

2022

Marion County Hospital District

Financial Statements and
Independent Auditor's Report

September 30, 2022

PURVIS GRAY
CERTIFIED PUBLIC ACCOUNTANTS

MARION COUNTY HOSPITAL DISTRICT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

SEPTEMBER 30, 2022

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Marion County Hospital District
Ocala, Florida

Report on the Financial Statements

Opinions

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 Health System) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District and the Health System as of September 30, 2022, and the respective changes in financial position, and, where applicable, cash flows, thereof and for the year then ended in accordance with accounting principles generally accepted in the United State of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and the Health System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District and Health System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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The Board of Trustees
Marion County Hospital District
Ocala, Florida

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District and Health System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District and Health System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of net pension liability, and schedule of contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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

The Board of Trustees
Marion County Hospital District
Ocala, Florida

INDEPENDENT AUDITOR'S REPORT

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 March 27, 2023, on our consideration of the District and Health System'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 solely 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 and Health System'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 and Health System's internal control over financial reporting and compliance.

Purvis Gray

March 27, 2023
Ocala, Florida

**MARION COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022**

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, 2022. 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. Effective September 30, 2021, the Health System corporately dissolved. Upon dissolution, assets and obligations of the Health System totaling \$667 thousand net obligations transferred to the District. No other activity was reported by the Health System for the year ended September 30, 2022. 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, deferred outflows, liabilities, deferred inflows, and net position of the District as of September 30, 2022. Net position, or the difference between total assets, deferred outflows, total liabilities, and deferred inflows, is one indicator of the current financial condition of the District's business-type activities. As of September 30, 2022, the total net position of the business-type activities was approximately \$230 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 the year ended September 30, 2022, net position of the business-type activities decreased by approximately \$47 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 as of September 30, 2022 and 2021, is presented below (amounts in thousands):

**MARION COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022**

	<u>2022</u>	<u>2021</u>
Current assets	\$ 4,724	\$ 4,864
Investments	257,752	304,457
Capital assets, net	3,644	3,670
Other assets	528	509
Total Assets	<u>266,648</u>	<u>313,500</u>
Deferred outflow of resources		
Total Deferred Outflow of Resources	<u>967</u>	<u>680</u>
Current liabilities	2,098	1,253
Long-term liabilities	35,828	36,696
Total Liabilities	<u>37,926</u>	<u>37,949</u>
Deferred inflow of resources	30	442
Total Deferred inflow of Resources	<u>30</u>	<u>442</u>
Net position:		
Net investment in capital assets	3,644	3,670
Restricted	156	212
Unrestricted	225,858	271,907
Total Net Position	<u>\$ 229,658</u>	<u>\$ 275,789</u>

Current assets decreased by approximately \$140 thousand since September 30, 2021, primarily due to being the recipient of a September 30, 2021 grant receivable of \$593 thousand offset by a \$496 thousand increase in cash and cash equivalents. See the "Statement of Cash Flows" section that follows for further information regarding cash flow activity and Note 8 to the financial statements for further information regarding Community Development Block Grant activity.

Investments decreased by approximately \$46.7 million since September 30, 2021. The decrease is the result of unrealized holding losses caused by receding market conditions experienced during the year ended September 30, 2022. The decrease is considered temporary in nature and the District's investments are invested in accordance with policies approved by the board, which were written to comply with all of the applicable laws and rules of Florida Statute 218.415. See Note 2 to the financial statements for further information regarding investment holdings and activity.

Current liabilities increased by approximately \$845 thousand since September 30, 2020, primarily due to the timing of grant expense payments of approximately \$900 thousand. See the programs funded by the District section of management's discussion and analysis for further information regarding grant payouts.

Non-current liabilities decreased approximately \$868 thousand since September 30, 2020, primarily due to continued payments on self-insured liabilities and amortization of 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, 2022 and 2021 (amounts in thousands):

**MARION COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022**

	<u>2022</u>	<u>2021</u>
Lease revenue	\$ 1,093	\$ 1,093
Total Operating Revenue	1,093	1,093
Operating expense	(9,344)	(6,280)
Operating Loss	(8,251)	(5,187)
Non-operating revenues (expenses), net	(37,881)	45,955
(Deficiency) Excess of Revenues (Under)		
Over Expenses	(46,132)	40,768
Change in Net Position	<u>\$ (46,132)</u>	<u>\$ 40,768</u>

Operating Revenues

The District's operations generate revenues from the amortization of deferred lease revenue, which is consistent from year to year. Accordingly, operating revenues did not increase or decrease significantly during the year ended September 30, 2022.

Operating Expenses

Operating expenses increased approximately \$3 million during the year ended September 30, 2022, primarily due to a \$2.9 million increase in grant and grant related expenditures during the year ended September 30, 2020. See the programs funded by the District section of management's discussion and analysis for further information regarding grant payouts.

