50,217	11,842
Patient accounts receivable, net	106,338	103,491	2,847	82,953	20,538
Other current assets	<u>43,830</u>	<u>37,128</u>	<u>6,702</u>	<u>33,257</u>	<u>3,871</u>
Total current assets	<u>190,496</u>	<u>202,678</u>	<u>(12,182)</u>	<u>166,427</u>	<u>36,251</u>
Restricted and board designated investments	1,466,760	1,284,538	182,222	1,178,876	105,662
Capital assets, net	919,235	694,922	224,313	606,187	88,735
Other assets	40,583	37,035	3,548	36,216	819
Interest rate swaps	<u>25,005</u>	<u>23,844</u>	<u>1,161</u>	<u>21,727</u>	<u>2,117</u>
Noncurrent assets	<u>2,451,583</u>	<u>2,040,339</u>	<u>411,244</u>	<u>1,843,006</u>	<u>197,333</u>
Deferred outflows	<u>59,673</u>	<u>45,902</u>	<u>13,771</u>	<u>45,051</u>	<u>851</u>
Total assets and deferred outflows	\$ <u>2,701,752</u>	\$ <u>2,288,919</u>	<u>412,833</u>	<u>2,054,484</u>	<u>234,435</u>
Current liabilities	\$ 293,083	172,733	120,350	133,582	39,151
Noncurrent liabilities	<u>874,478</u>	<u>727,181</u>	<u>147,297</u>	<u>729,089</u>	<u>(1,908)</u>
Total liabilities	<u>1,167,561</u>	<u>899,914</u>	<u>267,647</u>	<u>862,671</u>	<u>37,243</u>
Deferred inflows	25,126	34,915	(9,789)	42,002	(7,087)
Net position:					
Net investment in capital assets	495,608	408,445	87,163	334,722	73,723
Restricted for specific purposes	2,741	2,735	6	2,354	381
Unrestricted	<u>1,010,716</u>	<u>942,910</u>	<u>67,806</u>	<u>812,735</u>	<u>130,175</u>
Total net position	<u>1,509,065</u>	<u>1,354,090</u>	<u>154,975</u>	<u>1,149,811</u>	<u>204,279</u>
Total liabilities, deferred inflows and net position	\$ <u>2,701,752</u>	\$ <u>2,288,919</u>	<u>412,833</u>	<u>2,054,484</u>	<u>234,435</u>

At September 30, 2020, the District's cash, cash equivalents, and board designated investments totaled \$1.3 billion, compared to long-term debt, including the current portion, of \$628.2 million. The number of days cash on hand, including advance payments from Medicare of \$146.0 million, was 541, which exceeds the median of 254 days cash on hand for Moody's Investor Services (Moody's) "A1" rated, freestanding hospitals and single and multi-state healthcare systems (2020 median, based on 2019 data). Excluding the advance payment from Medicare of \$146.0 million, the days cash on hand was 481. The advance payments from Medicare will be recouped by CMS by offsetting claims for the care of Medicare patients beginning in April 2021.

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

In fiscal 2020, current assets decreased by \$12.2 million. Cash and cash equivalents decreased by \$21.7 million, patient accounts receivable increased by \$2.8 million, prepaid and other current assets increased \$3.7 million, and inventories of supplies increase by \$3.0 million.

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

In fiscal 2020, restricted investments and board designated investments increased \$182.2 million. Restricted investments as of September 30, 2020 included \$174.3 million of trustee-held Project funds in connection with the Series 2018 bond issuance. As of September 30, 2020, the Moody's ratings of the District's investments are BBB rated or better.

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

Capital assets increased by \$224.3 million in fiscal 2020. There were \$276.5 million of capital additions during fiscal year 2020. The additions were partially offset by annual depreciation of \$51.5 million. Of the \$276.5 million in fiscal 2020 additions, the largest projects accounted for about \$268.5 million of expenditures: \$126.0 million to continue development of a new hospital campus in Venice; \$81.9 million for further development of a cancer care institute; \$11.8 million for capitalized interest on major construction projects; \$10.9 million for medical and diagnostic equipment; \$8.9 million for operating room renovations, equipment and systems; \$7.7 million to complete various renovations and upgrades in the main hospital; \$7.3 million for a PET/CT center at the University Parkway ambulatory care center; \$5.5 million for information systems equipment and software; \$3.8 million to complete the renovation of an office building in downtown Sarasota to consolidate and house several support services departments and to increase capacity on the main hospital campus for growing clinical use; \$3.1 million to develop a new outpatient endoscopy center adjacent to the main campus, and \$1.3 million for COVID-19 related preparations. Additional information on the District's capital assets can be found in note 5 to the financial statements.

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

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parking garage; and \$4.7 million to complete a new ambulatory center at Lorraine Corners. Additional information on the District's capital assets can be found in note 5 to the financial statements.

In fiscal 2020 and 2019, other assets increased by \$3.5 million and \$0.8 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 of resources or deferred inflows or resources 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 2020, current liabilities increased \$120.4 million, primarily related to the \$37.4 million current portion of the advance payment from third parties, \$34.0 million in unearned grant receipts – Provider Relief Fund, a \$33.7 million increase in accounts payable partially related to ongoing large construction projects, a \$9.7 million increase in estimates on third party settlements, and increases in employee compensation and benefits payable and in the current portion of the State of Florida medical assistance assessment.

In fiscal 2019, current liabilities increased \$39.1 million primarily related to increases in accounts payable and other accrued expenses partially related to ongoing large construction projects, employee compensation and benefits payable, bond interest payable related to the Series 2018 bond issue, and estimated third-party settlements.

In fiscal 2020, noncurrent liabilities increased \$147.3 million, primarily as a result of \$109.0 million in the long term portion of advance payment from third parties, a \$16.0 million increase in Net Pension Liability, an increase of \$17.4 million in retainage payable on large construction projects and other noncurrent liabilities, a \$2.6 million increase in deferred retirement plan liabilities for employees, a \$2.6 million increase in other post-employment benefits, a \$10.3 million increase in interest rate swap liabilities, a \$1.9 million increase in professional liabilities, partially offset by \$11.5 million scheduled principal payments on long term debt.



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

**Profitability, Liquidity, and Capital Ratios**

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2019 Moody's A1 median</u>
Profitability ratios:				
Operating margin	9.4 %	13.4 %	13.1 %	2.9 %
Excess margin	11.4	15.2	14.9	5.9
Return on assets	5.4	7.9	8.4	4.7
Total EBIDA%	17.1	20.8	21.7	n/a
Operating cash flow margin	15.1	19.2	20.1	9.2
Liquidity ratios:				
Days cash on hand	541	435	419	254
Net days in receivables	40	39	35	48
Capitalization ratios:				
Maximum debt service coverage ratio	4.9	5.9	5.5	5.8
Cash to debt	213.1 %	160.7 %	136.3 %	209.4 %

(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 cash to debt ratio were favorable compared to the Moody's A1 medians.

In May 2020, Fitch Ratings affirmed the District's unenhanced long term rating of AA- on its outstanding bonds and stable outlook. In July 2020, Moody's Investors Services affirmed the District's unenhanced long-term ratings on its outstanding bonds of A1 and stable outlook. The rating agencies have noted the District's financial performance, strong liquidity, and strong service area characteristics. Contacting the District for Additional Financial Information.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Management's Discussion and Analysis (Unaudited)

September 30, 2020 and 2019

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

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Balance Sheets

September 30, 2020 and 2019

<b>Assets</b>	<b>2020</b>	<b>2019</b>
Current assets:		
Cash and cash equivalents	\$ 40,328,005	62,059,019
Patient accounts receivable, less allowance for uncollectible accounts of \$133,311,594 in 2020 and \$168,834,433 in 2019	106,338,095	103,491,032
Inventories of supplies	17,361,319	14,307,962
Prepaid expenses and other assets	25,383,576	21,697,220
Due from related organizations	1,084,816	1,122,620
Total current assets	<u>190,495,811</u>	<u>202,677,853</u>
Noncurrent assets:		
Restricted investments	180,281,909	329,599,018
Board designated investments	1,286,478,424	954,939,675
Capital assets, net	919,234,563	694,921,952
Other assets	40,583,185	37,035,015
Interest rate swaps	25,005,460	23,843,693
Total noncurrent assets	<u>2,451,583,541</u>	<u>2,040,339,353</u>
Total assets	<u>2,642,079,352</u>	<u>2,243,017,206</u>
<b>Deferred Outflows of Resources</b>		
Deferred outflows related to pensions and OPEB	25,094,926	12,791,918
Deferred amounts on debt refundings	25,038,312	26,850,067
Deferred effective interest rate swap outflows	9,539,443	6,260,034
Total deferred outflows of resources	<u>59,672,681</u>	<u>45,902,019</u>
Total assets and deferred outflows of resources	<u>\$ 2,701,752,033</u>	<u>2,288,919,225</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 75,007,626	41,257,781
Employee compensation and benefits payable	72,911,207	69,008,682
Other accrued expenses	11,690,555	11,403,554
Current portion of advance payment from third party	37,354,481	—
Estimated third-party settlements	38,888,267	29,220,460
Unearned grant receipts – Provider Relief Fund	33,969,014	—
Current portion of State of Florida medical assistance assessment	12,041,604	11,067,173
Current portion of long-term debt	11,220,000	10,775,000
Total current liabilities	<u>293,082,754</u>	<u>172,732,650</u>
Noncurrent liabilities:		
Long-term debt, less current portion	616,941,484	628,482,448
Long-term companion debt, less current portion	19,107,443	20,111,618
Net pension liability	22,806,777	6,789,413
State of Florida medical assistance assessment, less current portion	5,867,296	5,856,147
Advance payment from third party, less current portion	109,000,000	—
Other long term liabilities	64,868,465	40,382,700
Interest rate swaps	35,886,852	25,559,063
Total noncurrent liabilities	<u>874,478,317</u>	<u>727,181,389</u>
Total liabilities	<u>1,167,561,071</u>	<u>899,914,039</u>
<b>Deferred Inflows of Resources</b>		
Deferred inflows related to pensions and OPEB	5,799,171	9,777,259
Deferred effective interest rate swap inflows	19,327,232	25,138,289
Total deferred inflows of resources	<u>25,126,403</u>	<u>34,915,548</u>
<b>Net Position</b>		
Net investment in capital assets	495,608,416	408,444,696
Restricted for specific purposes	2,741,363	2,734,883
Unrestricted	1,010,714,780	942,910,059
Total net position	<u>1,509,064,559</u>	<u>1,354,089,638</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,701,752,033</u>	<u>2,288,919,225</u>

See accompanying notes to financial statements.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Statements of Revenues, Expenses and Changes in Net Position

Years ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Net patient service revenue, net of provision for bad debts of \$181,027,131 in 2020 and \$193,094,193 in 2019	\$ 961,915,757	962,713,515
Other revenue	<u>24,312,578</u>	<u>22,698,714</u>
Total operating revenues	<u>986,228,335</u>	<u>985,412,229</u>
Operating expenses:		
Salaries, wages and fringe benefits	526,986,003	488,285,569
Supplies	208,903,261	201,440,359
Purchased services	114,495,455	114,223,827
Professional fees	27,119,304	27,820,587
State of Florida medical assistance assessment	11,734,593	11,712,294
Depreciation	<u>51,520,472</u>	<u>50,398,563</u>
Total operating expenses	<u>940,759,088</u>	<u>893,881,199</u>
Operating income	<u>45,469,247</u>	<u>91,531,030</u>
Nonoperating items:		
Ad valorem tax	61,645,190	58,136,476
Interest expense	(9,628,309)	(11,444,104)
Interest rate swap receipts, net	872,671	2,060,436
Investment income	20,387,967	20,969,144
Unrealized gains and losses on investments, net	28,317,290	37,757,412
Change in fair value of ineffective interest rate swaps	(75,555)	1,245,429
Other nonoperating income	<u>3,892,118</u>	<u>309,742</u>
Total nonoperating items	<u>105,411,372</u>	<u>109,034,535</u>
Excess of revenues over expenses	150,880,619	200,565,565
Other changes in net position:		
Contributions restricted for capital purposes	<u>4,094,302</u>	<u>3,713,895</u>
Increase in net position	154,974,921	204,279,460
Net position, beginning of year	<u>1,354,089,638</u>	<u>1,149,810,178</u>
Net position, end of year	<u>\$ 1,509,064,559</u>	<u>1,354,089,638</u>

