



**Morgan • Jacoby • Thurn • Boyle**  
**& Associates, P.A.**  
Certified Public Accountants

**INDIAN RIVER COUNTY HOSPITAL DISTRICT**

**Financial Statements**

**September 30, 2017 and 2016**

**(With Independent Auditors' Report Thereon)**



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# INDIAN RIVER COUNTY HOSPITAL DISTRICT

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## **Independent Auditors' Report**

The Board of Trustees  
Indian River County Hospital District:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Indian River County Hospital District (the District), as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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



## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of September 30, 2017 and 2016, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with Government Auditing Standards, we have also issued our report March 7, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

*MORGAN, JACOBY, THURN, BOYLE & ASSOCIATES, P.A.*

March 7, 2018

# INDIAN RIVER COUNTY HOSPITAL DISTRICT

## Management's Discussion and Analysis

**Indian River County Hospital District's Mission:** To foster a collaborative community health care system, with the objective of improving the health of our community.

**Indian River County Hospital District's Vision:** Working to improve the health of our community.

This section of the Indian River County Hospital District's (District) annual financial report presents our discussion and analysis of the District's financial results for the fiscal year that ended September 30, 2017. Please read this section in conjunction with the District's financial statements that begin on page 12.

### Major Initiatives for 2016/17

During the year ended September 30, 2017, the District engaged in two major initiatives expected to enable proper execution of its mission and vision, as follows:

1. The first is an effort to be accountable to taxpayers for the stewardship of the tax revenues expended. Specifically, the Trustees determined that funds expended for the purpose of reimbursing agencies providing healthcare for indigent residents of the county should be supported by records clearly documenting that the services were provided to individuals who were in fact eligible for taxpayer support. To be eligible to receive taxpayer supported healthcare, an individual must:
  - a. Be a resident of Indian River County for at least 6 months;
  - b. Have income that does not exceed 150% of the Federal poverty guidelines; and,
  - c. Be uninsured including government insurance programs.

Almost all organizations receiving taxpayer support from the District have been required for many years to submit standardized documentation establishing the person's income and residency before receiving reimbursement for the care provided. This included all reimbursement to Indian River Medical Center, Treasure Coast Community Health, and various mental health agencies, but in the past has not included the Indian River County Health Department and the VNA Mobile Health Unit. The latter organizations were given grants in exchange for their assurance the funds were spent on eligible patients. The process for validating eligibility of patients before payments were made began in fiscal year 2015/16 and continued to evolve into effect for the Health Department and the VNA Mobile Unit in fiscal year 2016/17. The application process and collection of documentation can take place and be entered into the District's web based system at many locations throughout the county. The District currently supports seven organizations, and patients eligible at any of the seven entered in the District's database will be eligible at any of the other supported organizations including the Health Department and the VNA Mobile Unit. The District made an effort for two years to smooth the transition to a standardized process for all agencies, nonetheless with the imposition of the standardized process for payment for services rendered, actual funds expended in fiscal 2016/17 for the two agencies affected were considerably reduced from previous fiscal years.

<u>Agency</u>	<u>FY 2015/16</u>	<u>FY 2016/17</u>	<u>Change</u>
VNA Mobile Unit	\$ 390,000	314,022	(75,978)
Health Department	1,719,293	1,244,746	(474,517)

(Continued)

## INDIAN RIVER COUNTY HOSPITAL DISTRICT

### Management's Discussion and Analysis, Continued

2. The second major initiative during fiscal 2016/17 was the establishment of an effort to analyze the long-term best path for the community's hospital to assure the sustainability of high quality healthcare in the county. In full cooperation with the IRMC Board of Directors and the IRMC Foundation Board of Directors, the Trustees approved the establishment of a Collaborative Committee consisting of representatives of each entity. Ultimately a consultant, Stroudwater, was retained. After analyzing available data, the Collaborative Group recommended the best alternative for the community's hospital is to seek a partner to help it "raise the bar" for quality care and to assure long-term financial viability. IRMC's Board and the Trustees independently endorsed the recommendation. The Collaborative Committee was disbanded and a specialized investment bank, Juniper Advisory, was retained to seek potential interested partners. This effort required costs for the consultant and legal assistance to assure all actions were compliant with applicable Sunshine laws. Though most of the expenses for these unusual costs were managed with budget adjustments, administrative expenses overall were over budget by \$67,595.

