



SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Financial Statements and Supplemental Information

September 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

September 30, 2009 and 2008

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(Unaudited)

Introduction

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

Background and Achievements

Sarasota Memorial Hospital (Sarasota Memorial or the Hospital), an 806-bed regional medical center, is among the largest acute-care public hospitals in Florida. A community hospital founded in 1925, Sarasota Memorial is governed by the nine-member elected Board. The hospital is a full-service facility with specialized expertise in heart, neuroscience and cancer services, a Level III Neonatal Intensive Care Unit, outpatient services, physician practices, home health and long-term care among its many programs. It is the only provider of obstetrical services, pediatrics and neonatal intensive care in Sarasota County. The System also has established an affiliation with Florida State University to train third- and fourth-year medical students. With about 4,000 staff, 1,000 volunteers and 750 physicians, the System is among the region's largest employers.

The District consists of the Hospital; Corporate Services, which consists of various support departments; Sarasota Memorial Nursing and Rehabilitation Center (NRC); Charter Plan (Charter Plan); SMH Health Care, Inc., a corporation providing leased personnel services to all system entities; Sarasota Memorial Home Care, Inc., a home health care company; and SMH Physician Services, Inc., a provider of primary, obstetrical, gynecological, dermatological, pain care, geriatric, hospitalist and psychiatric physician services.

The System's strategic goals fall under its Pillars of Excellence: Service, People, Growth, Finance and Community, all of which rest on a foundation of Quality/Safety. The System's recent accomplishments and updates include:

Quality/Safety

Sarasota Memorial Again Named among America's Best in U.S. News and World Report

For the sixth consecutive year, *U.S. News & World Report* magazine listed Sarasota Memorial in its prestigious "America's Best Hospitals" issue, ranking the Hospital among the top 50 hospitals in the nation for geriatric care in 2009. Of nearly 5,000 hospitals evaluated, only 174 (less than 5 percent) are ranked in one or more of the 16 specialties in this year's "America's Best Hospitals" issue. This year, Sarasota Memorial ranked #37 for geriatric services – a highly specialized, multi-disciplinary field of medicine dedicated to treating the complex conditions of aging and preserving the quality of life of the nation's fast-growing elderly population.

Among America's Safest Hospitals on Forbes.com

Sarasota Memorial was recognized by Forbes.com in 2008 and 2009 as one of "America's Safest Hospitals."

Top Rating from Consumers' Checkbook

Sarasota Memorial was the highest-rated hospital in the Tampa Bay area and among the top hospitals in the nation according to a Consumers' Checkbook survey reported in 2009 in *AARP The Magazine*. Just 125 hospitals made the list. Consumers' Checkbook, a nonprofit research organization, surveyed doctors for hospital recommendations and rated nearly all acute-care hospitals in the United States based on death rates, complication

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rates, patient recommendations and other measures. The Hospital's scores in each of the listed survey categories surpassed national averages.

Magnet Designation Sticks

In 2008, Sarasota Memorial was re-designated a Magnet Nursing organization, the nation's highest honor for excellence in nursing. Given by the American Nurses' Credentialing Center, Magnet recognition means that Sarasota Memorial provides a supportive environment that attracts and retains the best and brightest caregivers. Sarasota Memorial was re-designated after a rigorous application process that included detailed documentation and an on-site visit by Magnet surveyors, who looked at all facets of care, including patient outcomes, nurses' participation in decision-making, education/career development and management philosophy and practices.

National Accreditation from the Joint Commission

In 2009, Sarasota Memorial was granted continuous, full accreditation from the Joint Commission on the Accreditation of Healthcare Organizations following an extensive evaluation of licensure, quality and safety at the Hospital.

One of Few Comprehensive Stroke Centers in Florida

Sarasota Memorial has been designated by the Florida Agency for Healthcare Administration (AHCA) as one of the state's few "Comprehensive Stroke Centers," singling out the hospital as a preferred provider for people facing the greatest challenges in stroke care.

The designation follows the System's certification with distinction as a Primary Stroke Center by the Joint Commission on the Accreditation of Healthcare Organizations. The honor, which was given in 2005, demonstrates that the System's stroke care program follows national standards and guidelines that can significantly improve outcomes for stroke patients.

Sarasota Memorial's stroke program is an integral part of the system's Neuroscience Center of Excellence, which encompasses all of the System's neurological programs and services.

Consumers' Preferred Hospital for 12th Straight Year

For the 12th year in a row, Sarasota Memorial was named the Consumer Choice Award winner for the Sarasota-Bradenton-Venice metropolitan area by the National Research Corporation (NRC), an independent health care performance measurement company based in Lincoln, Neb. The award for 2008/09 identifies hospitals that health care consumers have chosen as having the highest quality and image ratings in 250 markets throughout the nation.

Advanced Technology Helps Improve Quality, Care and Safety

Sarasota Memorial was the first in the region to purchase a daVinci-S surgical robot in 2006. Since then the Hospital has added a second daVinci-S robot and dedicated robotic surgery suite for cardiac patients.

Sarasota Memorial surgeons are now using the daVinci-S robotic surgery system in an ever-widening choice of minimally invasive surgeries, including heart, prostate and gynecological oncology procedures.

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In 2009, Sarasota Memorial recruited nationally recognized heart surgeon Atiq Rehman, MD, FACS, to help expand the program. He brings more than a decade of experience in cardiothoracic surgery, with advanced training in robotic and minimally invasive cardiovascular surgery, minimally invasive valve repair and vascular/endovascular surgical techniques.

People

Nurses Vote Sarasota Memorial as One of Top Hospitals

Sarasota Memorial was selected by nurses across Florida as one of the top hospitals in the state, earning the Hospital a spot on *ADVANCE for Nurses* magazine's Reader's Choice Honor Roll two years in a row.

The Hospital also was listed among *Nursing Professionals* magazine's "Top 100 Hospitals to Work For in 2009."

Growth

Main Campus Improvements

Sarasota Memorial is moving forward with plans to rejuvenate its main campus. The first phase, now substantially complete, was the construction of a new energy plant to replace the former aged, outdated facility. In the fall of 2009, work will begin on a new, hurricane-hardened bed tower that will replace older wings of the hospital. The new tower will connect to existing hospital buildings, promoting more integrated medical services, greater convenience, increased speed of care, reduced crowding, ease of future renovation and lower life-cycle costs. The new tower, which also will have the latest amenities and patient-safe, patient-centered features, will not add any bed capacity, but will replace approximately 200-220 of the existing beds.

Ambulatory Centers Improve Access to Health Care throughout Region

Sarasota Memorial's North Port Emergency Room and Outpatient Center opened in September 2009. The two-story, 50,000 square foot building includes a freestanding emergency room staffed 24/7 by board-certified emergency physicians. The new center also offers comprehensive outpatient services, including a laboratory, advanced radiology procedures, rehabilitation services, home health and medical office space. The new ER's patient volumes have exceeded projections, reflecting not only the community's need, but residents' support of Sarasota Memorial as their preferred health care provider.

Sarasota Memorial also opened a comprehensive outpatient center in Heritage Harbor in Manatee County in early 2009. The care center offers advanced radiology and laboratory testing, walk-in medical care, rehabilitation services, a pain management program and home health services.

Service/Community

The Community's Health Care Safety Net

While public hospitals are closing their doors in great numbers, Sarasota Memorial is a rare institution: a thriving health system recognized for both its quality and its mission-driven programs.

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The System is run by local, publicly elected trustees who invest Sarasota Memorial's excess of revenues over expenses back into patient care programs, new technology, medicines and education that meet the specific and unique health needs of this community and provide care for the uninsured. As the only publicly owned and operated hospital in a four-county region, Sarasota Memorial provides safety-net services to all who need them, regardless of their ability to pay:

- Sarasota Memorial is the only provider of obstetrical (OB) services in the county. Nearly half of Sarasota Memorial's OB patients lack adequate insurance. Sarasota Memorial also is the only Level III neonatal intensive care provider in the region.
- Our behavioral health hospital is the only one of its kind in the county. Sarasota Memorial also has the only special emergency room psychiatric unit in the entire region.
- Sarasota Memorial's Community Medical Clinic and support of the not-for-profit North County Health Center provides primary and specialty care to uninsured/underinsured residents who meet certain criteria.
- Sarasota Memorial's Charter Plan offers affordable health insurance to small businesses that lack coverage.
- Sarasota Memorial also provides financial support and/or resources for several community health-related programs.
- Sarasota Memorial employs a sliding scale discount program that offers significantly reduced rates to lower-income, uninsured patients. The program's goal is to make health care more affordable for the uninsured and allow them to pay what they can. We recognize that medical bills often impose a staggering, unexpected burden on families, and may discourage those without insurance from seeking care. Our discount plan treats patients with dignity and compassion, and encourages the uninsured to take care of their health needs promptly, before conditions become catastrophic.

FastER Care

Sarasota Memorial continues to set the bar for emergency wait times despite having one of the busiest ERs on Florida's west coast. Most of the Hospital's approximately 77,000 emergency patients see a physician within 30 minutes of arriving in the Hospital's Emergency Department. The System's new North Port ER and two Walk-In Clinics also have implemented the 30-minute wait-time promise, providing patients with prompt urgent medical services in two convenient outpatient locations.

Finance

Operational Improvements

Over the last few years, management of the Hospital has implemented a number of efforts aimed at improving Hospital operations. These efforts include both revenue enhancement and expense reduction initiatives and represent an integral part of management's business plan. Management has staged its Capital Improvement Program such that capital expenditures will be made only after the execution of the targeted operational improvements is achieved. As a result, management plans to aggressively pursue operational improvements in order to fully execute its business plan.

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Among the major operational improvements that management is currently pursuing are:

- *Revenue Cycle Improvement* – The Hospital continues to apply best practice collection processes to reduce bad debt by utilizing disciplined upfront collection practices, contracting with multiple layers of collection agencies to supplement internal collection staff, searching for commercial insurance underpayments, and aggressively appealing and overturning denials. The latest initiatives around revenue processes are an increased focus on charge capture and reconciliation, aligning hospital coding with physician coding, and critical review of coded procedures versus charged procedures.
- *Revenue Growth Strategies* – Pursuing profitable inpatient and outpatient growth through an aggressive focus on physician alignment and integration. Our recent expansions will assist in capturing new patients residing in high growth areas (relative to rest of market) and serve as an important gateway to our main hospital campus.
- *Labor Management* – Include the use of prescribed staffing schedules to more appropriately match human resource levels with anticipated patient need, centralize staffing, including a single point of employment authorization as a means to manage and continuous monitoring of labor expenses.
- *Supply Initiatives* – Increasing the focus on the standardization of high cost implants and continued focus of decision making on acquisition of high cost new technology based on evidence based medicine.

Management believes that efforts to date have already resulted in the realization of increased revenue levels and lower operating costs. It is expected that continuing efforts will drive increased revenue, enhanced operating margins and lower supply costs. Management believes that the operations of the Hospital can continue to be improved and that such efforts will lead to higher operating margins in future years.

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Management's Discussion and Analysis

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(Unaudited)

This section of the annual financial report of the District provides management's discussion and analysis of the organization for the fiscal years ended September 30, 2009 and 2008. This discussion has been prepared along with the financial statements and related footnote disclosures, which should be read in conjunction with one another. This narrative, the financial statements, and footnotes are the responsibility of the District's management.

Required Financial Statements

The basic financial statements of the District report information about the District using accounting methods prescribed by the Financial Accounting Standards Board (FASB), the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations*. These statements provide current and long-term financial information about the District's activities. The following statements are included in this package:

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

Summary of Financial Highlights and Trends

The District's cash and cash equivalents, restricted investments and board designated investments increased from the previous year by \$124.0 million and \$33.8 million in the fiscal years ended September 30, 2009 and 2008, respectively. Long-term debt (including current portion) increased from the previous year by \$93.4 million and decreased from the previous year by \$12.6 million in the years ended September 30, 2009 and 2008, respectively. The excess of revenues over expenses before nonoperating unrealized items in the year ended September 30, 2009, of \$47.3 million, was less than last year's excess of \$59.7 million. Net assets increased by \$77.1 million in fiscal 2009 and \$14.7 in fiscal 2008. Hospital payor mix reflected decreases in self-pay in 2009 and 2008, while Medicaid has increased in both years.

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	<u>2009</u>	<u>2008</u>	<u>2007</u>
Medicare	58.6%	54.8%	54.1%
Managed care and commercial	26.7	31.3	32.1
Self-pay and other	5.8	7.0	7.3
Medicaid	8.9	6.9	6.5
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Operating Statistics

Admissions volume decreased 0.1% across the Sarasota County area in fiscal year 2009, compared to fiscal year 2008. In 2008, the County experienced a 2.3% decrease in volume of admissions compared to 2007 (Source: Health Planning Council). The Hospital's admissions decreased 4.3% during the year ended September 30, 2009, compared to a 5.4% decrease during the year ended September 30, 2008. Hospital inpatient market share in the Sarasota County area for the year ended September 30, 2009, declined from 56.5% to 54.1%. The Hospital outpatient volume, excluding emergency room visits, increased by 11.0% and 9.4% over the years that ended September 30, 2009 and 2008, respectively.

