

FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION,
AND SUPPLEMENTARY INFORMATION

South Broward Hospital District
d/b/a Memorial Healthcare System
Years Ended April 30, 2014 and 2013
With Report of Independent Certified Public Accountants

Ernst & Young LLP



Building a better
working world

South Broward Hospital District
d/b/a Memorial Healthcare System

Financial Statements, Required Supplementary Information,
and Supplementary Information

Years Ended April 30, 2014 and 2013

Contents

| | |
|--|----|
| Report of Independent Certified Public Accountants | 1 |
| Management’s Discussion and Analysis | 4 |
| Financial Statements | |
| Statements of Net Position – System | 16 |
| Statements of Revenue and Expenses and Changes in Net Position – System | 18 |
| Statements of Cash Flows – System | 19 |
| Statements of Plan Net Position – Pension Trust Fund | 21 |
| Statements of Changes in Plan Net Position – Pension Trust Fund | 22 |
| Notes to Financial Statements..... | 23 |
| Required Supplementary Information | |
| Schedule of Funding Progress (Unaudited) | 65 |
| Schedule of Employer Contributions (Unaudited) | 66 |
| Supplementary Information | |
| Combining – Statement of Net Position – System..... | 67 |
| Combining – Statement of Revenue and Expenses and Changes in Net Position – System..... | 69 |



Ernst & Young LLP
Suite 500
5100 Town Center Circle
Boca Raton, FL 33486

Tel: +1 561 955 8000
Fax: +1 561 955 8200
ey.com

Report of Independent Certified Public Accountants

The Management and the Board of Commissioners
South Broward Hospital District
d/b/a Memorial Healthcare System

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the South Broward Hospital District d/b/a Memorial Healthcare System (the System), as of and for the years ended April 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the System'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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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 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 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

or the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of South Broward Hospital District d/b/a Memorial Healthcare System as of April 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof, for the years then ended in conformity with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements have been retrospectively adjusted to reflect a change in reporting entity. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 4 – 15 and the required pension supplementary information on pages 65 – 66 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 which 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, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The combining detail information on pages 67 – 69 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining detail information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the combining detail information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated July 16, 2014, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Ernst + Young LLP

July 16, 2014

South Broward Hospital District
d/b/a Memorial Healthcare System

Management's Discussion and Analysis

April 30, 2014

Required Financial Statements

The South Broward Hospital District d/b/a Memorial Healthcare System (the System) operates Memorial Regional Hospital and Joe DiMaggio Children's Hospital at Memorial Regional Hospital, both located in Hollywood, Florida; Memorial Regional Hospital South (a campus of Memorial Regional Hospital) located in Hollywood, Florida; Memorial Hospital Pembroke, located in Pembroke Pines, Florida; Memorial Hospital West, located in Pembroke Pines, Florida; and Memorial Hospital Miramar, located in Miramar, Florida. The System also operates the Urgent Care Center and Memorial Manor Nursing Home, both located in Pembroke Pines, Florida. Other components of the System include the Memorial Home Health Services; Memorial Home Infusion Services; Memorial Health Network; multiple primary care and school health centers located throughout south Broward County; the Memorial Cancer Institute, with locations on the campus of Memorial Regional Hospital and the campus of Memorial Hospital West; and the Memorial Adult Day Care Center, located within the Memorial Outpatient Center – Hallandale. At April 30, 2014, the System operates a total of 1,900 licensed hospital beds and 120 licensed nursing home beds.

The Memorial Hospital Pembroke facility is leased from Hospital Realty, LLC. The initial ten-year lease of the facility expired June 30, 2005. The System entered into a second ten-year term beginning July 1, 2005, which was extended to 2025 in May 2007.

The System utilizes two different funds to account for its activities: an enterprise fund, which combines the business-type activities of the operating fund of the System, and a pension trust fund, which reports information about the plan net position and changes in plan net position of the System's employees' pension plan. The pension trust fund does not issue separate financial statements.

The financial statements of the System's enterprise fund report information about the System's business-type activities using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The statements of net position include all of the System's assets, deferred outflows, and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the System's creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities.

South Broward Hospital District
d/b/a Memorial Healthcare System

Management's Discussion and Analysis (continued)

Required Financial Statements (continued)

All of the current and prior year's revenue and expenses are accounted for in the statements of revenue and expenses and changes in net position. These statements communicate the performance of the System's operations over the past two years. These statements also provide the basis for computing rate of return, evaluating the capital structure of the System, and assessing the liquidity and financial flexibility of the System.

The final required statements are the statements of cash flows. The primary purpose of these statements is to provide information about the System's cash receipts and cash payments during the reporting periods. These statements report cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities.

Summary of Financial Information

The financial statements consist of two parts: a) management's discussion and analysis and b) the audited financial statements. The audited financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are intended to describe the results of operations, the changes in net position, the sources and uses of cash and cash equivalents, and the capital structure of the System. The following selected financial data as of April 30, 2012, 2013, and 2014, and for the three years then ended, for the System's business-type activities are derived from the audited financial statements of the System. The data should be read in conjunction with the financial statements, related notes, and supplementary information contained therein.

Refer to Note 1 and Note 7 for discussion of prior period reclassifications and adjustments, respectively.

