

# 2020

Marion County Hospital District

Financial Statements and  
Independent Auditor's Report

September 30, 2020

MARION COUNTY HOSPITAL DISTRICT

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

SEPTEMBER 30, 2020

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## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
Marion County Hospital District  
Ocala, Florida

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Marion County Hospital District (the District) and the Munroe Regional Health System (the System) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

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The Board of Trustees  
Marion County Hospital District  
Ocala, Florida

## INDEPENDENT AUDITOR'S REPORT

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the blended component unit of the District as of September 30, 2020, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of a Matter

As further discussed in Note 8 to the financial statements, the District has been financially impacted by the outbreak of the novel coronavirus (COVID-19) pandemic.

### Other Matters

#### *Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



January 25, 2021  
Ocala, Florida

**MARION COUNTY HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2020**

This section of the Marion County Hospital District (the District) annual financial report presents the District's analysis of its financial performance as of September 30, 2020. Please read this analysis in conjunction with the basic financial statements, which follow this section.

**Overview of the Financial Statements**

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

Effective April 1, 2014, the District executed a 40-year lease and purchase agreement with Munroe HMA Hospital, LLC, an affiliate of Community Health Systems, Inc. Under the lease and purchase agreement, control of the hospital operations, land, buildings, and equipment was transferred to Munroe HMA Hospital, LLC. Effective August 1, 2018, the Lessee, Munroe HMA Hospital, LLC, assigned the lease to Florida Hospital Ocala, Inc., an affiliate of Adventist Health System Sunbelt Healthcare Corporation. This change of control significantly affected the financial reporting of the business-type activities, which will be referenced throughout the management's discussion and analysis section of the annual financial report. Additional information on the change of control is included in Note 6 to the financial statements.

**Balance Sheet**

The balance sheet presents the assets, liabilities, and net position of the District and the Health System as of September 30, 2020. Net position, or the difference between total assets and total liabilities, is one indicator of the current financial condition of the District's business-type activities. At September 30, 2020, the total net position of the business-type activities was approximately \$235 million. Changes in net position are an indicator of whether the overall financial condition of the organization has improved or worsened over a period of time. During 2020, net position of the business-type activities increased by approximately \$10 million. Assets and liabilities are generally measured using current values, with the exception of capital assets, which are stated at historical cost less allowances for depreciation.

A summary of the business-type activities balance sheet at September 30, 2020 and 2019, is presented below (amounts in thousands):

	<b>2020</b>	<b>2019</b>
Current assets	\$ 2,150	\$ 1,180
Investments	270,242	266,749
Capital assets, net	2,480	1,532
Other assets	1,093	1,469
Total assets	275,965	270,930
Current liabilities	3,194	2,942
Long-term liabilities	37,748	42,083
Deferred inflow of resources	-	837
Total liabilities and deferred inflows	40,942	45,862
Net position:		
Net investment in capital assets	2,480	1,532
Restricted	1,053	1,003
Unrestricted	231,490	222,533
Total net position	235,023	225,068
Total liabilities and deferred inflows and net position	\$ 275,965	\$ 270,930

**MARION COUNTY HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2020**

Current assets increased by approximately \$970 thousand since September 30, 2019, primarily due to a \$924 thousand increase to cash and cash equivalents. See the "Statement of Cash Flows" section that follows for further information regarding cash flow activity.

Capital assets increased by approximately \$948 thousand during 2020, due to \$852 thousand of construction projects in process as of September 30, 2020. Also, \$1,823 thousand of building improvements, equipment, and software were capitalized during the year. See Note 3 to the financial statements for further information on additions, as well as depreciation of capital assets.

Long-term liabilities decreased approximately \$4.3 million during 2020, primarily due to the final contribution to fund and transfer the pension plan included in Note 5 and decrease in the unearned lease revenue included in Note 6 to the financial statements.

**Statement of Revenues, Expenses, and Changes in Net Position**

The following table presents the business-type activities condensed statement of revenues, expenses, and changes in net position for the years ended September 30, 2020 and 2019 (amounts in thousands):

	<u>2020</u>	<u>2019</u>
Net patient service revenue	\$ (231)	\$ (117)
Lease revenue	1,093	1,093
Other operating revenue	-	27
Total operating revenues	<u>862</u>	<u>1,003</u>
Operating expenses	<u>(9,345)</u>	<u>(4,401)</u>
Operating loss	(8,483)	(3,398)
Non-operating revenues (expenses), net	<u>18,437</u>	<u>11,257</u>
Excess of revenues over expenses	<u>9,954</u>	<u>7,859</u>
Change in net position	<u>\$ 9,954</u>	<u>\$ 7,859</u>

**Operating Revenues**

Operating revenues increased in 2020 due to a lower charge back in the current year from AHCA for years prior to 2014.