### Financial Highlights

- The District's net position decreased 14.1% to \$4,684,701 at September 30, 2017. (See Table 1 for details.) This net decrease for the year relates to a planned reduction in millage rate, which yielded lower operating revenues (tax receipts) than the previous fiscal year by \$1,378,000, and utilized cash reserves to accommodate for the budgeted increased expenditures over the previous fiscal year by \$893,000. (See Table 2 for details.)
- The District's cash and cash equivalents increased \$567,000 as \$551,000 was generated from operations and \$16,000 was received from interest income.
- The Board of Trustees reserved \$2,970,000 from available cash brought forward for the 2017 budget, of which \$1,500,000 was for fiscal year end operations.
- The Trustees voted in 2015 to maintain a minimum reserve of \$1.5 million. The purpose is to maintain enough cash at fiscal year end to fund operations and pay providers until tax receipts begin to be received again. Normally this occurs by mid-November each year.
- Net unrestricted position on September 30, 2017 was \$3,525,776.
- Despite this planned reduction in tax receipts, the indigent care and program funding increased by \$490,175 or 4.3% from the prior year (see pages 6 and 7 for more details). The more significant reasons for the net increase in fiscal year 2016/2017 funding are as follows:
  1. An increase in volumes for the Indian River Medical Center (Medical Center) and Treasure Coast Community Health Dental program.
  2. Increased support for Mental Health Initiatives in fiscal year 2016/2017.
  3. In response to the Community Health Needs Assessment, the District allocated funds to three organizations through the RFP process: Healthy Start, Childcare Resources, and the Medical Center.
- In 2016 five seats were open for election. Three new board members joined the District Board for public and taxpayer reassurance. One newly elected board member resigned early in 2017 and was replaced by an appointment of the Governor.

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# INDIAN RIVER COUNTY HOSPITAL DISTRICT

## Management's Discussion and Analysis, Continued

### Overview of the Financial Statements

The District's financial statements are prepared on the proprietary fund accrual basis of accounting and present the District's operational activities in a manner similar to that of private sector companies. This annual report consists of two parts – management's discussion and analysis (this section) and the financial statements.

- The financial statements consist of three statements: (1) Statement of Net Position, (2) Statement of Revenues, Expenses, and Changes in Net Position, and (3) Statement of Cash Flows.
- The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position reflect the District's financial position at the end of the year and report the District's net position and changes in net position as a result of the District's revenues and expenses for the year.
- The term "net position" represents the difference between assets, or the District's investment in resources, and liabilities, or the District's obligation to its creditors. Increases or decreases in net position are an indicator of whether the financial health of the District is improving or deteriorating. In evaluating the financial health of the District, other non-financial factors should also be considered, such as taxable property values, tax millage rate, and changes in the economic climate of Indian River County and its residents.
- The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, financing, and investing activities. The statement explains where cash came from, how it was used and the change in cash balance during the year.

### Financial Analysis of the District as a Whole

Net position of the District consisted of the following as of September 30, 2017 and 2016:

**TABLE 1**  
**Condensed Summary of Assets, Liabilities, and Net Position**

	<u>2017</u>	<u>2016</u>
Current assets	\$ 4,664,480	5,075,294
Capital assets, net	<u>1,158,925</u>	<u>1,333,774</u>
Total assets	<u>5,823,405</u>	<u>6,409,068</u>
Current liabilities	<u>1,138,704</u>	<u>956,229</u>
Total liabilities	<u>1,138,704</u>	<u>956,229</u>
Net position:		
Net investment in capital assets	1,158,925	1,333,774
Unrestricted	<u>3,525,776</u>	<u>4,119,065</u>
Total net position	\$ <u>4,684,701</u>	<u>5,452,839</u>

(Continued)



**INDIAN RIVER COUNTY HOSPITAL DISTRICT**

Management's Discussion and Analysis, Continued

The following table summarizes the District's revenues and expenses for each of the years ended September 30, 2017 and 2016, and the changes in net position during each of those years.

**TABLE 2**  
**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Net ad valorem tax revenues	\$ 12,154,267	13,532,791
Rental income	<u>239,505</u>	<u>239,027</u>
Total operating revenues	<u>12,393,772</u>	<u>13,771,818</u>
Operating expenses:		
Indigent care and program funding	11,879,007	11,388,832
Administrative expenses	1,123,792	720,984
Depreciation	<u>174,849</u>	<u>174,733</u>
Total operating expenses	<u>13,177,648</u>	<u>12,284,549</u>
Operating income	(783,876)	1,487,269
Non-operating revenues – interest income	<u>15,738</u>	<u>15,634</u>
Change in net position	\$ <u>(768,138)</u>	<u>1,502,903</u>

The District's operating revenues decreased by \$1,378,046, or 10%, primarily due to a decrease of \$1,378,524 in the net ad valorem taxes. The final gross taxable value of the tax base (property values) increased from the prior year by approximately \$851 million or 5.9%, while the millage rate decreased by \$0.1508 to \$0.8443.