South Broward Hospital District
d/b/a Memorial Healthcare System

Management's Discussion and Analysis (continued)

Summary of Financial Information (continued)

As of and for the Years Ended April 30, 2014 and 2013

Condensed Statements of Net Position (in Thousands of Dollars)

| | April 30 | | Dollar Increase (Decrease) | Percentage Increase (Decrease) |
|---|--------------|--------------|----------------------------------|--------------------------------------|
| | 2014 | 2013 | | |
| Cash, cash equivalents, and investments | \$ 1,320,503 | \$ 1,230,019 | \$ 90,484 | 7.4% |
| Patient accounts receivable, net | 168,613 | 160,723 | 7,890 | 4.9 |
| Total current assets | 1,589,413 | 1,474,059 | 115,354 | 7.8 |
| Capital assets, net | 785,387 | 827,864 | (42,477) | (5.1) |
| Total assets | 2,473,887 | 2,399,782 | 74,105 | 3.1 |
| Deferred outflows | 13,642 | 14,742 | (1,100) | (7.5) |
| Total current liabilities | 234,444 | 261,147 | (26,703) | (10.2) |
| Long-term debt, net of current portion | 546,044 | 554,297 | (8,253) | (1.5) |
| Total liabilities | 866,854 | 895,309 | (28,455) | (3.2) |
| Unrestricted net position | 1,311,787 | 1,167,547 | 144,240 | 12.4 |
| Net investment in capital assets | 239,282 | 279,976 | (40,694) | (14.5) |
| Restricted net position | 69,606 | 71,692 | (2,086) | (2.9) |

South Broward Hospital District
d/b/a Memorial Healthcare System

Management's Discussion and Analysis (continued)

Summary of Financial Information (continued)

Summary of Revenue and Expenses and Changes in Net Position (in Thousands of Dollars)

| | Year Ended April 30 | | Dollar | Percentage |
|---|---------------------|---------------------|------------------------|------------------------|
| | 2014 | 2013 | Increase (Decrease) | Increase (Decrease) |
| Revenue: | | | | |
| Net patient service revenue | \$ 1,461,023 | \$ 1,378,510 | \$ 82,513 | 6.0% |
| Disproportionate share distributions | 52,877 | 58,439 | (5,562) | (9.5) |
| Other revenue | 60,144 | 43,982 | 16,162 | 36.7 |
| Total revenue | <u>1,574,044</u> | <u>1,480,931</u> | <u>93,113</u> | <u>6.3</u> |
| Expenses: | | | | |
| Salaries and wages | 708,039 | 659,975 | 48,064 | 7.3 |
| Employee benefits | 142,329 | 131,515 | 10,814 | 8.2 |
| Professional fees | 31,083 | 37,814 | (6,731) | (17.8) |
| Supplies | 239,463 | 248,301 | (8,838) | (3.6) |
| Purchased services | 94,299 | 96,757 | (2,458) | (2.5) |
| Facilities | 66,282 | 63,502 | 2,780 | 4.4 |
| Depreciation and amortization | 117,917 | 112,336 | 5,581 | 5.0 |
| Other | 57,606 | 43,156 | 14,450 | 33.5 |
| Total expenses | <u>1,457,018</u> | <u>1,393,356</u> | <u>63,662</u> | <u>4.6</u> |
| Operating income | 117,026 | 87,575 | 29,451 | 33.6 |
| Nonoperating gains (losses), net (including depreciation of \$2,198 and \$2,451 in 2014 and 2013, respectively) | (17,435) | 13,573 | (31,008) | (131.5) |
| Excess of revenue and net nonoperating gains over expenses | 99,591 | 101,148 | (1,557) | (1.4) |
| Contributions and grants | 1,869 | 16,018 | (14,149) | 88.3 |
| Increase in net position | 101,460 | 117,166 | (15,706) | (13.4) |
| Net position at the beginning of the year | 1,519,215 | 1,402,049 | 117,166 | 8.4 |
| Net position at the end of the year | <u>\$ 1,620,675</u> | <u>\$ 1,519,215</u> | <u>\$ 101,460</u> | <u>6.7%</u> |

South Broward Hospital District
d/b/a Memorial Healthcare System

Management's Discussion and Analysis (continued)

Management's Discussion of Financial Performance

The System's operating income improved over the prior year. The improved operating results are due to management's ongoing efforts to manage operating expenses in response to increasing volumes and in anticipation of the changing reimbursement environment at both federal and state levels. For fiscal year 2014, total revenue increased by 6.3%, while operating expenses increased by 4.6%, resulting in operating income increasing by 33.6% from the prior year of \$87.6 million to approximately \$117.0 million. The System's excess of revenues and net nonoperating gains over expenses decreased from \$101.1 million to \$99.6 million for the fiscal years ended April 30, 2013 and 2014, respectively.

Net patient service revenue increased by 6.0% from \$1.379 billion for fiscal year ended April 30, 2013, to \$1.461 billion for fiscal year ended April 30, 2014. Total admissions, which include both inpatient admissions, as well as, observation admissions, were 107,680 and 110,482 while the acuity of patients as measured by case-mix index intensified from 1.35 to 1.39 for the fiscal years ended April 30, 2013 and 2014, respectively. Total surgical volume increased from 35,580 cases to 36,238 cases while hospital outpatient visits decreased from 500,469 to 474,804 or 5.1%, which was offset by an increase in emergency visits from 416,769 to 426,308 or 2.3%, for these periods. Medicare sequestration reduced net patient service revenue by approximately \$3.9 million for fiscal year ended April 30, 2014.