Programs Funded by the District

During the years ended September 30, 2022 and 2021, the District provided funding to the following programs:

	<u>2022</u>	<u>2021</u>
Active Marion Project	\$ 205,972	\$ 157,413
Fitness and Nutrition for Schools	659,726	802,612
Beacon Point	359,211	190,387
Community Home Project	100,707	-
Community Foundation	25,000	100,000
Heart of Florida	1,183,022	265,699
Interfaith Emergency Services	170,300	170,300
Kimberly's Center	151,416	67,800
Langley Project Health	262,456	195,730
Life Stream	650,000	750,000
Marion County Children's Alliance	45,000	15,000
Park Place	908,042	692,802
SMA	1,768,000	1,500,000
Other Diabetes and Obesity	92,000	36,909
Other Mental Health/SUD	90,880	-
College of Central Florida - Hampton Center	800,000	-
United Hands, Inc. - Dental	398,770	193,284
United Hands, Inc. - Mental Health	-	6,229
Total	<u>\$ 7,870,502</u>	<u>\$ 5,144,165</u>

**MARION COUNTY HOSPITAL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022**

Non-Operating Gains and Losses, Net

Non-operating expenses, net for 2022, were approximately \$38 million. Investment losses of approximately \$45.4 million are included in non-operating expenses in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*. These losses were attributable to weak market conditions during 2022 but were offset by interest and dividend income of approximately \$7.4 million.

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 2022 by approximately \$476 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, fund capital outlay for current and future operations, and fund the third-party settlements accrued for in prior years.

Capital Assets

The business-type activities had approximately \$3.6 million in net capital assets as of September 30, 2022. Additional information on the business-type activities capital assets is included in Note 1 to the financial statements.

	<u>2022</u>	<u>2021</u>
Land	\$ 437,625	\$ 437,625
Buildings, improvements, and fixed equipment	3,077,454	3,078,296
Movable equipment	29,961	24,040
Software	99,363	130,414
Total Capital Assets, Net	<u>\$ 3,644,403</u>	<u>\$ 3,670,375</u>

Outlook

The Trustees of the Health System unanimously approved the formal winddown of the Health System effective September 30, 2021. During the winddown of the Health System, management systematically transferred all operations, fulfilled obligations, and transferred net remaining assets and obligations to the District. The District is the only remaining entity for fiscal year 2022 and beyond.

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 Hospital 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 identified by the Hospital District (behavioral health/substance use disorders, dental health, diabetes, obesity, and tobacco use, which will be objective, monitored, performance-based, and funded by designated earnings from invested funds and other available 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.

**MARION COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022**

The Hospital 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 income-constrained citizens through investment in their new Mobile Medical. Continue to support Langley Health's Low Income Pool funding and their Mobile Dental Bus for uninsured citizens. Support the monthly/quarterly FreeDOM Dental clinics for uninsured citizens throughout the county. Invest in the College of Central Florida's Science & Technology facilities and increase capacity at the Hampton Center for dental hygienists and dental assistants.
- Diabetes/Obesity – Combating chronic disease through two county-wide wellness programs, AMP (Active Marion Project) and FANS (Fitness and Nutrition in Schools). Establishing Diabetes initiatives and partnerships at new locations which include intensive diabetes education and programming with Advent Health and the FQHC's. Continued coordination of AMP, Department of Health, Florida Blue, and County and City Parks to establish wellness programs in the community. Investing in the new Mary Sue Rich 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 detox, short-term inpatient and 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 recovery therapy into Beacon Point's services. The Hospital District provides match and additional funding to Marion County's local community behavioral health and substance abuse provider, SMA, to leverage funding for uninsured or underinsured citizens. Funding is also provided to a local non-profit 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. We helped the county attain the governor's co-responding program (CORE), which brought \$1.26M for additional Medication Assisted Treatment medications and opioid services from peer recovery specialists and first responders.
- Tobacco Avoidance and Cessation – Health Education through the FANS program, which will impact up to 42,000 students and parents and 6,600 employees. Target Workplace Wellness through AMP by incorporating smoking cessation educational opportunities. Provide grant funding to the Marion County Children's Alliance to administer Student's Against Destructive Decisions with an emphasis on vaping and tobacco use.

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, 2547 East Silver Springs Boulevard, Ocala, Florida 34470.

BALANCE SHEET
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
SEPTEMBER 30, 2022

ASSETS

	Marion County Hospital District	Munroe Regional Health System	Total Business-Type Activities
Current Assets			
Cash and Cash Equivalents	\$ 4,683,345	\$ -	\$ 4,683,345
Prepaid Expenses and Other Current Assets	40,339	-	40,339
Total Current Assets	4,723,684	-	4,723,684
Non-Current Assets			
Non-Current Cash and Investments:			
Investments	257,752,007	-	257,752,007
Accrued Interest on Investments	300,272	-	300,272
Assets Limited as to Use - Cash and Investments:			
Board Designated	71,856	-	71,856
Restricted Investments and Beneficial Interest in Gift Annuities	156,252	-	156,252
Total Non-Current Cash and Investments	258,280,387	-	258,280,387
Capital Assets, Not Being Depreciated	437,625	-	437,625
Capital Assets, Being Depreciated, Amortized (Net)	3,206,778	-	3,206,778
Total Non-Current Assets	261,924,790	-	261,924,790
Total Assets	266,648,474	-	266,648,474
Deferred Outflow of Resources			
Deferred Outflow of Resources Related to Pension	967,387	-	967,387
Total Deferred Outflow of Resources	967,387	-	967,387
Total Assets and Deferred Outflow of Resources	\$ 267,615,861	\$ -	\$ 267,615,861