During the years ended September 30, 2017 and 2016, the District provided indigent care and program funding to the following agencies:

**TABLE 3**  
**Agencies Funded by the District for Indigent Care and Programs**

	<u>2017</u>	<u>2016</u>
Indian River Medical Center	\$ 7,452,570	6,993,855
Indian River County Public Health Department	1,741,783	1,965,044
Treasure Coast Community Health, Inc.	761,971	735,000
Visiting Nurse Association of the Treasure Coast, Inc.	551,815	686,472
Mental Health Association in Indian River County	361,460	306,330
University of Florida Psychiatric OP Clinic	175,290	184,362
New Horizons of the Treasure Coast, Inc.	19,213	21,852
Indian River County Medicaid Assessment	387,869	365,917
Mental Health Collaborative	200,000	130,000
Health needs assessment	<u>227,036</u>	<u>-</u>
Total indigent care and program funding	\$ <u>11,879,007</u>	<u>11,388,832</u>

(Continued)

## INDIAN RIVER COUNTY HOSPITAL DISTRICT

### Management's Discussion and Analysis, Continued

Indigent care and program funding increased \$490,175 or 4.3% from prior year. This was primarily due to the following items:

- The indigent care provided by the Medical Center increased by \$829,833, or 14.7%, resulting from an increase in volume and a 3% increase in outpatient rates effective April 1, 2017, allowed annually in the Indigent Care Agreement. This increase was offset in part by the District's subsidy for The Partners In Women's Health program, which decreased by \$371,118, or 27.5%.
- The District's actual reimbursement to the Visiting Nurse Association (VNA) for their mobile program, home health visits, and hospice house room and board medical care decreased a net of \$134,657 or 19.6%. The District did not decrease overall funding to the organization. The District reimbursement of services delivered through the mobile unit was transitioned to fee-for-service reimbursement to follow the same process as all other providers receiving reimbursement from the District.
- The District's actual reimbursement to the Indian River County Health Department for their primary care, dental care, We Care, and Gifford Health Center programs decreased \$223,261 in current year. The District did not decrease overall funding to the organization. The District reimbursement of services delivered through the various programs for which the Health Department requested funding, was transitioned to fee-for-service reimbursement to actual District qualified visits, rather than grant funded payments for projected indigent patients. This follows the same process as all other providers receiving reimbursement from the District.
- The District's portion of the Indian River County Medicaid assessment increased by \$21,952 in the current year.
- The District funding for the Treasure Coast Community Health Clinic's indigent medical and dental services increased \$26,971. This is a volume-related increase as more visits are identified as compliant with District qualifications. Also this was the first full year with an added dental capacity.
- The District increased funding for psychiatric outpatient clinics and other mental health activities by \$99,340.
- The pharmaceutical and other programs accounted for a net increase of \$11,938.
- The funding associated with the new health needs assessment accounted for an increase of \$227,037.

Administrative expenses increased \$402,808, or 55.9%, due mainly to professional fees increasing \$341,703, principally due to the following.

- Professional fees include increased legal fees to outside counsel of \$117,303 and to District counsel by \$55,652. Outside consulting services and communication firm services were contracted to provide expertise in determining the best approach for moving forward in the partnership effort with the Medical Center.

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## INDIAN RIVER COUNTY HOSPITAL DISTRICT

### Management's Discussion and Analysis, Continued

- The Care Card pilot program led to the development of a web-based financial assistance application and tracking system. All funded organizations are now utilizing this system. Services of a temporary employment agency were engaged to assist in this effort.
- An evaluation of the Human Services Building was completed and identified needed repairs and maintenance to the building to comply with current ADA requirements.

#### Capital Assets and Debt Financing

As of September 30, 2017, the District had invested \$1,158,925, net of depreciation, in a variety of capital assets as reflected in the following table, which represent a net decrease (additions less disposals and depreciation) of \$174,849, or 13.1% from September 30, 2016.

**TABLE 4**  
**Capital Assets**

	<u>2017</u>	<u>2016</u>
Land and improvements:		
Gifford Health Center	\$ 35,000	35,000
Human Services Building	213,961	214,721
Buildings and improvements:		
Gifford Health Center	900,603	959,622
Human Services Building	5,326	116,254
Equipment and leasehold improvements:		
Gifford Health Center	3,526	4,612
Software	<u>509</u>	<u>3,565</u>
Net property and equipment	\$ <u>1,158,925</u>	<u>1,333,774</u>

The District has no debt financing as of September 30, 2017.

#### Current Budget

Annually, the Board of Trustees for the District approves a budget for the upcoming fiscal year prior to the beginning of that fiscal year. During 2016/2017, no amendments were made to the original budget.

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## INDIAN RIVER COUNTY HOSPITAL DISTRICT

### Management's Discussion and Analysis, Continued

The following table presents the budget, as originally approved, as compared to 2016/2017 actual results.