The System pursues qualification of indigent patients for available Medicaid and other reimbursement programs. The System has also established effective protocols that enable early identification of denials and short pays from managed care organizations. As a result, the denial rates for managed care claims as a percentage of managed care claims was 1.2% for fiscal year 2013 and 1.1% for fiscal year 2014.

Other operating revenue increased, as the System recognized \$44.0 million and \$60.1 million for the years ended April 30, 2013 and 2014, respectively. The increase is primarily attributable to electronic health records meaningful use incentive payments. Disproportionate share distributions decreased, as the System recognized \$58.4 million and \$52.9 million for the years ended April 30, 2013 and 2014, respectively.

Total expenses increased from \$1.393 billion to \$1.457 billion or 4.6% for the fiscal years ended April 30, 2013 and 2014, respectively, as a result of the System's increased volumes, while maintaining focused cost reduction efforts. The increase in salaries and wages as well as

South Broward Hospital District
d/b/a Memorial Healthcare System

Management's Discussion and Analysis (continued)

Management's Discussion of Financial Performance (continued)

employee benefits is primarily attributable to the additional staffing needed due to growth in net patient service revenue combined with a bonus paid to high-performing employees. The decrease in professional fees, supplies expense, and purchased services is due to cost containment and reduction efforts. Further, the decrease in supplies expense is due to the revision of an estimate as a result of a prior year favorable pricing resolution. Facilities expenses increased moderately when compared to the prior year, due to routine repairs and maintenance of clinical equipment, and depreciation and amortization also increased moderately due to new capital equipment purchased as well as the first full year of depreciation for the electronic health records system. The increase in other operating expenses is due to an increased Florida Agency for Health Care Administration assessment, which is driven by patient revenues, increased windstorm insurance expense, and increased professional liability expense.

Nonoperating gains (losses), net, decreased from a \$13.6 million gain to a \$17.4 million loss, or by \$31.0 million, for the fiscal years ended April 30, 2013 and 2014, respectively. The System's conservative investment policy, which is further described in Note 5, was impacted negatively by rising interest rates. This resulted in a change of \$15.3 million in unrealized losses from \$2.0 million in fiscal year 2013 to \$17.3 million in fiscal year 2014. In addition, tax revenue decreased by \$15.3 million from \$24.5 million due to a prior year change in estimate amount payable for the Medicaid match and the change in the millage rate. The System's Board of Commissioners adopted a millage rate of 0.4000, which is less than the prior year millage rate of 0.6000. The System uses the net tax proceeds solely to offset the cost of uncompensated care in its primary care operations.

Income available for debt service was \$263.9 million and \$276.1 million for the fiscal years ended April 30, 2013 and 2014, respectively. The long-term debt service coverage ratio was 6.03 and 6.17 for the fiscal years ended April 30, 2013 and 2014, respectively.

The investment policy of the System is consistent with Section 218.415 of the Florida Statutes, which is designed to ensure the prudent management of financial assets. Other than for certain investments of the pension trust fund, the System does not invest in equity securities. Cash, cash equivalents, and investments, excluding assets whose use is limited, increased from \$1.230 billion to \$1.320 billion at April 30, 2013 and 2014, respectively. Cash, cash equivalents, and investments, including assets whose use is limited, increased from \$1.327 billion, to \$1.416 billion at April 30, 2013 and 2014, respectively, as a result of the increase in income

South Broward Hospital District
d/b/a Memorial Healthcare System

Management's Discussion and Analysis (continued)

Management's Discussion of Financial Performance (continued)

available for debt service and a decrease in capital expenditures. Net patient accounts receivable increased from \$160.7 million at April 30, 2013, to \$168.6 million at April 30, 2014, due to increased volumes and conversion to Medicaid Diagnostic Related Group (DRG) reimbursement. Additions to capital assets decreased from \$104.3 million in fiscal year 2013 to \$78.8 million in fiscal year 2014. The estimated cost to complete all construction projects in process at April 30, 2014, is \$55.8 million. There was no debt issued in either fiscal year, as the System anticipates financing these projects through a combination of currently available cash, cash equivalents, investments, and future cash flows from operations. Refer to Note 6 and Note 9 for further discussion of capital asset and long-term debt activity, respectively.