See accompanying notes to financial statements.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Statements of Cash Flows

Years ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Received from patient care services	\$ 1,114,579,389	950,495,407
Received from nonpatient sources	26,379,107	20,765,993
Payments to employees	(516,122,208)	(477,948,108)
Payments to suppliers	<u>(363,578,839)</u>	<u>(348,889,903)</u>
Net cash provided by operating activities	<u>261,257,449</u>	<u>144,423,389</u>
Cash flows from noncapital financing activities:		
Ad valorem taxes	61,645,190	58,136,476
Grants and other noncapital items	<u>33,969,014</u>	<u>—</u>
Net cash provided by noncapital financing activities	<u>95,614,204</u>	<u>58,136,476</u>
Cash flows from capital and related financing activities:		
Payment of bond issue costs	—	(13,457)
Proceeds from donations restricted for capital purposes	2,655,594	2,575,147
Interest rate swap payments paid, net	(221,114)	579,309
Interest received on bond funds held by trustee	2,960,293	7,640,349
Purchases of capital assets	<u>(217,777,634)</u>	<u>(125,346,105)</u>
Proceeds from disposals of capital assets	257,000	279,103
Interest payments	(22,508,355)	(21,089,831)
Repayment of long-term debt	<u>(10,775,000)</u>	<u>(10,375,000)</u>
Net cash used in capital and related financing activities	<u>(245,409,216)</u>	<u>(145,750,485)</u>
Cash flows from investing activities:		
Investment income received	23,272,819	20,499,007
Purchase of investments	<u>(567,114,873)</u>	<u>(538,451,736)</u>
Proceeds from sales and maturities of investments	<u>410,655,884</u>	<u>472,272,748</u>
Net cash used in investing activities	<u>(133,186,170)</u>	<u>(45,679,981)</u>
(Decrease) Increase in cash and cash equivalents	(21,723,733)	11,129,399
Cash and cash equivalents, beginning of year	<u>62,836,620</u>	<u>51,707,221</u>
Cash and cash equivalents, end of year	\$ <u><u>41,112,887</u></u>	\$ <u><u>62,836,620</u></u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 40,328,005	62,059,019
Cash and cash equivalents in restricted investments	<u>784,882</u>	<u>777,601</u>
Total cash and cash equivalents	\$ <u><u>41,112,887</u></u>	\$ <u><u>62,836,620</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 45,469,247	91,531,030
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	51,520,472	50,398,563
Provision for bad debts	181,027,131	193,094,193
Changes in:		
Patient accounts receivable	(183,874,193)	(213,632,497)
Other current and noncurrent assets	(18,184,084)	(2,099,994)
Current liabilities and other liabilities	38,944,395	25,132,094
Advance payment from third party	<u>146,354,481</u>	<u>—</u>
Net cash provided by operating activities	\$ <u><u>261,257,449</u></u>	\$ <u><u>144,423,389</u></u>
Noncash capital and related financing activities:		
Accrued purchases of capital assets	\$ 56,449,485	9,469,903
Unrealized gains on investments, net	28,317,290	37,757,412
Change in equity investment	913,375	229,325

See accompanying notes to financial statements.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2020 and 2019

### **(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).

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2020 and 2019

**(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, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Bad debts	\$ 33,141,786	34,317,556
Traditional charity care	18,106,121	17,509,470
Medicare losses	53,715,872	33,078,291
Medicaid losses	41,324,383	37,427,066
Trauma and emergency care center call pay and subsidies	7,935,677	8,551,559
Anesthesiologist, hospitalist, and psychiatric coverage	12,011,134	9,636,659
Clinics and other community programs	2,925,908	3,606,495
Indigent care fund payments	11,734,593	11,712,294
	\$ 180,895,474	155,839,390

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 \$12,922,000 and \$13,960,000 for the years ended September 30, 2020 and 2019, respectively. Community support recognizes the cost of providing care for those patients that met other financial criteria which indicated an economic hardship and inability to pay for their services, but who either did not meet the strict eligibility requirements for traditional charity care or who did not complete all necessary paperwork to qualify for traditional charity care.

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

**(f) Net Patient Service Revenue**

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

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2020 and 2019

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, 2020 and 2019 are as follows:

	<b>2020</b>	<b>2019</b>
Gross patient charges	\$ 5,023,445,225	4,917,968,197
Contractual adjustments	(3,880,502,337)	(3,762,160,489)
Provision for bad debts	(181,027,131)	(193,094,193)
Net patient service revenue	\$ 961,915,757	962,713,515

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

(i) *Medicare*

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

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

(ii) *Medicaid*

Effective May 1, 2014, the Florida Medicaid program implemented a system through which most Medicaid enrollees receive services. The program is called the Statewide Medicaid Managed Care Medical Assistance Program. The program is comprised of several types of managed care plans including Health Maintenance Organizations, Provider Service Networks, and a Children's Services Network. The program is designed to emphasize patient centered care, personal responsibility and active patient participation, provide for fully integrated care through alternative delivery models with access to providers and services through a uniform statewide program, and implement innovations in reimbursement methodologies, plan quality and plan accountability. Most Medicaid recipients must enroll in the program. Providers and the managed care plans negotiate mutually agreed upon rates and terms of payment for the provision of services as part of the contract between the provider and the managed care plan. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a



## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2020 and 2019

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 \$175,051 and \$2,010,202 for the years ended September 30, 2020 and 2019, 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 2020.

*(iii) Other*

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

***(g) Cash and Cash Equivalents***

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

***(h) Investments and Investment Income***

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

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2020 and 2019

**(i) Inventories of Supplies**

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

**(j) Capital Assets**

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

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

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

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

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

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

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2020 and 2019

**(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, 2020 and 2019 are as follows:

	<b>2020</b>				<b>Amounts due within one year</b>
	<b>Beginning balance</b>	<b>Accrual/ assessments</b>	<b>Payments</b>	<b>Ending balance</b>	
State of Florida medical assistance assessment	\$ 16,923,320	11,734,592	(10,749,012)	17,908,900	12,041,604
Other long-term liabilities	44,217,696	28,951,954	(2,930,447)	70,239,203	5,370,741
Total	<u>\$ 61,141,016</u>	<u>40,686,546</u>	<u>(13,679,459)</u>	<u>88,148,103</u>	<u>17,412,345</u>
	<b>2019</b>				
	<b>Beginning balance</b>	<b>Accrual/ assessments</b>	<b>Payments</b>	<b>Ending balance</b>	<b>Amounts due within one year</b>
State of Florida medical assistance assessment	\$ 14,858,742	11,712,294	(9,647,716)	16,923,320	11,067,173
Other long-term liabilities	43,649,465	3,500,812	(2,932,581)	44,217,696	3,834,996
Total	<u>\$ 58,508,207</u>	<u>15,213,106</u>	<u>(12,580,297)</u>	<u>61,141,016</u>	<u>14,902,169</u>

**(m) Pensions**

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

**(n) Compensated Absences**

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

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2020 and 2019

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. Net investment in capital assets is intended to reflect the portion of net position associated with capital assets, less outstanding balances due on borrowings 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. When both restricted and unrestricted resources are available for use, the District's policy is to use restricted resources first and thereafter unrestricted resources as needed.

### **(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 \$61,645,190 and \$58,136,476 for the years ended September 30, 2020 and 2019, respectively.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2020 and 2019

### **(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, 2020 and 2019.

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

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

For the years ended September 30, 2020 and 2019, 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 \$5,026,135 and \$4,251,329 were covered by federal depository insurance to the applicable limits for the years ended September 30, 2020 and 2019, respectively.

### **(b) Investments**

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

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

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

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As of September 30, 2020, the District had cash and investments maturing as follows:

	<b>Cash and investment maturities</b>				
	<b>Fair value</b>	<b>Less than 1 year</b>	<b>1–5 years</b>	<b>6–10 years</b>	<b>More than 10 years</b>
U.S. government securities	\$ 200,863,689	65,118,220	97,277,227	38,468,242	—
U.S. government agency securities	154,656,994	13,866,504	133,762,938	7,027,552	—
Commercial paper	3,000,064	3,000,064	—	—	—
Corporate bonds	538,454,665	120,910,970	250,992,857	166,550,838	—
Municipal securities	154,329,976	14,924,092	46,848,647	92,557,237	—
Other, including bank deposits	455,782,950	455,782,950	—	—	—
<b>Total cash and investments</b>	<b>\$ 1,507,088,338</b>	<b>673,602,800</b>	<b>528,881,669</b>	<b>304,603,869</b>	<b>—</b>

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

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

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
Certificates of deposit	0.5 years

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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, 2020, 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. In November 2019 the District amended its Investment Policy to include BBB bonds with restrictions. As of September 30, 2020, the credit rating agency ratings of the District's investments range from BBB to AAA. As of September 30, 2019, the credit rating agency ratings of the District's investments ranged from A- to AAA except for the corporate bond noted below, which was rated at Baa1 by Moody's and BBB+ by Standard and Poors.

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

The investment policy limits corporate debt investments to interest-bearing bonds, debentures, and other such evidence of indebtedness with a fixed maturity of any domestic corporation within the United States which is listed on any one or more of the recognized national stock exchanges in the United States and conforms with the periodic reporting requirements under the Securities Exchange Act of 1934. Such obligation shall either carry ratings in one of the three highest classifications of at least two nationally recognized debt rating agencies; or be secured by a letter of credit provided by a commercial bank, which bank or its holding company carries a credit rating in one of the four highest alphabetical categories from at least two nationally recognized debt rating agencies. As of September 30, 2020, there were no exceptions to the policy limits. As of September 30, 2019, there was an exception to the policy limits. An asset backed security in the amount of \$2,310,089 was identified by the investment manager and sold in November 2019.

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.

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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, 2020, 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, 2020 and 2019, there were no investment holdings above the applicable concentration of credit risk limits.

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

Restricted investments and board designated investments as of September 30, 2020 and 2019 are as follows:

	<b>2020</b>	<b>2019</b>
Under bond indenture agreements held by trustees, at fair value plus accrued interest, held for:		
Payment of principal and interest	\$ 5,225,220	448,808
Project funds	174,271,806	325,393,160
Bond issue costs	—	88,156
	179,497,026	325,930,124



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	<u>2020</u>	<u>2019</u>
Restricted funds designated by donors or grantors, at fair value plus accrued interest, held for:		
Plant replacement and expansion	\$ 784,883	777,602
	<u>784,883</u>	<u>777,602</u>
Total restricted investments	\$ <u>180,281,909</u>	<u>326,707,726</u>
Unrestricted funds designated by the Board, at fair value plus accrued interest, held for:		
Capital improvements	\$ 1,286,478,424	954,939,675

**(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

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show the fair value leveling of the System's board designated investments as of September 30, 2020 and 2019.

<u>Investments by fair value level</u>	<b>2020</b>			<u>Total</u>
	<u>Fair value measures using</u>			
	<b>Quoted prices in active markets for identical assets Level 1</b>	<b>Significant other observable inputs Level 2</b>	<b>Significant unobservable inputs Level 3</b>	
Obligations:				
U.S. government securities	\$ 200,863,689	—	—	200,863,689
U.S. government agency securities	—	154,656,994	—	154,656,994
Commercial paper	—	3,000,064	—	3,000,064
Corporate bonds	—	538,454,666	—	538,454,666
Municipal securities	—	154,329,977	—	154,329,977
Cash equivalents	235,173,034	—	—	235,173,034
Total board designated investments by fair value level	\$ <u>436,036,723</u>	<u>850,441,701</u>	<u>—</u>	<u>1,286,478,424</u>

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

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September 30, 2020 and 2019

The tables below show the fair value leveling of the System's restricted investments as of September 30, 2020 and 2019.