**Operating Expenses**

Operating expenses increased approximately \$4.9 million during 2020, due to the approximately \$2.4 million final contribution and funding of the pension plan and planned increases to grant expenditures of approximately \$1.5 million and unplanned grant expenditures of approximately \$750 thousand for COVID-19 relief efforts in Marion County, Florida.

**MARION COUNTY HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2020**

**Programs Funded by the District**

During the years ended September 30, 2020 and 2019, the District provided funding to the following Programs:

	<u>2020</u>	<u>2019</u>
Active Marion Project	\$ 177,466	\$ 267,940
Fitness and Nutrition in Schools	989,102	728,795
Beacon Point	122,424	42,372
Barret Liner and Buss	-	20,000
Belleview, City of	-	22,500
Boys and Girls Club	-	134,944
College of Central Florida	-	256,250
Community Foundation	66,667	100,000
Community Foundation – COVID-19 Relief	517,833	-
COVID-19 Relief miscellaneous	67,945	-
Estella Byrd Whitman Wellness	-	8,465
Heart of Florida	1,839,659	290,423
Hope Clinic	-	8,800
Interfaith Emergency Services	94,219	174,500
Kids Central	89,333	87,448
Kimberly's Center	43,423	59,546
Langley Project Health	209,984	252,400
Life Stream	189,158	-
Marion County BOCC	-	53,000
Marion County Sheriff Foundation – COVID-19 Relief	164,050	-
Marion County Children's Alliance	10,000	85,536
Project Lift	-	42,004
Quit Doc	-	39,543
The Center's	683,364	-
United Hands, Inc. Dental	121,533	207,494
United Hand, Inc. Mental Health	157,760	552,792
Total	<u>\$ 5,543,920</u>	<u>\$ 3,434,752</u>

**Non-Operating Gains and Losses, Net**

Non-operating revenues and expenses, net for 2020, increased approximately \$7.2 million. Investment income of approximately \$18.4 million is included in non-operating revenues in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This represents an increase of approximately \$7.3 million during 2020, due to stronger market conditions.

**Statement of Cash Flows**

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

Total cash and cash equivalents increased in fiscal year 2020 by approximately \$924 thousand. This increase is attributed to the liquidation of investment earnings in accordance with the investment policy. Cash and cash equivalents for the District were mainly used to support the operations of the District and fund the pension plan for the former employees of the Health System.

**MARION COUNTY HOSPITAL DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2020**

**Capital Assets**

The business-type activities had approximately \$2.5 million in net capital assets as of September 30, 2020. This represents an increase of approximately \$950 thousand from 2019 as a result of construction in process on the Beacon Point property and office of the District, equipment additions, and normal depreciation expense. Additional information on the business-type activities capital assets is included in Note 3 to the financial statements.

	<u>2020</u>	<u>2019</u>
Land	\$ 437,625	\$ 437,625
Work in progress	886,554	41,994
Buildings and fixed equipment	1,006,117	949,641
Movable equipment	16,345	9,256
Software	132,934	93,726
Total capital assets, net	<u>\$ 2,479,575</u>	<u>\$ 1,532,242</u>

**Outlook**

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

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

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

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

- Dental – Support uninsured and Medicaid-eligible dental services through matching funds to Federally Qualified Health Centers (FQHC’s) for our safety-net programs. Invest in Heart of Florida’s Low Income Pool funding and increase capacity to serve low-income citizens through investment in their new facility. Continue to support Langley Health’s Low Income Pool funding and their Mobile Dental Bus for uninsured citizens. Support the monthly FreeDOM Dental clinics for uninsured citizens throughout the county. Invest in the College of Central Florida’s Science & Technology building and increase capacity at the Hampton Center for dental hygienists and dental assistants.