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

	<u>Fiscal years ended September 30,</u>				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Average number of beds in service:					
Medical/surgical intensive care	24	24	32	32	32
Cardiac telemetry, acute and intensive care	144	143	144	144	145
Other medical/surgical	259	260	234	234	229
Total medical/surgical	427	427	410	410	406
Obstetrics	66	66	66	66	62
Psychiatric and substance abuse	62	62	62	62	60
Rehabilitation	34	34	54	54	56
Pediatrics	26	26	26	26	26
Total hospital	<u>615</u>	<u>615</u>	<u>618</u>	<u>618</u>	<u>610</u>

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	Fiscal years ended September 30,				
	2009	2008	2007	2006	2005
Admissions:					
Total medical/surgical	18,575	19,429	20,465	20,958	21,177
Obstetrics	3,296	3,576	3,736	3,822	3,712
Psychiatric and substance abuse	1,474	1,421	1,443	1,541	1,509
Rehabilitation	734	726	852	1,464	1,572
Pediatrics	663	711	841	961	915
Total hospital	24,742	25,863	27,337	28,746	28,885
Average length of stay:					
Total medical/surgical	5.15	5.16	5.11	5.02	4.78
Obstetrics	2.62	2.63	2.61	2.64	2.78
Psychiatric and substance abuse	6.41	6.43	6.90	6.86	7.09
Rehabilitation	12.35	11.43	10.54	9.81	10.13
Pediatrics	3.24	3.35	3.02	2.45	2.70
Total hospital	5.05	5.00	4.96	4.96	4.87
Number of patient days:					
Medical/surgical intensive care	6,106	6,164	7,025	6,676	7,080
Cardiac telemetry, acute and intensive care	30,017	30,588	31,844	32,433	31,053
Other medical/surgical	59,488	63,414	65,633	66,103	63,131
Total medical/surgical	95,611	100,166	104,502	105,212	101,264
Obstetrics	8,626	9,422	9,743	10,093	10,330
Psychiatric and substance abuse	9,453	9,136	9,962	10,569	10,700
Rehabilitation	9,063	8,296	8,976	14,366	15,932
Pediatrics	2,148	2,381	2,540	2,352	2,468
Total hospital	124,901	129,401	135,723	142,592	140,694
% Occupancy:					
Medical/surgical intensive care	69.7	70.4	60.1	57.2	60.6
Cardiac telemetry, acute and intensive care	57.1	58.6	60.6	61.7	58.7
Other medical/surgical	62.9	66.8	76.8	77.4	75.5
Total medical/surgical	61.3	64.3	69.8	70.3	68.3
Obstetrics	35.8	39.1	40.4	41.9	45.6
Psychiatric and substance abuse	41.8	40.4	44.0	46.7	48.9
Rehabilitation	73.0	66.8	45.5	72.9	77.9
Pediatrics	22.6	25.1	26.8	24.8	26.0
Total hospital	55.6	57.6	60.2	63.2	63.2

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The following table represents ancillary department activity for the System for the fiscal years indicated:

	Fiscal years ended September 30,				
	2009	2008	2007	2006	2005
Radiology:					
I/P	68,537	71,398	74,939	77,453	76,878
O/P	205,445	199,191	173,357	155,284	145,096
Total	<u>273,982</u>	<u>270,589</u>	<u>248,296</u>	<u>232,737</u>	<u>221,974</u>
Nuclear medicine:					
I/P	2,062	2,844	3,211	4,091	3,500
O/P	5,207	5,810	6,448	7,175	6,998
Total	<u>7,269</u>	<u>8,654</u>	<u>9,659</u>	<u>11,266</u>	<u>10,498</u>
Laboratory units:					
I/P	866,223	903,667	727,953	712,047	722,423
O/P	906,023	771,495	748,963	636,425	612,545
Total	<u>1,772,246</u>	<u>1,675,162</u>	<u>1,476,916</u>	<u>1,348,472</u>	<u>1,334,968</u>
Respiratory therapy:					
I/P	68,907	91,052	95,388	104,223	107,730
O/P	8,792	12,219	11,100	10,407	10,771
Total	<u>77,699</u>	<u>103,271</u>	<u>106,488</u>	<u>114,630</u>	<u>118,501</u>
Total hospital outpatient cases (excl. emergencies)	329,747	297,101	271,533	232,182	222,084
Electrocardiograms	49,594	54,974	55,841	54,529	70,055
Cardiac catheterization procedures	27,451	27,162	24,954	28,427	23,700
Physical therapy units	133,160	132,240	123,212	127,931	131,411
Occupational therapy units	56,924	56,299	58,667	67,616	72,390
Hemodialysis treatments	2,373	2,162	2,714	2,603	2,773
Emergency room visits/registrations	78,160	77,085	81,195	84,385	76,921
Surgery cases	17,026	17,784	17,840	18,260	18,429
Home health visits	43,097	40,237	40,750	36,868	42,501

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Statements of Operations and Changes in Net Assets

A summary of the District's Statements of Operations and Changes in Net Assets for fiscal years 2009, 2008, and 2007 is presented below (in thousands):

	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>2007</u>	<u>Change</u>
Net patient service revenue	\$ 446,744	432,669	14,075	418,593	14,076
Other revenue	19,655	19,339	316	18,635	704
Total operating revenues	466,399	452,008	14,391	437,228	14,780
Total operating expenses	474,934	467,095	7,839	456,759	10,336
Operating loss	(8,535)	(15,087)	6,552	(19,531)	4,444
Total nonoperating items	83,020	27,020	56,000	62,836	(35,816)
Excess of revenues over expenses	74,485	11,933	62,552	43,305	(31,372)
Other changes in net assets	2,567	2,757	(190)	2,611	146
Net assets, beginning of year	460,808	446,118	14,690	400,202	45,916
Net assets, end of year	\$ <u>537,860</u>	<u>460,808</u>	<u>77,052</u>	<u>446,118</u>	<u>14,690</u>

Discussion of Statements of Operations and Changes in Net Assets

Net Patient Service Revenue grew by \$14.1 million, or 3.3%, during fiscal year 2009. The growth in net revenues can be attributed partially to the continued expansion of outpatient programs and capacities which contributed to the 11.0% increase in non-emergency outpatient cases. In addition to the growth in outpatient volumes and the impact of a 10% overall price increase, the increase in net patient service revenue resulted from additional renegotiated contracts with managed care payors, aggressive upfront collection practices, responsive financial counseling to find funding sources or documented charity care, increased denial and underpayment recovery, use of multiple collection agencies and attorneys to recover payments, and continued process improvement with business office systems and processes. As a result of the revenue cycle improvements, there was a \$6.1 million or 7.3% decrease in charity and bad debt expense in fiscal year 2009.

In fiscal year 2008, Net Patient Service Revenue grew by \$14.1 million, or 3.4%. The growth in net revenues can be attributed partially to expansion of outpatient programs and capacities which contributed to the 9.4% increase in non-emergency outpatient cases. The increase in outpatient volumes included a 1.4% increase in outpatient surgeries and a 14.9% increase in outpatient radiology procedures. In addition to the growth in outpatient volumes and the impact of a 5% overall price increase, the increase in net patient service revenue resulted from newly renegotiated contracts with managed care payors, aggressive upfront collection practices, responsive financial counseling to find funding sources or documented charity care, increased denial and underpayment recovery, use of multiple collection agencies and attorneys to recover payments, and continued process improvement with business office systems and processes. As a result of the revenue cycle improvements, there was a \$6.3 million or 7% decrease in charity and bad debt expense in fiscal year 2008.

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Operating expenses increased in fiscal 2009 by \$7.8 million, or 1.7%. Salaries and wages increased by \$2.5 million, fringe benefits decreased by \$1.0 million, supplies decreased by \$0.4 million, purchased services decreased \$0.6 million, professional fees increased by \$2.0 million, the State of Florida Medical Assistance Assessment increased by \$0.5 million, and depreciation increased by \$4.9 million.

In fiscal 2008, operating expenses increased by \$10.3 million, or 2.3%. Salaries and wages increased by \$4.3 million, fringe benefits increased by \$8.2 million, supplies decreased by \$1.6 million, purchased services remained stable with the prior year, professional fees increased by \$1.0 million, the State of Florida Medical Assistance Assessment decreased by \$0.2 million, and depreciation decreased by \$1.5 million.

Salaries and wages increased in 2009 as a result of a rise in the hospital average hourly wage and a decrease in the number of hospital Full Time Equivalents (FTEs) per adjusted occupied bed. The Hospital's average hourly rate of pay increased by 4.7% during fiscal year 2009. Hospital FTEs decreased from 2,906 in fiscal year 2008 to 2,813 in fiscal year 2009. Total System FTEs decreased from 3,517 in fiscal year 2008 to 3,409 in fiscal year 2009.

In fiscal 2008, Salaries and wages increased as a result of a rise in the hospital average hourly wage and an increase in the number of hospital FTEs per adjusted occupied bed. The Hospital's average hourly rate of pay increased by 2.6% during fiscal year 2008. Hospital FTEs decreased from 2,953 to 2,906 from fiscal year 2007 to fiscal year 2008. Total System FTEs decreased from 3,535 in fiscal year 2007 to 3,517 in fiscal year 2008.

Fringe benefits as a percentage of salaries and wages remained the same as in fiscal 2008 at 27%. Increases in retirement expense and workers compensation costs were more than offset by decreases in self-insured health plan costs.

In fiscal 2008, fringe benefits as a percentage of salaries and wages increased from 24% in fiscal 2007 to 27%. The largest increases were \$5.8 million in self-insured health plan costs, a \$0.7 million expense related to the implementation of Governmental Accounting Standards Board Statement Number 45 for post employment benefit obligations, and \$0.6 million in retirement expenses.

Supplies expenses declined in fiscal 2009 by \$0.4 million and declined in fiscal 2008 by \$1.6 million. Supplies expense as a percentage of net patient revenue declined in fiscal year 2009 and remained stable in fiscal year 2008.

Purchased services decreased in fiscal 2009 by \$0.6 million, as a result of decreases in various categories of expenses as well as in rent and lease expenses, partially offset by increases in insurance and blood bank services.

Professional fees increased in both fiscal 2009 and 2008, largely as a result of an increase in physician fees related to emergency coverage and expanded hospital services and facilities for radiology, interventional radiology, surgical services, pain management and walk-in centers.

As a result of the above-noted changes in operating costs, operating cost per adjusted admission, adjusted for the change in case mix index, increased 2.1% in fiscal year 2009 and 4.4% in fiscal year 2008.

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Nonoperating (realized and unrealized) Items increased by \$56.0 million in fiscal year 2009. The increase is largely comprised of a \$74.9 million positive unrealized change in the fair value of investments and interest rate swaps. Unrealized changes in the fair value of investments improved by \$36.3 million. The fair value of interest rate swaps increased by \$38.6 million compared to the decrease of \$34.2 million in fiscal year 2008. Realized nonoperating income decreased in fiscal 2009 by \$18.9 million, largely because fiscal 2008 included a \$15.1 million gain on the sale of a medical office building. In addition fiscal 2009 included an \$8.3 million decrease in ad valorem tax revenue, and a \$2.0 million decrease in investment income, partially offset by a \$4.5 million decrease in interest expense.

In fiscal 2008, Nonoperating (realized and unrealized) Items decreased by \$35.6 million. The decrease is largely comprised of unrealized negative changes in the fair value of investments and interest rate swaps. The unrealized losses are partially offset by a realized gain on the sale of a medical office building on the main campus of the Hospital. Realized nonoperating income increased by \$9.6 million, as a result of the aforementioned gain on the sale of the building and a \$0.8 million gain on the termination of an interest rate swap, partially offset by a \$4.7 million decrease in investment income and a \$1.0 million increase in interest expense. Unrealized changes in the fair value of investments declined by \$15.7 million. The fair value of interest rate swaps decreased by \$34.2 million compared to the decrease of \$4.6 million in fiscal year 2007.

Excess of Revenues over Expenses for fiscal year 2009 was \$74.5 million, versus an excess of revenues over expenses in fiscal year 2008 of \$11.9 million. The \$62.6 million increase is a result of operating revenues increasing by \$14.4 million, operating expenses increasing by \$7.8 million, realized nonoperating income decreasing by \$18.9 million, and unrealized nonoperating items increasing by \$74.9 million.

In fiscal 2008, excess of revenues over expenses was \$11.9 million, versus an excess of revenues over expenses in fiscal year 2007 of \$43.3 million. The \$31.4 million decline is a result of operating revenues increasing by \$14.5 million, operating expenses increasing by \$10.3 million, realized nonoperating income increasing by \$6.7 million, and unrealized nonoperating items decreasing by \$45.3 million.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Management's Discussion and Analysis

September 30, 2009 and 2008

(Unaudited)

Balance Sheets

The following table is a summary of the balance sheets as of September 30, 2009, 2008, and 2007 (in thousands):

	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>2007</u>	<u>Change</u>
Cash and cash equivalents	\$ 32,643	35,707	(3,064)	26,468	9,239
Patient accounts receivable, net	43,795	48,983	(5,188)	48,662	321
Other current assets	<u>21,738</u>	<u>21,946</u>	<u>(208)</u>	<u>24,044</u>	<u>(2,098)</u>
Total current assets	98,176	106,636	(8,460)	99,174	7,462
Restricted and board designated investments	649,096	522,050	127,046	497,526	24,524
Capital assets, net	353,095	287,865	65,230	280,467	7,398
Other assets	<u>12,111</u>	<u>12,384</u>	<u>(273)</u>	<u>26,765</u>	<u>(14,381)</u>
Total assets	<u>\$ 1,112,478</u>	<u>928,935</u>	<u>183,543</u>	<u>903,932</u>	<u>25,003</u>
Current liabilities	\$ 99,012	77,792	21,220	79,533	(1,741)
Long-term liabilities	<u>475,606</u>	<u>390,335</u>	<u>85,271</u>	<u>378,281</u>	<u>12,054</u>
Total liabilities	<u>574,618</u>	<u>468,127</u>	<u>106,491</u>	<u>457,814</u>	<u>10,313</u>
Net assets:					
Unrestricted	539,865	496,762	43,103	491,897	4,865
Invested in capital assets, net of related debt	(3,873)	(39,244)	35,371	(50,172)	10,928
Restricted	<u>1,868</u>	<u>3,290</u>	<u>(1,422)</u>	<u>4,393</u>	<u>(1,103)</u>
Total net assets	<u>537,860</u>	<u>460,808</u>	<u>77,052</u>	<u>446,118</u>	<u>14,690</u>
Total liabilities and net assets	<u>\$ 1,112,478</u>	<u>928,935</u>	<u>183,543</u>	<u>903,932</u>	<u>25,003</u>

At September 30, 2009, the District's cash, restricted investments and board designated investments totaled \$681.7 million, versus long-term debt of \$459.0 million. The number of days cash on hand was 431 which exceeds the median of 170 days cash on hand for Moody's Investor Services (Moody's) "A1" rated, freestanding hospitals and single state healthcare systems (2009 median, based on 2008 data).