		<b>2020</b>			
		<b>Fair value measures using</b>			
<b>Investments by fair value level</b>		<b>Quoted prices in active markets for identical assets Level 1</b>	<b>Significant other observable inputs Level 2</b>	<b>Significant unobservable inputs Level 3</b>	<b>Total</b>
Cash equivalents	\$	784,883	—	—	784,883
Total restricted investments by fair value level	\$	<u>784,883</u>	<u>—</u>	<u>—</u>	<u>784,883</u>

		<b>2019</b>			
		<b>Fair value measures using</b>			
<b>Investments by fair value level</b>		<b>Quoted prices in active markets for identical assets Level 1</b>	<b>Significant other observable inputs Level 2</b>	<b>Significant unobservable inputs Level 3</b>	<b>Total</b>
Cash equivalents	\$	777,601	—	—	777,601
Total restricted investments by fair value level	\$	<u>777,601</u>	<u>—</u>	<u>—</u>	<u>777,601</u>

The above tables exclude certain assets classified as restricted investments on the District's balance sheets, and total to \$179,497,026 and \$328,821,417 as of September 30, 2020 and 2019, respectively. Such other assets include trustee-held bond funds at September 30, 2020, are valued at cost, and, therefore, are not included in the leveling tables above.

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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, 2020 and 2019.

		<b>2020</b>			
		<b>Fair value measures using</b>			
<b>Investments by fair value level</b>		<b>Quoted prices in active markets for identical assets Level 1</b>	<b>Significant other observable inputs Level 2</b>	<b>Significant unobservable inputs Level 3</b>	<b>Total</b>
Mutual funds	\$	19,855,947	—	—	19,855,947
Total deferred compensation investments by fair value level	\$	<u>19,855,947</u>	<u>—</u>	<u>—</u>	<u>19,855,947</u>

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

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The tables below show the fair value leveling of the System's derivative instruments as of September 30, 2020 and 2019.

<b>2020</b>				
<b>Fair value measures using</b>				
<b>Investments by fair value level</b>	<b>Quoted prices in active markets for identical assets Level 1</b>	<b>Significant other observable inputs Level 2</b>	<b>Significant unobservable inputs Level 3</b>	<b>Total</b>
Interest rate swap assets	\$ —	25,005,460	—	25,005,460
Interest rate swap liabilities	—	(35,886,852)	—	(35,886,852)

<b>2019</b>				
<b>Fair value measures using</b>				
<b>Investments by fair value level</b>	<b>Quoted prices in active markets for identical assets Level 1</b>	<b>Significant other observable inputs Level 2</b>	<b>Significant unobservable inputs Level 3</b>	<b>Total</b>
Interest rate swap assets	\$ —	23,843,693	—	23,843,693
Interest rate swap liabilities	—	(25,559,063)	—	(25,559,063)

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.

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Notes to Financial Statements

September 30, 2020 and 2019

**(5) Capital Assets**

The changes in capital assets for the years ended September 30, 2020 and 2019 are as follows:

	2020				
	Beginning balance	Additions	Transfers in/ transfers out	Disposals	Ending balance
Nondepreciable:					
Land	\$ 54,462,761	262,498	—	—	54,725,259
Land held for future expansion	27,269,073	—	—	—	27,269,073
Construction in progress	86,301,097	276,221,983	(57,126,547)	—	305,396,533
Total nondepreciable	<u>168,032,931</u>	<u>276,484,481</u>	<u>(57,126,547)</u>	<u>—</u>	<u>387,390,865</u>
Depreciable:					
Land improvements	10,758,923	—	113,325	(37,908)	10,834,340
Buildings	667,392,110	—	22,094,449	(2,781,861)	686,704,698
Leasehold improvements	6,063,297	—	523,428	—	6,586,725
Moveable equipment	430,779,859	—	34,395,345	(48,952,352)	416,222,852
Total depreciable	<u>1,114,994,189</u>	<u>—</u>	<u>57,126,547</u>	<u>(51,772,121)</u>	<u>1,120,348,615</u>
	1,283,027,120	276,484,481	—	(51,772,121)	1,507,739,480
Less accumulated depreciation	<u>(588,105,168)</u>	<u>(51,520,472)</u>	<u>—</u>	<u>51,120,723</u>	<u>(588,504,917)</u>
Capital assets, net	<u>\$ 694,921,952</u>	<u>224,964,009</u>	<u>—</u>	<u>(651,398)</u>	<u>919,234,563</u>

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

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

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 \$535 million as of September 30, 2020, including \$269 million for a new hospital campus in Venice; \$118 million to complete a comprehensive cancer center on the main campus; \$64 million for a new behavioral health pavilion on the main campus; and \$14 million for expansion of catheterization labs on the main campus.

**(6) Long-Term Debt**

The District was obligated under long-term debt as of September 30, 2020 and 2019 as follows:

	2020	2019
Bonds:		
Sarasota County Public Hospital District, Municipal Inflation Linked Exempt Bonds Series 1997A, \$5,000,000 due October 1, 2020 and \$10,000,000 due October 1, 2021. Interest paid semi-annually in the sum of 2.05% plus or minus a floating rate which will increase or decrease each semi-annual period based on the Consumer Price Index, as defined. Both components of the interest rates totaled 2.92% at September 30, 2020.	\$ 15,000,000	15,000,000

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	<u>2020</u>	<u>2019</u>
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%.	\$ 84,000,000	87,000,000
Sarasota County Public Hospital District, Variable Rate Demand Hospital Revenue Refunding Bonds, Series 2008B, due in annual amounts through 2037 at variable interest rates, 0.08% at September 30, 2020.	54,100,000	57,425,000
Sarasota County Public Hospital District, Fixed Rate Hospital Revenue Bonds, Series 2018, due in amounts through 2048 at interest rates from 3% to 5% (plus unamortized bond premium in the amount of \$6,011,484 and \$6,332,448 at September 30, 2020 and 2019, respectively).	<u>356,011,484</u>	<u>356,332,448</u>
Total bonds	<u>509,111,484</u>	<u>515,757,448</u>
Bank notes:		
Direct bank note payable to Northern Trust Company, due in annual amounts through 2037. Interest payable monthly at a rate of 80% of Libor plus 50 basis points, 0.62% at September 30, 2020.	64,425,000	65,650,000
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, 0.77% at September 30, 2020.	<u>54,625,000</u>	<u>57,850,000</u>
Total bank notes	<u>119,050,000</u>	<u>123,500,000</u>
Total bonds and bank notes	628,161,484	639,257,448
Less current portion	<u>(11,220,000)</u>	<u>(10,775,000)</u>
	<u>\$ 616,941,484</u>	<u>628,482,448</u>



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September 30, 2020 and 2019

Long-term debt activity for the years ended September 30, 2020 and 2019 was as follows:

	<b>2020</b>				<b>Amounts due within one year</b>
	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>	
<b>Bonds:</b>					
Municipal Inflation Linked Exempt Variable Rate Bonds (1997A) \$	15,000,000	—	—	15,000,000	5,000,000
Hospital Revenue Refunding Fixed Rate Bonds (1998B)	87,000,000	—	(3,000,000)	84,000,000	—
Hospital Revenue Variable Rate Demand Bonds (2008B)	57,425,000	—	(3,325,000)	54,100,000	2,525,000
Hospital Revenue Fixed Rate Bonds (2018)	<u>350,000,000</u>	<u>—</u>	<u>—</u>	<u>350,000,000</u>	<u>—</u>
<b>Total bonds</b>	<u>509,425,000</u>	<u>—</u>	<u>(6,325,000)</u>	<u>503,100,000</u>	<u>7,525,000</u>
<b>Bank notes:</b>					
Direct bank note payable to Northern Trust Company	65,650,000	—	(1,225,000)	64,425,000	1,345,000
Direct bank note payable to DNT Asset Trust	<u>57,850,000</u>	<u>—</u>	<u>(3,225,000)</u>	<u>54,625,000</u>	<u>2,350,000</u>
<b>Total bank notes</b>	123,500,000	—	(4,450,000)	119,050,000	3,695,000
Plus original issue premium	<u>6,332,448</u>	<u>—</u>	<u>(320,964)</u>	<u>6,011,484</u>	<u>—</u>
<b>Total long-term debt</b> \$	<u><u>639,257,448</u></u>	<u><u>—</u></u>	<u><u>(11,095,964)</u></u>	<u><u>628,161,484</u></u>	<u><u>11,220,000</u></u>

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

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

	<b>Bonds</b>			<b>Bank notes</b>		
	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>
Year ending September 30:						
2021	\$ 25,203,755	7,525,000	17,678,755	8,287,673	3,695,000	4,592,673
2022	27,601,296	10,000,000	17,601,296	8,326,946	3,875,000	4,451,946
2023	32,629,903	15,000,000	17,629,903	4,335,397	—	4,335,397
2024	32,217,658	15,100,000	17,117,658	4,324,738	—	4,324,738
2025	30,952,157	13,930,000	17,022,157	4,935,393	600,000	4,335,393
2026–2030	141,023,387	57,240,000	83,783,387	43,878,816	23,025,000	20,853,816
2031–2035	115,729,322	37,150,000	78,579,322	72,338,216	60,250,000	12,088,216
2036–2040	160,107,460	92,120,000	67,987,460	29,040,531	27,605,000	1,435,531
2041–2045	189,520,350	149,850,000	39,670,350	—	—	—
2046–2049	<u>113,709,800</u>	<u>105,185,000</u>	<u>8,524,800</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$ 868,695,088</u>	<u>503,100,000</u>	<u>365,595,088</u>	<u>175,467,710</u>	<u>119,050,000</u>	<u>56,417,710</u>

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2020 and 2019

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, 2020. 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 3.610%, 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, 2020 and 2019, the District was the only member of the obligated group under the Master Trust Indenture; however, members may be admitted to the obligated group or may cease membership in accordance with the terms of the Master Trust Indenture.

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

During 1998, the District issued, \$120,000,000 of Fixed Rate Hospital Revenue Refunding Bonds, Series 1998B, to refund existing debt at that time. The Series 1998B Bonds are collateralized by a municipal bond insurance policy.

On September 2, 2008, to refinance existing debt, the District issued the \$76,875,000 Variable Rate Demand Hospital Revenue Refunding Bonds, Series 2008A bonds, and the \$81,725,000 Variable Rate Demand Hospital Revenue Refunding Bonds, Series 2008B bonds. Both of these series were supported by separate bank credit facilities in the form of a direct pay letter of credit. The 2008A letter of credit was no longer needed and cancelled in 2015, as noted below. The 2008B letter of credit expires on October 1, 2022. There were no drawings or loans on the letter of credit during the year ended September 30, 2020.

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 Company. The Series 2008A letter of credit was no longer needed and was cancelled. There are no assets pledged as collateral for the loan with Northern Trust Company. Failure to make any payments when due or failure to perform or observe any term, covenant or agreement in the Loan Agreement may cause an Event of Default. No events of default have occurred. The bank loan agreement is for a period of ten years, but maintains the same schedule of principal payments from the original refinanced Series 2008A bonds through 2037. The loan agreement called for the District to pay 67% of 1 month LIBOR plus 65 basis points in interest each month. In February 2018, the Tax Cuts and Jobs Act was signed which reduced the corporate tax rate to 21%. This invoked a clause in the agreement to increase the interest by 1.22%. The bank had the option of terminating the note on April 8, 2025. Effective September 28, 2018 the District and Northern Trust Company negotiated a new variable rate and revised the optional termination date on the bank note. The new rate is 80% of 1 month Libor plus 50 basis points, and the new optional termination date is September 28, 2025.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2020 and 2019

To reduce exposure to the variable rate demand obligation market, the District refinanced the Series 2009B bonds on April 8, 2015 through a \$70,750,000 bank loan with DNT Asset Trust, an affiliate of JP Morgan. The related letter of credit was no longer needed and was cancelled. There are no assets pledged as collateral for the loan with DNT Asset Trust. Failure to make any payments when due or failure to perform or observe any term, covenant or agreement in the Loan Agreement may cause an Event of Default. No events of default have occurred. The bank loan agreement is for a period of ten years, but maintains the same schedule of principal payments from the original refinanced Series 2009B bonds through 2037. The bank had the option of terminating the note on April 8, 2025. The loan agreement called for the District to pay 67% of 1 month LIBOR plus 84 basis points in interest each month. In February 2018, the Tax Cuts and Jobs Act was signed which reduced the corporate tax rate to 21%. This invoked a clause in the agreement to increase the interest rate by 1.22%. Effective September 28, 2018 the District and DNT Asset negotiated a new variable rate and a new optional termination date on the bank note. The new rate is 79% of 1 month Libor plus 65 basis points, and the new optional termination date is April 8, 2028.