**MARION COUNTY HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2020**

- Diabetes/Obesity – Combating chronic disease through two county-wide wellness programs, AMP (Active Marion Project) and FANS (Fitness and Nutrition in Schools). Establishing Diabetes initiatives and partnerships at new locations which include intensive diabetes education and programming with Advent Health and the FQHC's. Continued coordination of AMP, Department of Health, Florida Blue, and County and City Parks to establish wellness programs in the community. Investing in the new Community Center in Ocala, which will provide opportunities for exercise and wellness programs to families on the west side of Ocala. Funding is provided to local non-profits to provide free diabetes medication to uninsured individuals and they assist clients with obtaining prescription assistance programs to pay for future medications.
- Behavioral Health/Substance Use Disorders – Focus on outpatient behavioral health and substance use treatment gaps in the community at Beacon Point (for low-income citizens of Marion County). Establishing Medication Assisted Treatment (MAT) in collaboration with Lutheran Services and Department of Children and Families (DCF). Provide integrated primary care, dental and vision services in collaboration with Heart of Florida, Langley, and other community partners. Support life skills, job skills, GED, and trades via grants to improve the future of program participants. Establish peer support programs and Phoenix-style recovery therapy into a therapeutic exercise facility at Beacon Point. The District provides match funding to Marion County's local community behavioral health and substance abuse provider, The Centers, to leverage funding for uninsured or underinsured citizens. Funding is also provided to a local non-profits to provide medication vouchers to those in need of mental health medication that do not have the means to pay for them and to assist clients with obtaining prescription assistance programs to pay for future medications.
- Tobacco Avoidance and Cessation – Health Education through the FANS program, which will impact up to 42,000 students, parents and 6,600 employees. Target Workplace Wellness through AMP by incorporating smoking cessation educational opportunities. Provide grant funding to the Marion County Children Alliance to administer Student's Against Destructive Decisions with an emphasis on vaping and tobacco use.
- Nursing Shortage – Increase the number of available nurses in Marion County through the funding of the College of Central Florida Science & Technology Building. Continue to support the Muns Scholarship Fund for nursing scholarships for students within Marion County.
- Policy Development – To expand water fluoridation and the use of dental therapists to improve dental health. Work with legislators to ban the sale of substances used to falsify Urinalyses/Drug tests. Work with the Schools System, the City of Ocala, and Marion County to expand accessibility to exercise options for the community. Work through legislation to raise the age to purchase tobacco to 21 in Marion County.

**Request for Information**

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

**BALANCE SHEET**  
**MARION COUNTY HOSPITAL DISTRICT**  
**OCALA, FLORIDA**  
**SEPTEMBER 30, 2020**

**ASSETS**

	<b>Marion County Hospital District</b>	<b>Munroe Regional Health System</b>	<b>Total Business-Type Activities</b>
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 66,484	\$ 1,614,218	\$ 1,680,702
Accounts Receivable, Other	-	230,345	230,345
Notes Receivable, Current	-	16,566	16,566
Prepaid Expenses and Other Current Assets	-	40,186	40,186
<b>Total Current Assets</b>	<b>66,484</b>	<b>1,901,315</b>	<b>1,967,799</b>
<b>Non-Current Assets</b>			
Non-Current Cash and Investments:			
Investments	270,242,522	-	270,242,522
Accrued Interest on Investments	182,004	-	182,004
Assets Limited as to Use - Cash and Investments:			
Board Designated	-	39,671	39,671
Restricted Investments and Beneficial Interest in Gift Annuities	-	1,053,230	1,053,230
<b>Total Non-Current Cash and Investments</b>	<b>270,424,526</b>	<b>1,092,901</b>	<b>271,517,427</b>
Capital Assets, Not Being Depreciated	1,324,179	-	1,324,179
Capital Assets, Being Depreciated, Amortized (Net)	1,155,396	-	1,155,396
<b>Total Non-Current Assets</b>	<b>272,904,101</b>	<b>1,092,901</b>	<b>273,997,002</b>
<b>Total Assets</b>	<b>\$ 272,970,585</b>	<b>\$ 2,994,216</b>	<b>\$ 275,964,801</b>

**LIABILITIES AND NET POSITION**

	<b>Marion County Hospital District</b>	<b>Munroe Regional Health System</b>	<b>Total Business-Type Activities</b>
<b>Current Liabilities</b>			
Accounts Payable	\$ 181,948	\$ 511,509	\$ 693,457
Accrued Liabilities:			
Self-Insured Liabilities	-	50,000	50,000
Estimated Third-Party Payer Settlements	-	2,450,987	2,450,987
<b>Total Current Liabilities</b>	<b>181,948</b>	<b>3,012,496</b>	<b>3,194,444</b>
<b>Non-Current Liabilities</b>			
Self-Insured Liabilities	-	1,120,018	1,120,018
Unearned Lease Revenue	36,627,993	-	36,627,993
<b>Total Non-Current Liabilities</b>	<b>36,627,993</b>	<b>1,120,018</b>	<b>37,748,011</b>
<b>Total Liabilities</b>	<b>36,809,941</b>	<b>4,132,514</b>	<b>40,942,455</b>
<b>Net Position</b>			
Net Investment in Capital Assets	2,479,575	-	2,479,575
Restricted:			
For Donor Purposes - Capital, Scholarships, and Community Outreach Program	-	1,053,230	1,053,230
Unrestricted	233,681,069	(2,191,528)	231,489,541
<b>Total Net Position</b>	<b>236,160,644</b>	<b>(1,138,298)</b>	<b>235,022,346</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 272,970,585</b>	<b>\$ 2,994,216</b>	<b>\$ 275,964,801</b>