As of and for the Years Ended April 30, 2013 and 2012

Condensed Statements of Net Position (in Thousands of Dollars)

| | April 30 | | Dollar | Percentage |
|---|-----------------|-------------|-------------------|-------------------|
| | 2013 | 2012 | Increase | Increase |
| | | | (Decrease) | (Decrease) |
| Cash, cash equivalents, and investments | \$ 1,230,019 | \$ 936,678 | \$ 293,341 | 31.3% |
| Patient accounts receivable, net | 160,723 | 203,230 | (42,507) | (20.9) |
| Total current assets | 1,474,059 | 1,228,913 | 245,146 | 19.9 |
| Capital assets, net | 827,864 | 838,985 | (11,121) | (1.3) |
| Total assets | 2,399,782 | 2,235,304 | 164,478 | 7.4 |
| Deferred outflows | 14,742 | 15,842 | (1,100) | (6.9) |
| Total current liabilities | 261,147 | 195,180 | 65,967 | 33.8 |
| Long-term debt, net of current portion | 554,297 | 538,828 | 15,469 | 2.9 |
| Total liabilities | 895,309 | 849,095 | 46,214 | 5.4 |
| Unrestricted net position | 1,167,547 | 1,041,757 | 125,790 | 12.1 |
| Net investment in capital assets | 279,976 | 283,374 | (3,398) | (1.2) |
| Restricted net position | 71,692 | 76,918 | (5,226) | (6.8) |

South Broward Hospital District
d/b/a Memorial Healthcare System

Management's Discussion and Analysis (continued)

Management's Discussion of Financial Performance (continued)

Summary of Revenue and Expenses and Changes in Net Assets (in Thousands of Dollars)

| | Year Ended April 30 | | Dollar | Percentage |
|--|----------------------------|---------------------|-------------------|-------------------|
| | 2013 | 2012 | Increase | Increase |
| | | | (Decrease) | (Decrease) |
| Revenue: | | | | |
| Net patient service revenue | \$ 1,378,510 | \$ 1,395,949 | \$ (17,439) | (1.2)% |
| Disproportionate share distributions | 58,439 | 47,574 | 10,865 | 22.8 |
| Other revenue | 43,982 | 42,856 | 1,126 | 2.6 |
| Total revenue | 1,480,931 | 1,486,379 | (5,448) | (0.4) |
| Expenses: | | | | |
| Salaries and wages | 659,975 | 680,725 | (20,750) | (3.0) |
| Employee benefits | 131,515 | 131,427 | 88 | 0.1 |
| Professional fees | 37,814 | 41,979 | (4,165) | (9.9) |
| Supplies | 248,301 | 250,733 | (2,432) | (1.0) |
| Purchased services | 96,757 | 90,872 | 5,885 | 6.5 |
| Facilities | 63,502 | 65,251 | (1,749) | (2.7) |
| Depreciation and amortization | 112,336 | 101,712 | 10,624 | 10.4 |
| Other | 43,156 | 48,027 | (4,871) | (10.1) |
| Total expenses | 1,393,356 | 1,410,726 | (17,370) | (1.2) |
| Operating income | 87,575 | 75,653 | 11,922 | 15.8 |
| Nonoperating gains, net (including depreciation of \$2,451 and \$2,641 in 2013 and 2012, respectively) | 13,573 | 31,692 | (8,119) | (25.6) |
| Excess of revenue and net nonoperating gains over expenses | 101,148 | 107,345 | 3,803 | 3.5 |
| Contributions and grants | 16,018 | 2,782 | (13,236) | 475.8 |
| Increase in net position | 117,166 | 110,127 | 7,039 | 6.4 |
| Net position at the beginning of the year | 1,402,049 | 1,291,922 | 110,127 | 8.5 |
| Net position at the end of the year | \$ 1,519,215 | \$ 1,402,049 | \$ 117,166 | 8.4% |

South Broward Hospital District
d/b/a Memorial Healthcare System

Management's Discussion and Analysis (continued)

Management's Discussion of Financial Performance (continued)

The System's financial performance in 2013 improved over 2012. The improved operating results were due to management's ongoing efforts to manage operating expenses in response to flat volumes and in anticipation of the changing reimbursement environment at both federal and state levels. For fiscal year 2013, total revenue decreased 0.4% while operating expenses decreased by 1.2%, resulting in operating income increasing by 15.8% from the prior year of \$75.7 million to approximately \$87.6 million. The System's excess of revenue and nonoperating gains over expenses increased from \$107.3 million to \$101.1 million for the fiscal years ended April 30, 2012 and 2013, respectively.

Net patient service revenue declined by 1.2% from \$1.396 billion for fiscal year ended April 30, 2012, to \$1.379 billion for fiscal year ended April 30, 2013. Total admissions, which include both inpatient admissions, as well as, observation admissions, were 107,491 and 107,680, while the acuity of patients as measured by case-mix index intensified from 1.31 to 1.35 for the fiscal years ended April 30, 2012 and 2013, respectively. Total surgical volume also remained flat at 35,790 cases and 35,580 cases, while hospital outpatient visits declined from 529,036 to 500,469 or 5.4%, which was offset by an increase in emergency visits from 394,865 to 416,769, or 5.5%, for these periods. In addition to volumes, the total revenue variance is due to one-time settlements. In fiscal year 2012, the System received favorable settlements of \$11.2 million as a result of the filing and settling of cost reports from prior years, a favorable settlement of \$5.0 million for newly issued Supplemental Security Income ratios used for calculating Medicare disproportionate share hospital reimbursements, and a favorable net settlement of \$7.8 million from managed care payors. In fiscal year 2013, there were no comparable material settlements for the filing and settling of cost reports from prior years or Supplemental Security Income ratios; however, there was an unfavorable settlement of \$4.8 million with a managed care payor.