At September 30, 2008, the District's cash, restricted investments and board designated investments totaled \$557.8 million, versus long-term debt of \$365.6 million. The number of days cash on hand was 382 which exceeds the median of 198 days cash on hand for Moody's Investor Services (Moody's) "A1" rated, freestanding hospitals and single state healthcare systems (2008 median, based on 2007 data).

In fiscal 2009, *Current assets* decreased by \$8.5 million. Cash and cash equivalents decreased by \$3.1 million and patient accounts receivable decreased by \$5.2 million.

In fiscal 2008, current assets increased by \$7.5 million. Cash and cash equivalents increased by \$9.2 million and patient accounts receivable increased by \$0.3 million. These increases were partially offset by a \$2.1 million decrease in other current assets.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Management's Discussion and Analysis

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In fiscal 2009, *Restricted investments and board designated investments* increased \$127.0 million as a result of the net positive cash flows from operating and nonoperating activities, the \$36.3 million unrealized gains in the fair value of investments, and the issuance of the Series 2009A Bonds, partially offset by the utilization of investments which were restricted for the construction of a new Energy Center.

In fiscal 2008, Restricted investments and board designated investments increased \$24.5 million as a result of the net positive cash flows from operating and nonoperating activities, partially offset by the \$13.6 million unrealized losses in the fair value of investments.

Capital assets increased by \$65.2 million, in fiscal 2009. \$102.4 million of capital additions occurred during fiscal year 2009. The additions were partially offset by annual depreciation. Of the \$102.4 million in fiscal 2009 additions, the largest projects accounted for about \$84.8 million of expenditures: \$50.5 million of design, engineering and construction costs for the relocation of the central energy plant on the main campus and new bed tower; \$17.1 million for a new emergency care center and outpatient services facility in North Port; \$8.9 million for a new outpatient services facility at Heritage Harbor; \$6.6 million for upgrades to information systems infrastructure and various clinical systems; and \$1.7 million for décor upgrades and relocations related to the Master Facility Plan.

In fiscal 2008, Capital assets increased by \$7.4 million. The additions in 2008 were largely offset by annual depreciation. Of the \$47.9 million in fiscal 2008 additions, the largest projects accounted for about \$29.8 million of expenditures: \$12.8 million of design, engineering and construction costs for the relocation of the central energy plant on the main campus and a new bed tower; \$5.9 million for the early buyout of operating leases for various imaging equipment; \$5.8 million for upgrades to Information Systems infrastructure and various clinical systems; \$2.4 million for décor upgrades and relocations related to the Master Facility Plan; \$1.6 million for a DaVinci Robotic Surgery System; \$0.7 million for replacement of lab equipment; and \$0.6 million for ambulatory clinical offices.

Expected capital expenditures for fiscal year 2010 are \$67.2 million, and consist primarily of the construction of a new patient bed tower on the main campus, infrastructure and facility renovations, information systems technology acquisitions, purchases of medical and nonmedical equipment, and various growth projects.

In fiscal 2009, *Other assets*, decreased by \$0.3 million, which includes a decrease in deferred bond issuance costs of \$2.4 million resulting from the retirement of the 2008B bonds, partially offset by an increase in deferred bond issuance costs of \$2.2 million as a result of the issuance of the Series 2009A and 2009B bonds, and amortization of approximately \$0.2 million.

In fiscal 2008, Other assets, including interest rate swaps decreased by \$14.4 million, which includes a decrease in the fair value of interest rate swaps of \$10.2 million. (The total decrease in the fair value of interest rate swaps was \$34.2 million, but only \$10.2 million of the decrease impacted assets. The balance of the decrease impacted the change in long-term liabilities.) Deferred bond issuance costs decreased \$4.4 million as a result of the refunding of the Series 2003A and 2007A bonds and the issuance of the 2008A and 2008B bonds.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

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(Unaudited)

In fiscal 2009, *Current liabilities* increased \$21.2 million, primarily due to increases in accounts payable, employee compensation and benefits payable, other accrued expenses, and the liability for estimated Medicare and Medicaid settlements, as well as the current portion of long-term debt. In fiscal 2008, current liabilities decreased \$1.7 million, primarily due to a decrease in the liability for estimated Medicare and Medicaid settlements.

In fiscal 2009, *Long-term liabilities* increased \$85.3 million, as a result of the increase in long-term debt, partially offset by an increase in the fair value of interest rate swaps. Long-term debt (including current portion) had a net increase of \$93.4 million due to the issuance of \$103.9 million in Series 2009A Bonds, partially offset by principal payments. In addition, the refunding of the Series 2008B Bonds were accomplished in September 2009 with the issuances of the Series 2009B Bonds; these bonds were issued at the same par amount and amortization schedule as the refunded bonds.

In fiscal 2008, Long-term liabilities increased \$12.1 million, as a result of the decrease in the fair value of interest rate swaps, partially offset by net reductions of long-term debt. Long-term debt (including current portion) had a net decrease of \$12.6 million due to scheduled principal payments of \$7.4 million and refundings of bonds which resulted in the deferred losses totaling \$5.3 million. The refundings of the Series 2003A and Series 2007A bonds were accomplished in September 2008 with the respective issuances of the Series 2008A and Series 2008B bonds; these bonds which were issued at the same par amount and amortization schedule as the refunded bonds.

The value of the District's interest rate swap contracts increased \$38.6 million during this fiscal year due to the decrease in market interest rates, particularly the LIBOR swap rates relative to the swap contracts. The District is positioned with relatively low risk related to these agreements. None of the swap contracts require collateral posting by the District, however, collateral postings are required of the counterparties when they are out-of-the-money at certain levels. The District holds termination rights on all the swap contracts, however, only one contract provides the counterparty termination options; these options occur on five year anniversaries, the first of which is in September 2013.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Management's Discussion and Analysis

September 30, 2009 and 2008

(Unaudited)

Profitability, Liquidity and Capital Ratios

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2008 Moody's A1 Median</u>
Profitability ratios:				
Operating margin	5.1%	4.6%	4.1%	3.0%
Excess margin	8.1%	10.0%	7.9%	5.4%
Return on assets	5.1%	6.6%	5.3%	4.3%
Total EBIDA%	16.4%	17.9%	16.2%	n/a
Operating cash flow margin	13.6%	13.0%	12.7%	9.4%
Liquidity ratios:				
Days cash on hand	431	382	354	170
Net days in receivables	32	37	37	48
Capitalization ratios:				
Maximum debt service coverage ratio	3.6	4.4	3.7	5.2
Cash to debt	126%	141%	124%	124%

(EBIDA – Earnings Before Interest, Depreciation and Amortization)

Discussion of Ratios

To be consistent with Moody's calculations, tax revenues are considered operating revenues and interest expense and bad debt expense are considered operating expenses for the ratio calculations above.

The operating margin, operating cash flow margin and liquidity ratios improved as a result of the 2009 financial performance.

In July 2009, Fitch Ratings announced an upgrade of the District's unenhanced long-term ratings on all outstanding debt to AA- from A+. In July 2009, Moody's Investors Services upgraded its rating on the District's outstanding bonds to A1 from A2. Both rating agencies noted the District's improved operating performance, strong liquidity, and strong service area characteristics.

Management has set targets for continued positive financial results in fiscal year 2010 as a result of a continued focus on revenue cycle and operational improvements. The budget for fiscal year 2010 calls for a 3.2% operating margin. There continues to be an emphasis on meeting overall budget goals and exceeding volume targets, in order to align strategic opportunities with operational and financing capacity.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Management's Discussion and Analysis

September 30, 2009 and 2008

(Unaudited)

Contacting the District for Additional Financial Information

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



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

Independent Auditors' Report

Board Members
Sarasota County Public Hospital District:

We have audited the accompanying balance sheets of Sarasota County Public Hospital District (the District) as of September 30, 2009 and 2008 and the related statements of operations and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District at September 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2010 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the schedule of funding progress on pages 6 through 17 and 46 and 47, respectively, are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining balance sheet information, combining statement of operations and changes in net assets information, letter of transmittal, and budgetary comparison schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining balance sheet information and combining statement of operations and changes in net assets information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The letter of transmittal and budgetary comparison schedule have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

January 18, 2010
Certified Public Accountants

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Balance Sheets

September 30, 2009 and 2008

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 32,642,727	35,707,191
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$19,188,000 in 2009 and \$23,241,000 in 2008	43,795,362	48,982,568
Inventories of supplies	8,347,842	8,014,329
Prepaid expenses and other assets	11,252,935	10,984,991
Due from related organizations	2,137,773	2,946,459
Total current assets	98,176,639	106,635,538
Restricted investments	106,412,183	43,529,583
Board designated investments	542,683,802	478,520,734
Capital assets, net	353,094,699	287,865,117
Other assets	12,110,666	12,384,189
Total assets	\$ <u>1,112,477,989</u>	<u>928,935,161</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 25,482,068	16,861,945
Employee compensation and benefits payable	32,324,914	28,545,438
Other accrued expenses	18,806,698	17,116,256
Estimated Medicare and Medicaid settlements	7,211,709	2,661,545
Due to related organizations	75,228	126,330
Current portion of State of Florida medical assistance assessment	5,327,038	5,214,661
Current portion of long-term debt	9,784,754	7,266,053
Total current liabilities	99,012,409	77,792,228
Long-term debt, less current portion	449,166,682	358,301,071
State of Florida medical assistance assessment, less current portion	2,690,543	2,628,790
Deferred revenue and other long-term liabilities	3,982,217	4,977,144
Interest rate swaps	19,766,462	24,427,885
Total liabilities	574,618,313	468,127,118
Commitments and contingencies		
Net assets:		
Unrestricted	539,864,747	496,761,749
Invested in capital assets, net of related debt	(5,774,912)	(39,243,720)
Restricted	3,769,841	3,290,014
Total net assets	537,859,676	460,808,043
Total liabilities and net assets	\$ <u>1,112,477,989</u>	<u>928,935,161</u>

See accompanying notes to basic financial statements.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Statements of Operations and Changes in Net Assets

Years ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Net patient service revenue, net of provision for bad debts of \$49,469,000 in 2009 and \$57,244,000 in 2008	\$ 446,743,635	432,668,963
Other revenue	19,654,975	19,338,867
Total operating revenues	<u>466,398,610</u>	<u>452,007,830</u>
Operating expenses:		
Salaries, wages, and fringe benefits	247,509,825	246,050,660
Supplies	93,738,681	94,108,614
Purchased services	77,696,391	78,289,882
Professional fees	13,367,321	11,415,615
State of Florida medical assistance assessment	5,475,779	4,943,259
Depreciation and amortization	37,146,311	32,286,719
Total operating expenses	<u>474,934,308</u>	<u>467,094,749</u>
Operating loss	<u>(8,535,698)</u>	<u>(15,086,919)</u>
Nonoperating realized items:		
Ad valorem tax	48,213,186	56,511,960
Interest expense	(10,767,404)	(15,312,160)
Investment income	18,444,892	20,453,176
Termination of interest rate swap	—	807,600
Other nonoperating (expense) income	(28,706)	12,326,091
Total nonoperating realized items	<u>55,861,968</u>	<u>74,786,667</u>
Excess of revenues over expenses before nonoperating unrealized items	<u>47,326,270</u>	<u>59,699,748</u>
Nonoperating unrealized items:		
Unrealized gains (losses) on investments	22,738,333	(13,566,133)
Changes in fair value of interest rate swaps	4,420,043	(34,201,218)
Total nonoperating unrealized items	<u>27,158,376</u>	<u>(47,767,351)</u>
Excess of revenues over expenses	74,484,646	11,932,397
Other changes in net assets:		
Contributions restricted for capital purposes	2,566,987	2,757,491
Increase in net assets	77,051,633	14,689,888
Net assets, beginning of year	<u>460,808,043</u>	<u>446,118,155</u>
Net assets, end of year	<u>\$ 537,859,676</u>	<u>460,808,043</u>

See accompanying notes to basic financial statements.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Statements of Cash Flows