See accompanying notes.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**MARION COUNTY HOSPITAL DISTRICT**  
**OCALA, FLORIDA**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>Marion County Hospital District</u>	<u>Munroe Regional Health System</u>	<u>Total Business-Type Activities</u>
<b>Operating Revenues</b>			
Patient Service Revenue	\$ -	\$ 46,422	\$ 46,422
Third-Party Chargebacks	-	(277,426)	(277,426)
Net Patient Service Revenue	-	(231,004)	(231,004)
Lease Revenue	1,093,368	-	1,093,368
<b>Total Operating Revenues</b>	<u>1,093,368</u>	<u>(231,004)</u>	<u>862,364</u>
<b>Operating Expenses</b>			
Salaries and Benefits	-	663,072	663,072
Pension Expense	-	2,382,885	2,382,885
Purchased Services and Other	-	315,450	315,450
Health Improvement Initiatives	-	1,288,992	1,288,992
Depreciation and Amortization	79,642	-	79,642
Grant Expense	-	4,615,559	4,615,559
<b>(Total Operating Expenses)</b>	<u>(79,642)</u>	<u>(9,265,958)</u>	<u>(9,345,600)</u>
<b>Operating Income</b>	<u>1,013,726</u>	<u>(9,496,962)</u>	<u>(8,483,236)</u>
<b>Non-Operating Revenues (Expenses)</b>			
Investment Revenue	13,450,882	51,449	13,502,331
Interest and Dividend Income	4,848,922	-	4,848,922
Grant Revenue	-	230,345	230,345
Other (Expense) Income	(149,746)	5,989	(143,757)
<b>Total Non-Operating Revenues (Expenses), Net</b>	<u>18,150,058</u>	<u>287,783</u>	<u>18,437,841</u>
<b>Excess/(Deficiency) of Revenues Over/(Under) Expenses</b>	19,163,784	(9,209,179)	9,954,605
<b>Transfers (out)/in</b>	<u>(13,742,315)</u>	<u>13,742,315</u>	<u>-</u>
<b>Change in Net Position</b>	5,421,469	4,533,136	9,954,605
<b>Net Position, Beginning of Year</b>	<u>230,739,175</u>	<u>(5,671,434)</u>	<u>225,067,741</u>
<b>Net Position, End of Year</b>	<u>\$ 236,160,644</u>	<u>\$ (1,138,298)</u>	<u>\$ 235,022,346</u>

See accompanying notes.

**STATEMENT OF CASH FLOWS**  
**MARION COUNTY HOSPITAL DISTRICT**  
**OCALA, FLORIDA**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<b>Marion County Hospital District</b>	<b>Munroe Regional Health System</b>	<b>Total Business-Type Activities</b>
<b>Cash Flows from Operating Activities</b>			
Cash Received from Patients and Third-Party Payers	\$ -	\$ 46,422	\$ 46,422
Cash Paid to Suppliers and Grantees	1,936	(8,779,236)	(8,777,300)
Cash Paid to Employees	-	(668,364)	(668,364)
Cash Paid for Pension Expense	-	(3,672,143)	(3,672,143)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>1,936</b>	<b>(13,073,321)</b>	<b>(13,071,385)</b>
<b>Cash Flows from Non-Capital Activities</b>			
Net Operating Transfers in/(out)	(13,742,315)	13,742,315	-
<b>Net Cash Provided by (Used in) Non-Capital Activities</b>	<b>(13,742,315)</b>	<b>13,742,315</b>	<b>-</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchase of Capital Assets	(1,035,112)	-	(1,035,112)
Loss on Disposal of Capital Asset	8,137	-	8,137
Principal Payments Received for Notes Receivable	-	17,519	17,519
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	<b>(1,026,975)</b>	<b>17,519</b>	<b>(1,009,456)</b>
<b>Cash Flows Provided by (Used in) Investing Activities</b>			
Purchase of Investments - Restricted and Unrestricted	(133,982,115)	-	(133,982,115)
Proceeds from Sale and Maturity of Investments	143,900,512	209,056	144,109,568
Cash Received for Interest and Dividends	4,848,922	28,126	4,877,048
<b>Net Cash Flows Provided by (Used in) Investing Activities</b>	<b>14,767,319</b>	<b>237,182</b>	<b>15,004,501</b>
<b>Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>(35)</b>	<b>923,695</b>	<b>923,660</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>66,519</b>	<b>690,523</b>	<b>757,042</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 66,484</b>	<b>\$ 1,614,218</b>	<b>\$ 1,680,702</b>

See accompanying notes.