LIABILITIES AND NET POSITION

	Marion County Hospital District	Munroe Regional Health System	Total Business-Type Activities
Current Liabilities			
Accounts Payable	\$ 2,048,095	\$ -	\$ 2,048,095
Accrued Liabilities:			
Self-Insured Liabilities	50,000	-	50,000
Total Current Liabilities	2,098,095	-	2,098,095
Non-Current Liabilities			
Self-Insured Liabilities	244,787	-	244,787
Net Pension Liability	1,142,397	-	1,142,397
Unearned Lease Revenue	34,441,257	-	34,441,257
Total Non-Current Liabilities	35,828,441	-	35,828,441
Total Liabilities	37,926,536	-	37,926,536
Deferred Inflow of Resources			
Deferred Inflow of Resources Related to Pension	30,666	-	30,666
Total Deferred Inflow of Resources	30,666	-	30,666
Net Position			
Net Investment in Capital Assets	3,644,403	-	3,644,403
Restricted:			
For Donor Purposes - Capital, Scholarships, and Community Outreach Program	156,252	-	156,252
Unrestricted	225,858,004	-	225,858,004
Total Net Position	229,658,659	-	229,658,659
Total Liabilities, Deferred Inflows and Net Position	\$ 267,615,861	\$ -	\$ 267,615,861

See accompanying notes.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Marion County Hospital District	Munroe Regional Health System	Total Business-Type Activities
Operating Revenues			
Lease Revenue	\$ 1,093,368	\$ -	\$ 1,093,368
Total Operating Revenues	<u>1,093,368</u>	<u>-</u>	<u>1,093,368</u>
Operating Expenses			
Salaries and Benefits	274,190	-	274,190
Pension Expense	247,664	-	247,664
Purchased Services and Other	674,193	-	674,193
Health Improvement Initiatives	1,325,615	-	1,325,615
Depreciation and Amortization	161,681	-	161,681
Grant Expense	6,660,721	-	6,660,721
(Total Operating Expenses)	<u>(9,344,064)</u>	<u>-</u>	<u>(9,344,064)</u>
Operating Loss	<u>(8,250,696)</u>	<u>-</u>	<u>(8,250,696)</u>
Non-Operating Revenues (Expenses)			
Investment Loss	(45,360,869)	-	(45,360,869)
Interest and Dividend Income	7,389,737	-	7,389,737
Other Income	90,043	-	90,043
Total Non-Operating Revenues (Expenses), Net	<u>(37,881,089)</u>	<u>-</u>	<u>(37,881,089)</u>
Deficiency of Revenues Under Expenses	(46,131,785)	-	(46,131,785)
Transfers (Out)/In	<u>(667,374)</u>	<u>667,374</u>	<u>-</u>
Change in Net Position	(46,799,159)	667,374	(46,131,785)
Net Position, Beginning of Year	<u>276,457,818</u>	<u>(667,374)</u>	<u>275,790,444</u>
Net Position, End of Year	<u>\$ 229,658,659</u>	<u>\$ -</u>	<u>\$ 229,658,659</u>

See accompanying notes.

STATEMENT OF CASH FLOWS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Marion County Hospital District	Munroe Regional Health System	Total Business-Type Activities
Cash Flows from Operating Activities			
Cash Received from Patients and Third-Party Payers	\$ 90,043	\$ -	\$ 90,043
Cash Paid to Suppliers and Grantees	(7,803,381)	-	(7,803,381)
Cash Paid to Employees	(888,488)	-	(888,488)
Cash Paid for Pension	(139,442)	-	(139,442)
Net Cash Provided by (Used in) Operating Activities	(8,741,268)	-	(8,741,268)
Cash Flows from Non-Capital Activities			
Net Operating Transfers In/(Out)	630	(630)	-
Net Cash Provided by (Used in) Non-Capital Activities	630	(630)	-
Cash Flows from Capital and Related Financing Activities			
Purchase of Capital Assets	(135,709)	-	(135,709)
Proceeds from Grants	593,275	-	593,275
Net Cash Provided by (Used in) Capital and Related Financing Activities	457,566	-	457,566
Cash Flows Provided by (Used in) Investing Activities			
Purchase of Investments - Restricted and Unrestricted	(156,173,096)	-	(156,173,096)
Proceeds from Sale and Maturity of Investments	157,607,217	-	157,607,217
Cash Received for Interest and Dividends	7,324,983	-	7,324,983
Net Cash Flows Provided by (Used in) Investing Activities	8,759,104	-	8,759,104
Increase/(Decrease) in Cash and Cash Equivalents	476,032	(630)	475,402
Cash and Cash Equivalents, Beginning of Year	4,207,313	630	4,207,943
Cash and Cash Equivalents, End of Year	\$ 4,683,345	\$ -	\$ 4,683,345

See accompanying notes.