Years ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Received from patient care services	\$ 456,485,259	434,706,845
Received from nonpatient sources	19,534,111	19,245,436
Payments to employees	(245,803,989)	(245,720,089)
Payments to suppliers	(178,664,310)	(193,539,028)
Net cash provided by operating activities	<u>51,551,071</u>	<u>14,693,164</u>
Cash flows from noncapital financing activities:		
Ad valorem taxes	48,230,792	56,494,354
Net proceeds from donations received (noncapital)	443,054	422,067
Grants and other noncapital items	(523,000)	(1,074,418)
Net cash provided by noncapital financing activities	<u>48,150,846</u>	<u>55,842,003</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	181,310,615	158,741,000
Payment of bond issue costs	(2,205,953)	(1,123,750)
Purchase of other assets	(573,000)	—
Proceeds from donations restricted for capital purposes	2,659,204	4,637,080
Interest rate swap payments received, net	1,744,048	2,716,784
Interest received on bond funds held by trustee	306,549	1,055,767
Purchases of capital assets	(102,341,724)	(47,918,648)
Proceeds from disposals of capital assets	—	22,192,099
Interest payments	(10,344,783)	(14,087,391)
Repayment of long-term debt	(86,846,296)	(166,599,998)
Net cash used in capital and related financing activities	<u>(16,291,340)</u>	<u>(40,387,057)</u>
Cash flows from investing activities:		
Investment income received	18,398,189	17,027,943
Purchase of investments	(11,022,359,050)	(29,822,925,210)
Proceeds from sales and maturities of investments	10,918,673,000	29,785,886,604
Net cash used in investing activities	<u>(85,287,861)</u>	<u>(20,010,663)</u>
(Decrease) increase in cash and cash equivalents	(1,877,284)	10,137,447
Cash and cash equivalents, beginning of year	<u>38,329,117</u>	<u>28,191,670</u>
Cash and cash equivalents, end of year	\$ <u>36,451,833</u>	\$ <u>38,329,117</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 32,642,727	35,707,191
Cash and cash equivalents in restricted investments	3,809,106	2,621,926
Total cash and cash equivalents	\$ <u>36,451,833</u>	\$ <u>38,329,117</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (8,535,698)	(15,086,919)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	37,146,311	32,286,719
Provision for bad debts	49,468,644	57,243,607
Changes in:		
Patient accounts receivable	(44,281,438)	(57,564,381)
Other current and noncurrent assets	845,096	1,658,565
Current liabilities and other liabilities	16,908,156	(3,844,427)
Net cash provided by operating activities	\$ <u>51,551,071</u>	\$ <u>14,693,164</u>

See accompanying notes to basic financial statements.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2009 and 2008

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

(a) *Operations and Organization*

The Sarasota County Public Hospital District was established in 1949 by a special act of the Florida Legislature which created and incorporated a special tax district to be known as Sarasota County Public Hospital District (the District), which includes all of Sarasota County, and authorized the District to levy property taxes for various purposes. The District's primary function is to operate Sarasota Memorial Hospital (the Hospital), Sarasota Memorial Nursing and Rehabilitation Center (NRC) and other healthcare delivery services in Sarasota County. The District added Varsity Health Charter Plan (the Charter Plan) in fiscal 2003 for the purpose of addressing the growing number of uninsured workers in Sarasota County. The Charter Plan began enrolling members in fiscal 2004.

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

(b) *Mission Statement*

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

(c) *Use of Estimates*

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

(d) *Accounting Standards*

The District recognizes revenues and expenses on the accrual basis of accounting in accordance with the standards established by the Governmental Accounting Standards Board (GASB) and certain provisions in the Audit and Accounting Guide for Health Care Organizations published by the American Institute of Certified Public Accountants. As provided for by GASB Statement No. 20, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, which do not conflict with or contradict GASB pronouncements.

In November 2006, GASB issued Statement Number 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB 49 addresses accounting and financial reporting standards for obligations to address the current or potential detrimental effects of existing

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2009 and 2008

pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the Statement excludes pollution prevention and control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. The District adopted GASB 49 in fiscal year 2009. As a result of the adoption, approximately \$750,000 has been accrued for pollution remediation obligations related to construction projects in process. The accrual is included in other accrued expenses in the Balance Sheets and in purchased services in the Statements of Operations and Changes in Net Assets.

In June 2007, GASB issued Statement Number 51 (GASB 51), *Accounting and Financial Reporting for Intangible Assets*. GASB 51 establishes accounting and financial reporting requirements for the recognition, initial measurement, and amortization of intangible assets. GASB 51 is effective for the District beginning in the fiscal year ending September 30, 2010. The District does not expect the adoption of GASB 51 to have a material impact on its financial condition, results of operations or cash flows.

In June 2008, GASB issued Statement Number 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*. GASB 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. GASB 53 is effective for the District beginning in the fiscal year ending September 30, 2010. The District does not expect the adoption of GASB 53 to have a material impact on its financial condition, results of operations or cash flows. Please refer to note 5, Long-Term Debt, for a further discussion of the District's derivative instruments.

In March 2009, GASB issued Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of GASB 54 are effective for financial statements of the District beginning in the fiscal year ending September 30, 2011. The District expects the adoption of GASB 54 to have an impact on the Balance Sheet categories of net assets, but no material impact on its financial condition, results of operations or cash flows.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2009 and 2008

(e) Community Programs

The District is a public health care provider established to meet the needs of Sarasota County. Accordingly, services are being provided to the community at no charge or for which only partial payments are received. The following is a summary of the District's community programs provided during the years ended September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Bad debts	\$ 49,469,000	57,244,000
Traditional charity care	27,700,000	25,977,000
Medicare losses	23,736,000	26,862,000
Medicaid losses	8,213,000	9,090,000
Emergency care center call pay and subsidies	4,423,000	3,374,000
Anesthesiologist, Hospitalist and Psychiatric coverage	3,706,000	4,194,000
Clinics and other community programs	1,783,000	3,329,000
Indigent care fund payments	5,476,000	4,943,000

The District provides traditional charity care to those patients who meet certain criteria under its charity care policy. A patient is classified as a charity patient by reference to certain established policies of the District. Amounts determined to qualify as traditional charity care are not reported as revenue. Payments received from the Medicaid program are significantly less than established patient charges and are less than management's estimate of the costs of providing those services. An assessment of one percent for net outpatient revenues, one and one half percent for net inpatient revenues and 0.04% of total operating expenses is assessed to the Hospital to help fund the Florida Medicaid and Indigent Care program.

(f) Net Patient Service Revenue

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

The difference between customary charges and the contractually established rates is accounted for as a contractual adjustment. The District's customary charges, contractual adjustments, and provision for bad debts for the years ended September 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Gross patient charges	\$ 1,455,180,433	1,360,854,276
Contractual adjustments	(958,968,154)	(870,941,706)
Provision for bad debts	(49,468,644)	(57,243,607)
Net patient service revenue	<u>\$ 446,743,635</u>	<u>432,668,963</u>

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

Medicare

Most services including inpatient acute care services, inpatient rehabilitative services, skilled nursing services, hospital outpatient services and home health 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. Psychiatric services, limited outpatient services rendered to Medicare beneficiaries, and direct graduate medical education costs are paid based upon a cost reimbursement methodology or blended cost methodology. The Hospital is reimbursed for cost reimbursable items at a tentative interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary.

The Hospital's Medicare cost reports have been audited and final settlements determined by the Medicare intermediary for all years through September 30, 2006. Retroactive adjustments for cost reports and other settlements are accrued on an estimated basis in the period when the related services are rendered and adjusted in future periods when final settlements are determined. Final amounts settled related to prior years resulted in a (decrease) increase in net patient service revenue of (\$1,412,000) and \$3,767,000 for the years ended September 30, 2009 and 2008, respectively.

Medicaid

Inpatient and outpatient services (except for laboratory and pathology services) rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology subject to ceilings. 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. Interim rates are tentatively established on an individual per diem basis for each hospital based on unaudited cost reports with exceptions. Final settlement is determined when the prospectively determined rate is adjusted after the intermediary audit of the Medicare and Medicaid cost report that was used to determine the prospective rate. Retroactive adjustments for interim rate changes anticipated after the intermediary audit of the cost report are accrued on an estimated basis in the period when final settlements are determined. The District's Medicaid rates are based on the Medicare/Medicaid cost report periods ending through September 30, 2006 which has been audited by the fiscal intermediary through September 30, 2004.

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

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

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recorded estimates associated with these programs will change by a material amount in the near term.

Other

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

(g) Cash and Cash Equivalents

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

(h) Investments and Investment Income

Investment securities held by the District are carried at approximate fair value at September 30, 2009 and 2008. Realized gains and losses, based on the specific identification method are included in investment income in nonoperating realized items in the statements of operations and changes in net assets. Unrealized gains and losses are included in nonoperating unrealized items in the statements of operations and changes in net assets.

(i) Inventories of Supplies

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

(j) Capital Assets

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

	Estimated useful lives (years)
Land improvements	3 – 25
Buildings	5 – 40
Leasehold improvements	3 – 25
Moveable equipment	2 – 25

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

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

Debt issue costs, which are included in other assets, are amortized over the term of the related obligations using the straight-line method, which approximates the effective interest method. Amortization of debt issue costs is included in interest expense.

Original issuance premiums and discounts on bonds payable are amortized using the effective interest method.

Deferred gains and losses on refunding, which are included in long-term debt, are amortized over the shorter of the remaining life of the old debt or the life of the new debt using the straight-line method, which approximates the effective interest method. Amortization of deferred gains and losses on refunding is included in interest expense.

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(l) Other Noncurrent Liabilities

Other noncurrent liabilities consist of State of Florida medical assistance assessment and deferred revenue and other long-term liabilities. The changes in other noncurrent liabilities for the years ended September 30, 2009 and 2008 are as follows:

	2009			Noncurrent liabilities September 30, 2009
	Noncurrent liabilities September 30, 2008	Accrual/ Assessments	Payments	
State of Florida medical assistance assessment	\$ 2,628,790	5,210,631	(5,148,878)	2,690,543
Deferred revenue and other long-term liabilities	4,977,144	(825,749)	(169,178)	3,982,217
Total	\$ <u>7,605,934</u>	<u>4,384,882</u>	<u>(5,318,056)</u>	<u>6,672,760</u>
	2008			
	Noncurrent liabilities September 30, 2007	Accrual/ Assessments	Payments	Noncurrent liabilities September 30, 2008
State of Florida medical assistance assessment	\$ 2,583,673	5,031,914	(4,986,797)	2,628,790
Deferred revenue and other long-term liabilities	5,161,592	282,236	(466,684)	4,977,144
Total	\$ <u>7,745,265</u>	<u>5,314,150</u>	<u>(5,453,481)</u>	<u>7,605,934</u>

(m) Net Assets

Net assets of the District are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of any borrowings used to finance the purchase or construction of those assets. Restricted net assets are net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by bond indentures. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted.

(n) Operating Revenues and Expenses

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

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Nonexchange revenues and expenses, including ad valorem taxes, investment income, interest expense on borrowed funds, contributions received for purposes other than capital asset acquisition, grants paid, gains and losses on disposal of capital assets, and other nonoperating income and expenses are reported as nonoperating realized items in the financial statements.

Unrealized gains (losses) on investments and changes in the fair value of interest rate swaps are reported as nonoperating unrealized items in the financial statements.

(o) *Income Taxes*

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

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

(p) *Ad Valorem Taxes*

Tax monies received are based on assessments by the District to Sarasota County real property owners for purposes stated in the Millage resolutions. Ad valorem taxes are recorded in the period for which the taxes are levied and amounted to \$48,213,186 and \$56,511,960 for the years ended September 30, 2009 and 2008, respectively.

(q) *Derivative Instruments*

The District uses interest rate swaps, which are not designated as hedge instruments, to manage net exposure to interest rate changes related to its borrowings and to lower its overall borrowing costs. The derivative instruments are recorded as either assets or liabilities in the balance sheets at fair value. Gains and losses resulting from terminations of swaps, when they occur, are recognized as a component of nonoperating realized items in the accompanying statements of operations and changes in net assets. Gains and losses resulting from changes in fair value are recognized as a component of nonoperating unrealized items in the accompanying statements of operations and changes in net assets.

(r) *Impairment of Long-lived Assets*

Management evaluates whether there has been a significant unexpected decline in the utility of a capital asset that could indicate an impairment in the capital asset. If there is an indication that the asset may be impaired, the District follows GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* to determine if the impairment loss should be recognized. The amount of impairment, if any, is determined by comparing the historical carrying value of the asset to the valuation method which most appropriately reflects the decline in service utility of the capital asset. The District concluded that no impairments exist as of September 30, 2009 and 2008.

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(s) **Reclassifications**

Certain items in the 2008 financial statements have been reclassified to conform to the 2009 presentation. The reclassifications had no effect on excess of revenues over expenses or changes in net assets.

(2) **Cash and Investments**

(a) **Cash Deposits**

The District's governmental bank balances are held in accounts protected under Chapter 280, Florida Statutes in institutions classified as qualified public depositories under Chapter 280 for the years ended September 30, 2009 and 2008. The District's nongovernmental bank balances were covered by federal depository insurance to the applicable limits for the years ended September 30, 2009 and 2008.