**STATEMENT OF CASH FLOWS**  
**MARION COUNTY HOSPITAL DISTRICT**  
**OCALA, FLORIDA**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<b>Marion County Hospital District</b>	<b>Munroe Regional Health System</b>	<b>Total Business-Type Activities</b>
<b>Cash Flows from Operating Activities</b>			
Operating Income (Loss)	\$ 1,013,726	\$ (9,496,962)	\$ (8,483,236)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Depreciation and Amortization	79,642	-	79,642
Changes in Operating Assets and Liabilities:			
Patient Accounts Receivable	-	48,645	48,645
Other Receivables	-	(215,481)	(215,481)
Inventories, Prepaid Expenses, and Other Current Assets	-	25,731	25,731
Accounts Payable	1,936	31,372	33,308
Deferred Revenue	(1,093,368)	-	(1,093,368)
Deferred Inflow on Pension Liability	-	(3,672,143)	(3,672,143)
Self-Insurance Liabilities	-	(71,909)	(71,909)
Third-Party Settlements	-	277,426	277,426
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 1,936</b>	<b>\$ (13,073,321)</b>	<b>\$ (13,071,385)</b>

See accompanying notes.

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

**Note 1 - Summary of Significant Accounting Policies**

**Reporting Entity**

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

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

Effective April 1, 2014, this lease was mutually terminated and control of the hospital was leased to a third-party organization (see Note 6). Subsequent to the change in control, MRHS remains a not-for-profit corporation with future operations to be governed by the Board of Trustees (the Board) of the District and is reported as a blended component unit of the District.

**Basis of Presentation**

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

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

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**Use of Estimates**

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

**Cash and Cash Equivalents**

The District and the Health System define cash and cash equivalents to include cash held on deposit with financial institutions.

**Investments**

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

**Assets Limited as to Use and Restricted Investments**

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

**Capital Assets**

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

Estimated useful lives by major asset classification are summarized below:

	<u>Years</u>
Buildings and Fixed Equipment	5-40
Moveable Equipment	3-20
Software	5

**Net Position Classification**

Net position is displayed in three (3) components:

- Net investment in capital assets, consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

**Classification of Revenues and Expenses**

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

**Net Patient Service Revenue**

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

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

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

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

*Medicaid*—Outpatient services (except for laboratory and pathology services) rendered to Medicaid program beneficiaries are reimbursed under a cost-reimbursement methodology. Reimbursable cost is determined in accordance with the principles of reimbursement established by the Florida Title XIX Hospital Reimbursement Plan, supplemented by the Medicare Principles of Reimbursement. The interim rates are tentatively established on an individual per diem basis for each hospital, subject to cost ceilings with exceptions. The Medical Center is reimbursed at a tentative interim rate with final settlement determined when the prospectively determined rate is adjusted after the intermediary audit of the combined Medicare



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and Medicaid cost report that was used to determine the prospective rate. Retroactive adjustments for interim rate changes anticipated after the intermediary audit of the cost report are accrued on an estimated basis in the period when final settlements are determined. The Medical Center's Medicaid interim rates are based on the Medicare/Medicaid cost report. The cost report for fiscal year 2015 has been audited by the fiscal intermediary. Effective with admissions on or after July 1, 2013, the Medicaid program changed the reimbursement for inpatient stays to a DRG-based methodology.

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

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

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

**Income Taxes**

The Health System has been recognized by the Internal Revenue Service as a tax-exempt organization, as described in Section 501(c)(3) of the Internal Revenue Code (the Code). Income earned in furtherance of the Health System's tax-exempt purpose is exempt from federal and state income taxes. The Code provides for taxation of unrelated business income under certain circumstances. The Health System's unrelated business income was not significant for the year ended September 30, 2020.

**Note 2 - Deposit and Investments**

At September 30, 2020, the District had cash and cash equivalents and investments at fair value, including the following:

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<b>Cash and Cash Equivalents</b>	
Deposits	\$ 66,484
<b>Total Cash and Cash Equivalents</b>	<u>\$ 66,484</u>
<b>Investments</b>	
Bank of New York – Simon Quick	\$ 89,789,427
Bank of New York – SunTrust	91,378,798
Bank of New York – Berman	<u>89,074,297</u>
<b>Total Investments</b>	<u>\$ 270,242,522</u>

As of September 30, 2020, the Health System had the following cash and cash equivalents and investments, including assets limited as to use, at fair value, including the following:

<b>Cash and Cash Equivalents</b>	
Deposits	\$ 1,614,218
<b>Total Cash and Cash Equivalents</b>	<u>\$ 1,614,218</u>

<b>Assets Limited as to Use</b>	
Board Designated:	
Cash	\$ 39,671
<b>Total Assets Limited as to Use</b>	<u>\$ 39,671</u>

<b>Restricted Investments</b>	
Mutual Funds – Fixed Income	\$ 328,752
Mutual Funds – Equity	248,477
Mutual Funds – International	94,570
Real Assets	6,845
Alternative Investments	<u>162,122</u>
<b>Total Restricted Investments</b>	<u>\$ 840,766</u>

**Deposits**

The District and the Health System require bank deposits to be secured per Chapter 280, Florida Statutes. This Statute requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida and creates the Public Deposits Trust Fund, a multiple financial institutions pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2020, the District and the Health System’s deposits were entirely covered by federal deposit insurance or by collateral pledged with the State Treasurer pursuant to Chapter 280, Florida Statutes.