STATEMENT OF CASH FLOWS
MARION COUNTY HOSPITAL DISTRICT
OCALA, FLORIDA
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Marion County Hospital District	Munroe Regional Health System	Total Business-Type Activities
Cash Flows from Operating Activities			
Operating (Loss)	\$ (8,250,696)	\$ -	\$ (8,250,696)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Depreciation	161,681	-	161,681
Changes in Operating Assets and Liabilities:			
Prepaid Expenses and Other Current Assets	67,324	-	67,324
Deferred Outflows of Resources Related to Pension	(286,990)	-	(286,990)
Accounts Payable	846,279	-	846,279
Unearned Lease Revenue	(1,093,368)	-	(1,093,368)
Net Pension Liability	881,049	-	881,049
Deferred Inflow on Pension Liability	(411,216)	-	(411,216)
Self-Insurance Liabilities	(655,331)	-	(655,331)
Net Cash Provided by (Used in) Operating Activities	\$ (8,741,268)	\$ -	\$ (8,741,268)

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 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 was 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 remained a not-for-profit corporation with winddown operations governed by the Board of Trustees (the Board) of the District. Effective September 30, 2021, Trustees of MRHS resolved to formally terminate operations of MRHS and transferred remaining assets and liabilities to the District.

Basis of Presentation

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to governmental entities. The accounts of the District are organized as an enterprise fund, which is used to account for the District's activities in a manner similar to a private business enterprise. Accordingly, the District maintains accounting 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 are included in the balance sheet.

Non-exchange transactions, in which the District 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 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 defines 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. 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, Improvements and Fixed Equipment	5-40
Moveable Equipment	3-20
Software	5

Deferred Outflows and Deferred Inflows of Resources

In addition to assets and liabilities, the District reports the financial statement elements of deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to future periods and will not be recognized as an outflow of resources (expenditure or expense) until that applicable time. Deferred inflows of resources represent an acquisition of net asset that applies to future periods and will not be recognized as an inflow of resources (revenue) until that applicable time.

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The District reports one item that qualifies as a deferred outflow of resources on its balance sheet, the deferred outflow for pensions. The deferred amounts for pensions is an aggregate of items related to pensions as calculated in accordance with GASB statements No. 68, *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

The District reports one item that qualifies as deferred inflows of resources on its balance sheet, the deferred inflow for pensions. The deferred inflows for pensions are an aggregate of items related to pensions as calculated under the same principles as the deferred outflows for pensions.

Net Position Classification

Net position is displayed in three (3) components:

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position consists of net position with constraints placed on the use either by: (1) external groups such as creditors, grantors, donors, or laws or regulations of other governments; or (2) laws through constitutional provisions or enabling legislation. It is the District'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 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 and community 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 and community services, other than financing costs.

Change in Accounting Principle

During the year ended September 30, 2022, the District adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board Statement No. 87, *Leases*, which established criteria identifying and reporting leases with noncancellable terms greater than one year. The District's lease accounting was not changed by the implementation of this accounting pronouncement. The District has no other leases as of and for the year then ended September 30, 2022.

Note 2 - Deposit and Investments

At September 30, 2022, the District had cash and cash equivalents and investments, including assets limited as to use, at fair value, including the following:

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Cash and Cash Equivalents	
Deposits	\$ 4,683,345
Total Cash and Cash Equivalents	<u>\$ 4,683,345</u>
Investments	
Bank of New York – Graystone	\$ 91,638,389
Bank of New York – Truist	83,547,660
Bank of New York – Berman Cresset	<u>82,565,958</u>
Total Investments	<u>\$ 257,752,007</u>
Assets Limited as to Use	
Board Designated:	
Cash	\$ 71,856
Restricted Investments and Beneficial Trust in Gift Annuities	<u>156,242</u>
Total Assets Limited as to Use	<u>\$ 228,098</u>

Deposits

The District requires 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. As of September 30, 2022, the District’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’s investment policies, approved by the Board, were written to comply with all of the applicable laws and rules of Florida Statute 218.415.

On September 29, 2021, the trustee for Angelica Muns Charitable Trust (the Trust) informed the Health System of their intent to make distributions to an unrelated non-profit organization. The Trust document still lists the District as the beneficiary in the Trust assets upon dissolution of the Trust. The remaining benefit of the gift annuities to be received by the District were estimated to be \$156,252 as of September 30, 2022, and are reported as beneficial interest in gift annuities.