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

The Hospital Revenue Bonds described above are collateralized by a lien on and a pledge of the net revenues of the District and all monies held in funds created by the bond resolution. The debt agreements contain various covenants, which provide for, among other things, the maintenance of specified debt service coverage ratios. Management believes the District was in compliance with all debt covenants at September 30, 2020 and 2019.

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 \$14,745,000 and \$15,097,000 of interest expense was capitalized in connection with the District's construction programs for the years ended September 30, 2020 and 2019, 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.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2020 and 2019

Terms at September 30, 2020:

<u>Associated bond issue</u>	<u>Notional amount of swap</u>	<u>Counterparty</u>	<u>Effective date</u>	<u>District pays</u>	<u>District receives</u>	<u>Termination date</u>	<u>Fair value at September 30, 2020 (1)</u>	<u>Net cash flows during 2020</u>
1998B	\$ 84,000,000	Goldman Sachs	9/15/1998	SIFMA	Fixed rates per maturities	7/1/2028	\$ 18,717,266	3,353,232
2015 NT Bank Note	64,425,000	Deutsche Bank	11/19/2010	3.610 %	67% of 1-month LIBOR	7/1/2037	(21,789,161)	(1,899,128)
2008B	54,100,000	Deutsche Bank	7/3/2013	3.766 %	61.7% of 1-month LIBOR plus 0.26%	7/1/2037	(9,074,647)	(888,037)
2015 DNT Asset Trust Bank Note	54,625,000	U.S. Bank	7/4/2013	3.697 %	61.7% of 1-month LIBOR plus 0.26%	6/28/2023	(5,023,044)	(911,631)

(1) Fair value at September 30, 2020 excludes current net accrued interest receivable of \$655,599.

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, 2020 were \$(19,579,081) and \$(19,405,525), respectively.

Definitions:

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

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

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September 30, 2020 and 2019

Terms at September 30, 2019:

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

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

Note:

In accordance with GASB 53, the fair values of the novated 2008B and 2015 DNT Asset Trust Bank Note swaps are based on the at-the-market payor rates of the respective swaps. The actual fair value of the 2008B and 2015 DNT Asset Trust Bank Note swaps at September 30, 2019 were \$(16,633,486) and \$(16,484,612), respectively.

Definitions:

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

**Risks**

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

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

**Basis risk:** The District is exposed to basis risk on its hedging derivative instruments that are pay-fixed, receive variable interest rate swaps because the variable rate payments received by the District are based on an index other than the interest rates the District pays on its hedged variable rate obligations. As of September 30, 2020, the weighted average rate on the District's hedged variable rate debt was 0.26% while the weighted average of the LIBOR-based variable receiver rates was 0.51%.

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2020 and 2019

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

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

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

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

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

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2020 and 2019

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, 2020, the amortization of the companion debt resulted in an increase to interest expense of \$469,209 and an increase in interest rate swap receipts, net, of \$1,451,533. During the fiscal year ended September 30, 2019, the amortization of the companion debt resulted in an increase to interest expense of \$490,584 and an increase in interest rate swap receipts, net, of \$1,451,533.

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, 2020 and 2019 was \$1,394,222 and \$1,394,222, respectively.

Long-term companion debt activity for the year ended September 30, 2020 and 2019 was as follows:

		<b>2020</b>			<b>Amounts due</b>	
		<b>Beginning</b>		<b>Ending</b>	<b>within one</b>	
		<b>balance</b>	<b>Additions</b>	<b>balance</b>	<b>year</b>	
			<b>Reductions</b>			
2008B Swap companion debt	\$	10,830,158	—	(503,749)	10,326,409	515,023
2015 DNT Asset Trust Bank Note Swap companion debt		10,263,785	—	(478,576)	9,785,209	489,152
Total long-term companion debt	\$	<u>21,093,943</u>	<u>—</u>	<u>(982,325)</u>	<u>20,111,618</u>	<u>1,004,175</u>
		<b>2019</b>				
		<b>Beginning</b>		<b>Ending</b>	<b>Amounts due</b>	
		<b>balance</b>	<b>Additions</b>	<b>balance</b>	<b>within one</b>	
			<b>Reductions</b>		<b>year</b>	
2008B Swap companion debt	\$	11,322,880	—	(492,722)	10,830,158	503,749
2015 DNT Asset Trust Bank Note Swap companion debt		10,732,012	—	(468,227)	10,263,785	478,576
Total long-term companion debt	\$	<u>22,054,892</u>	<u>—</u>	<u>(960,949)</u>	<u>21,093,943</u>	<u>982,325</u>



**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2020 and 2019

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

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
Year ending September 30:			
2021	\$ 1,451,533	1,004,175	447,358
2022	1,451,534	1,026,512	425,022
2023	1,451,533	1,049,345	402,188
2024	1,451,533	1,072,686	378,847
2025	1,451,534	1,096,547	354,987
2026–2030	7,257,666	5,858,545	1,399,121
2031–2035	7,257,666	6,540,983	716,683
2036–2039	2,540,182	2,462,825	77,357
	<u>\$ 24,313,181</u>	<u>20,111,618</u>	<u>4,201,563</u>

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

**(b) Investment Derivative Instruments**

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

Terms as of September 30, 2020:

<u>Associated bond issue</u>	<u>Notional amount of swap</u>	<u>Counterparty</u>	<u>Effective date</u>	<u>District pays</u>	<u>District receives</u>	<u>Termination date</u>	<u>Fair value at September 30, 2020 (1)</u>	<u>Net cash flows during 2020</u>
1997A	\$ 10,000,000	CitiGroup	6/24/2005	SIFMA Sw ap index	62.4% of 1-month LIBOR + 0.705%	10/1/2021	\$ 65,935	53,510
1997A	15,000,000	Goldman Sachs	11/19/2010	SIFMA Sw ap index + 0.04%	Floating CPI rate + 2.05%	10/1/2021	348,984	322,381
1998B	84,000,000	CitiGroup	6/24/2005	SIFMA Sw ap index	62.4% of 1-month LIBOR + 0.757%	7/1/2028	2,714,528	494,194
2015 NT Bank Note	64,425,000	J.P. Morgan	4/24/2003	SIFMA Sw ap index	67% of 1-month LIBOR plus 0.655%	7/1/2037	3,158,747	348,150

(1) Fair value at September 30, 2020 excludes current net accrued interest receivable of \$454,727.

Definitions:

SIFMA is the Securities Industry Financial Markets Association benchmark rate

CPI is Consumer Price Index

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2020 and 2019

Terms as of September 30, 2019:

Associated bond issue	Notional amount of swap	Counterparty	Effective date	District pays	District receives	Termination date	Fair value at September 30, 2019 (1)	Net cash flows during 2019
1997A	\$ 10,000,000	CitiGroup	6/24/2005	SIFMA Sw ap index	62.4% of 1-month LIBOR + 0.705%	10/1/2021	\$ 111,916	66,153
1997A	15,000,000	Goldman Sachs	11/19/2010	SIFMA Sw ap index + 0.04%	Floating CPI rate + 2.05%	10/1/2021	591,023	339,475
1998B	84,000,000	CitiGroup	6/24/2005	SIFMA Sw ap index	62.4% of 1-month LIBOR + 0.757%	7/1/2028	2,718,322	585,980
2015 NT Bank Note	66,775,000	J.P. Morgan	4/24/2003	SIFMA Sw ap index	67% of 1-month LIBOR plus 0.655%	7/1/2037	2,942,488	479,527

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

Definitions:

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

**Risks**

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

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

**Basis risk:** The District is exposed to basis risk on its investment derivative instruments in which it pays based on SIFMA and receives a payment based on the six-month change based on the CPI index. As of September 30, 2020, the rate the District paid the counterparty was 0.87% and the rate received was 2.92%.

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, 2020, the SIFMA index was 0.12% and the one-month LIBOR index was 0.14825%.

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

## SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2020 and 2019

### (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 the "Traditional Pension Benefit" component of the plan. Plan members are not required or permitted to contribute to the Plan under the funding policy. The District is required to contribute at an actuarially determined contribution to the Plan based on State of Florida rules.

The Plan is a governmental plan under Internal Revenue Code Section 414(d), which defines a governmental plan as "a plan established and maintained for its employees by the Government of the United States, by the government of any State or political subdivision thereof, or by any agency or instrumentality of any of the foregoing." During the year ended September 30, 2003, the District clarified the status of the Plan as a governmental plan that is exempt from ERISA requirements. The Department of Labor was notified of this clarification through communications with the Pension Benefit Guarantee Corporation. On March 26, 2003, the District formally requested a private letter ruling from the Internal Revenue Service (IRS) confirming the status of the pension plan as a governmental plan. On January 22, 2007, the IRS informed the District that the IRS would not issue letter rulings on whether or not a plan is a "governmental plan" because the IRS intends to publish new guidance regarding the meaning of a "governmental plan". To date, no such guidance has been published and the IRS continues to refuse to rule on whether any particular retirement plan is a "governmental plan" under Internal Revenue Code Section 414(d). However, on November 24, 2010, the IRS confirmed that the plan sponsor (SMH Health Care, Inc.) is a governmental entity. Management believes, based on discussions with legal counsel, that the pension plan is a governmental plan under Internal Revenue Code Section 414(d) and that if this is ever examined by the IRS, a favorable outcome will ultimately be granted. However, if the IRS were to determine that the Plan is not a "governmental plan", it is estimated that no additional contribution would be necessary for the Plan to be 80% funded on an ERISA plan basis (including the changes under the Pension Protection Act which impacts ERISA plans starting with 2008 plan years) as of October 1, 2019. This estimate includes any adjustments for the funding relief legislation passed in July 2012, August 2014, and in November 2015.

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

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	2019	2018
Inactive employees (or their beneficiaries) currently receiving benefits	1,010	976
Inactive employees entitled to but not yet receiving benefits	478	494
Active employees	1,191	1,273
	2,679	2,743

*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 \$12,231,019 and \$10,049,127, during the years ended September 30, 2020 and 2019, respectively. The Plan recognized contributions of \$10,049,127 and \$10,824,970, as additions to the Plan's fiduciary net position during the fiscal years ended September 30, 2020 and 2019, respectively.

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**(c) Net Pension Liability**

The District's net pension liability of \$22,806,777 at September 30, 2020 was measured as of September 30, 2019 using an actuarial valuation as of October 1, 2018 and is included in net pension liability in the accompanying balance sheets. The District's net pension liability of \$6,789,413 at September 30, 2019 was measured as of September 30, 2018 using an actuarial valuation as of October 1, 2017 and is included in net pension liability in the accompanying balance sheets. The total pension liabilities used to calculate the net pension liability were determined by an actuarial valuation as of October 1, 2018 and 2017 rolled-forward to September 30, 2019 and 2018, respectively, using standard roll-forward techniques.