**TABLE 5**  
**Budget vs. Actual**

	2016/2017		Favorable (Unfavorable) Variance
	Budget	Actual	
<b>Revenues:</b>			
Ad valorem tax revenues	\$ 12,465,368	12,443,532	(21,836)
Interest income	11,600	15,738	4,138
Rental income	279,600	239,505	(40,095)
Total revenues	12,756,568	12,698,775	(57,793)
<b>Expenses:</b>			
Indigent care and program funding	13,024,961	11,879,007	1,145,954
Property Appraiser commissions	197,106	178,522	18,584
Tax Assessor commissions	249,307	110,743	138,564
Professional fees	385,000	595,773	(210,773)
Salaries and benefits	310,000	278,303	31,697
Other	250,770	249,716	1,054
Depreciation	173,918	174,849	(931)
Total expenses	14,591,062	13,466,913	1,124,149
Change in net position	\$ (1,834,494)	(768,138)	1,066,356

The District's ad valorem tax revenues and related commissions for the property appraiser and tax assessor are shown gross to conform with the budgetary presentation.

The indigent care and program expense incurred by the District was \$1,146,000 or 8.8% less than anticipated and primarily relates to the reduced funding of the Dental and Health Needs Assessment programs by \$323,000, the Indian River County Health Department programs by \$755,000, and the Treasure Coast Community Health programs by \$188,000.

#### **Factors Bearing on the Future and Plan for 2017/2018**

In planning for 2017/2018 and at the time these financial statements were audited and prepared, the District was aware of the following conditions:

- The gross taxable value of property used in the 2017/2018 budgeting process increased by approximately \$1.1 billion or 7.28%.
- The District's 2017/2018 budget provides for \$13,593,000 in net ad valorem tax revenues, \$261,000 in other revenues, \$12,707,000 in program expenditures, and \$1,126,000 in administrative expenses, including depreciation. The result is a budgeted increase in the District's total net position of \$21,000, inclusive of designated reserves of \$151,000, partnership process reserve of \$1,000,000 and a contingency reserve of \$1,500,000.
- The reserves designated and budgeted in 2017/2018 continue including \$115,000 for the improvement and betterment of the Gifford Health Center and the Human Services Building.

(Continued)

## INDIAN RIVER COUNTY HOSPITAL DISTRICT

### Management's Discussion and Analysis, Continued

- The District continues to better modify its qualifying criteria, billing, and funding practices for community healthcare. The District plans to revisit the need and impact on the community and District funding by raising the income qualifying criteria to 200% of the Federal Poverty level.
- The District continues participating in the provision of access to mental health care services in Indian River County, which includes how best to fund mental health care services and, if appropriate, to provide additional District funding. This process has moved forward as the District becomes a more direct partner in the continuum of healthcare for Indian River County, including a close relationship in the development of the Connections Program.
- The implementation of the Strategic Planning Process will continue for the District. The Trustees, along with management, plan to wrap up the third year of the plan and look to reengaging consulting assistance to address the next 3 years. During this process, the mission statement will be revisited and amended as necessary as access to and funding of healthcare needs change for the District with the engagement of a new partner for the Medical Center.
- As part of the Strategic Planning goals and objectives, the District will continue to better educate and hear the needs of the public through a series of presentations to major civic and other organizations.
- In 2017/2018, the funding of the VNA Mobile Unit and the services provided by the Department of Health will be wholly reimbursed on a fee-for-service basis as other services have been funded over the years. This will better enable auditing and assurance that the District is utilizing the tax dollars for funding organizations providing services to the District defined indigent of our county.
- The Financial Assistance Program will continue in order to collect data and track the District defined qualified indigent population and to standardize the qualifying process for those meeting the District's criteria for indigent care services. All providers receiving Indian River County tax dollars are required to follow the same process in order to be reimbursed for the delivery of services to this population. The District plans to hire a part-time, no benefit Financial Assistance Coordinator in the 2017-2018 fiscal year.
- The collaborative committee formed in 2016-2017, became the Partnership Process. With the leadership of Juniper Advisory, it was concluded that for the future financial sustainability of the Indian River Medical Center, a partnership with a well-established health care system is necessary. Cleveland Clinic Foundation was selected by the above organizations and contract negotiations are expected to be completed by fiscal year end.
- The District's Indigent Care Agreement with the Medical Center is up for renegotiation in the spring of the 2017/2018 fiscal year. This Agreement will be addressed within the negotiations of the amended lease agreement with Cleveland Clinic Foundation.