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

	Fair Value	Weighted Average Duration (Years)	Credit Rating
District Investments			
Cash and Cash Equivalents	\$ 7,130,709	N/A	N/A
Equity Securities	55,188,414	N/A	N/A
Fixed Income	37,121,982	.98 - 6.40	B - AAA
Mutual Funds:			
Exchange Traded Fund	42,664,439	N/A	N/A
Open-End Fund	<u>71,383,513</u>	N/A	N/A
Total Mutual Funds	<u>114,047,952</u>		
Alternatives	<u>44,262,950</u>	N/A	N/A
Total District Investments	<u>\$ 257,752,007</u>		

NOTES TO FINANCIAL STATEMENTS
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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 Governmental Accounting Standards Board Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements are as follows as of September 30, 2022:

	Fair Value	Fair Value Measurements Using:		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
District Investments				
Cash and Cash Equivalents	\$ 7,130,709	\$ 7,130,709	\$ -	\$ -
Equity Securities	55,188,414	50,546,027	4,642,387	-
Fixed Income	37,121,982	31,267,160	5,854,822	-
Mutual Funds:				
Exchange Traded Fund	42,664,439	42,664,439	-	-
Open-End Fund	71,383,513	71,383,513	-	-
Alternative Investments	44,262,950	-	-	44,262,950
Total District Investments	<u>\$ 257,752,007</u>	<u>\$ 202,991,848</u>	<u>\$ 10,497,209</u>	<u>\$ 44,262,950</u>

Cash and Cash Equivalents, Equity Securities, Fixed Income Investments, Open-End Mutual Fund, and Exchange Traded Fund are categorized as Level 1 and Level 2 and are based on prices quoted in active markets for those investments. The pricing methodology involved the use of evaluation models such as matrix pricing, which is based on securities' relationship to benchmark quoted prices. The Alternative Investment Funds are 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 sale prices, cash flow models, broker bids, or cost. Cost or book value may be used as an estimate of fair value when there is a lack of independent pricing source.

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

Credit Risk—Credit risk is the risk that the District 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.

As of September 30, 2022, the District'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 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 maintains their cash and cash equivalents with several large

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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 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, US Bank, 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.

Concentration of Credit Risk—Concentration of credit risk is the risk of loss attributable to the magnitude of investments in a single issuer. 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 (35%), U.S. Equity (35%), 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.

Note 3 - Capital Assets

The capital asset activity for the District is as follows:

	September 30, 2021	Additions/ Transfers	Deletions	September 30, 2022
Capital Assets Not Being Depreciated:				
Land	\$ 437,625	\$ -	\$ -	\$ 437,625
Total Capital Assets Not Being Depreciated	437,625	-	-	437,625
Capital Assets Being Depreciated:				
Buildings, Improvements, and Fixed Equipment	3,411,870	106,371	-	3,518,241
Moveable Equipment	51,454	11,938	-	63,392
Software	224,852	17,400	-	242,252
Total Capital Assets Being Depreciated	3,688,176	135,709	-	3,823,885
Less Accumulated Depreciation:				
Buildings, Improvements, and Fixed Equipment	(330,139)	(110,648)	-	(440,787)
Moveable Equipment	(30,848)	(2,583)	-	(33,431)
Software	(94,439)	(48,450)	-	(142,889)
Total Accumulated Depreciation	(455,426)	(161,681)	-	(617,107)
Total Depreciable Capital Assets, Net	3,232,750	(25,972)	-	3,206,778
Total Capital Assets, Net	\$ 3,670,375	\$ (25,972)	\$ -	\$ 3,644,403

**NOTES TO FINANCIAL STATEMENTS
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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 had a self-insurance program for its medical malpractice exposure, which was transferred to the District upon dissolution. The District claims entitlement to the protections of Sovereign Immunity under Section 768.28, Florida Statutes. In addition, the District 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 \$294,787 as of September 30, 2022, 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, 2022, the District recorded a \$163,983 increase in medical malpractice and worker's compensation expense estimate based on analysis performed by independent actuaries employed by the District to estimate the actual 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. The District assumed responsibility over such claims upon dissolution of the Health System. Management believes that these matters will be resolved without material adverse effect on the District's future financial position, results of operations, or cash flows.

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

	Medical Malpractice and Workers' Compensation
Balance at September 30, 2021	\$ 950,118
Claims and Changes in Estimates	163,983
Claim Payments	(819,314)
Balance at September 30, 2022	\$ 294,787
Medical Malpractice and Workers' Compensation	
Balance at September 30, 2020	\$ 1,170,018
Claim Payments	(219,900)
Balance at September 30, 2021	\$ 950,118

**NOTES TO FINANCIAL STATEMENTS
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Note 5 - Benefit Plan

On and effective October 1, 2020, all employees of the District became eligible to participate in the Florida Retirement System defined benefit plan.

■ Plan Description, Membership and Plan Benefits, and Contribution Requirements

Plan Description

The Florida Retirement System (FRS) is a cost-sharing, multiple-employer, contributory retirement system administered by the State of Florida. The FRS was created by Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution plan is the FRS Investment Plan (INV). Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any state-administered retirement system in paying the costs of health insurance.