*Actuarial assumptions.* The total pension liability in the October 1, 2018 and 2017 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

2017 actuarial valuation assumptions:

Inflation	2.50 %
Investment rate of return	7.00

2018 actuarial valuation assumptions:

Inflation	2.50 %
Investment rate of return	6.75

Salary increases, 2020 and 2019

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

Healthy and disabled mortality rates for the fiscal year ending September 30, 2020, are the Pri-2012 Amount-Weighted Employee, Annuitant and Contingent Survivor mortality tables for males and females projected generationally using Scale MP-2018 for males and females. Healthy and disabled mortality rates for the fiscal year ending September 30, 2019, are the RP-2014 healthy and disabled mortality tables for males and females, respectively, with the MP-2014 projection scale backed out to 2006 and then projected forward generationally using Scale MP-2018.

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The long-term expected rate of return on retirement plan investments was determined using the October 1, 2019 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, 2019 was:

	<u>Actual allocation</u>	<u>Target allocation</u>	<u>Long-term expected rate of return</u>
Large cap stocks	20.3 %	21.0 %	7.3 %
Small cap stocks	3.5	4.0	6.9
International stocks	22.0	22.0	7.3
Private equity	3.9	5.0	8.3
Emerging market stocks	7.4	8.0	7.8
Real estate	5.9	5.0	5.5
Hedge fund of funds	4.7	5.0	5.4
High-yield bonds	3.9	5.0	4.4
BarCap Aggregate bonds	26.2	25.0	3.0
Cash	2.2	—	2.7
	<u>100.0 %</u>	<u>100.0 %</u>	

Based on the target allocation, the mean return over 15 and 20 years ranged from 6.65% to 6.77%, respectively. The median return over 15 and 20 years ranged from 6.67% and 6.78%, respectively.

The Plan asset allocation and long-term rate of return as of September 30, 2018 was:

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

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

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*Discount rate.* The discount rate used to measure the total pension liability was 6.75% and 7.00%, respectively, for the September 30, 2019 and 2018 measurement dates. 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**

	<b>Increase (decrease)</b>		
	<b>Total pension liability (a)</b>	<b>Plan fiduciary net position (b)</b>	<b>Net pension liability (c)</b>
Balances at September 30, 2018	\$ 381,958,617	370,062,380	11,896,237
Changes for the year:			
Service cost	7,932,022	—	7,932,022
Interest	25,733,708	—	25,733,708
Demographic (gains)/losses	(3,057,760)	—	(3,057,760)
Change in actuarial assumptions	(5,309,527)	—	(5,309,527)
Net investment income	—	19,785,014	(19,785,014)
Contributions-employer	—	10,824,970	(10,824,970)
Benefits payments	(22,552,914)	(22,552,914)	—
Administrative expense	—	(204,717)	204,717
Net changes	<u>2,745,529</u>	<u>7,852,353</u>	<u>(5,106,824)</u>
Balances at September 30, 2019	<u>384,704,146</u>	<u>377,914,733</u>	<u>6,789,413</u>
Changes for the year:			
Service cost	7,852,889	—	7,852,889
Interest	26,111,890	—	26,111,890
Demographic (gains)/losses	(649,793)	—	(649,793)
Change in actuarial assumptions	6,286,177	—	6,286,177
Net investment income	—	13,797,623	(13,797,623)
Contributions-employer	—	10,049,127	(10,049,127)
Benefits payments	(22,054,700)	(22,054,700)	—
Administrative expense	—	(262,951)	262,951
Net changes	<u>17,546,463</u>	<u>1,529,099</u>	<u>16,017,364</u>
Balances at September 30, 2020	<u>\$ 402,250,609</u>	<u>379,443,832</u>	<u>22,806,777</u>



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*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 6.75%, 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 (5.75%) or 1-percentage-point higher (7.75%) than the current rate for the net pension liability for fiscal year 2020, and 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 for the net pension liability for fiscal year 2019:

	<u>1% Decrease (5.75)%</u>	<u>Current discount (6.75)%</u>	<u>1% Increase (7.75)%</u>
District's net pension liability, 2020	\$ 55,571,804	22,806,777	(5,442,162)
	<u>1% Decrease (6.0)%</u>	<u>Current discount (7.0)%</u>	<u>1% Increase (8.0)%</u>
District's net pension liability, 2019	\$ 37,983,216	6,789,413	(20,036,638)

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan audited financial statements, which can be obtained from [www.smh.org](http://www.smh.org). The Plan's fiduciary net position has been determined on the same basis used by the Plan. The Plan financial statements have been prepared using the accrual basis of accounting and in accordance with generally accepted accounting principles. The Plan's investments are stated at fair value.

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

The District recognized pension expense of \$13,783,306 and \$8,010,756, respectively, for the years ended September 30, 2020 and 2019 and is included in salaries, wages and fringe benefits on the statement of revenues, expenses, and changes in net position. At September 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>2020</b>	
	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ —	2,770,706
Changes in assumptions	4,314,208	2,654,763
Net difference between projected and actual earnings on pension plan investments	6,892,570	—
Contributions made by the District during the year ended September 30, 2020	12,231,019	—
	\$ 23,437,797	5,425,469

District contributions subsequent to the measurement date of \$12,231,019 will be recognized as a reduction of the net pension liability during the fiscal year ending September 30, 2021. 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:	
2021	\$ (1,435,022)
2022	1,062,715
2023	3,644,338
2024	2,509,278
	\$ 5,781,309

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At September 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

**(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, 2020 and 2019 was 4% of qualified earnings and does not require a matching contribution by the employee. The expense of the RSP Plan for the years ended September 30, 2020 and 2019 was \$9,880,026 and \$8,663,301, 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.

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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, the following employees were covered by the benefit terms:

	<b>2018</b>	<b>2017</b>
Inactive employees currently receiving benefits	706	675
Inactive employees entitled to but not yet receiving benefit payments	—	—
Active employees	5,153	4,756
	5,859	5,431

**(c) Total OPEB liability**

The District's total OPEB liability of \$12,616,115 at September 30, 2020 was measured as of September 30, 2019 using an actuarial valuation as of October 1, 2018, and is included in other long-term liabilities in the accompanying balance sheet. The District's total OPEB liability of \$9,995,179 at September 30, 2019 was measured as of September 30, 2018 using an actuarial valuation as of October 1, 2017, and is included in other long-term liabilities in the accompanying balance sheet. Liabilities measured as of September 30, 2019 and 2018 were projected from the valuation dates using standard roll-forward methodology.

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

Salary increases	Age Graded Rates:	
	<u>Age</u>	<u>% increase at attained age</u>
	Less than 25	6.00 %
	25–34	5.00
	35–49	4.50
	50–59	3.50
	60–64	3.00
	65 and older	2.50
Discount Rate, 2019		3.83
Discount Rate, 2020		2.75
Current Health Care Cost Trend Rate, 2019		6.75
Current Health Care Cost Trend Rate, 2020		6.75
Ultimate Health Care Cost Trend Rate		5.00
Year of Ultimate Trend Rate, 2019		2025
Year of Ultimate Trend Rate, 2020		2026
Participation Assumptions, 2019:		
Medical Coverage		35.00 %
Medical Dependent Coverage		20.00
Participation Assumptions, 2020:		
Medical Coverage		45.00 %
Medical Dependent Coverage		20.00

The discount rates for 2020 and 2019 were based on a 20-year municipal bond rate as of the Measurement Date. The change in discount rate, change in participation assumption, mortality update and change in the medical trend assumption from 2019 to 2020 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. For the fiscal year ending September 30, 2020, mortality rates were updated to the Pri-2012 Employee and Annuitant Mortality Tables for males and females projected generationally from 2012 using Scale MP-2018 for males and females. The compensation increase assumption is based on the results of a 4-year experience study based on pay and participant data from 2012 through 2016. The termination and retirement rates assumptions are based on the results of a 5-year experience study based on participant data from October 1, 2010 through September 30, 2015. For the fiscal year ending September 30, 2019, mortality rates were updated to the RP-2014 Healthy mortality table for male or females, as appropriate, with adjustment backward to 2006 with MP-2014, generationally projected using Scale MP-2018. The compensation increase assumption is based on the results of a 4-year experience study based on pay and participant data from 2012 through 2016. The termination and retirement rates assumptions are

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based on the results of a 5-year experience study based on participant data from October 1, 2010 through September 30, 2015.

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

	<u><b>Total OPEB Liability</b></u>
Balance at September 30, 2018	\$ 10,348,597
Changes for the year:	
Service cost	323,551
Interest cost	368,724
Changes of benefit terms	—
Differences between expected and actual experience	(132,424)
Changes of assumptions	(878,112)
Benefit payments	<u>(35,157)</u>
Net changes	<u>(353,418)</u>
Balance at September 30, 2019	<u>9,995,179</u>
Changes for the year:	
Service cost	301,098
Interest cost	381,974
Changes of benefit terms	—
Differences between expected and actual experience	(55,284)
Changes of assumptions	2,239,923
Benefit payments	<u>(246,775)</u>
Net changes	<u>2,620,936</u>
Balance at September 30, 2020	\$ <u><u>12,616,115</u></u>

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the total OPEB liability of the District as of September 30, 2020, 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 (1.75%) or 1-percentage-point higher (3.75%) than the current discount rate:

	<u><b>1% Decrease (1.75%)</b></u>	<u><b>Discount rate (2.75%)</b></u>	<u><b>1% Increase (3.75%)</b></u>
Total OPEB Liability	\$ 14,892,911	12,616,115	10,832,040

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The following presents the total OPEB liability of the District as of September 30, 2019, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.83%) or 1-percentage-point higher (4.83%) than the current discount rate:

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

*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, 2020, as well as what the district's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.75% decreasing to 4.00%) or 1-percentage-point higher (7.75% decreasing to 6.00%) than the current healthcare cost trend rates:

	<u>1% Decrease (5.75% decreasing to 4.0%)</u>	<u>Healthcare Cost Trend rates (6.75% decreasing to 5.0%)</u>	<u>1% Increase (7.75% decreasing to 6.0%)</u>
Total OPEB Liability	\$ 12,094,087	12,616,115	13,238,974

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

	<u>1% Decrease (5.75% decreasing to 4.0%)</u>	<u>Healthcare Cost Trend rates (6.75% decreasing to 5.0%)</u>	<u>1% Increase (7.75% decreasing to 6.0%)</u>
Total OPEB Liability	\$ 9,605,463	9,995,179	10,445,614

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

For the years ended September 30, 2020 and 2019, the District recognized OPEB expense of \$968,763 and \$249,753, respectively, and is included in salaries, wages and fringe benefits on the statement of revenues, expenses, and changes in net position. At September 30, 2020, the District

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

	<b>2020</b>	
	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ —	80,998
Changes in assumptions	1,493,282	292,704
Benefit payments made by the District during the year ended September 30, 2020	<u>163,847</u>	<u>—</u>
	<b>\$ <u>1,657,129</u></b>	<b><u>373,702</u></b>

Deferred outflows of resources resulting from benefit payments made by the District during the year ended September 30, 2020 will be recognized as a reduction of the total OPEB liability in the year ending September 30, 2021. 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:	
2021	\$ 391,367
2022	<u>728,213</u>
	<b>\$ <u>1,119,580</u></b>

At September 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

**(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



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because while they are legally separate, the District does not appoint the voting majority of the organizations' Boards, they are not fiscally dependent on the District, the District does not have access to the entities' resources nor is it responsible for the entities' debts, and it would not be misleading to exclude the entity as a component unit. Net amounts due from/to these related organizations and investments in related organizations as of September 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Current assets:		
Community Health Corporation	\$ 67	1,406
Sarasota Memorial Physician-Hospital Organization, Inc.	9,971	51,214
Sarasota Medical Condominium Association, Inc.	990	—
Centergate Office Park Condominium Association, Inc.	3,788	—
LeeSar, Inc.	<u>1,070,000</u>	<u>1,070,000</u>
Total current assets	\$ <u>1,084,816</u>	<u>1,122,620</u>
Noncurrent assets (included in other assets):		
Investment in LeeSar, Inc.	\$ <u>20,727,238</u>	<u>19,813,863</u>
Total noncurrent assets	\$ <u>20,727,238</u>	<u>19,813,863</u>

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.