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## **INDIAN RIVER COUNTY HOSPITAL DISTRICT**

### **Management's Discussion and Analysis, Continued**

#### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. If you have questions about this report or need additional information, contact the District's office as follows:

**By Mail:**

Indian River County Hospital District  
3730 7<sup>th</sup> Terrace, Suite 204B  
Vero Beach, Florida 32960

**By Phone or Fax:**

Indian River County Hospital District  
(772) 770-0935  
(772) 770-1974

INDIAN RIVER COUNTY HOSPITAL DISTRICT

Statements of Net Position

September 30, 2017 and 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 4,489,638	3,922,284
Accounts receivable	152,698	1,094,756
Prepaid expenses	<u>22,144</u>	<u>58,254</u>
Total current assets	4,664,480	5,075,294
Property and equipment, net (note 2)	<u>1,158,925</u>	<u>1,333,774</u>
Total assets	\$ <u>5,823,405</u>	<u>6,409,068</u>
<b><u>Liabilities and Net Position</u></b>		
Current liabilities:		
Due to Medical Center (note 3)	642,133	717,930
Accounts payable	487,715	229,496
Accrued expenses	<u>8,856</u>	<u>8,803</u>
Total liabilities	<u>1,138,704</u>	<u>956,229</u>
Net position:		
Net investment in capital assets	1,158,925	1,333,774
Unrestricted (note 4)	<u>3,525,776</u>	<u>4,119,065</u>
Total net position	4,684,701	5,452,839
Commitments and contingencies (notes 5 and 9)	_____	_____
Total liabilities and net position	\$ <u>5,823,405</u>	<u>6,409,068</u>

See accompanying notes to financial statements.

**INDIAN RIVER COUNTY HOSPITAL DISTRICT**

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Net ad valorem tax revenues	\$ 12,154,267	13,532,791
Rental income	<u>239,505</u>	<u>239,027</u>
Total operating revenues	<u>12,393,772</u>	<u>13,771,818</u>
Operating expenses:		
Indigent care and program funding (note 6)	11,879,007	11,388,832
Professional fees	595,773	254,070
Salaries and benefits	278,303	265,092
Other	249,716	201,822
Depreciation	<u>174,849</u>	<u>174,733</u>
Total operating expenses	<u>13,177,648</u>	<u>12,284,549</u>
Operating income	(783,876)	1,487,269
Non-operating revenues – interest income	<u>15,738</u>	<u>15,634</u>
Change in net position	(768,138)	1,502,903
Net position, beginning of year	<u>5,452,839</u>	<u>3,949,936</u>
Net position, end of year	\$ <u>4,684,701</u>	<u>5,452,839</u>

See accompanying notes to financial statements.



**INDIAN RIVER COUNTY HOSPITAL DISTRICT**

Statements of Cash Flows

Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating activities:		
Net ad valorem taxes received	\$ 12,154,267	13,532,791
Cash received for rents	239,505	239,027
Cash paid for programs, net	(11,954,804)	(11,625,283)
Cash paid for goods and activities	(808,240)	(686,774)
Other operating cash flows	<u>920,888</u>	<u>(920,888)</u>
Net cash provided by operating activities	<u>551,616</u>	<u>538,873</u>
Noncapital financing activities	<u>—</u>	<u>—</u>
Capital and related financing activities:		
Acquisition of capital assets	<u>—</u>	<u>(5,425)</u>
Net cash used in capital and related financing activities	<u>—</u>	<u>(5,425)</u>
Investing activities:		
Interest income receipts	<u>15,738</u>	<u>15,634</u>
Net cash provided by investing activities	<u>15,738</u>	<u>15,634</u>
Net increase in cash and cash equivalents	567,354	549,082
Cash and cash equivalents at beginning of year	<u>3,922,284</u>	<u>3,373,202</u>
Cash and cash equivalents at end of year	\$ <u>4,489,638</u>	<u>3,922,284</u>
Reconciliation of change in net position before capital contributions to net cash provided by operating activities:		
Change in net position before capital contributions	(768,138)	1,502,903
Add (deduct):		
Depreciation	174,849	174,733
Interest income	(15,738)	(15,634)
(Increase) decrease in current assets:		
Accounts receivable	942,058	(938,172)
Prepaid assets	36,110	(7,971)
Increase (decrease) in current liabilities:		
Due to Medical Center	(75,797)	(236,451)
Accounts payable	258,219	57,036
Accrued expenses	<u>53</u>	<u>2,429</u>
Net cash provided by operating activities	\$ <u>551,616</u>	<u>538,873</u>

See accompanying notes to financial statements.

## INDIAN RIVER COUNTY HOSPITAL DISTRICT

### Notes to Financial Statements

September 30, 2017 and 2016

**(1) Organization and Summary of Significant Accounting Policies**

**(a) Reporting Entity and Basis of Presentation**

The Indian River County Hospital District (the District) is a special tax district located in Indian River County, Florida. The District was created pursuant to Chapter 61-2275 of the Laws of Florida, Special Acts (the Acts) of 1961, as amended. The District currently owns a general acute-care hospital known as Indian River Memorial Hospital, Inc. d/b/a Indian River Medical Center (the Medical Center) located in Vero Beach, Florida, which is licensed for 335 beds. The Medical Center, including the approximately 24 acres of land on which it is located, the buildings, improvements, fixtures and equipment is referred to as the "hospital facility". The District is governed by a Board of Trustees (the Board) which is empowered by the Acts to establish and construct such health facilities in the district area and to levy taxes and issue bonds to finance such operations.