**Investments**

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

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On July 29, 2019, the Health System’s Board of Trustees resolved the transfer of gift annuities assets to Community Foundation For Ocala/Marion County, Inc., (the Community Foundation) a non-profit company. The transfer was formally agreed to by the Health System and Community Foundation through a memorandum of understanding dated October 9, 2019, and all assets were transferred to the Community Foundation during December 2019. The remaining benefit of the gift annuities to be received by the Health System were estimated to be \$212,464 September 30, 2020, and are reported as beneficial interest in gift annuities.

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

	<u>Fair Value</u>	<u>Weighted Average Duration (Years)</u>	<u>Credit Rating</u>
<b>District Investments</b>			
Cash and Cash Equivalents	\$ 7,486,613	N/A	AAA
Equities	14,130,319	N/A	N/A
Fixed Income:			
Corporate Notes	6,430,761	3.919	A
FGLMC Notes	1,108,576	0.492	AA+
FNMA Notes	3,504,390	0.918	AA+
FHLMC	483,705	0.156	AA+
GNMA Bonds	126,757	0.019	AA+
T-Bills	359,981	0.074	A-1+
Treasury Inflated Protection Securities	1,495,984	2.025	AA+
U.S. Government Securities	5,861,764	4.135	AA+
Total Fixed Income	<u>19,371,918</u>		
Mutual Funds:			
Closed-End Fund	2,019,776	N/A	N/A
Exchange Traded Fund (ETF)	81,835,409	N/A	N/A
Open-End Fund	99,693,481	N/A	N/A
Total Mutual Funds	<u>183,548,666</u>		
Alternatives	45,705,006	N/A	N/A
<b>Total District Investments</b>	<u>\$ 270,242,522</u>		
<b>Health System Investments</b>			
Mutual Funds - Fixed Income	\$ 328,752	0.000	AA-BBB
Mutual Funds - Equity	248,477	N/A	N/A
Mutual Funds - International	94,570	N/A	N/A
Real Assets	6,845	N/A	N/A
Alternative Investments	162,122	N/A	N/A
<b>Total Health System Investments</b>	<u>\$ 840,766</u>		

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Government Accounting Standards Board Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset’s fair

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value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements are as follows at September 30, 2020:

	Fair Value	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
<b>District Investments</b>				
Cash and Cash Equivalents	\$ 7,486,613	\$ 7,486,613	\$ -	\$ -
Equities	14,130,319	14,130,319	-	-
Fixed Income:				
Corporate Notes	6,430,761	-	6,430,761	-
FGLMC Notes	1,108,576	-	1,108,576	-
FNMA Notes	3,504,390	-	3,504,390	-
GNMA Bonds	483,705	-	483,705	-
FHLMC	126,757	-	126,757	-
T-Bills	359,981	359,981	-	-
Treasury Inflated Protection Securities	1,495,984	1,495,984	-	-
U.S. Government Securities	5,861,764	5,861,764	-	-
Mutual Funds:				
Closed-End Fund	2,019,776	2,019,776	-	-
Exchange Traded Fund (ETF)	81,835,409	81,835,409	-	-
Open-End Fund	99,693,481	99,693,481	-	-
Alternative Investments	45,705,006	-	-	45,705,006
<b>Total District Investments</b>	<b>\$ 270,242,522</b>	<b>\$ 212,883,327</b>	<b>\$ 11,654,189</b>	<b>\$ 45,705,006</b>
<b>Health System Investments</b>				
Mutual Funds - Fixed Income	\$ 328,752	\$ 328,752	\$ -	\$ -
Mutual Funds - Equity	248,477	248,477	-	-
Mutual Funds - International	94,570	94,570	-	-
Real Assets	6,845	6,845	-	-
Alternative Investments	162,122	162,122	-	-
<b>Total Health System Investments</b>	<b>\$ 840,766</b>	<b>\$ 840,766</b>	<b>\$ -</b>	<b>\$ -</b>

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

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*Interest Rate Risk*—Interest rate risk is the risk that the fair value of investments will decrease as a result of an increase in interest rates. The District’s investment policy seeks to control risk and reduce the volatility of its portfolio through diversification. Short-term volatility is characteristic of the securities markets and will be tolerated if such volatility is consistent with the volatility of similar investment portfolios. Unless matched to a specific cash flow requirement, the District will not directly invest in securities maturing more than 10 years from the date of purchase. The Health System’s investments, which are held in trust agreements, have a moderate risk tolerance and have an investment horizon of 11+ years.

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

At September 30, 2020, the District and Health System’s fixed-income investments are rated in the table above.