The System pursues qualification of indigent patients for available Medicaid and other reimbursement programs. The System has also established effective protocols that enable early identification of denials and short pays from managed care organizations. As a result, the denial rates for managed care claims as a percentage of managed care claims was 1.9% for fiscal year 2012 and 1.3% for fiscal year 2013.

South Broward Hospital District
d/b/a Memorial Healthcare System

Management's Discussion and Analysis (continued)

Management's Discussion of Financial Performance (continued)

Other operating revenue remained materially consistent, as the System recognized \$42.9 million and \$44.0 million for the years ended April 30, 2012 and 2013, respectively. Disproportionate share distributions increased from \$47.6 million to \$58.4 million for the years ended April 30, 2012 and 2013, respectively. This increase was primarily due to new low-income pool funds for primary care projects, updates to the data used to compute low-income pool and disproportionate share payments, and final settlements of prior year low-income pool distributions.

Total expenses declined from \$1.411 billion to \$1.393 billion, or 1.2%, for the fiscal years ended April 30, 2012 and 2013, as a result of the System's focus on controlling expenses. All expense categories reflect declines or remain materially consistent except for purchased services and depreciation and amortization. Both purchased services and depreciation and amortization increased as a direct result of the implementation of electronic health records. The increase in purchased services was directly attributed to temporary labor cost for implementation of electronic health records for which the System incurred approximately \$5.0 million of incremental costs associated with this project during fiscal year 2013. Additionally, electronic health records were placed into service during fiscal year 2013, with a relatively short economic useful life, which resulted in an increase in depreciation and amortization expense.

Nonoperating gains, net, declined from \$24.7 million to \$13.6 million or by \$11.1 million for the fiscal years ended April 30, 2012 and 2013, respectively. The System's conservative investment policy, which is further described in Note 5, was impacted negatively by rising interest rates. This resulted in a change of \$13.1 million in unrealized gains and losses from an unrealized gain of \$11.1 million in fiscal year 2012 to an unrealized loss of \$2.0 million in fiscal year 2013. The decline in investment income was offset by improved tax income, net, which increased from \$17.3 million in fiscal year 2012 to \$24.5 million in fiscal year 2013 primarily due to a change in the estimated amount payable for the Medicaid match. The System uses the net tax proceeds solely to offset the cost of uncompensated care in its primary care, nursing home, and home health operations.

Income available for debt service was \$233.9 million and \$263.9 million for the fiscal years ended April 30, 2012 and 2013, respectively. The long-term debt service coverage ratio was 5.35 and 6.03 for the fiscal years ended April 30, 2012 and 2013, respectively.

South Broward Hospital District
d/b/a Memorial Healthcare System

Management's Discussion and Analysis (continued)

Management's Discussion of Financial Performance (continued)

The investment policy of the System is consistent with Section 218.415 of the Florida Statutes, which is designed to ensure the prudent management of financial assets. Other than for certain investments of the pension trust fund, the System does not invest in equity securities. Cash, cash equivalents, and investments, excluding assets whose use is limited, increased from \$936.7 million to \$1.230 billion at April 30, 2012 and 2013, respectively. Cash, cash equivalents, and investments, including assets whose use is limited, increased from \$1.097 billion, to \$1.327 billion at April 30, 2012 and 2013, respectively, as a result of the increase in income available for debt service and a reduction in capital expenditures. Net patient accounts receivable decreased from \$203.2 million at April 30, 2012, to \$160.7 million at April 30, 2013, as the delays in billings and collections associated with the implementation of the new revenue cycle information system from the prior year were stabilized during fiscal year 2013. The System continued to expand and improve its facilities and enhance its technology with the implementation of electronic health records. Additions to capital assets were down from \$136.6 million in fiscal year 2012 to \$104.3 million in fiscal year 2013. The estimated cost to complete all construction projects in process at April 30, 2013, was \$67.4 million. There was no debt issued in either fiscal year as the System anticipates financing these projects through a combination of currently available cash, cash equivalents, investments, and future cash flows from operations.

Taxes and Uncompensated Care

The Board of Commissioners of the System is authorized to levy a tax annually upon real and personal taxable property located within the boundaries of the System at a millage rate not to exceed 2.5 mills. The taxes collected pursuant to this levy can be used for the purposes and needs of the System, such as operations, debt service, and construction. Such ad valorem taxes cannot be pledged directly or indirectly to pay revenue bonds; however, there is no prohibition on the use of such taxes once collected. The System uses the net tax proceeds solely to offset the cost of uncompensated care in its primary care, nursing home, and home health operations.

The financial strength of the System minimizes the tax burden in south Broward County. In fiscal years 2012, 2013, and 2014, net tax revenues accounted for approximately 1.0%, 1.7%, and 0.6%, respectively, of total net revenues. In September 2013, the System's Board of Commissioners voted to reduce the tax millage rate to 0.4000 mills.

South Broward Hospital District
d/b/a Memorial Healthcare System

Management's Discussion and Analysis (continued)

Taxes and Uncompensated Care (continued)

The System's financial strength enables the System to absorb the financial burden of providing an increasing level of uncompensated care and also enables the System to develop and support state-of-the-art facilities.