Sarasota Memorial 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 \$2,055,000 and \$516,000 for the years ended September 30, 2020 and 2019, 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.

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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. During fiscal year 2020, the District and the Foundation entered into an administrative services agreement to foster the efficient use of resources, whereby the District provides administrative and accounting services for the Foundation and the Foundation maintained its independent governance.

The District has grants receivable from the Foundation of approximately \$4,391,000 and \$2,891,000 as of September 30, 2020 and 2019, respectively. The District received approximately \$4,957,000 and \$4,789,000 from the Foundation during the years ended September 30, 2020 and 2019, 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 \$8,399,000 and \$7,283,000 as of September 30, 2020 and 2019, respectively, for estimated professional liability claims for the Hospital and for the Sarasota Memorial Nursing and Rehabilitation Center. 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 \$5,395,000 and \$4,203,000 as of September 30, 2020 and 2019, respectively, for professional liability claims. The current portion of this liability is included in other accrued expenses and the noncurrent portion is included in other long-term liabilities in the accompanying balance sheets.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2020 and 2019

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, 2020, 2019, and 2018, is reflected in the tables below:

	<b>2020</b>			
	<b>Self-insured liabilities September 30, 2019</b>	<b>Insurance expense (credit)</b>	<b>Payments</b>	<b>Self-insured liabilities September 30, 2020</b>
Professional liabilities	\$ 11,486,000	2,788,544	(480,544)	13,794,000

  

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

  

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

The District had no significant reductions in insurance coverage during the fiscal year ended September 30, 2020. There were no settlements which exceeded the District's insurance coverage in any of the past three fiscal years.

**(11) Commitments and Contingencies**

The District has various contractual arrangements for employment contracts, leased office space related to medical practices, and equipment leases. Some of the employment contracts and operating leases have initial or remaining noncancelable lease terms in excess of one year. Total operating lease expense for the years ended September 30, 2020 and 2019 was approximately \$11,748,000 and \$11,137,000, respectively.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2020 and 2019

Minimum payments required under contractual employment agreements and operating leases as of September 30, 2020 are approximately as follows:

	<b>Employment contracts</b>	<b>Operating leases</b>	<b>Total</b>
Year ending September 30:			
2021	\$ 20,860,836	6,238,750	27,099,586
2022	—	5,686,202	5,686,202
2023	—	3,748,465	3,748,465
2024	—	1,791,357	1,791,357
2025	—	1,757,909	1,757,909
All years after September 30, 2025	—	9,353,732	9,353,732
	<u>\$ 20,860,836</u>	<u>28,576,415</u>	<u>49,437,251</u>

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, 2020 and 2019. 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.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2020 and 2019

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, 2020 and 2019 was as follows:

	<b>2020</b>	<b>2019</b>
Medicare	33.4 %	30.9 %
Self-pay and others	23.9	28.2
Managed care and commercial	27.9	25.6
Medicaid	14.8	15.3
	100.0 %	100.0 %

**(13) Novel Coronavirus (COVID-19)**

The current COVID-19 pandemic has had numerous and varied medical, economic, and social impacts, any and all of which have and may again adversely affect the System's business and financial results. In March 2020, the Florida Governor issued an executive order prohibiting certain medically unnecessary, non-urgent or non-emergent procedures and surgeries as a result of the COVID-19 pandemic. The restrictions were lifted in May 2020, however there is a possibility that additional restrictions on elective procedures may be reintroduced to the extent that COVID-19 patients threaten system capacity. Disruptions could also include temporary closures of the System's facilities or the facilities of suppliers and their contract manufacturers, and a reduction in the business hours of the System. The effects of COVID-19 could further and severely affect the System's ability to conduct normal business operations and, as a result, the future operating results of the System could be materially adversely affected.

In March 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law providing, among other provisions, financial relief to hospitals and healthcare providers during the COVID-19 pandemic. The CARES Act Provider Relief Fund provides funding from the U.S. Department of Health and Human Services (HHS) to support healthcare-related expenses or lost revenue attributable to the COVID-19 pandemic.

As of September 30, 2020, the District received approximately \$34.0 million in Provider Relief Funding related to the CARES Act. The funds received under the CARES Act Provider Relief fund represent payments that do not need to be repaid as long as the System complies with certain terms and conditions imposed by HHS, including reporting and compliance requirement. Such payments are accounted for as government grants and are recognized as other nonoperating income once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. As of September 30, 2020, the System has not recognized any revenue on the statements of revenues, expenses and changes in net position related to these funds. It has been recorded within total current liabilities under Unearned grant receipts-Provider Relief Fund in the balance sheet to be recognized throughout 2021 as terms and conditions are met.

## **SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Notes to Financial Statements

September 30, 2020 and 2019

During April 2020, the System applied for and received approximately \$146.4 million from the Medicare Advance Payment Program provided under the CARES Act. The amount is separately identified as \$37.4 million of Current portion of advance payment from third party in the current liabilities of the balance sheet and \$109.0 million identified as Advance payment from third party, less current portion, within the noncurrent liabilities of the balance sheet.

Based on the Continuing Appropriations Act, 2021 and Other Extensions Act released in October, repayment will begin one year after the receipt of the advance payments. The claims for services provided to Medicare beneficiaries will be applied against the advance payment balance. Any unapplied advance payment amounts must be paid in full within 29 months of receipt.

The CARES Act also permits employers to defer the payment of the employer's portion of social security taxes incurred between March 27, 2020 and December 31, 2020, with half of the deferred payments required to be paid by December 31, 2021 and the other half to be paid by December 31, 2022. As of September 30, 2020, the System has deferred no payroll tax payments.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Required Supplemental Information

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:							
Service cost	\$ 7,852,889	7,932,022	8,237,830	9,619,975	9,357,119	9,593,252	10,036,918
Interest	26,111,890	25,733,708	25,040,903	24,231,700	23,572,643	21,938,676	21,187,578
Demographic (gains)/losses	(649,793)	(3,057,760)	(3,234,518)	(520,626)	(745,239)	(2,337,885)	—
Change in actuarial assumptions	6,286,177	(5,309,527)	493,692	(2,669,926)	11,080,081	—	—
Benefit payments	<u>(22,054,700)</u>	<u>(22,552,914)</u>	<u>(18,094,587)</u>	<u>(21,007,051)</u>	<u>(19,641,173)</u>	<u>(17,407,572)</u>	<u>(18,905,723)</u>
Net change in total pension liability	17,546,463	2,745,529	12,443,320	9,654,072	23,623,431	11,786,471	12,318,773
Total pension liability – beginning	<u>384,704,146</u>	<u>381,958,617</u>	<u>369,515,297</u>	<u>359,861,225</u>	<u>336,237,794</u>	<u>324,451,323</u>	<u>312,132,550</u>
Total pension liability – ending (a)	<u>402,250,609</u>	<u>384,704,146</u>	<u>381,958,617</u>	<u>369,515,297</u>	<u>359,861,225</u>	<u>336,237,794</u>	<u>324,451,323</u>
Plan fiduciary net position:							
Contributions-employer	10,049,127	10,824,970	12,139,689	14,551,924	49,810,358	16,606,485	98,258,981
Net investment income	13,797,623	19,785,014	35,432,192	30,898,892	(9,642,501)	26,103,829	22,947,703
Benefit payments	(22,054,700)	(22,552,914)	(18,094,587)	(21,007,051)	(19,641,173)	(17,407,572)	(18,905,723)
Administrative expense	<u>(262,951)</u>	<u>(204,717)</u>	<u>(280,241)</u>	<u>(388,330)</u>	<u>(344,878)</u>	<u>(294,193)</u>	<u>(349,092)</u>
Net change in plan fiduciary net position	1,529,099	7,852,353	29,197,053	24,055,435	20,181,806	25,008,549	101,951,869
Plan fiduciary net position – beginning	<u>377,914,733</u>	<u>370,062,380</u>	<u>340,865,327</u>	<u>316,809,892</u>	<u>296,628,086</u>	<u>271,619,537</u>	<u>169,667,668</u>
Plan fiduciary net position – ending (b)	<u>379,443,832</u>	<u>377,914,733</u>	<u>370,062,380</u>	<u>340,865,327</u>	<u>316,809,892</u>	<u>296,628,086</u>	<u>271,619,537</u>
Net pension liability – ending (a)-(b)	\$ <u>22,806,777</u>	<u>6,789,413</u>	<u>11,896,237</u>	<u>28,649,970</u>	<u>43,051,333</u>	<u>39,609,708</u>	<u>52,831,786</u>
Plan fiduciary net position as a percentage of the total pension liability	94.3 %	98.2 %	96.9 %	92.2 %	88.0 %	88.2 %	83.7 %
Covered-employee payroll	\$ 109,970,976	114,623,636	118,225,538	124,949,986	127,730,377	133,004,920	139,579,218
Net pension liability as a percentage of covered-employee payroll	20.7 %	5.9 %	10.1 %	22.9 %	33.7 %	29.8 %	37.9 %

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

**Schedule of the Changes in the Net Pension Liability and Related Ratios**

In 2020, amounts reported as changes in actuarial assumptions resulted primarily from a change in the discount rate from 7.00% to 6.75%, as well as a change in the base mortality table from RP-2014 to Pri-2012.

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

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

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

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



**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**  
 Required Supplemental Information  
 Schedule of the District's Pension Contributions (Unaudited)

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution	\$ 12,231,019	10,049,127	10,824,970	12,139,689	14,551,924	19,810,358	16,606,485	23,258,981	23,698,368	22,664,712
Contributions in relation to the actuarially determined contribution	<u>12,231,019</u>	<u>10,049,127</u>	<u>10,824,970</u>	<u>12,139,689</u>	<u>14,551,924</u>	<u>49,810,358</u>	<u>16,606,485</u>	<u>98,258,981</u> (a)	<u>23,698,368</u>	<u>22,664,712</u>
Contribution deficiency/(excess)	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(30,000,000)</u>	<u>—</u>	<u>(75,000,000)</u>	<u>—</u>	<u>—</u>
Covered-employee payroll	\$ 107,342,655	109,970,976	114,623,636	118,225,538	124,949,986	127,730,377	133,004,920	139,579,218	153,291,551	161,452,376
Contributions as a% of covered-employee payroll	11.4 %	9.1 %	9.4 %	10.3 %	11.6 %	39.0 %	12.5 %	70.4 %	15.5 %	14.0 %

(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.