(b) **Investments**

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

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

As of September 30, 2009, the District had cash and investments maturing as follows:

Cash and investment maturities					
	Fair value	Less than 1 year	1-5 years	6-10 years	More than 10 years
U.S. government securities	\$ 209,321,758	105,966,257	78,452,550	24,902,951	—
U.S. government agency securities	155,424,594	33,115,747	86,468,495	5,811,196	30,029,156
Commercial paper	27,367,119	27,367,119	—	—	—
Corporate bonds	245,045,568	24,113,543	153,763,081	67,168,944	—
Other, including bank deposits	44,579,673	44,579,673	—	—	—
Total cash and investments	<u>\$ 681,738,712</u>	<u>235,142,339</u>	<u>318,684,126</u>	<u>97,883,091</u>	<u>30,029,156</u>

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As of September 30, 2008, the District had cash and investments maturing as follows:

Cash and investment maturities					
	Fair value	Less than 1 year	1-5 years	6-10 years	More than 10 years
U.S. government securities	\$ 126,926,998	50,258,660	66,378,516	10,289,822	—
U.S. government agency securities	161,257,588	88,360,804	67,198,902	5,367,039	330,843
Commercial paper	19,653,418	19,653,418	—	—	—
Corporate bonds	160,091,460	26,131,136	78,646,481	55,313,843	—
Other, including bank deposits	89,828,044	89,828,044	—	—	—
Total cash and investments	<u>\$ 557,757,508</u>	<u>274,232,062</u>	<u>212,223,899</u>	<u>70,970,704</u>	<u>330,843</u>

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

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

Direct government obligations	10 years
U.S. government and U.S. government agency securities (for asset-backed or similar securities, the investment policy limitation is based on weighted average life rather than maturity)	10 years
Bankers' acceptances	0.5 years
Commercial paper, corporate notes, and bonds	10 years
Certificate of deposits	0.5 years

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy provides guidelines for its fund managers and lists specific allowable investments. The policy provides for the utilization of varying styles of managers so that portfolio diversification is maximized and total portfolio efficiency is enhanced. GASB No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, requires that disclosure be made as to the credit quality ratings of investments in debt securities except for obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government.

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

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in one of the two highest alphabetical categories from at least two nationally recognized debt rating agencies.

The investment policy limits corporate debt investments to interest-bearing bonds, debentures and other such evidence of indebtedness with a fixed maturity of any domestic corporation within the United States which is listed on any one or more of the recognized national stock exchanges in the United States and conforms with the periodic reporting requirements under the Securities Exchange Act of 1934. Such obligation shall either carry ratings in one of the two highest classifications of at least two nationally recognized debt rating agencies; or be secured by a letter of credit provided by a commercial bank, which bank or its holding company carries a credit rating in one of the two highest alphabetical categories from at least two nationally recognized debt rating agencies. At September 30, 2009 and 2008, debt instruments with market values of \$16.9 million and \$16.2 million, respectively, had credit ratings below the investment policy requirements. These securities were evaluated by the District's investment advisors and deemed to be sufficiently credit-worthy to hold in the portfolio. The investment advisors were instructed by the District to hold them in the portfolio until either the market value increases above the cost of the securities, or the investment advisors deem them non-credit-worthy.

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

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

At September 30, 2009, the District's deposits and investments were not exposed to custodial credit risk since the full amount was insured or registered, or securities held by the District or its agent, in the District's name. The District's investment policy states that District securities be held with a third-party custodian and all securities purchased by, and all collateral obtained by, the District shall be properly designated as an asset of the District.

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. Disclosure is required for investments in any one issuer that represent 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The District's investment policy states that no single corporate fixed income issuer shall represent more than 10% of the portfolio. The policy further states that the District's investments shall be diversified to the extent practicable to control the risk of loss resulting from

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over concentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which financial instruments are bought and sold.

(3) Restricted Investments and Board Designated Investments

Restricted investments and board designated investments as of September 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Under bond indenture agreements held by trustees, at fair value plus accrued interest, held for:		
Plant replacement and expansion	\$ 100,081,825	38,458,287
Payment of principal and interest	1,661,321	1,621,906
Payment of bond issuance costs	240,598	82,107
	<u>101,983,744</u>	<u>40,162,300</u>
Restricted funds designated by donors or grantors, at fair value plus accrued interest, held for:		
Specific purposes	276,598	312,040
Plant replacement and expansion	4,151,841	3,055,243
	<u>4,428,439</u>	<u>3,367,283</u>
Total restricted investments	<u>\$ 106,412,183</u>	<u>43,529,583</u>
Unrestricted funds designated by the Board, at fair value plus accrued interest, held for:		
Capital improvements	<u>\$ 542,683,802</u>	<u>478,520,734</u>

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September 30, 2009 and 2008

(4) Capital Assets

The changes in capital assets for the years ended September 30, 2009 and 2008 are as follows:

	2009				
	Beginning balance	Additions	Transfers in/ transfers out	Disposals	Ending balance
Nondepreciable:					
Land	\$ 39,105,018	—	2,839,529	—	41,944,547
Land held for future expansion	28,082,268	—	—	—	28,082,268
Construction in progress	37,878,413	85,121,946	(26,107,731)	—	96,892,628
Total nondepreciable	105,065,699	85,121,946	(23,268,202)	—	166,919,443
Depreciable:					
Land improvements	19,725,694	372,609	—	(6,879,074)	13,219,229
Buildings	315,119,155	11,525,639	3,808,552	(51,673,435)	278,779,911
Leasehold improvements	4,635,943	74,883	1,188,666	(1,182,834)	4,716,658
Moveable equipment	268,079,840	5,280,834	18,270,984	(125,392,989)	166,238,669
Total depreciable	607,560,632	17,253,965	23,268,202	(185,128,332)	462,954,467
	712,626,331	102,375,911	—	(185,128,332)	629,873,910
Less accumulated depreciation	(424,761,214)	(37,114,478)	—	185,096,481	(276,779,211)
Capital assets, net	\$ 287,865,117	65,261,433	—	(31,851)	353,094,699
	2008				
	Beginning balance	Additions	Transfers in/ transfers out	Disposals	Ending balance
Nondepreciable:					
Land	\$ 39,105,018	—	—	—	39,105,018
Land held for future expansion	28,082,268	—	—	—	28,082,268
Construction in progress	21,545,010	31,539,994	(15,206,591)	—	37,878,413
Total nondepreciable	88,732,296	31,539,994	(15,206,591)	—	105,065,699
Depreciable:					
Land improvements	19,707,907	105,072	(87,285)	—	19,725,694
Buildings	337,100,578	61,786	5,420,122	(27,463,331)	315,119,155
Leasehold improvements	5,622,249	—	—	(986,306)	4,635,943
Moveable equipment	243,847,378	16,211,796	9,873,754	(1,853,088)	268,079,840
Total depreciable	606,278,112	16,378,654	15,206,591	(30,302,725)	607,560,632
	695,010,408	47,918,648	—	(30,302,725)	712,626,331
Less accumulated depreciation	(414,543,342)	(32,286,719)	—	22,068,847	(424,761,214)
Capital assets, net	\$ 280,467,066	15,631,929	—	(8,233,878)	287,865,117

The District has expansion and renovation programs involving various Hospital departments, patient care areas, ambulatory centers and support services, including a new energy center and a new bed tower. Total

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estimated cost to complete all projects in progress is approximately \$203,600,000 as of September 30, 2009.

Depreciation expense was approximately \$37,114,000 and \$32,287,000 for the years ended September 30, 2009 and 2008, respectively.

(5) Long-Term Debt

The District was obligated under long-term debt as of September 30, 2009 and 2008 as follows:

	2009	2008
Sarasota County Public Hospital District, Municipal Inflation Linked Exempt Bonds Series 1997A, \$5,000,000 due October 1, 2020 and \$10,000,000 due October 1, 2021. Interest paid semi-annually in the sum of 2.05% plus or minus a floating rate which will increase or decrease each semi-annual period based on the CPI, as defined. Both components of the interest rates totaled 3.0% at September 30, 2009.	\$ 15,000,000	15,000,000
Sarasota County Public Hospital District, Fixed Rate Hospital Revenue Refunding Bonds, Series 1998A, due in annual amounts through 2015 at interest rates from 4.45% to 5.0% (less unamortized deferred amount on refunding of \$797,217 and \$858,765 at September 30, 2009 and September 30, 2008, respectively).	9,827,783	11,031,235
Sarasota County Public Hospital District, Fixed Rate Hospital Revenue Refunding Bonds, Series 1998B, due in annual amounts through 2028 at interest rates at an annual 2.5% (less unamortized deferred amount on refunding of \$407,220 and \$429,947 at September 30, 2009 and September 30, 2008, respectively).	109,592,780	111,570,053
Unamortized basis adjustment	(4,985,324)	(5,226,704)
	104,607,456	106,343,349
Sarasota County Public Hospital District, Variable Rate Demand Hospital Revenue Bonds, Series 2007B, due in annual amounts through 2037 at variable interest rates, 7.98% at September 30, 2008 (plus unamortized deferred amount on refunding of \$787,577 at September 30, 2008).	—	81,787,577
Sarasota County Public Hospital District, Variable Rate Demand Hospital Revenue Bonds, Series 2008A, due in annual amounts through 2037 at an interest rate of 0.27% at September 30, 2009 (less unamortized deferred amount on refunding of \$3,000,169 and \$3,074,632 at September 30, 2009 and September 30, 2008, respectively).	72,999,831	73,800,368

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	<u>2009</u>	<u>2008</u>
Sarasota County Public Hospital District, Variable Rate Demand Hospital Revenue Bonds, Series 2008B, due in annual amounts through 2037 at variable interest rates, 0.32% at September 30, 2009 (less unamortized deferred amount on refunding of \$6,192,182 and \$6,616,300 at September 30, 2009 and September 30, 2008, respectively).	\$ 73,982,818	75,108,700
Sarasota County Public Hospital District, Fixed Rate Hospital Revenue Bonds, Series 2009A, due in annual amounts through 2039 at interest rates from 3.00% to 5.625% (less unamortized bond issuance discount in the amount of \$2,105,450 at September 30, 2009).	101,784,550	—
Sarasota County Public Hospital District, Variable Rate Demand Hospital Revenue Refunding Bonds, Series 2009B, due in annual amounts through 2037 at variable interest rates, 0.38% at September 30, 2009 (less unamortized deferred amount on refunding of \$1,640,423 at September 30, 2009).	77,884,577	—
Note payable to Ehlers Enterprises, LLP. and Charles F. Ison, due on July 24, 2026. Interest only payments are due monthly until July 24, 2011. Principal and interest is payable monthly beginning August 24, 2011 through July 24, 2026. Interest rate is 6%.	2,000,000	2,000,000
Other miscellaneous long-term payables	484,967	386,101
Capital equipment leases, due in monthly principal and interest payments through 2010 at interest rates from 0.92% to 5.54%.	379,454	109,794
	<u>458,951,436</u>	<u>365,567,124</u>
Less current portion	<u>(9,784,754)</u>	<u>(7,266,053)</u>
	<u>\$ 449,166,682</u>	<u>358,301,071</u>

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Long-term debt activity for the years ended September 30, 2009 and 2008 were as follows:

	2009				Amounts due within one year
	Beginning balance	Additions	Reductions	Ending balance	
Hospital Revenue Refunding Fixed Rate Bonds (1998A)	\$ 11,890,000	—	(1,265,000)	10,625,000	1,320,000
Hospital Revenue Refunding Fixed Rate Bonds (1998B)	112,000,000	—	(2,000,000)	110,000,000	2,000,000
Municipal Inflation Linked Exempt Variable Rate Bonds (1997A)	15,000,000	—	—	15,000,000	—
Hospital Revenue Variable Rate Demand Bonds (2007B)	81,000,000	—	(81,000,000)	—	—
Hospital Revenue Variable Rate Demand Bonds (2008A)	76,875,000	—	(875,000)	76,000,000	875,000
Hospital Revenue Variable Rate Demand Bonds (2008B)	81,725,000	—	(1,550,000)	80,175,000	1,675,000
Hospital Revenue Fixed Rate Bonds (2009A)	—	103,890,000	—	103,890,000	2,175,000
Hospital Revenue Variable Rate Refunding Bonds (2009B)	—	79,525,000	—	79,525,000	1,575,000
Ehlers note payable	2,000,000	—	—	2,000,000	—
Other miscellaneous payable	386,101	98,866	—	484,967	—
Capital leases payable	109,794	370,713	(101,053)	379,454	164,754
	<u>380,985,895</u>	<u>183,884,579</u>	<u>(86,791,053)</u>	<u>478,079,421</u>	<u>9,784,754</u>
Less basis adjustment amounts	(5,226,704)	241,380	—	(4,985,324)	—
Less deferred amount on refundings and original issue discount	<u>(10,192,067)</u>	<u>(3,975,231)</u>	<u>24,637</u>	<u>(14,142,661)</u>	—
Total long-term debt	\$ <u><u>365,567,124</u></u>	<u><u>180,150,728</u></u>	<u><u>(86,766,416)</u></u>	<u><u>458,951,436</u></u>	<u><u>9,784,754</u></u>