The FRS and HIS are administered by the Florida Department of Management Services, Division of Retirement. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code. The Florida Legislature has the authority to establish and amend retirement legislation and related bills of significance to members of the FRS and HIS plans (including benefit terms and contribution rates). Passed bills are presented to the Governor of Florida and approved before they may be enacted into law.

The FRS and HIS financial information is included in the Florida Retirement System (the System) Pension Plan and Other State-Administered Systems' Annual Comprehensive Financial Report (ACFR). The System ACFR, including audited financial information to support the Schedules of Employer Allocations and Schedules of Pension Amounts by Employer, are available online at: http://www.dms.myflorida.com/workforce_operations/retirement/publications.

The System ACFR and actuarial reports may also be obtained by contacting the Division of Retirement by mail or phone at:

Department of Management Services
Division of Retirement
Bureau of Research and Member Contributions
P.O. Box 9000
Tallahassee, Florida 32315-9000
850-907-6500 or toll free 844-377-1888

Membership and Plan Benefits - FRS

The FRS has one class of membership applicable to the District, regular class. The FRS pension plan provides for the vesting of benefits after six years of creditable service or after eight years of credible service for members first enrolled after July 1, 2011. Members are eligible for normal retirement when

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they have met the minimum requirements listed below. Early retirement may be taken any time after vesting; however, there is a 5% benefit reduction for each year prior to normal retirement age. Members are also eligible for regular disability benefits if permanently disabled and unable to work. Benefits are computed on the basis of age, average final compensation, creditable years of service, and accrual value by membership class.

A DROP was established effective July 1, 1998, subject to provisions of Section 121.091, Florida Statutes. It permits employees eligible for normal retirement under the FRS to defer receipt of monthly benefit payment while continuing employment with a System employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

Regular Class: Six years of service and age 62, or the age after 62 the member becomes vested, or thirty years of service, regardless of age, whichever comes first.

After eight years of service for members first enrolled after July 1, 2011, and age 65 the member becomes vested, or the age after 65 the member becomes vested, or thirty-three years of service regardless of the age before 65.

Membership and Plan Benefits - HIS

HIS membership is available to all members within the FRS and INV plans. The benefit is a monthly payment to assist retirees of the state-administered retirement systems in paying their health insurance costs. Eligible retirees and beneficiaries receive a monthly HIS payment equal to the number of years of service credited at retirement multiplied by \$5. The minimum payment is \$30, and the maximum payment is \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under one of the state-administered retirement systems must provide proof of eligible health insurance coverage, which can include Medicare.

Contribution Requirements

The contribution rates for FRS and HIS members are established, and may be amended, by the State of Florida. Employer contribution rates are actuarially recommended but set by the legislature. These rates are a percentage of covered payroll. The FRS and HIS contribution rates were as follows:

	<u>October 1, 2021 - June 30, 2022</u>	<u>July 1, 2022 - September 30, 2022</u>
Senior Management Service Class	29.01%	31.57%
Regular Class	10.82%	11.91%

Employer rates include 1.66% from October 1, 2021 to September 30, 2022, for the HIS program. In addition, other than for the DROP, rates include .06% from October 1, 2021 to September 30, 2022, for administrative costs.

The District's contributions recognized during the fiscal year ended September 30, 2022, by the FRS and HIS were \$116,214 and \$11,690, respectively.

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As of July 1, 2011, members contribute 3% of their salary as retirement contributions. Members participating in DROP are not required to make 3% contributions.

■ FRS and HIS Rate of Return, Discount Rate Sensitivity, and Significant Actuarial Assumptions

Long-Term Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in October 2020 the FRS Actuarial Assumption Conference reviewed assumptions by Milliman’s Capital Markets Assumption team. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Annual Target Allocation</u>	<u>Arithmetic Return</u>
Cash	1.0%	2.6%
Fixed Income	19.8%	4.4%
Global Equity	54.0%	8.8%
Real Estate (Property)	10.3%	7.4%
Private Equity	11.1%	12.0%
Strategic Investments	3.8%	6.2%
	<u>100.0%</u>	

The HIS is essentially funded on a pay-as-you-go basis and depletion date is considered to be immediate. As such, there is no assumption for a long-term expected rate of return on a portfolio, no assumptions for cash flows into and out of the plan, or assumed asset allocation.

Discount Rate Sensitivity Analysis

The following tables demonstrate the sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact if the discount rate was 1.0% higher or 1.0% lower than the current discount rate at June 30, 2022.