The District leases the hospital facility and approximately 45 acres of undeveloped property to the Medical Center, an affiliated not-for-profit organization established to operate the hospital facility. The lease expires on December 31, 2034 unless extended. The lease term extends automatically for one or more additional ten year periods unless either the District or the Medical Center delivers to the other either a written Notice of Lease Renegotiations (accompanied by a written list of principal issues to be renegotiated); or a written Notice of Non-Extension, either of which written notices shall be delivered no later than ten years prior to the end of the then existing lease term. The District reimburses the Medical Center for certain services provided to the residents of the District. The contractual relationships between the District and the Medical Center are discussed further in note 9. Because of the nature of these agreements, the District's financial statements are presented in a manner similar to those of a proprietary fund enterprise.

The District leases real estate located in Vero Beach, Florida, to the Visiting Nurse Association of the Treasure Coast, Inc. (VNA), a not-for-profit organization, upon which the District constructed a three story office building, referred to as the Human Service Building. The lease was a seven year lease ending on May 31, 2012, which was renewed for two additional five year periods ending on May 31, 2022.

The District leases approximately four acres of real estate to the VNA, a not-for-profit organization, upon which the VNA has constructed and operates a 12-bed hospice house. The lease terminates on December 31, 2026, with one additional ten year option, at \$1 per year.

The District leases real estate located in Gifford, Florida, to the Indian River County Health Department, upon which the District constructed a health center, referred to as the Gifford Health Center. The lease is for \$1 per year ending upon 180 days written notice by either the District or the Indian River County Health Department.

(Continued)

## INDIAN RIVER COUNTY HOSPITAL DISTRICT

### Notes to Financial Statements

**(b) *Authorized Investments***

The District's enabling legislation permits investments as described in Section 218.415 of the Florida Statutes.

**(c) *Cash and Cash Equivalents***

Cash and cash equivalents are defined as highly liquid investments with original maturities of three months or less and consist of amounts held in commercial bank demand deposit accounts and money market accounts.

**(d) *Pledges Receivable and Capital Contributions***

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until conditions are substantially met.

**(e) *Property and Equipment***

Property and equipment, which include betterments of existing facilities, are recorded at cost or fair market value at the time of donation. Maintenance, repairs and minor renewals are charged to expense as incurred. Depreciation is provided using the straight-line method over the estimated lives indicated below.

	<u>Years</u>
Land improvements	15-20
Buildings	24-30
Equipment	5-7

**(f) *Ad Valorem Tax Revenue***

Ad valorem tax revenues are recorded in the year for which the taxes are received, net of uncollectible amounts, collection expenses, and appraisal fees. The District is responsible for setting their portion of the ad valorem millage rates. A millage rate is the rate of tax per thousand dollars of taxable value. The ad valorem taxes are paid in arrears and are based on the calendar year. The Indian River County Tax Collector levies the taxes for the District as provided under the state law. The taxes are collected by the Indian River County Tax Collector and are remitted to the District as received.

	<u>2017</u>	<u>2016</u>
Ad valorem tax revenues, net of uncollectible amounts	\$ 12,443,532	13,830,921
Less commissions and fees:		
Property Appraiser	178,522	191,201
Tax Collector	110,743	106,929
Net Ad valorem tax revenues received	\$ <u>12,154,267</u>	<u>13,532,791</u>

(Continued)

## INDIAN RIVER COUNTY HOSPITAL DISTRICT

### Notes to Financial Statements

The taxable assessed property valuation and the millage rate were \$15,192,319,281 and \$0.8443 for 2017, respectively, and \$14,341,778,929 and \$0.9951 for 2016, respectively.

#### **(g) Basis of Accounting and Presentation**

The District presents the financial statements in accordance with the provisions of Statement No. 34 of the Governmental Accounting Standards Board ("GASB 34"), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. GASB 34 established standards for external financial reporting for all state and local governmental entities. These standards require three financial statements that include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position requires that total net position be reported in three components: (1) invested in capital assets, net of related debt, (2) restricted, and (3) unrestricted.

- "Net investment in capital assets" consists of capital assets, including restricted capital assets, net of accumulated depreciation, reduced by the amount outstanding for any bonds, notes, or other financing liabilities that were incurred related to the acquisition, construction, or improvement of the capital assets.
- "Restricted net position" consists of assets that are restricted as to use by external factors such as debt covenants, grantors, contributors, or laws and regulations of other governments or legislation.
- "Unrestricted net position" consists of assets that do not meet the definitions above for "invested in capital assets, net of related debt" or "restricted net position."