**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, 2019. Contributions are made one fiscal year prior to the fiscal year in which the contributions are reported as a reduction in net pension liability. Contributions made in the most recent fiscal year are reported on the balance sheets as deferred outflows related to pensions, and reverse in the following year.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**  
 Required Supplemental Information  
 Schedule of the District's Pension Contributions (Unaudited)

Methods and assumptions  
 used to determine contribution  
 rates:

Actuarial cost method	Entry age normal; prior to 10/1/2014 Valuation Date, projected unit credit was used
Amortization method	Level dollar amount over working life expectancy; prior to 10/1/2012 level dollar amount over 30 years was used
Remaining amortization period	7 years (based on average remaining expected service of active plan participants as of 10/1/2018)
Asset valuation method	5 year smoothed market
Inflation	2.5% for 10/1/2013 and later; rates from 2.75% to 3.0% for prior periods
Salary increases	3.8%, average, including inflation; In the 2012 and 2016, actuarial valuations, expected salary increases were adjusted to age-graded rates to more closely reflect actual experience.
Investment rate of return	6.75%, net of pension plan investment expense, including inflation; 7% was used for the 2012 through 2019 actuarial valuations; 7.25% was used for the 2011 actuarial valuation; 7.5% was used for the 2008 through 2010 actuarial valuations;
Retirement age	Age graded rates from 50 to 75; Prior to 2015, age-graded rates from 50 to 70. Expected retirement rates were adjusted in 2010 and 2015 to more closely reflect actual experience.
Mortality	In the 2016 and later valuations, assumed life expectancies were adjusted based on the State mandated tables of the combined RP-2000 Mortality Tables for males and females projected generationally from 2000 using Scale BB for males and females. In the 2014 and 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP 2014 employee/annuitant mortality tables for males and females with the MP 2014 projection scale backed out to 2006 and then projected forward generationally using Scale BB (male). In the 2012 and 2013 actuarial valuations, assumed life expectancies were adjusted as a result of adopting the RP 2000 combined mortality tables for males and females projected to 10 years past the valuation date using Scale AA. For the 2008 through 2011 valuations, assumed life expectancies were adjusted as a result of adopting the RP 2000 combined mortality tables for males and females projected to 2015 using Scale AA.
Other information:	The plan was closed to new or rehired employees on or after 10/1/2009.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Required Supplemental Information

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability:				
Service cost	\$ 301,098	323,551	290,331	272,925
Interest	381,974	368,724	348,432	298,742
Differences between expected and actual experience	(55,284)	(132,424)	99,459	—
Changes of assumptions	2,239,923	(878,112)	(416,490)	—
Benefit payments	<u>(246,775)</u>	<u>(35,157)</u>	<u>(9,820)</u>	<u>(120,590)</u>
Net change in total pension liability	2,620,936	(353,418)	311,912	451,077
Total OPEB liability – beginning	<u>9,995,179</u>	<u>10,348,597</u>	<u>10,036,685</u>	<u>9,585,608</u>
Total OPEB liability – ending	\$ <u>12,616,115</u>	<u>9,995,179</u>	<u>10,348,597</u>	<u>10,036,685</u>
Covered-employee payroll	\$ 326,412,000	294,022,400	262,680,254	230,474,125
Total OPEB liability as a percentage of covered payroll	3.87 %	3.40 %	3.94 %	4.35 %

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

**Schedule of Changes in the Total OPEB Liability and Related Ratios**

**2020**

The discount rate changed from 3.83% to 2.75%.

The medical plan coverage assumption was updated from 35% to 45%.

Assumed per capita claims costs were updated for fiscal year ending September 30, 2020 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, 2020 from \$7,542 to \$7,454 due to changes in the distribution of enrollment by plan option and changes in elected coverage categories.

The mortality was updated from RP-2014 Employee and Annuitant Mortality Tables for males and females with the MP-2014 projection scale backed out to 2006 and then projected forward generationally using Scale MP-2018 for males and females to Pri-2012 Employee and Annuitant Mortality Tables for males and females projected generationally using Scale MP-2018 for males and females.

The medical trend assumption was changed from 6.50% in 2018/2019 grading down 0.25% per year to 5.00% in 2025/2026 to 6.75% in 2018/2019 grading down 0.25% per year to 5.00% in 2026/2027.

**2019**

The discount rate changed from 3.50% to 3.83%.

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

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

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

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**  
Supplemental Information – Combining Balance Sheet Information  
September 30, 2020

<b>Assets</b>	<b>Sarasota Memorial Hospital</b>	<b>Corporate Division</b>	<b>Sarasota Memorial Nursing &amp; Rehabilitation Center</b>	<b>Eliminations</b>	<b>Sarasota County Public Hospital District</b>	<b>SMH Health Care, Inc.</b>	<b>SMH Physician Services, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
Current assets:									
Cash and cash equivalents	\$ 24,503,761	7,341,400	3,852,245	—	35,697,406	220,541	4,410,058	—	40,328,005
Patient accounts receivable, less allowance for uncollectible accounts	99,693,186	—	1,111,753	—	100,804,939	—	5,533,156	—	106,338,095
Inventories of supplies	17,316,983	—	44,336	—	17,361,319	—	—	—	17,361,319
Prepaid expenses and other assets	16,176,808	8,948,517	31,783	—	25,157,108	132,450	94,018	—	25,383,576
Due from related organizations	26,807,934	10,243,911	25,227	(10,181,471)	26,895,601	122,397,662	881	(148,209,328)	1,084,816
Total current assets	<u>184,498,672</u>	<u>26,533,828</u>	<u>5,065,344</u>	<u>(10,181,471)</u>	<u>205,916,373</u>	<u>122,750,653</u>	<u>10,038,113</u>	<u>(148,209,328)</u>	<u>190,495,811</u>
Noncurrent assets:									
Restricted investments	175,281,909	5,000,000	—	—	180,281,909	—	—	—	180,281,909
Board designated investments	1,286,478,424	—	—	—	1,286,478,424	—	—	—	1,286,478,424
Capital assets, net	743,504,175	167,828,463	3,150,126	—	914,482,764	—	4,751,799	—	919,234,563
Other assets	20,727,238	—	—	—	20,727,238	19,855,947	—	—	40,583,185
Interest rate swaps	24,590,541	414,919	—	—	25,005,460	—	—	—	25,005,460
Total noncurrent assets	<u>2,250,582,287</u>	<u>173,243,382</u>	<u>3,150,126</u>	<u>—</u>	<u>2,426,975,795</u>	<u>19,855,947</u>	<u>4,751,799</u>	<u>—</u>	<u>2,451,583,541</u>
Total assets	<u>2,435,080,959</u>	<u>199,777,210</u>	<u>8,215,470</u>	<u>(10,181,471)</u>	<u>2,632,892,168</u>	<u>142,606,600</u>	<u>14,789,912</u>	<u>(148,209,328)</u>	<u>2,642,079,352</u>
<b>Deferred Outflows of Resources</b>									
Deferred outflows related to pensions and OPEB	—	—	—	—	—	25,094,926	—	—	25,094,926
Deferred amounts on debt refundings	25,038,312	—	—	—	25,038,312	—	—	—	25,038,312
Deferred effective interest rate swap outflows	9,539,443	—	—	—	9,539,443	—	—	—	9,539,443
Total deferred outflows of resources	<u>34,577,755</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>34,577,755</u>	<u>25,094,926</u>	<u>—</u>	<u>—</u>	<u>59,672,681</u>
Total assets and deferred outflows of resources	<u>\$ 2,469,658,714</u>	<u>199,777,210</u>	<u>8,215,470</u>	<u>(10,181,471)</u>	<u>2,667,469,923</u>	<u>167,701,526</u>	<u>14,789,912</u>	<u>(148,209,328)</u>	<u>2,701,752,033</u>

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**  
Supplemental Information – Combining Balance Sheet Information  
September 30, 2020

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
<b>Current liabilities:</b>									
Accounts payable	\$ 67,986,101	4,939,993	357,682	—	73,283,776	294,089	1,429,761	—	75,007,626
Employee compensation and benefits payable	—	—	—	—	—	72,911,207	—	—	72,911,207
Other accrued expenses	10,075,146	292,200	135,426	—	10,502,772	—	1,187,783	—	11,690,555
Current portion of advance payment from third party	31,424,383	—	—	—	31,424,383	—	5,930,098	—	37,354,481
Estimated third-party settlements	38,474,794	—	413,473	—	38,888,267	—	—	—	38,888,267
Unearned grant receipts – Provider Relief Fund	31,523,517	—	534,000	—	32,057,517	—	1,911,497	—	33,969,014
Due to related organizations	10,101,620	120,625,161	215,702	(10,181,471)	120,761,012	25,227,793	2,220,523	(148,209,328)	—
Current portion of State of Florida medical assistance assessment	12,041,604	—	—	—	12,041,604	—	—	—	12,041,604
Current portion of long-term debt	6,184,034	5,035,966	—	—	11,220,000	—	—	—	11,220,000
Total current liabilities	<u>207,811,199</u>	<u>130,893,320</u>	<u>1,656,283</u>	<u>(10,181,471)</u>	<u>330,179,331</u>	<u>98,433,089</u>	<u>12,679,662</u>	<u>(148,209,328)</u>	<u>293,082,754</u>
<b>Noncurrent liabilities:</b>									
Long-term debt, less current portion	604,999,320	11,942,164	—	—	616,941,484	—	—	—	616,941,484
Long-term companion debt, less current portion	19,107,443	—	—	—	19,107,443	—	—	—	19,107,443
Net pension liability	—	—	—	—	—	22,806,777	—	—	22,806,777
State of Florida medical assistance assessment, less current portion	5,867,296	—	—	—	5,867,296	—	—	—	5,867,296
Advance payment from third party, less current portion	109,000,000	—	—	—	109,000,000	—	—	—	109,000,000
Other long-term liabilities	19,317,976	—	320,000	—	19,637,976	40,662,489	4,568,000	—	64,868,465
Interest rate swaps	35,886,852	—	—	—	35,886,852	—	—	—	35,886,852
Total noncurrent liabilities	<u>794,178,887</u>	<u>11,942,164</u>	<u>320,000</u>	<u>—</u>	<u>806,441,051</u>	<u>63,469,266</u>	<u>4,568,000</u>	<u>—</u>	<u>874,478,317</u>
Total liabilities	<u>1,001,990,086</u>	<u>142,835,484</u>	<u>1,976,283</u>	<u>(10,181,471)</u>	<u>1,136,620,382</u>	<u>161,902,355</u>	<u>17,247,662</u>	<u>(148,209,328)</u>	<u>1,167,561,071</u>
<b>Deferred Inflows of Resources</b>									
Deferred inflows related to pensions and OPEB	—	—	—	—	—	5,799,171	—	—	5,799,171
Deferred effective interest rate swap inflows	19,327,232	—	—	—	19,327,232	—	—	—	19,327,232
Total deferred inflows of resources	<u>19,327,232</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>19,327,232</u>	<u>5,799,171</u>	<u>—</u>	<u>—</u>	<u>25,126,403</u>
<b>Net Position</b>									
Net investment in capital assets	331,856,158	155,850,333	3,150,126	—	490,856,617	—	4,751,799	—	495,608,416
Restricted for specific purposes	2,741,363	—	—	—	2,741,363	—	—	—	2,741,363
Unrestricted	<u>1,113,743,875</u>	<u>(98,908,607)</u>	<u>3,089,061</u>	<u>—</u>	<u>1,017,924,329</u>	<u>—</u>	<u>(7,209,549)</u>	<u>—</u>	<u>1,010,714,780</u>
Total net position	<u>1,448,341,396</u>	<u>56,941,726</u>	<u>6,239,187</u>	<u>—</u>	<u>1,511,522,309</u>	<u>—</u>	<u>(2,457,750)</u>	<u>—</u>	<u>1,509,064,559</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,469,658,714</u>	<u>199,777,210</u>	<u>8,215,470</u>	<u>(10,181,471)</u>	<u>2,667,469,923</u>	<u>167,701,526</u>	<u>14,789,912</u>	<u>(148,209,328)</u>	<u>2,701,752,033</u>

See accompanying independent auditors' report.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