Long-Term Rate of Return

<u>FRS Net Pension Liability (Asset)</u>			<u>HIS Net Pension Liability (Asset)</u>		
<u>Current Discount</u>			<u>Current Discount</u>		
<u>1% Decrease</u>	<u>Rate</u>	<u>1% Increase</u>	<u>1% Decrease</u>	<u>Rate</u>	<u>1% Increase</u>
5.7%	6.7%	7.7%	2.54%	3.54%	4.54%
\$ 1,642,347	\$ 949,646	\$ 370,465	\$ 220,523	\$ 192,751	\$ 169,770

Actuarial Methods and Assumptions

Actuarial assumptions for both the FRS and HIS are reviewed annually by the System Actuarial Assumptions Conference. The FRS has a valuation performed annually and the HIS has a valuation performed biennially that is updated for Governmental Accounting Standards Board reporting in the year

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a valuation is not performed. The most recent experience study for the FRS was for the period July 1, 2013 through June 30, 2018. Because the HIS is funded on a pay-as-you-go basis, no experience study has been completed.

The total pension liability for the FRS and HIS was determined by an actuarial valuation as of July 1, 2022, using the individual entry age normal actuarial cost method. Inflation increases for both plans is assumed at 2.40%. Payroll growth for both plans is assumed at 3.25%. Benefits received by retirees and beneficiaries of the FRS plan are increased by a cost-of-living adjustment (COLA) each year based on their previous year benefit amount. Retirements prior to August 2011 receive a 3% COLA, and retirees after August 2011 received a formula-structured COLA. Mortality assumptions for the FRS were based on the PUB2010 base table varied by member category and sex, projected generationally with scale MP-2018; and on the Generational RP-2000 with Projection Scale BB tables for the HIS. Both the discount rate and long-term expected rate of return used for FRS investments is 6.70%. The FRS fiduciary net position was projected to be available to make all projected future benefit payments of active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. Because the HIS uses a pay-as-you-go funding structure, a municipal bond rate of 3.54% was used to determine its total pension liability for the program (Bond Buyer General Obligation 20-Bond Municipal Bond Index). As of June 30, 2022, the municipal rate used by HIS increased from 2.16% to 3.54%.

Net Pension Liability, Deferred Outflows/Inflows of Resources, and Pension Expense for District Defined Benefit Pension Plans

■ Proportionate Share of FRS and HIS Plans

Employers participating in the FRS and HIS were provided pension allocation schedules for use in recording their proportionate share of the FRS and HIS collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pensions expense at measurement date June 30, 2022, in accordance with Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of Statement No. 68*. The underlying financial information used to prepare the pension allocation schedules was based on the same basis as mentioned previously, and on the actuarial valuation as of July 1, 2022, for FRS and the HIS. The District's proportionate share was calculated using the retirement contributions for employees that were members of the FRS and HIS during the measurement year ended June 30, 2022. The aggregate employer contribution amounts in the pension allocation schedules agree to the total employer contribution amounts reported in the System ACFR.

At September 30, 2022, the District reported a net pension liability of \$1,142,397 for its proportionate share of the collective net pension liability of the FRS and HIS. The following table presents information on the District's proportionate share of the FRS and HIS:

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	<u>FRS</u>	<u>HIS</u>	<u>District Total</u>
Proportionate Share of Net Pension Liability as of June 30, 2022	\$ 949,646	\$ 192,751	\$ 1,142,397
District's Proportion at June 30, 2022	0.002552260%	0.001819848%	
District's Proportion at June 30, 2021	0.001655217%	0.001111276%	
Change on Proportion During Current Year	0.000897043%	0.000708572%	

■ Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended September 30, 2022, the District recognized a pension expense of \$268,879 related to FRS, and pension expense of \$41,868 related to the HIS. At September 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>FRS</u>		<u>HIS</u>		<u>District Total</u>
	<u>Deferred Outflow</u>	<u>Deferred Inflow</u>	<u>Deferred Outflow</u>	<u>Deferred Inflow</u>	<u>Deferred Outflow Deferred (Inflow)</u>
Differences Between Expected and Actual Experience	\$ 45,103	\$ -	\$ 5,850	\$ (848)	\$ 50,953 (848)
Changes of Assumptions	116,953	-	11,049	(29,818)	128,002 (29,818)
Net Difference Between Projected and Actual Investment Earnings	62,705	-	279	-	62,984 -
Changes in Proportion	537,249	-	152,954	-	690,203 -
District Contributions Subsequent to the Measurement Date	32,139	-	3,106	-	35,245
Total Deferred Outflows	<u>\$ 794,149</u>		<u>\$ 173,238</u>		<u>\$ 967,387</u>
Total Deferred (Inflows)		<u>\$ -</u>		<u>\$ (30,666)</u>	<u>\$ (30,666)</u>

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Deferred outflows of resources of \$35,245 are reported by the District for employer contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ending September 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Reporting Year Ending June 30,	FRS	HIS	District Total Deferred Outflows/ Deferred (Inflows)
2023	\$ 99,116	\$ 9,380	\$ 108,496
2024	65,272	10,868	76,140
2025	26,405	11,814	38,219
2026	204,472	10,847	215,319
2027	75,681	8,518	84,199
Thereafter	-	15,789	15,789
Total	\$ 470,946	\$ 67,216	\$ 538,162

Note 6 - 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 \$34,441,257 as of September 30, 2022, is reported as unearned lease revenues and amortized over the life of the lease with annual amortization of unearned 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. On and effective October 20, 2020, the completion date for the main campus portion of the lease was extended through the Seventh Amendment. On and effective December 31, 2021, a land parcel included in the lease agreement was exchanged for a land parcel not previously included in the lease through the Eighth Amendment.