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	2008				Amounts due within one year
	Beginning balance	Additions	Reductions	Ending balance	
Hospital Revenue Refunding Fixed Rate Bonds (1998A)	\$ 13,100,000	—	(1,210,000)	11,890,000	1,265,000
Hospital Revenue Refunding Fixed Rate Bonds (1998B)	114,000,000	—	(2,000,000)	112,000,000	2,000,000
Municipal Inflation Linked Exempt Variable Rate Bonds (1997A)	15,000,000	—	—	15,000,000	—
Hospital Revenue Variable Rate Demand Bonds (2003A)	77,725,000	—	(77,725,000)	—	—
Hospital Revenue Variable Rate Demand Bonds (2007A)	82,950,000	—	(82,950,000)	—	—
Hospital Revenue Variable Rate Demand Bonds (2007B)	82,950,000	—	(1,950,000)	81,000,000	1,475,000
Hospital Revenue Variable Rate Demand Bonds (2008A)	—	76,875,000	—	76,875,000	875,000
Hospital Revenue Variable Rate Demand Bonds (2008B)	—	81,725,000	—	81,725,000	1,550,000
Ehlers note payable	2,000,000	—	—	2,000,000	—
Other miscellaneous payable	245,100	141,001	—	386,101	—
Capital leases payable	873,777	1,015	(764,998)	109,794	101,053
	<u>388,843,877</u>	<u>158,742,016</u>	<u>(166,599,998)</u>	<u>380,985,895</u>	<u>7,266,053</u>
Less basis adjustment amounts	(5,468,084)	241,380	—	(5,226,704)	—
Less deferred amount on refundings and original issue discount	<u>(5,284,747)</u>	<u>(5,293,532)</u>	<u>386,212</u>	<u>(10,192,067)</u>	—
Total long-term debt	\$ <u><u>378,091,046</u></u>	<u><u>153,689,864</u></u>	<u><u>(166,213,786)</u></u>	<u><u>365,567,124</u></u>	<u><u>7,266,053</u></u>

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

	Total	Principal	Interest
Year ending September 30:			
2010	\$ 25,370,860	9,784,754	15,586,106
2011	24,634,908	9,338,917	15,295,991
2012	24,586,218	9,581,266	15,004,952
2013	25,061,053	10,367,500	14,693,553
2014	24,617,129	10,252,785	14,364,344
2015-2019	123,971,719	57,404,421	66,567,298
2020-2024	128,195,613	70,641,941	57,553,672
2025-2029	134,504,874	82,252,837	52,252,037
2030-2034	137,173,698	98,700,000	38,473,698
2035-2039	136,721,926	119,755,000	16,966,926
	\$ <u><u>784,837,998</u></u>	<u><u>478,079,421</u></u>	<u><u>306,758,577</u></u>

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Debt service on the Series 1997A Bonds in the above table is based upon the execution of an interest rate exchange agreement in which the District will be paying rates based on the Securities Industry and Financial Markets Municipal Swap Index (SIFMA Index). The assumed rate to calculate debt service is the average rate for the year ended September 30, 2009. Debt service on the Series 2008A Bonds, the Series 2008B Bonds, and the Series 2009B Bonds in the above table is based upon the execution of interest rate exchange agreements in which the District will be paying fixed rates of 3.61%, 3.598%, and 3.598%, respectively.

All bonds were issued by the District pursuant to a Master Trust Indenture dated September 1, 1996, as supplemented and amended, between the District and U.S. Bank National Association as master trustee. As of September 30, 2009 and 2008, the District was the only member of the obligated group under the Master Trust Indenture, however, members may be admitted to the obligated group or may cease membership in accordance with the terms of the Master Trust Indenture.

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

During 1997, the District entered into two interest rate swap agreements. The first interest rate swap agreement has a notional amount of \$15,000,000 with reduction terms consistent with the retirement of the Series 1997A Bonds. Under the interest rate swap agreement, the District pays the SIFMA Index plus 4 basis points and receives the Municipal Inflation Linked Exempt rate consistent with the Series 1997A Bonds. The effect of the swap was a decrease of interest expense of approximately \$673,000 and \$547,000 for the years ended September 30, 2009 and 2008, respectively. The fair value of this swap was an asset of \$1,996,685 and an asset of \$495,165 at September 30, 2009 and 2008, respectively. The counterparty on this swap is Lehman Brothers Special Financing Inc. (LBSF), and LBSF's payment commitments under the contract are guaranteed by Lehman Brothers Holdings (LBH). Both LBSF and LBH filed for bankruptcy in 2008 placing LBSF in default on the agreement, a condition which existed at September 30, 2009. The Lehman bankruptcy trustee is working to have creditworthy institutions assume Lehman's positions on the swap. The District does not anticipate the ultimate resolution of the assignment to have an adverse impact on its financial condition, results of operations or cash flows. Under the second interest rate swap agreement, the District paid the SIFMA Index plus 45 basis points and received a fixed rate consistent with the rate paid on the Series 1997B Bonds; these bonds were refunded in September 2007 and the interest rate swap agreement was terminated on October 1, 2007 resulting in a \$807,600 payment to the District.

During 1998, the District issued \$21,225,000 of Fixed Rate Hospital Revenue Refunding Bonds, Series 1998A, and \$120,000,000 of Fixed Rate Hospital Revenue Refunding Bonds, Series 1998B, to refund existing debt at that time.

Also during 1998, the District entered into an interest rate swap agreement having a notional amount of \$120,000,000 and reduction terms consistent with the retirement of the Series 1998B Bonds. Under the interest rate swap agreement, the District pays the rate based on the SIFMA Index and receives a fixed rate. The effect of the swap was a reduction in interest expense for the years ended September 30, 2009 and 2008 of approximately \$4,362,000 and \$2,529,000, respectively. The fair value of this swap was an asset of \$18,903,438 and an asset of \$10,590,859 at September 30, 2009 and 2008, respectively.

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Additionally, under the interest rate swap agreement for the Series 1998B Bonds, the counterparty has the option to terminate the interest rate swap. Currently, no determination can be made by management relating to the probability of the termination option being exercised. In exchange for granting the option, the District receives a semi-annual payment of 8 basis points calculated on the outstanding Series 1998B Bonds, the issuance costs of the Series 1998B Bonds paid by the counterparty to the interest rate swap, and, in the event the option is exercised, the reasonable cost of refunding the Series 1998B Bonds into Variable Rate Demand Hospital Revenue Bonds similar in characteristics to the original debt. The fair value of the option was a liability of \$6,132,428 and a liability of \$16,061,903 at September 30, 2009 and 2008, respectively.

During 2003, the District issued \$80,000,000 in Sarasota County Public Hospital District Variable Rate Hospital Revenue Bonds, Series 2003A, due in annual amounts through 2037. The Series 2003A Bonds were collateralized by a municipal bond insurance policy. On February 1, 2008, in order to enhance the marketability of the bonds, the District performed a conversion of the Series 2003A bonds to add a bank liquidity facility in the form of a standby bond purchase agreement.

During 2003, the District entered into two interest rate swap agreements with total original notional amounts of \$80,000,000 and reduction terms consistent with the retirement of the Series 2003A Bonds. Under one agreement, the District pays SIFMA and receives a percentage of LIBOR. The effect of this swap was a reduction in interest expense of approximately \$360,000 and \$855,000 for the years ended September 30, 2009 and 2008, respectively. The fair value of the swap at September 30, 2009 and 2008 was a liability of \$299,977 and \$1,037,594, respectively. Under the second agreement, the District pays a fixed rate of 3.61% and receives a percentage of LIBOR. The effect of this interest rate swap was an increase in interest expense for the years ended September 30, 2009 and 2008 of approximately \$2,348,000 and \$1,462,000, respectively. The fair value of the swap was a liability of \$11,792,117 and \$5,844,033 at September 30, 2009 and 2008, respectively. The counterparty on this swap is LBSF and LBSF's payment commitments under the contract are guaranteed by LBH. Both LBSF and LBH filed for bankruptcy in 2008 placing LBSF in default on the agreement, a condition which existed at September 30, 2009. The Lehman bankruptcy trustee is working to have creditworthy institutions assume Lehman's positions on the swap. The District does not anticipate the ultimate resolution of the assignment to have an adverse impact on its financial condition, results of operations or cash flows.

During 2005, the District entered into three fixed spread basis swaps with notional amounts of \$26,000,000, \$10,000,000, and \$84,000,000 with reduction terms consistent with the retirement of the Series 1996A, Series 1997A, and Series 2003A bonds, respectively. Under each of the three interest rate swap agreements, the District pays the SIFMA Index and receives a percentage of LIBOR plus a fixed spread. The effect of these interest rate swaps was a reduction in interest expense for the years ended September 30, 2009 and 2008 of approximately \$499,000 and \$326,000, respectively. After the issuance of the Series 2007B Bonds and the defeasance of the Series 1996A Bonds as described below, the District terminated the \$26,000,000 notional amount swap agreement. The fair value of the remaining two swaps at September 30, 2009 and 2008 was a liability of \$311,813 and \$1,797,226, respectively.

On September 25, 2007, the District issued a total of \$165,900,000 in Variable Rate Hospital Revenue Bonds which was comprised of the \$82,950,000 Series 2007A and the \$82,950,000 Series 2007B Bonds, both of which were collateralized by a municipal bond insurance policy. The proceeds of this issuance were to provide funds for the defeasances of the Series 1996A Bonds and Series 1997B Bonds, which were

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outstanding in the amounts of \$56,800,000 and \$53,840,000, respectively, and to provide \$50,000,000 of funding for the construction of a new energy plant on the main campus of the Hospital. The Series 2007A and Series 2007B Bonds were issued at par value as auction rate securities in weekly auction mode. The defeasance of the 1996A Bonds resulted in a deferred gain on refunding of \$814,735 and the defeasance of the 1997B Bonds resulted in a deferred loss on refunding of \$2,997,427. The defeased bonds were retired by the bond trustee in October and November of 2007.

The refunding of the Series 1996A Bonds and Series 1997B Bonds created economic gains of approximately \$19,114,000 and \$21,563,000, respectively.

Concurrent with the issuance of the Series 2007A and Series 2007B Bonds, the District entered into two interest rate swaps, each with a notional amount of \$82,950,000 with reduction terms consistent with the retirement of the respective bond issues. Under the interest rate swap agreements, the District paid a fixed rate of 3.578% and received a percentage of LIBOR. Upon the refundings of the Series 2007A and Series 2007B Bonds as described below, the swaps were amended to set the District's payment rate at 3.598% and the counterparty was granted termination rights on every fifth year anniversary of the respective contract amendments. The combined fair value of the swaps was a liability of \$21,070,212 and \$9,850,185 at September 30, 2009 and 2008, respectively.

Following the collapse of the auction rate securities market in February 2008, the District converted the Series 2007A and Series 2007B bonds to variable rate demand obligations. The Series 2007A bonds were converted on March 26, 2008 and were supported by a bank liquidity facility in the form of a standby bond purchase agreement. The Series 2007B bonds were converted on April 10, 2008 and were supported by a bank credit facility in the form of a direct pay letter of credit wrapped around the bond insurance policy.

Following the June 2008 downgrade of the monoline bond insurers by their respective rating agencies, which caused marketability problems for the Series 2003A and Series 2007A bonds, the District refunded both issues on September 2, 2008. The refunding of the Series 2003A bonds was accomplished through the issuance of the \$76,875,000 Variable Rate Hospital Revenue Refunding Bonds, Series 2008A, which are supported by a bank credit facility in the form of a direct pay letter of credit. The refunding of the Series 2007A bonds was accomplished through the issuance of the \$81,725,000 Variable Rate Hospital Revenue Refunding Bonds, Series 2008B, also supported by a bank credit facility in the form of a direct pay letter of credit. Both of the aforementioned letters of credit expire on October 1, 2011 and have take-out provisions for between one year and fourteen months after the date of a drawing advance. There were no drawings or loans on these letters of credit at September 30, 2009.

The refunding of the Series 2003A Bonds and Series 2007A Bonds resulted in deferred losses of \$3,074,632 and \$2,218,900, respectively. The refunding of the Series 2003A Bonds and Series 2007A Bonds created economic gains of approximately \$706,000 and \$481,000, respectively.

The cash flows required to service the Series 2008A Bonds over their life is approximately \$1,158,000 more than the cash flows that would have been required to service the Series 2003A Bonds. The cash flows required to service the Series 2008B Bonds over their life is approximately \$765,000 more than the cash flows that would have been required to service the Series 2007A Bonds.

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On August 27, 2009, the District issued \$103,890,000 of fixed rate hospital revenue bonds, Series 2009A, to provide funding for a new nine-story hospital bed tower to be constructed on the Hospital campus. The bonds were issued with interest rates ranging from 3.0% to 5.625% at yields ranging from 1.95% to 5.82%, resulting in a total net original issuance discount of \$2,104,385 which will be amortized using the effective interest method over the life of the bonds which mature in varying amounts between 2010 and 2039.

As the result of marketability problems on the Series 2007B bonds following the April 2009 credit rating downgrade of the bank which issued the direct pay letter of credit supporting the bonds, the District refunded the issue on September 30, 2009. The refunding of the Series 2007B bonds was accomplished through the issuance of the \$79,525,000 Variable Rate Hospital Revenue Refunding Bonds, Series 2009B, which are supported by a bank credit facility in the form of a direct pay letter of credit. The letter of credit expires on October 1, 2012 and has a take-out provision for between one year and three years after the date of a drawing advance. There were no drawings or loans on this letter of credit at September 30, 2009.

The refunding of the Series 2007B Bonds resulted in a deferred loss of \$2,400,843, and the refunding created an economic gain of approximately \$381,000.

The cash flows required to service the Series 2009B Bonds over their life is approximately \$470,000 more than the cash flows that would have been required to service the Series 2007B Bonds.

The Hospital Revenue Bonds described above are collateralized by a lien on and a pledge of the net revenues of the District and all monies held in funds created by the bond resolution. The debt agreements contain various covenants, which provide for, among other things, the maintenance of minimum levels of cash and investments and specified debt service coverage ratios. Management believes the District was in compliance with all debt covenants at September 30, 2009 and 2008.