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

Year ended September 30, 2020

	<b>Sarasota Memorial Hospital</b>	<b>Corporate Division</b>	<b>Sarasota Memorial Nursing &amp; Rehabilitation Center</b>	<b>Eliminations</b>	<b>Sarasota County Public Hospital District</b>	<b>SMH Health Care, Inc.</b>	<b>SMH Physician Services, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Operating revenues:</b>									
Net patient service revenue, net of provision for bad debts	\$ 875,706,335	43	12,539,438	—	888,245,816	—	73,669,941	—	961,915,757
Other revenue	17,209,183	114,089,383	567,752	(98,758,982)	33,107,336	529,652,863	2,546,589	(540,994,210)	24,312,578
Total operating revenues	<u>892,915,518</u>	<u>114,089,426</u>	<u>13,107,190</u>	<u>(98,758,982)</u>	<u>921,353,152</u>	<u>529,652,863</u>	<u>76,216,530</u>	<u>(540,994,210)</u>	<u>986,228,335</u>
<b>Operating expenses:</b>									
Salaries, wages, and fringe benefits	359,107,794	62,849,317	8,339,073	—	430,296,184	529,325,020	96,689,819	(529,325,020)	526,986,003
Supplies	200,832,113	1,037,020	1,600,799	—	203,469,932	—	5,433,329	—	208,903,261
Purchased services	162,853,404	40,588,734	3,108,744	(98,656,000)	107,894,882	327,843	16,459,788	(10,187,058)	114,495,455
Professional fees	25,080,988	3,506,079	92,329	(102,982)	28,576,414	—	25,022	(1,482,132)	27,119,304
State of Florida medical assistance assessment	11,734,593	—	—	—	11,734,593	—	—	—	11,734,593
Depreciation	39,312,413	10,784,193	438,760	—	50,535,366	—	985,106	—	51,520,472
Total operating expenses	<u>798,921,305</u>	<u>118,765,343</u>	<u>13,579,705</u>	<u>(98,758,982)</u>	<u>832,507,371</u>	<u>529,652,863</u>	<u>119,593,064</u>	<u>(540,994,210)</u>	<u>940,759,088</u>
Operating income (loss)	<u>93,994,213</u>	<u>(4,675,917)</u>	<u>(472,515)</u>	<u>—</u>	<u>88,845,781</u>	<u>—</u>	<u>(43,376,534)</u>	<u>—</u>	<u>45,469,247</u>
<b>Nonoperating items:</b>									
Ad valorem tax	61,645,190	—	—	—	61,645,190	—	—	—	61,645,190
Interest expense	(9,088,201)	(540,108)	—	—	(9,628,309)	—	—	—	(9,628,309)
Interest rate swap receipts, net	496,780	375,891	—	—	872,671	—	—	—	872,671
Investment income	20,358,442	—	592	—	20,359,034	—	28,933	—	20,387,967
Unrealized gains and losses on investments, net	28,317,290	—	—	—	28,317,290	—	—	—	28,317,290
Change in fair value of ineffective interest rate swaps	212,465	(288,020)	—	—	(75,555)	—	—	—	(75,555)
Other nonoperating income	4,009,829	(116,725)	—	—	3,893,104	—	(986)	—	3,892,118
Total nonoperating items	<u>105,951,795</u>	<u>(568,962)</u>	<u>592</u>	<u>—</u>	<u>105,383,425</u>	<u>—</u>	<u>27,947</u>	<u>—</u>	<u>105,411,372</u>
Excess (deficit) of revenues over expenses	<u>199,946,008</u>	<u>(5,244,879)</u>	<u>(471,923)</u>	<u>—</u>	<u>194,229,206</u>	<u>—</u>	<u>(43,348,587)</u>	<u>—</u>	<u>150,880,619</u>
<b>Other changes in net position:</b>									
Contributions restricted for capital purposes	4,094,302	—	—	—	4,094,302	—	—	—	4,094,302
Net transfers from (to) other component units	(35,873,443)	186,062	—	—	(35,687,381)	—	35,687,381	—	—
Increase (decrease) in net position	<u>168,166,867</u>	<u>(5,058,817)</u>	<u>(471,923)</u>	<u>—</u>	<u>162,636,127</u>	<u>—</u>	<u>(7,661,206)</u>	<u>—</u>	<u>154,974,921</u>
Net position, beginning of year, as restated	<u>1,280,174,529</u>	<u>62,000,543</u>	<u>6,711,110</u>	<u>—</u>	<u>1,348,886,182</u>	<u>—</u>	<u>5,203,456</u>	<u>—</u>	<u>1,354,089,638</u>
Net position, end of year	<u>\$ 1,448,341,396</u>	<u>56,941,726</u>	<u>6,239,187</u>	<u>—</u>	<u>1,511,522,309</u>	<u>—</u>	<u>(2,457,750)</u>	<u>—</u>	<u>1,509,064,559</u>

See accompanying independent auditors' report.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Supplemental Information – Budgetary Comparison Schedule (Unaudited)

Year ended September 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Net patient service revenue, net of provision for bad debts	\$ 960,465,439	961,915,757	1,450,318
Other revenue	<u>21,761,217</u>	<u>24,312,578</u>	<u>2,551,361</u>
Total operating revenues	<u>982,226,656</u>	<u>986,228,335</u>	<u>4,001,679</u>
Operating expenses:			
Salaries, wages, and fringe benefits	536,019,847	526,986,003	9,033,844
Supplies	213,687,090	208,903,261	4,783,829
Purchased services	124,057,026	114,495,455	9,561,571
Professional fees	28,385,331	27,119,304	1,266,027
State of Florida medical assistance assessment	11,812,728	11,734,593	78,135
Depreciation	<u>52,872,404</u>	<u>51,520,472</u>	<u>1,351,932</u>
Total operating expenses	<u>966,834,426</u>	<u>940,759,088</u>	<u>26,075,338</u>
Operating income	<u>15,392,230</u>	<u>45,469,247</u>	<u>30,077,017</u>
Nonoperating items:			
Ad valorem tax	61,706,000	61,645,190	(60,810)
Interest expense	(11,427,619)	(9,628,309)	1,799,310
Interest rate swap receipts, net	2,185,005	872,671	(1,312,334)
Investment income	21,195,259	20,387,967	(807,292)
Unrealized gains and losses on investments, net	—	28,317,290	28,317,290
Changes in fair value of ineffective interest rate swaps	—	(75,555)	(75,555)
Other nonoperating income	<u>1,505,470</u>	<u>3,892,118</u>	<u>2,386,648</u>
Total nonoperating items	<u>75,164,115</u>	<u>105,411,372</u>	<u>30,247,257</u>
Excess of revenues over expenses	90,556,345	150,880,619	60,324,274
Other changes in net position:			
Contributions restricted for capital purposes	<u>2,000,000</u>	<u>4,094,302</u>	<u>2,094,302</u>
Increase in net position	92,556,345	154,974,921	62,418,576
Net position, beginning of year, as restated	<u>1,354,089,638</u>	<u>1,354,089,638</u>	<u>—</u>
Net position, end of year	\$ <u>1,446,645,983</u>	<u>1,509,064,559</u>	<u>62,418,576</u>

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, 2020, 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 22, 2021.

*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) as a basis for designing 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 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.

*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 financial statements. 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 22, 2021



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

**Independent Auditors' Report on Compliance for Each Major State Project;  
Report on Internal Control over Compliance; and Report on Schedule of Expenditures of State Financial  
Assistance Required by Chapter 10.550, *Rules of the Auditor General***

The Board of Members  
Sarasota County Public Hospital District:

**Report on Compliance for Each Major State Project**

We have audited Sarasota County Public Hospital District's (the District) compliance with the types of compliance requirements described in the Florida Department of Financial Services' *State Projects Compliance Supplement* that could have a direct and material effect on the District's major state project for the year ended September 30, 2020. The District's major state project is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state projects.

*Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for the District's major state project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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*, State of Florida (Chapter 10.550). Those standards and Chapter 10.550 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes 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 audit provides a reasonable basis for our opinion on compliance for the major state project. However, our audit does not provide a legal determination of the District's compliance.

*Opinion on Each Major State Project*

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state project for the year ended September 30, 2020.

**Report on Internal Control over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state project and to test and report on internal control over compliance in accordance with Chapter 10.550, but not



for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.550. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of State Financial Assistance Required by the Chapter 10.550**

We have audited the financial statements of the District as of and for the year ended September 30, 2020, and have issued our report thereon dated January 22, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by Chapter 10.550 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance is fairly stated in all material respects in relation to the financial statements as a whole.

*KPMG LLP*

February 10, 2021

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

Schedule of Expenditures of State Financial Assistance

Year ended September 30, 2020

<u>State grantor/ pass through agency/ program title</u>	<u>CSFA number</u>	<u>Agency or pass through grant number</u>	<u>Contract period</u>	<u>Passed through to subrecipients</u>	<u>Expenditures</u>
State of Florida Department of Elder Affairs:					
Alzheimers Disease Initiative	65.002	XZ714	7/1/19-6/30/20	\$ —	167,101
Alzheimers Disease Initiative	65.002	XZ814	7/1/20-6/30/21	—	55,700
Alzheimers Disease Initiative-Incentives	65.002	XZ714	7/1/19-6/30/20	—	3,727
Total State of Florida Department of Elder Affairs				—	226,528
Division of Emergency Management and Community Support:					
Verified Trauma Center Financial Support	64.075	TRA30	1/1/19-12/31/19	—	152,244
Verified Trauma Center Financial Support	64.075	TRA30	1/1/20-12/31/20	—	377,696
Total Division of Emergency Management and Community Support				—	529,940
Total State Financial Assistance				\$ —	756,468

See accompanying independent auditors' report.

## **SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**

### Notes to Schedule of Expenditures of State Financial Assistance

Year ended September 30, 2020

#### **(1) General**

The accompanying schedule of expenditures of state financial assistance (the Schedule) presents the activity of all state programs administered by Sarasota County Public Hospital District (the District). Awards received directly from state agencies are included on the Schedule. The information in the Schedule is presented in accordance with the requirements of Chapter 10.550, *Rules of the Auditor General* (Chapter 10.550).

#### **(2) Basis of Amounting**

State programs administered by the District are accounted for within the District's operating funds. The accompanying Schedule has been prepared on the same basis of accounting as the District's financial statements. The District's financial statements are prepared in accordance with U.S. generally accepted accounting principles. Transactions are recorded on an accrual accounting basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

#### **(3) Relationship to Financial Statements**

State financial assistance revenues are reported in the District's financial statements as other revenue.

#### **(4) Contingencies**

Grant monies received and disbursed by the District are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the District does not believe that such disallowances, if any, would have a material effect on the financial position of the District. Management is not aware of any material questioned or disallowed costs as a result of grant audits in process or completed.

#### **(5) Indirect Costs**

The District did not elect to charge the de minimus rate 10% for determining indirect cost amounts.

**SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT**  
 Schedule of Findings and Questioned Costs  
 Year ended September 30, 2020

**(1) Summary of Auditors' Results**

- |  |               |
|--|---------------|
| (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: | Unmodified    |
| (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:                           |               |
| Material weaknesses:   | No            |
| Significant deficiencies:  | None reported |
| (c) Noncompliance material to the financial statements:  | No            |

*State Financial Assistance*

- |   |               |
|---|---------------|
| (d) Internal control deficiencies over major projects disclosed by the audit:                                   |               |
| Material weaknesses:  | No            |
| Significant deficiencies:   | None reported |
| (e) Type of report issued on compliance for major state projects:   | Unmodified    |
| (f) Audit findings that are required to be reported under Chapter 10.550, <i>Rules of the Auditor General</i> ? | No            |
| (g) Major projects:   |               |

<b>State projects</b>	<b>CSFA No.</b>
Division of Emergency Management and Community Support: Verified Trauma Center Financial Support	64.075
(h) Dollar threshold used to distinguish between type A and type B projects:	\$300,000

**(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards***

None

**(3) Findings and Questioned Costs Relating to State Projects**

None

There are no items related to state financial assistance required to be reported in a management letter pursuant to Chapter 10.550, *Rules of the Auditor General*.



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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, 2020. Management of the District is responsible for the District's compliance with the specified requirements. Our responsibility is to express an opinion on 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 District complied, in all material respects, with Section 218.415, *Florida Statutes* as of September 30, 2020.

The purpose of this report is to express an opinion on the District's compliance with Section 218.415, *Florida Statutes*. Accordingly, this report is not suitable for any other purpose.

**KPMG LLP**

January 22, 2021





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

February 10, 2021

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, 2020, and have issued our report thereon dated January 22, 2021.

### **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 Accountants' Report of compliance with Section 218.415, Florida Statutes, both of which are dated January 22, 2021. We also issued our Independent Auditor's Report on Compliance for Each Major State Project; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of State Financial Assistance Required by Chapter 10.550, *Rules of the Auditor General*, dated February 10, 2021. Disclosures in those reports and schedule, if any, should be considered in conjunction with this 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. The results of our testing indicated corrective actions have been taken to address findings and 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 condition(s) met. In connection with our audit of the financial statements of the District, the results of our tests did not indicate that the District has met any of the conditions described in Section 218.503(1), *Florida Statutes*.



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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 Members, 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**