The Governmental Accounting Standards Board released Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* on March 11, 2009, which applies only to governmental fund types. The District operates under proprietary fund accounting, therefore, Statement 54 is not applicable.

#### **(h) Non-operating Revenues (Expenses)**

The District classifies revenues and expenses which are directly related to the healthcare needs of the citizens of Indian River County, Florida, as operating. All other revenues and expenses are classified as non-operating, including interest income.

(Continued)

## INDIAN RIVER COUNTY HOSPITAL DISTRICT

### Notes to Financial Statements

**(i) Statement of Cash Flows**

The District follows Governmental Accounting Standards Board Statement No. 9 "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting", as amended by GASB 34. The primary effect of this Statement is the classification of interest receipts and payments as cash flows from capital and related financing activities in the statement of cash flows.

**(j) 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**(k) Concentration of Credit Risk**

The District maintains cash and cash equivalents in accounts, which are not covered by or which at times may be in excess of FDIC and SIPC insurance limits. The District has not experienced any losses on such accounts and does not believe it is exposed to any risk with respect to cash and cash equivalents. The District maintains a savings account at a qualified public depository which had a balance at September 30, 2017 and 2016 of \$4,362,017 and \$3,825,152, respectively, and which is insured by the State of Florida under the Florida Security for Public Deposits Act.

**(2) Property and Equipment**

The District's investment in property and equipment consists of the following as of September 30, 2017 and 2016:

	<u>Balance</u> <u>2016</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>2017</u>
Land	\$ 241,160	-	-	241,160
Land improvements	418,333	-	-	418,333
Buildings	3,558,327	-	-	3,558,327
Equipment	<u>181,050</u>	<u>-</u>	<u>-</u>	<u>181,050</u>
Total at historical costs	<u>4,398,870</u>	<u>-</u>	<u>-</u>	<u>4,398,870</u>
Less accumulated depreciation for:				
Land improvements	409,772	761	-	410,533
Buildings	2,482,451	169,947	-	2,652,398
Equipment	<u>172,873</u>	<u>4,141</u>	<u>-</u>	<u>177,014</u>
Total accumulated depreciation	<u>3,065,096</u>	<u>174,849</u>	<u>-</u>	<u>3,239,945</u>
	<u>\$ 1,333,774</u>	<u>(174,849)</u>	<u>-</u>	<u>1,158,925</u>

(Continued)

**INDIAN RIVER COUNTY HOSPITAL DISTRICT**

Notes to Financial Statements

**(3) Due To Medical Center**

The amounts due to the Medical Center of \$642,133 and \$717,930 at September 30, 2017 and 2016, respectively, represent the amount owed by the District for indigent care under the reimbursement agreement and various other costs for which the District reimburses the Medical Center.

**(4) Designated Unrestricted Net Position**

To the extent the District has available, unrestricted net position, the following designations have been established as of September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Designated for Healthcare Bill	\$ 265,000	196,421
Designated for Gifford Health Center	60,000	30,000
Designated for Health Services Building	145,000	85,000
Partnership process reserve	1,000,000	-
Health needs assessment reserve	<u>          -</u>	<u>250,000</u>
Total designations	\$ <u>1,470,000</u>	<u>561,421</u>

**(5) Lease Commitments**

Future minimum lease receipts/payments under noncancelable operating leases for office and/or medical space (as described in note 1(a)) as of September 30, 2017 are:

	<u>Receipts</u>	<u>Payments</u>
2018	\$ 244,407	62,041
2019	250,190	63,832
2020	257,696	65,676
2021	265,427	65,816
2022	<u>180,456</u>	<u>10,925</u>
Total minimum lease receipts/payments	\$ <u>1,198,176</u>	<u>268,290</u>

The District leases an office for administrative purposes through November 30, 2021. The rent under the lease is \$4,853 and \$4,712 per month as of September 30, 2017 and 2016, respectively, and increases each year at 3%. Rent expense totaled \$92,312 and \$82,113 for the years ended September 30, 2017 and 2016, respectively.