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

Approximately \$3,549,000 and \$1,952,000 of interest expense was capitalized in connection with the District's construction programs for the years ended September 30, 2009 and 2008, respectively.

The fair value of the long-term debt is based on quoted dealer quotes for hospital tax-exempt debt with similar terms and maturities and using discounted cash flow analyses based on current interest rates for similar types of borrowing arrangements. The estimated fair value as of September 30, 2009 and 2008 was \$477,949,186 and \$373,717,000, respectively. These values represent a general approximation of the fair value and may never actually be realized.

(6) Retirement Plan

On September 24, 1995, the District withdrew from the Florida Retirement System (FRS). This withdrawal was accomplished by transferring all District employees to SMH Health Care, Inc., a related organization. SMH Health Care, Inc. contracts with the District for leased personnel services. All employees of SMH Health Care, Inc. were given a one-time option to choose between two retirement options with an effective date of October 1, 1995. All employees' benefits previously earned through FRS are guaranteed under the new retirement plan. Employees who have ten or more years of service under FRS will be entitled to a

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pension from the State of Florida. Employees who do not have ten years of service will retain their years of service under either of the new options.

The SMH Health Care Retirement Plan (the Plan) is a single-employer defined benefit pension plan administered by the District. The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. During the year ended September 30, 2003, the District changed the status of the Plan from an ERISA plan to a governmental plan under the Florida Statutes thereby eliminating various ERISA requirements. The change was made effective for the year ended September 30, 2003. On March 26, 2003, the District formally requested a private letter ruling from the Internal Revenue Service (IRS) to change the status of the pension plan to a governmental plan. On January 22, 2007, the IRS informed the District that the IRS would not issue letter rulings on whether or not a plan is a "governmental plan" because the IRS intends to publish new guidance regarding the meaning of a "governmental plan." Although the IRS included issuance of the promised guidance as part of its operating work plan for the IRS' fiscal year which ended September 30, 2009, to date, no such guidance has been published. Management believes, based on discussions with legal counsel, that a favorable outcome will ultimately be granted. However, if the IRS were to determine that the Plan is not a "governmental plan," the estimated additional contribution amount necessary for the Plan to be 80% funded on an ERISA plan basis (including the recent changes under the Pension Protection Act which impacts non-governmental plans starting for 2008 plan years) as of October 1, 2008 is approximately \$26.5 million. The District issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the District.

Plan members are not required or permitted to contribute to the Plan under the funding policy. The District is required to contribute at an actuarially determined rate.

The Plan was recently amended and it is now closed to any new employee hired on or after October 1, 2009. New employees hired on or after October 1, 2009 will participate in a new defined contribution plan named the SMHCS Retirement Savings Plan, whereby the District contributes a stated percentage of qualified earnings into the Plan. The stated contribution rate for fiscal year 2010 is 4% of qualified earnings and does not require a matching contribution by the employee.

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The District's annual pension cost and net pension asset (obligation) to the Plan, included with employee compensation and benefits payable in the balance sheets, as of September 30, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Annual required contribution	\$ (17,920,637)	(17,501,729)
Interest on net pension obligation	—	—
Adjustments	—	—
Annual pension cost	<u>(17,920,637)</u>	<u>(17,501,729)</u>
Contributions made	<u>17,907,394</u>	<u>17,514,972</u>
Increase in net pension asset/decrease in pension obligation	(13,243)	13,243
Net pension asset, beginning of year	<u>13,243</u>	—
Net pension asset, end of year	\$ <u>—</u>	<u>13,243</u>

The annual required contribution for the current year was determined as part of the October 1, 2008 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected age-graded compensation increases of 4% to 8%, based on Plan experience. Both (a) and (b) included an inflation component of 3.0%. Effective October 1, 2001, the actuarial value of assets method was changed from fair value to a method utilizing a five-year averaging of gains and losses. The initial unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed group basis. The remaining amortization period at October 1, 2008 was 24 years.

Three-year trend information is as follows:

	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension asset</u>
Fiscal year ended September 30:			
2007	\$ 16,542,927	103.4%	\$ —
2008	17,501,729	100.1	13,243
2009	17,920,637	99.9	—

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A schedule of funding progress (required supplementary information-unaudited) for the previous three plan years is as follows:

<u>Actuarial valuation date</u>	<u>Actuarial value of plan assets</u>	<u>Actuarial accrued liability</u>	<u>Unfunded actuarial accrued liability (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a % of covered payroll</u>
10/1/2006	\$ 115,020,888	\$ 176,273,890	\$ 61,253,002	65.3%	\$ 132,528,044	46.2%
10/1/2007	130,471,694	190,701,634	60,229,940	68.4	139,894,544	43.1
10/1/2008	142,384,033	213,977,674	71,593,641	66.5	150,848,731	47.5

(7) Post-employment Benefits

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

Life insurance is offered to those who retire under the Florida Retirement System (FRS) or the Plan with at least 20 years of service.

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

The District's annual other postemployment benefit (OPEB) cost is calculated based on the *Annual Required Contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement Number 45, (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

	<u>2009</u>	<u>2008</u>
Annual required contribution	\$ 861,580	890,011
Interest on net OPEB obligation	30,378	—
Adjustment to annual required contribution	(43,919)	—
Annual OPEB cost	<u>848,039</u>	<u>890,011</u>
Contributions made	<u>(393,056)</u>	<u>(130,560)</u>
Increase in net OPEB obligation	454,983	759,451
Net OPEB obligation, beginning of year	<u>759,451</u>	—
Net OPEB obligation, end of year	<u><u>\$ 1,214,434</u></u>	<u><u>759,451</u></u>

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The net OPEB obligation is included in employee compensation and benefits payable in the balance sheets. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2009 were as follows:

	<u>Annual OPEB cost (AOC)</u>	<u>Percentage of AOC contributed</u>	<u>Net OPEB obligation</u>
Fiscal year ended September 30:			
2007	\$ —	0.0%	\$ —
2008	890,011	14.7	759,451
2009	848,039	46.3	1,214,434

A schedule of funding progress (required supplementary information – unaudited) for the plan year is as follows:

<u>Actuarial valuation date</u>	<u>Actuarial value of plan assets</u>	<u>Actuarial accrued liability</u>	<u>Unfunded actuarial accrued liability (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a % of covered payroll</u>
10/1/2007	—	\$ 9,385,575	\$ 9,385,575	0.0%	\$ 154,247,576	6.1%
10/1/2008	—	9,016,044	9,016,044	0.0	160,102,269	5.6

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2008, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate, and an annual healthcare cost trend rate of 9% initially, reduced each year until an ultimate rate of 5% is reached after 8 years (in the 2016/2017 plan year).

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(8) Related Organizations

The District is related with various organizations through several provisions contained in the articles of incorporation and bylaws of the entities. Net amounts due from/to these related organizations and investments in related organizations as of September 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Current assets:		
Community Health Corporation	\$ 270,331	625,115
Physician Hospital Organization, Inc.	791,395	1,028,614
LeeSar HealthTrust Partners, L.C.	1,070,000	1,070,000
Healthcare Sarasota, Inc.	—	222,730
Other	6,047	—
Total current assets	<u>\$ 2,137,773</u>	<u>2,946,459</u>
Noncurrent assets (included in other assets):		
Investment in Healthcare Sarasota, Inc.	\$ 38,064	38,064
Investment in LeeSar HealthTrust Partners, L.C.	4,667,441	4,191,212
Total noncurrent assets	<u>\$ 4,705,505</u>	<u>4,229,276</u>
Current liabilities:		
Community Health Corporation	\$ 18,905	—
Physician Hospital Organization, Inc.	56,323	126,330
Total current liabilities	<u>\$ 75,228</u>	<u>126,330</u>

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

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

During 1998, the Hospital entered into a joint venture with another southwest Florida area governmental hospital. Each organization has a 50% ownership interest. The purpose of the joint venture was to develop a regional service center, LeeSar Healthtrust Partners, L.C. (LeeSar), to meet the materials services and distribution needs of both hospitals. The hospitals agreed to fund initial costs of opening LeeSar and working capital needs through an established line of credit. Each hospital provided a revolving credit loan not to exceed \$3,000,000 to assist in funding LeeSar purchases, capital costs and operational costs. The terms of the amended agreement stated the entire principal and accrued interest would be due and payable on September 30, 2005. The District voted in November 2003 to convert the LeeSar loan to an equity form of investment, effective September 30, 2003, due to LeeSar's inability to repay the loan under the current terms. The Hospital is accounting for the joint venture under the equity method of accounting. LeeSar's excess of revenues over expenses was approximately \$952,000 and \$923,000 for the years ended

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September 30, 2009 and 2008, respectively. Effective October 1, 2009, LeeSar Healthtrust Partners, L.C. merged with LeeSar Inc. LeeSar Inc., the surviving corporation, is a 501(c)(3) not for profit Florida corporation.

Healthcare Sarasota, Inc. is a business coalition formed by community members. The corporation negotiates for the members' employees and dependents to provide cost effective health services for those insured. The District is one of four equal members of the corporation. The District is accounting for the joint venture under the equity method of accounting.

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

The District has pledges receivable for plant replacement and expansion from the Foundation of \$1,631,121 and \$1,758,778 as of September 30, 2009 and 2008, respectively. The District received \$1,437,204 and \$4,933,519 from the Foundation during the years ended September 30, 2009 and 2008, respectively.

(9) Malpractice Insurance

The District is subject to malpractice claims and litigation. Losses incurred have been estimated and accrued in the accompanying financial statements. The District is potentially liable for losses in excess of amounts accrued. However, in management's opinion, such excess, if any, should not have a material adverse effect on the results of operations or financial position of the District. Effective September 12, 1986, the District, as a "state agency or subdivision," eliminated its malpractice insurance coverage and invoked sovereign immunity for medical malpractice claims in excess of \$100,000 per individual and \$200,000 per occurrence. The District accrued for the Hospital and Sarasota Memorial Nursing and Rehabilitation Center approximately \$6,723,000 and \$6,920,000 as of September 30, 2009 and 2008, respectively, for estimated professional liability claims, which is included in other accrued expenses in the accompanying balance sheets.

PSI is subject to malpractice claims and litigation. Losses incurred have been estimated and accrued in the accompanying financial statements. PSI is potentially liable for losses in excess of amounts accrued. However, in management's opinion, such excess, if any, should not have a material adverse effect on the results of operations or financial position of PSI. PSI has received a favorable ruling on a court decision that its physicians are covered under the doctrine of sovereign immunity. Effective December 1, 2003, PSI as a "state agency or subdivision," eliminated its malpractice insurance coverage and invoked sovereign immunity for medical malpractice claims in excess of \$100,000 per individual and \$200,000 per occurrence. PSI accrued approximately \$2,100,000 and \$2,130,000 as of September 30, 2009 and 2008, respectively, for professional liability claims, which is included in other accrued expenses in the accompanying balance sheets.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2009 and 2008

Prior to December 1, 2003, PSI carried professional and comprehensive general liability insurance for each physician for claims arising from acts or omissions occurring within the scope of the physician's employment with PSI. The amount of coverage for each physician was determined jointly by PSI and the physician. The minimum coverage was \$250,000 for each claim and \$750,000 in the aggregate.

Activity related to these self-insured professional liability claims included as a component of other accrued expenses in the accompanying balance sheets for the years ended September 30, 2009 and 2008 are reflected in the tables below:

	2009			
	<u>Self-insured liabilities September 30, 2008</u>	<u>Insurance expense</u>	<u>Payments</u>	<u>Self-insured liabilities September 30, 2009</u>
Professional liabilities	\$ 9,049,910	539,339	(766,249)	8,823,000

	2008			
	<u>Self-insured liabilities September 30, 2007</u>	<u>Insurance expense</u>	<u>Payments</u>	<u>Self-insured liabilities September 30, 2008</u>
Professional liabilities	\$ 9,505,651	108,055	(563,796)	9,049,910

(10) Commitments and Contingencies

The District has various contractual arrangements for employment contracts, leased office space related to medical practices, and equipment leases. Some of the employment contracts and operating leases have initial or remaining noncancelable lease terms in excess of one year. Total operating lease expense for the years ended September 30, 2009 and 2008 was approximately \$2,621,000 and \$4,406,000, respectively.

Minimum payments required under contractual employment agreements and operating leases as of September 30, 2009 are approximately as follows:

	<u>Employment contracts</u>	<u>Operating leases</u>	<u>Total</u>
Year ending September 30:			
2010	\$ 6,799,405	6,120,005	12,919,410
2011	—	6,972,986	6,972,986
2012	—	6,008,343	6,008,343
2013	—	5,385,397	5,385,397
2014	—	4,016,395	4,016,395
All years after September 30, 2014	—	25,252,599	25,252,599
	<u>\$ 6,799,405</u>	<u>53,755,725</u>	<u>60,555,130</u>

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2009 and 2008

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

(11) Concentrations of Credit Risk

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

The District places its cash and cash equivalents with what management believes to be high credit quality financial institutions. As stated in note 2, the custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution or collateralized with securities held by the pledging financial institution's trust department or agent but not held in the District's name. The District's governmental bank balances are held in accounts protected under Chapter 280, Florida Statutes in institutions classified as qualified public depositories under Chapter 280 for the years ended September 30, 2009 and 2008. Other entities of the District have deposits in a financial institution in excess of federally insured limits and which are not collateralized.