Source of Patient Charges

A substantial amount of the gross charges of the System are provided to patients insured by third-party payors. The table below lists the approximate percentages of gross charges by payor.

| | Year Ended April 30 | | |
|--------------|----------------------------|-------------|-------------|
| | 2014 | 2013 | 2012 |
| Medicare | 17.7% | 18.9% | 19.5% |
| Medicaid | 14.9 | 14.8 | 14.2 |
| Managed care | 49.5 | 48.5 | 48.2 |
| Other | 17.9 | 17.8 | 18.1 |
| Total | 100.0% | 100.0% | 100.0% |

South Broward Hospital District
d/b/a Memorial Healthcare System

Statements of Net Position – System

| | April 30 | |
|--|-----------------------|-------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 372,099 | \$ 281,307 |
| Investments | 948,404 | 948,712 |
| Patient accounts receivable, net of estimated uncollectibles of \$364,084 and \$378,819 at April 30, 2014 and 2013, respectively | 168,613 | 160,723 |
| Ad valorem taxes receivable | 265 | 447 |
| Inventories | 28,026 | 27,984 |
| Other current assets | 72,006 | 54,886 |
| Total current assets | 1,589,413 | 1,474,059 |
| Assets whose use is limited, net of current portion: | | |
| By Board for capital improvements | 1,473 | 1,494 |
| By Board for employee disability | 17,738 | 17,679 |
| Under indenture agreements | 21,377 | 21,245 |
| Under self-insurance trust agreements | 47,687 | 48,551 |
| Externally restricted by donors | 542 | 1,896 |
| Total assets whose use is limited, net of current portion | 88,817 | 90,865 |
| Capital assets, net | 785,387 | 827,864 |
| Other assets | 10,270 | 6,994 |
| Total assets | 2,473,887 | 2,399,782 |
| Deferred outflows | | |
| Loss on defeasance, net | 13,642 | 14,742 |

| | April 30 | |
|---|-----------------------|---------------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 73,534 | \$ 108,775 |
| Accrued compensation and payroll taxes | 107,475 | 96,436 |
| Estimated third-party payor settlements | 8,849 | 11,485 |
| Current installments of long-term debt | 7,880 | 7,585 |
| Current portion of capital lease obligations | 1,458 | 748 |
| Current portion of estimated claims liability | 14,270 | 12,839 |
| Other current liabilities | 20,978 | 23,279 |
| Total current liabilities | <u>234,444</u> | <u>261,147</u> |
| Long-term portion of estimated claims liability | 20,244 | 19,665 |
| Other noncurrent liabilities | 61,757 | 60,200 |
| Long-term portion of capital lease obligations | 4,365 | – |
| Long-term debt | 546,044 | 554,297 |
| Total liabilities | <u>866,854</u> | <u>895,309</u> |
| Net position | | |
| Net investment in capital assets | 239,282 | 279,976 |
| Restricted: | | |
| For debt service | 21,377 | 21,245 |
| By donors | 542 | 1,896 |
| Under self-insurance trust agreements | 47,687 | 48,551 |
| Unrestricted | 1,311,787 | 1,167,547 |
| Total net position | <u>\$ 1,620,675</u> | <u>\$ 1,519,215</u> |

See accompanying notes.

South Broward Hospital District
d/b/a Memorial Healthcare System

Statements of Revenue and Expenses and
Changes in Net Position – System

| | Year Ended April 30 | |
|--|----------------------------|--------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Revenue: | | |
| Net patient service revenue | \$ 1,461,023 | \$ 1,378,510 |
| Disproportionate share distributions | 52,877 | 58,439 |
| Other operating revenues | 60,144 | 43,982 |
| Total revenue | 1,574,044 | 1,480,931 |
| Expenses: | | |
| Salaries and wages | 708,039 | 659,975 |
| Employee benefits | 142,329 | 131,515 |
| Professional fees | 31,083 | 37,814 |
| Supplies | 239,463 | 248,301 |
| Purchased services | 94,299 | 96,757 |
| Facilities | 66,282 | 63,502 |
| Depreciation and amortization | 117,917 | 112,336 |
| Other | 57,606 | 43,156 |
| Total expenses | 1,457,018 | 1,393,356 |
| Operating income | 117,026 | 87,575 |
| Nonoperating gains (losses), net (including depreciation of \$2,198 and \$2,451 in 2014 and 2013, respectively) | (17,435) | 13,573 |
| Excess of revenue and net nonoperating gains over expenses | 99,591 | 101,148 |
| Contributions and grants | 1,869 | 16,018 |
| Increase in net position | 101,460 | 117,166 |
| Net position at the beginning of the year | 1,519,215 | 1,402,049 |
| Net position at the end of the year | \$ 1,620,675 | \$ 1,519,215 |

See accompanying notes.