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

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

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

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**Note 3 - Capital Assets**

The capital asset activity for the District is as follows:

	<b>September 30, 2019</b>	<b>Additions/ Transfers</b>	<b>Deletions</b>	<b>September 30, 2020</b>
Capital Assets Not Being Depreciated:				
Land	\$ 437,625	\$ -	\$ -	\$ 437,625
Work in Process	41,994	852,150	(7,590)	886,554
Total Capital Assets Not Being Depreciated	<u>479,619</u>	<u>852,150</u>	<u>(7,590)</u>	<u>1,324,179</u>
Capital Assets Being Depreciated:				
Buildings and Fixed Equipment	1,167,766	102,852	-	1,270,618
Moveable Equipment	181,806	14,158	(135,541)	60,423
Software	120,400	65,952	-	186,352
Total Capital Assets Being Depreciated	<u>1,469,972</u>	<u>182,962</u>	<u>(135,541)</u>	<u>1,517,393</u>
Less Accumulated Depreciation:				
Buildings and Fixed Equipment	(218,125)	(46,376)	-	(264,501)
Moveable Equipment	(172,550)	(6,522)	134,994	(44,078)
Software	(26,674)	(26,744)	-	(53,418)
Total Accumulated Depreciation	<u>(417,349)</u>	<u>(79,642)</u>	<u>134,994</u>	<u>(361,997)</u>
<b>Total Depreciable Capital Assets, Net</b>	<u>1,052,623</u>	<u>103,320</u>	<u>(547)</u>	<u>1,155,396</u>
<b>Total Capital Assets, Net</b>	<u>\$ 1,532,242</u>	<u>\$ 955,470</u>	<u>\$ (8,137)</u>	<u>\$ 2,479,575</u>

**Note 4 - Risk Management**

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

The Health System has a self-insurance program for its medical malpractice exposure. The Health System claims entitlement to the protections of Sovereign Immunity under Section 768.28, Florida Statutes. In addition, the Health System purchases excess professional liability coverage for claims exceeding the self-insured retention amounts of \$3 million per medical incident up to \$25 million per claim and in the aggregate. Claims of approximately \$420,614 as of September 30, 2020, are included in the balance sheet based upon the expected ultimate cost of the expenses to date (including a provision for unknown incidents). During the year ended September 30, 2020, the Health System recorded a \$0 decrease in medical malpractice expense estimate based on analysis performed by independent actuaries employed by the Health System to estimate the actual costs. In management's opinion, an adequate reserve for loss contingencies has been recorded in the accompanying financial statements.

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The Health System is self-insured for workers' compensation up to \$600,000 per occurrence subsequent to October 1, 2010, and has purchased excess coverage from commercial carriers up to the amount allowed by Florida Statutes. Workers' compensation claims of approximately \$749,404 as of September 30, 2020, is accrued and included in the balance sheet based on historical analysis performed by independent actuaries employed by the Health System to estimate the expected costs. In management's opinion, an adequate reserve for loss contingencies has been recorded in the accompanying financial statements.

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

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

	<b>Medical Malpractice</b>	<b>Workers' Compensation</b>	<b>Total</b>
<b>Balance at September 30, 2019</b>	\$ 420,614	\$ 821,313	\$ 1,241,927
Claims and Changes in Estimates	-	-	-
Claim Payments	-	(71,909)	(71,909)
<b>Balance at September 30, 2020</b>	<u>\$ 420,614</u>	<u>\$ 749,404</u>	<u>\$ 1,170,018</u>

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

**Note 5 - Benefit Plans**

***Defined Benefit Pension Plan***

**Plan Description**

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

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**Plan Amendments**

On March 24, 2014, the Health System amended the Plan to provide that all Plan participants are immediately and fully vested in their accrued retirement benefit. The amendment also provides that any terminated vested Plan participants not already in pay status may elect a lump sum distribution of the accrued retirement benefit. With the Health System termination of the lease of the hospital on March 31, 2014, the Health System terminated all active employees. A Voluntary Correction Plan (VCP) has been approved by the IRS for the Plan and the payout for the affected Plan participants is expected in the near future. The Plan was amended to terminate as of July 21, 2019. The Health System's Board of Trustees resolved the transfer of all assets, obligations, and future management of the Plan to CMFG Life Insurance Company on April 17, 2020. Upon transfer, the Health System funded the Plan \$5,112,983 during the year. Per the transfer agreement, the Plan funded the PBGC \$1,092,537 on July 13, 2020. Due to the size of the transfer, this transaction is under review by the PBGC.