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

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors as of September 30, 2009 and 2008 was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	33.0%	32.9%
Self-pay and others	24.3	23.8
Managed care and commercial	30.3	33.9
Medicaid	12.4	9.4
	<u>100.0%</u>	<u>100.0%</u>

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT
 Supplemental Information – Combining Balance Sheet Information
 September 30, 2009

Assets	Sarasota Memorial Hospital	Corporate Division	Sarasota Memorial Nursing & Rehabilitation Center	Charter Plan	Eliminations	Sarasota County Public Hospital District	SMH Health Care, Inc.	Sarasota Memorial Home Care Inc.	SMH Physician Services, Inc.	Eliminations	Total
Current assets:											
Cash and cash equivalents	\$ 27,378,594	713,172	691,595	971,720	—	29,755,081	(4,252)	591,292	2,300,606	—	32,642,727
Patient accounts receivable, less allowance for uncollectible accounts	39,637,951	—	1,554,766	—	—	41,192,717	—	925,530	1,677,115	—	43,795,362
Inventories of supplies	8,247,429	63,302	25,576	—	—	8,336,307	—	10,021	1,514	—	8,347,842
Prepaid expenses and other assets	9,214,389	1,839,600	21,373	1,650	—	11,077,012	35,579	13,051	127,293	—	11,252,935
Due from related organizations	2,341,315	334,598	88,179	—	(569,616)	2,194,476	32,390,472	—	113,742	(32,560,917)	2,137,773
Total current assets	86,819,678	2,950,672	2,381,489	973,370	(569,616)	92,555,593	32,421,799	1,539,894	4,220,270	(32,560,917)	98,176,639
Restricted investments	106,395,513	—	—	—	—	106,395,513	—	16,670	—	—	106,412,183
Board designated investments	542,683,802	—	—	—	—	542,683,802	—	—	—	—	542,683,802
Capital assets, net	258,788,549	89,062,436	3,779,846	—	—	351,630,831	—	259,069	1,204,799	—	353,094,699
Other assets	10,468,530	364,981	—	—	(1,603,811)	9,229,700	2,880,966	—	—	—	12,110,666
Interest rate swaps	—	1,972,457	—	—	(1,972,457)	—	—	—	—	—	—
Total assets	\$ 1,005,156,072	94,350,546	6,161,335	973,370	(4,145,884)	1,102,495,439	35,302,765	1,815,633	5,425,069	(32,560,917)	1,112,477,989

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT
 Supplemental Information – Combining Balance Sheet Information
 September 30, 2009

Liabilities and Net Assets	Sarasota Memorial Hospital	Corporate Division	Sarasota Memorial Nursing & Rehabilitation Center	Charter Plan	Eliminations	Sarasota County Public Hospital District	SMH Health Care, Inc.	Sarasota Memorial Home Care, Inc.	SMH Physician Services, Inc.	Eliminations	Total
Current liabilities:											
Accounts payable	\$ 23,379,490	740,934	342,151	28,020	—	24,490,595	103,041	53,584	834,848	—	25,482,068
Employee compensation and benefits payable	—	—	—	—	—	—	32,318,760	—	6,154	—	32,324,914
Other accrued expenses	14,629,434	749,654	713,769	416,511	—	16,509,368	—	183,008	2,114,322	—	18,806,698
Estimated Medicare and Medicaid settlements	7,211,709	—	—	—	—	7,211,709	—	—	—	—	7,211,709
Due to related organizations	20,690,594	9,253,308	1,000,558	149,233	(569,616)	30,524,077	—	306,720	1,805,348	(32,560,917)	75,228
Current portion of State of Florida medical assistance assessment	5,290,539	—	36,499	—	—	5,327,038	—	—	—	—	5,327,038
Current portion of long-term debt	9,748,788	35,966	—	—	—	9,784,754	—	—	—	—	9,784,754
Total current liabilities	80,950,554	10,779,862	2,092,977	593,764	(569,616)	93,847,541	32,421,801	543,312	4,760,672	(32,560,917)	99,012,409
Long-term debt, less current portion	430,224,518	18,942,164	1,603,811	—	(1,603,811)	449,166,682	—	—	—	—	449,166,682
State of Florida medical assistance assessment, less current portion	2,690,543	—	—	—	—	2,690,543	—	—	—	—	2,690,543
Deferred revenue and other long-term liabilities	5,831	1,095,422	—	—	—	1,101,253	2,880,964	—	—	—	3,982,217
Interest rate swaps	21,738,919	—	—	—	(1,972,457)	19,766,462	—	—	—	—	19,766,462
Total liabilities	535,610,365	30,817,448	3,696,788	593,764	(4,145,884)	566,572,481	35,302,765	543,312	4,760,672	(32,560,917)	574,618,313
Commitments and contingencies											
Net assets:											
Unrestricted	546,895,468	(6,551,208)	288,512	379,606	(1,603,811)	539,408,567	—	996,582	(540,402)	—	539,864,747
Invested in capital assets, net of related debt	(81,102,932)	70,084,306	2,176,035	—	1,603,811	(7,238,780)	—	259,069	1,204,799	—	(5,774,912)
Restricted	3,753,171	—	—	—	—	3,753,171	—	16,670	—	—	3,769,841
Total net assets	469,545,707	63,533,098	2,464,547	379,606	—	535,922,958	—	1,272,321	664,397	—	537,859,676
Total liabilities and net assets	\$ 1,005,156,072	94,350,546	6,161,335	973,370	(4,145,884)	1,102,495,439	35,302,765	1,815,633	5,425,069	(32,560,917)	1,112,477,989

See accompanying independent auditors' report.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT
 Supplemental Information – Combining Statement of Operations and Changes in Net Assets Information
 Year ended September 30, 2009

	Sarasota Memorial Hospital	Corporate Division	Sarasota Memorial Nursing & Rehabilitation Center	Charter Plan	Eliminations	Sarasota County Public Hospital District	SMH Health Care, Inc.	Sarasota Memorial Home Care, Inc.	SMH Physician Services, Inc.	Eliminations	Total
Operating revenues:											
Net patient service revenue, net of provision for bad debts	\$ 402,112,760	—	10,540,450	—	—	412,653,210	—	6,158,110	27,932,315	—	446,743,635
Other revenue	11,483,548	17,727,805	32,397	1,453,493	(10,728,737)	19,968,506	248,688,141	429,603	1,383,500	(250,814,775)	19,654,975
Total operating revenues	<u>413,596,308</u>	<u>17,727,805</u>	<u>10,572,847</u>	<u>1,453,493</u>	<u>(10,728,737)</u>	<u>432,621,716</u>	<u>248,688,141</u>	<u>6,587,713</u>	<u>29,315,815</u>	<u>(250,814,775)</u>	<u>466,398,610</u>
Operating expenses:											
Salaries, wages and fringe benefits	195,570,417	9,844,209	7,422,528	91,374	—	212,928,528	248,448,708	5,195,673	29,385,624	(248,448,708)	247,509,825
Supplies	90,592,019	648,549	1,190,233	(276)	—	92,430,525	—	178,955	1,129,201	—	93,738,681
Purchased services	74,950,507	8,011,109	941,696	1,101,108	(10,682,537)	74,321,883	239,433	951,274	3,855,343	(1,671,542)	77,696,391
Professional fees	13,923,532	55,279	88,500	—	(46,200)	14,021,111	—	1,235	39,500	(694,525)	13,367,321
State of Florida medical assistance assessment	5,286,509	—	189,270	—	—	5,475,779	—	—	—	—	5,475,779
Depreciation and amortization	34,408,523	2,026,669	364,666	—	—	36,799,858	—	77,965	268,488	—	37,146,311
Total operating expenses	<u>414,731,507</u>	<u>20,585,815</u>	<u>10,196,893</u>	<u>1,192,206</u>	<u>(10,728,737)</u>	<u>435,977,684</u>	<u>248,688,141</u>	<u>6,405,102</u>	<u>34,678,156</u>	<u>(250,814,775)</u>	<u>474,934,308</u>
Operating income (loss)	<u>(1,135,199)</u>	<u>(2,858,010)</u>	<u>375,954</u>	<u>261,287</u>	<u>—</u>	<u>(3,355,968)</u>	<u>—</u>	<u>182,611</u>	<u>(5,362,341)</u>	<u>—</u>	<u>(8,535,698)</u>
Nonoperating realized items:											
Ad valorem tax	48,213,186	—	—	—	—	48,213,186	—	—	—	—	48,213,186
Interest expense	(10,206,961)	(560,443)	(48,264)	—	48,264	(10,767,404)	—	—	—	—	(10,767,404)
Investment income	18,490,945	—	89	—	(48,264)	18,442,770	—	604	1,518	—	18,444,892
Other nonoperating income (expense)	2,140	(31,336)	—	—	—	(29,196)	—	490	—	—	(28,706)
Total nonoperating realized items	<u>56,499,310</u>	<u>(591,779)</u>	<u>(48,175)</u>	<u>—</u>	<u>—</u>	<u>55,859,356</u>	<u>—</u>	<u>1,094</u>	<u>1,518</u>	<u>—</u>	<u>55,861,968</u>
Excess (deficit) of revenues over expenses before nonoperating unrealized items											
	<u>55,364,111</u>	<u>(3,449,789)</u>	<u>327,779</u>	<u>261,287</u>	<u>—</u>	<u>52,503,388</u>	<u>—</u>	<u>183,705</u>	<u>(5,360,823)</u>	<u>—</u>	<u>47,326,270</u>
Nonoperating unrealized items:											
Unrealized gains on investments	22,738,333	—	—	—	—	22,738,333	—	—	—	—	22,738,333
Changes in fair value of interest rate swaps	2,432,226	1,987,817	—	—	—	4,420,043	—	—	—	—	4,420,043
Total nonoperating unrealized items	<u>25,170,559</u>	<u>1,987,817</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>27,158,376</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>27,158,376</u>
Excess (deficit) of revenues over expenses	<u>80,534,670</u>	<u>(1,461,972)</u>	<u>327,779</u>	<u>261,287</u>	<u>—</u>	<u>79,661,764</u>	<u>—</u>	<u>183,705</u>	<u>(5,360,823)</u>	<u>—</u>	<u>74,484,646</u>
Other changes in net assets:											
Contributions restricted for capital purposes	2,566,987	—	—	—	—	2,566,987	—	—	—	—	2,566,987
Net transfers from (to) other component units	(15,200,000)	10,000,000	—	—	—	(5,200,000)	—	—	5,200,000	—	—
Increase (decrease) in net assets	<u>67,901,657</u>	<u>8,538,028</u>	<u>327,779</u>	<u>261,287</u>	<u>—</u>	<u>77,028,751</u>	<u>—</u>	<u>183,705</u>	<u>(160,823)</u>	<u>—</u>	<u>77,051,633</u>
Net assets, beginning of year	401,644,050	54,995,070	2,136,768	118,319	—	458,894,207	—	1,088,616	825,220	—	460,808,043
Net assets, end of year	<u>\$ 469,545,707</u>	<u>63,533,098</u>	<u>2,464,547</u>	<u>379,606</u>	<u>—</u>	<u>535,922,958</u>	<u>—</u>	<u>1,272,321</u>	<u>664,397</u>	<u>—</u>	<u>537,859,676</u>

See accompanying independent auditors' report.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Supplemental Information – Budgetary Comparison Schedule (Unaudited)

Year ended September 30, 2009

(in thousands of dollars)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Net patient service revenue	\$ 454,363	446,744	(7,619)
Other revenue	20,146	19,655	(491)
Total operating revenues	<u>474,509</u>	<u>466,399</u>	<u>(8,110)</u>
Operating expenses:			
Salaries, wages, and fringe benefits	254,454	247,510	6,944
Supplies	98,771	93,739	5,032
Purchased services	81,125	77,696	3,429
Professional fees	13,040	13,367	(327)
State of Florida medical assistance assessment	5,444	5,476	(32)
Depreciation and amortization	35,897	37,146	(1,249)
Total operating expenses	<u>488,731</u>	<u>474,934</u>	<u>13,797</u>
Operating loss	<u>(14,222)</u>	<u>(8,535)</u>	<u>5,687</u>
Nonoperating realized items:			
Ad valorem tax	46,942	48,213	1,271
Interest expense	(13,939)	(10,767)	3,172
Investment income	26,260	18,445	(7,815)
Other nonoperating income	70	(29)	(99)
Total nonoperating realized items	<u>59,333</u>	<u>55,862</u>	<u>(3,471)</u>
Excess of revenues over expenses before nonoperating unrealized items	<u>45,111</u>	<u>47,327</u>	<u>2,216</u>
Nonoperating unrealized items:			
Unrealized losses on investments	—	22,738	22,738
Changes in fair value of interest rate swaps	—	4,420	4,420
Total nonoperating unrealized items	<u>—</u>	<u>27,158</u>	<u>27,158</u>
Excess of revenues over expenses	45,111	74,485	29,374
Other changes in net assets:			
Contributions restricted for capital purposes	2,000	2,567	567
Increase in net assets	47,111	77,052	29,941
Net assets, beginning of year	460,808	460,808	—
Net assets, end of year	<u>\$ 507,919</u>	<u>537,860</u>	<u>29,941</u>

See accompanying independent auditors report.



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

**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***

Board Members
Sarasota County Public Hospital District:

We have audited the financial statements of Sarasota County Public Hospital District (the District) as of and for the years ended September 30, 2009 and 2008, and have issued our report thereon dated January 18, 2010. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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



We noted certain matters that we reported to management of the District in a separate letter dated January 18, 2010.

This report is intended solely for the information and use of management, members of the Board, the Audit Committee, others within the entity, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 18, 2010
Certified Public Accountants