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

Note 7 - Commitments

The District has contractual grant and project commitments as of September 30, 2022, of the following:

	Total Commitment
College of Central Florida Nursing School Building	\$ 4,800,000
College of Central Florida Additional Floor/Renovate Hampton Center	3,500,000
Ocala Community Center	2,300,000
Marion County BOCC - Mental Health Service Provider	1,300,000
Heart of Florida Low Income Pool Match	461,700
Langley Low Income Pool Match	317,000
	<u>\$ 12,678,700</u>

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST 10 FISCAL YEARS

Florida Retirement System (FRS):	2022	2021	2020	2019	2018	2017	2016	2015
District's Proportion of the Net Pension Liability (Asset)	0.00255226000%	0.00165520000%	0.00000000000%	0.00000000000%	0.00000000000%	0.00000000000%	0.00000000000%	0.00000000000%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 949,646	\$ 125,033	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered-Employee Payroll	631,434	393,416	-	-	-	-	-	-
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	150.40%	31.78%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Note 2)	83.13%	96.40%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Health Insurance Subsidy (HIS):	2021	2021	2020	2019	2018	2017	2016	2015
District's Proportion of the Net Pension Liability (Asset)	0.00181984800%	0.00111127600%	0.00000000000%	0.00000000000%	0.00000000000%	0.00000000000%	0.00000000000%	0.00000000000%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 192,751	\$ 136,315	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered-Employee Payroll	631,434	393,416	-	-	-	-	-	-
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	30.53%	34.65%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Note 2)	16.87%	3.56%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

* The amounts presented for each measurement year were determined as of June 30.

Note 1: Governmental Accounting Standards Board Statement No. 68 requires information for 10 years. However, until a 10-year trend is compiled, the District is presenting information for only those years for which information is available.

Note 2: The Plan's fiduciary net position as a percentage of the total pension liability is published in Note 4 of the Plan's Annual Comprehensive Financial Report.

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS**

Florida Retirement System (FRS):	2022	2021	2020	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 116,214	\$ 87,892	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in Relation to the Contractually Required Contribution	(116,214)	(87,892)	-	-	-	-	-	-
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered-Employee Payroll	\$ 675,214	\$ 542,666	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a Percentage of Covered-Employee Payroll	17.21%	8.06%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Health Insurance Subsidy (HIS):	2022	2021	2020	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 11,690	\$ 8,960	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in Relation to the Contractually Required Contribution	(11,690)	(8,960)	-	-	-	-	-	-
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered-Employee Payroll	\$ 675,214	\$ 542,666	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a Percentage of Covered-Employee Payroll	1.73%	1.65%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

*The amounts presented for each fiscal year-end were determined as of September 30.

Note 1: Governmental Accounting Standards Board Statement No. 68 requires information for 10 years. However, until a full 10-year trend is compiled, the District is presenting information for only those years for which information is available.

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

**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 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, 2022, 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 March 27, 2023.

Report on 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**

Report on 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.



March 27, 2023
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, 2022, as required by Section 10.556(10)(a), *Rules of the Auditor General*. Management is responsible for the District and Health System's compliance with those requirements. Our responsibility is to express an opinion on the District and Health System's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. 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, 2022.

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.



March 27, 2023
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, 2022, and have issued our report thereon dated March 27, 2023.

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*; Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance; 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 March 27, 2023, 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 and 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.

Special District Component Units

Section 10.554(1)(i)5.c., *Rules of the Auditor General*, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide the financial information necessary for proper reporting of the component unit within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we did not note any special district component units that failed to provide the necessary information for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

Specific Information

As required by Section 218.39(3)(c), Florida Statutes, and Section 10.554(1)(i)6, *Rules of the Auditor General*, the District reported:

- a. The total number of District employees compensated in the last pay period of the District's fiscal year was 8.
- b. The total number of independent contractors to whom non-employee compensation was paid in the last month of the District's fiscal year was 18.
- c. All compensation earned by or awarded to employees, whether paid or accrued, regardless of contingency was \$785,965.
- d. All compensation, earned by or awarded to non-employee independent contractors, whether paid or accrued, regardless of contingency was \$718,881.
- e. Each construction project with a total cost of at least \$65,000 approved by the District that is scheduled to begin on or after October 1 of the fiscal year being reported, together with the total expenditures for such project was \$0.

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

MANAGEMENT LETTER

- f. A budget variance based on the budget adopted under Section 189.016(4), Florida Statutes, before the beginning of the fiscal year being reported if the District amends a final adopted budget under Section 189.016(6), Florida Statutes, was \$1,026,436 under budget.

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.



March 27, 2023
Ocala, Florida

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