**Note 6 - Capital Lease Agreement**

**Trustee Execution of Lease/Purchase Agreement (LPA)**

On April 1, 2014, the Health System and District executed a 40-year LPA with Munroe HMA Hospital, LLC, an affiliate of Community Health Systems (CHS); thereby, terminating the revised hospital and operations lease between the Health System and the District. Under the LPA, control of the hospital transferred to CHS, including control of land, buildings, and equipment with a net book value at the time of transfer of approximately \$132 million; and inventory, prepaids, investments in joint ventures, and various assumed obligations with a net book value of approximately \$6 million. The District received approximately \$196 million of cash and consideration under the LPA on April 1, 2014. Net proceeds of the LPA after settlement and closing costs was approximately \$110,535,000. Included in the settlement of the LPA proceeds were refunding of bond payables, prepayment of pension contributions, and closing costs of approximately \$4,788,000. The remaining amount of \$36,627,993 is reported as unearned lease revenues and amortized over the life of the lease with annual amortization of deferred income in the amount of approximately \$1,093,000 each year.

The executed 2014 LPA was assigned by Munroe HMA Hospital, LLC (the Hospital) to Florida Hospital Ocala, Inc. an affiliate of Adventist Health System Sunbelt Healthcare Corporation. On June 27, 2018, the Fourth Amendment was signed and consented to the Original Lessee's assignment of the LPA to the Lessee, the assignment became effective on August 1, 2018. On and effective February 1, 2019, the Fifth Amendment was signed by the Hospital and required a 16 member Board of Directors for the Hospital consisting of the Hospital's Chief Executive Officer and Chief Medical Officer, three physicians from the Hospital, and five representatives from industry, government, religious organizations, and such other members, as may be selected by the Lessee. On and effective June 24, 2019, the Sixth Amendment was signed by the Hospital making the Third Amendment no longer applicable, as well as extended the completion date of Hospital projects to December 31, 2020 and January 1, 2023. Subsequent to September 30, 2020, the completion date for the main campus portion of the lease was extended through the Seventh Amendment.



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**Note 7 - Commitments**

The District has contractual grant and project commitments as of September 30, 2020, of the following:

	<b>Total Commitment</b>
College of Central Florida Nursing School Building	\$ 4,800,000
College of Central Florida Additional Floor/Renovate Hampton Center	3,500,000
College of Central Florida Renovate Dental Hygiene Building	800,000
Ocala Community Center	2,300,000
Marion County BOCC - Mental Health Service Provider	1,500,000
Heart of Florida Low Income Pool Match	266,000
Langley Low Income Pool Match	196,000
	<b>\$ 13,362,000</b>

**Note 8 - Contingencies**

**COVID-19**

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) pandemic. The outbreak of COVID-19 is affecting communities, business operations, as well as the U.S. economy and financial markets. The full extent to which COVID-19 will impact the District is uncertain at this time and will depend on new information that may emerge concerning COVID-19 and the actions to contain and treat its impact and the economic impact on local, regional, national and international markets, which may affect the District's investments.

The Health System has provided assistance to the local community during the pandemic by providing funding to first responders and the Hospital and also COVID-19 related grants to assist individuals that were directly impacted by the virus.

**Note 9 - Subsequent Events**

On and effective October 20, 2020, the Seventh Amendment to the LPA was signed by the Hospital extending the main campus capital improvement deadline from December 31, 2020 to December 31, 2023.

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the blended component unit, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Marion County Hospital District's (the District) basic financial statements, and have issued our report thereon dated January 25, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

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

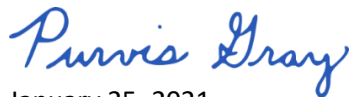
**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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



January 25, 2021  
Ocala, Florida

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

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

We have examined the Marion County Hospital District (the District) and the Munroe Regional Health System's (the Health System) compliance with the requirements of Section 218.415, Florida Statutes, as of and for the year ended September 30, 2020, as required by Section 10.556(10)(a), *Rules of the Auditor General*. Management is responsible for the District's and the Health System's compliance with those requirements. Our responsibility is to express an opinion on the District's and Health System's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the District and Health System complied with the specified requirements. The nature, timing, and extent of procedures selected depend on our judgment, including an assessment of the risk of material non-compliance, 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 and Health System's compliance with specified requirements.

In our opinion, the District and the Health System complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2020.

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



January 25, 2021  
Ocala, Florida

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## MANAGEMENT LETTER

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

### Report on the Financial Statements

We have audited the financial statements of the Marion County Hospital District (the District) and the Munroe Regional Health System (the Health System) as of and for the fiscal year ended September 30, 2020, and have issued our report thereon dated January 25, 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 Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountant's Report on examination conducted in accordance with American Institute of Certified Public Accountants Professional Standards, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports and schedule, which are dated January 25, 2021, should be considered in conjunction with this management letter.

### Prior Audit Findings

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

### Official Title and Legal Authority

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

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

## MANAGEMENT LETTER

### Financial Condition

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

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

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

### Additional Matters

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

### Purpose of this Letter

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



January 25, 2021  
Ocala, Florida