(Continued)

## INDIAN RIVER COUNTY HOSPITAL DISTRICT

### Notes to Financial Statements

**(6) *Indigent Care and Program Funding***

During the years ended September 30, 2017 and 2016, the District provided indigent care and program funding to the following agencies:

	<u>2017</u>	<u>2016</u>
Indian River Medical Center	\$ 7,452,570	6,993,855
Indian River County Public Health Department	1,741,783	1,965,044
Treasure Coast Community Health, Inc.	761,971	735,000
Visiting Nurse Association of the Treasure Coast, Inc.	551,815	686,472
Mental Health Association in Indian River County	361,460	306,330
University of Florida Psychiatric OP Clinic	175,290	184,362
New Horizons of the Treasure Coast, Inc.	19,213	21,852
Indian River County Medicaid Assessment	387,869	365,917
Mental Health Collaborative	200,000	130,000
Health needs assessment	<u>227,036</u>	<u>—</u>
Total indigent care and program funding	\$ <u>11,879,007</u>	<u>11,388,832</u>

**(7) *Employee Benefit Plans***

Effective January 1, 2015, the District established the I.R.C.H.D. Profit Sharing Plan, a qualified defined contribution profit sharing plan covering all eligible employees, as defined, of the District, which provides for employer contributions on a discretionary basis. Participants vest in employer contributions based on years of service over a 6-year vesting period. The District contributed \$21,751 to the plan during the year ended September 30, 2017.

In addition, the District provides a contributory Section 457 plan that allows employees to defer salary on a pre-tax and after-tax basis, and provides for no employer contributions.

**(8) *Risk Management***

The District maintains general liability, professional liability, and property coverage through purchased commercial insurance with minimal or no deductibles for each line of coverage. During each of the three years ending September 30, 2017, 2016, and 2015, the District experienced no settlements in excess of insurance coverage.

**(9) *Commitments and Contingencies***

Under the terms of the lease agreement discussed in note 1, the District leases the hospital facilities to the Medical Center, a separate 501(c)(3) organization. The Medical Center's lease payments were equal to the debt service requirements on debt issued by the District, which were paid off by the Medical Center during the year ending September 30, 2010.

(Continued)

## INDIAN RIVER COUNTY HOSPITAL DISTRICT

### Notes to Financial Statements

Upon the expiration of the Medical Center lease on December 31, 2034, or the earlier termination thereof, the District will be required to renew the lease, lease it to another entity, or if it chooses, operate the hospital facilities. At the expiration or termination of the lease, the tangible and intangible assets of the Medical Center and its subsidiaries, together with any outstanding bond obligations, will be transferred to the District, subject to the following paragraph.

In December 2007, the District, the Medical Center, and the Indian River Hospital Foundation, Inc. (Foundation) entered into an agreement whereby certain real property additions to the Medical Center facilities funded by the Foundation would be subject to reimbursement to the Foundation in the event of sale of the facilities by the District to entities other than the Medical Center or other similar Florida not-for-profit corporations. The reimbursement would be equal to the then undepreciated cost of the assets, as defined by the agreement, using a 30-year depreciable life.

#### **(10) Subsequent Events**

In preparing these financial statements, management has evaluated subsequent events and transactions for potential disclosure through March 7, 2018, the date the financial statements were available to be issued.

Effective October 1, 2017, as part of the 2017/18 budget cycle, the District entered into agency funding contracts that provided for a fee for service reimbursement with each of the funded agencies. In total, the 2017/18 budget provided for indigent care and funding in the amount of \$12,707,297.





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**Independent Auditors' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

The Board of Trustees  
Indian River County Hospital District:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Indian River County Hospital District (the District), which comprise the statement of net position as of September 30, 2017, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 7, 2018.

**Internal Control Over Financial Reporting**

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

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

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



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

### **Purpose of this Report**

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

MORGAN, JACOBY, THURN, BOYLE & ASSOCIATES, P.A.

March 7, 2018



Morgan • Jacoby • Thurn • Boyle  
& Associates, P.A.  
Certified Public Accountants

## Management Letter

The Board of Trustees  
Indian River County Hospital District:

### Report on the Financial Statements

We have audited the financial statements of the Indian River County Hospital District (the District) as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated March 7, 2018.

### Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Florida Auditor General.

### Other Reporting Requirements

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and our Independent Accountants' Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated March 7, 2018, should be considered in conjunction with this management letter.

### Prior Audit Findings

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

### Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The official title and legal authority are disclosed in note 1 to the financial statements. There were no component units related to the District.



### **Financial Condition and Management**

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

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

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

### **Annual Financial Report**

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2017, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2017. In connection with our audit, we determined that these two reports were in agreement.

### **Additional Matters**

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

### **Purpose of this Letter**

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

*MORGAN, JACOBY, THURN, BOYLE & ASSOCIATES, P.A.*

March 7, 2018



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& Associates, P.A.  
Certified Public Accountants

**Independent Accountants' Report**

The Board of Trustees  
Indian River County Hospital District:

We have examined Indian River County Hospital District's (the District) compliance with Section 218.415, Florida Statutes, *Local Government Investment Policies* regarding the investment of public funds during the year ended September 30, 2017. Management is responsible for the District's compliance with those requirements. Our responsibility is to an express opinion on the District's compliance based on our examination.

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

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2017.

*MORGAN, JACOBY, THURN, BOYLE & ASSOCIATES, P.A.*

March 7, 2018