South Broward Hospital District
d/b/a Memorial Healthcare System

Statements of Cash Flows – System

| | Year Ended April 30 | |
|--|----------------------------|-------------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Operating activities | | |
| Receipts from third-party payors and patients | \$ 1,450,497 | \$ 1,421,541 |
| Payments to vendors | (531,579) | (478,115) |
| Other receipts | 97,925 | 112,041 |
| Payments to employees | (804,132) | (750,932) |
| Claims and self-insurance payments | (38,317) | (33,086) |
| Net cash provided by operating activities | <u>174,394</u> | 271,449 |
| Noncapital financing activities | | |
| Contribution and grant receipts | 1,869 | 16,018 |
| Contribution payments | (10,000) | (10,000) |
| Ad valorem tax receipts | 16,606 | 33,805 |
| Net cash provided by noncapital financing activities | <u>8,475</u> | 39,823 |
| Capital and related financing activities | | |
| Acquisition and construction of capital assets | (72,147) | (103,182) |
| Principal payments on long-term debt | (7,585) | (7,285) |
| Principal payments on capital lease obligations | (1,373) | (1,710) |
| Interest payments on long-term debt | (29,512) | (30,971) |
| Net cash used in capital and related financing activities | <u>(110,617)</u> | (143,148) |
| Investing activities | | |
| Proceeds from sales, maturities, or repayment of investments | 50,800 | 221,828 |
| Cost of investments acquired | (65,736) | (250,871) |
| Investment income received | 33,476 | 34,643 |
| Net cash provided by investing activities | <u>18,540</u> | 5,600 |
| Net change in cash and cash equivalents | 90,792 | 173,724 |
| Cash and cash equivalents at beginning of year | 281,307 | 107,583 |
| Cash and cash equivalents at end of year | <u>\$ 372,099</u> | <u>\$ 281,307</u> |

South Broward Hospital District
d/b/a Memorial Healthcare System

Statements of Cash Flows – System (continued)

| | Year Ended April 30 | |
|---|----------------------------|-------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Reconciliation of operating income to net cash provided by operating activities | | |
| Operating income | \$ 117,026 | \$ 87,575 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 117,917 | 112,336 |
| Provision for doubtful accounts | 443,526 | 348,068 |
| Loss on disposal of capital assets | 958 | 631 |
| Increase in: | | |
| Patient accounts receivable | (451,416) | (305,561) |
| Other current assets and inventories | (17,018) | 4,876 |
| Other assets | (3,276) | (338) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | (42,992) | 16,686 |
| Accrued compensation and payroll taxes | 11,039 | 5,790 |
| Estimated third-party payor settlements | (2,636) | 524 |
| Other current liabilities | (2,301) | 13,054 |
| Other liabilities | 1,557 | (7,511) |
| Estimated claims liability | 2,010 | (4,681) |
| Net cash provided by operating activities | \$ 174,394 | \$ 271,449 |

See accompanying notes.

South Broward Hospital District
d/b/a Memorial Healthcare System

Statements of Plan Net Position – Pension Trust Fund

| | April 30 | |
|---|-----------------------|-------------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Assets | | |
| Investments, at fair value: | | |
| Equities | \$ 110,876 | \$ 55,356 |
| U.S. government and agency obligations | 46,829 | 64,227 |
| Corporate debt | 21,025 | 39,662 |
| Commercial mortgage securities | 5,262 | 7,484 |
| Collateralized mortgage obligations | 742 | 4,466 |
| Asset-backed securities | 3,523 | 4,526 |
| Municipal bonds | 4,217 | – |
| SEC registered money market funds | 45,312 | 21,159 |
| Preferred securities | 256 | 233 |
| International investments | 149,061 | 148,279 |
| Alternative investments | 50,593 | 32,652 |
| Other | 1,508 | 1,418 |
| | \$ 439,204 | \$ 379,462 |
| Restricted net position | | |
| Net position held in trust for pension benefits | \$ 439,204 | \$ 379,462 |

See accompanying notes.

South Broward Hospital District
d/b/a Memorial Healthcare System

Statements of Changes in Plan Net Position –
Pension Trust Fund

| | Year Ended April 30 | |
|--|----------------------------|-------------|
| | 2014 | 2013 |
| | <i>(In Thousands)</i> | |
| Net position restricted for employees' pension benefits: | | |
| Balance at beginning of year | \$ 379,462 | \$ 320,584 |
| Additions: | | |
| Employer pension contributions | 34,988 | 33,031 |
| Net realized and unrealized gains on pension trust fund investments | 37,855 | 37,556 |
| | 72,843 | 70,587 |
| Deductions: | | |
| Pension benefit payments | 11,116 | 9,831 |
| Administrative expenses | 1,985 | 1,878 |
| | 13,101 | 11,709 |
| Net increase in net position held in trust for pension benefits | 59,742 | 58,878 |
| Balance at end of year | \$ 439,204 | \$ 379,462 |

See accompanying notes.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements

April 30, 2014

1. Organization and Summary of Significant Accounting Policies

Organization

The South Broward Hospital District d/b/a Memorial Healthcare System (the System) operates Memorial Regional Hospital and the Joe DiMaggio Children's Hospital at Memorial Regional Hospital, both located in Hollywood, Florida; Memorial Regional Hospital South (a campus of Memorial Regional Hospital) located in Hollywood, Florida; Memorial Hospital Pembroke, located in Pembroke Pines, Florida; Memorial Hospital West, located in Pembroke Pines, Florida; and Memorial Hospital Miramar, located in Miramar, Florida. The System also operates the Urgent Care Center and Memorial Manor Nursing Home, both located in Pembroke Pines, Florida. Other components of the System include the Memorial Home Health Services; Memorial Home Infusion Services; Memorial Health Network; multiple primary care and school health centers located throughout south Broward County; the Memorial Cancer Institute, with locations on the campus of Memorial Regional Hospital and on the campus of Memorial Hospital West; and the Memorial Adult Day Care Center, which provides activities, meals, and select health-related services for its elderly participants, located within the Memorial Outpatient Center – Hallandale. At April 30, 2014, the System operates a total of 1,900 licensed hospital beds and 120 licensed nursing home beds.

Basis of Presentation

The accounts of the System are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, net position, revenue, and expenses, as appropriate.

The System is accounted for in an enterprise fund that consists of unrestricted net position, restricted net position, and net investment in capital assets. The enterprise fund is used to account for the System's ongoing business-type activities. Significant intercompany accounts and transactions have been eliminated in the combination of these funds.

The pension trust fund is a fiduciary fund used to account for the assets held in trust by Wells Fargo Bank, N.A. for the benefit of the employees of the System who participate in the retirement plan for employees of the South Broward Hospital District (the Plan). The financial statements of the pension trust fund use the full accrual basis of accounting, whereby employer contributions to the Plan are recognized when due, and benefits are recognized when due and payable in accordance with the terms of the Plan.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Change in Reporting Entity

In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No.61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No.34*, the System has determined that the Joe DiMaggio Children's Hospital Foundation, Inc. and the Memorial Foundation, Inc. and Subsidiaries (collectively, the Foundations) are not component units of the System. The Foundations are legally separate, tax-exempt organizations and are governed by a separate independent board of directors. The System does not appoint a majority of the Foundations' board of directors, and the System cannot significantly influence the programs, projects, activities, or level of services performed or provided by the Foundations.

The Foundations act primarily as fund-raising organizations to supplement the resources that are available to the System in support of its programs. The Foundations' board is self-perpetuating and consists of community members. Although the System does not control the timing or amount of receipts from the Foundations, the resources received or held by the Foundations are entirely or almost entirely for the direct benefit of the System and the citizens of the South Broward district.

As of April 30, 2014 and 2013, the total net assets of the Foundations were approximately \$62,587,000 and \$49,799,000, respectively. For the years ended April 30, 2014 and 2013, the change in net assets of the Foundations was approximately \$12,788,000 and \$7,847,000, respectively. These amounts represent less than 10% of the System's net position as of the years ended April 30, 2014 and 2013, and the exclusion of these amounts are not deemed misleading to the System's financial statements for the periods presented. Therefore, the Foundations are not considered component units of the System and are not discretely presented in the System's financial statements. The System's financial statements have been retrospectively adjusted to remove the financial statements of the Foundations as discretely presented component units.

The financial statements for the Foundations can be obtained at 3501 Johnson Street, Hollywood, Florida 33021.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Basis of Accounting

The System utilizes the accrual basis of accounting, whereby revenues are recognized as they are earned and expenses are recognized when the related obligation is incurred.

Cash and Cash Equivalents

The System considers all highly liquid investments with a maturity of three months or less when purchased, except those classified as assets whose use is limited or those included in the System's investment program, to be cash equivalents.

Investments

The System records its investments in accordance with Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, which amended GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Purchase Agreements*.

All investments, other than alternative investments, have been recorded at fair value in the financial statements based on quoted market prices. Alternative investments have been recorded at fair value in the financial statements based on the net asset value.

Inventories

Inventories, consisting primarily of medical, surgical, and other supplies, are stated at the lower of cost (principally determined by the first-in, first-out method) or market.

Assets Whose Use is Limited

Assets whose use is limited include assets set aside by the Board of Commissioners (the Board) for future capital improvements and anticipated future payments under the System's employee disability policy, over which the Board retains control and may at its discretion subsequently use for other purposes. Assets whose use is limited also include assets held by trustees, self-insurance trust arrangements, as well as restricted resources limited by donors to a specific period or purpose.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets, including improvements to existing facilities, are recorded at cost, except for donated items, which are recorded at fair value at the date of the contribution. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for buildings and improvements range from 20 to 40 years and for equipment range from 3 to 10 years. Leasehold improvements are amortized on a straight-line basis over the shorter of the term of the respective lease or the life of the related asset. Routine maintenance and repairs that do not extend the life of the assets are charged to expense as incurred, and major renovations or improvements are capitalized. The System capitalizes all assets with an initial cost of \$1,000 or greater.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of those assets.

Income Taxes

The System is exempt from income taxes as it is a political subdivision of the State of Florida (the State).

Restricted Net Position

Restricted net position has been limited by donors to a specific time period or purpose or has been limited under self-insurance trust fund arrangements.

Statements of Revenue and Expenses and Changes in Net Position

For purposes of presentation, transactions determined to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral, incidental, or transactions not considered to be central to the provision of health care services are reported as nonoperating gains and losses and include investment income, interest expense, and ad valorem tax revenue.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Charity Care

The System provides care, without charge, to patients who meet certain financial criteria based upon the Federal Income Poverty Guidelines. The System does not pursue collection of amounts due from patients who meet the System's criteria for charity care, and therefore, such amounts are not reported as revenue.

Net Patient Service Revenue

Net patient service revenue is reported at net realizable amounts due from patients, third-party payors, and others for services rendered.

Settlements with certain third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Disproportionate Share Distributions

Agency for Health Care Administration (AHCA) distributes low-income pool (LIP) and disproportionate share (DSH) payments to the System based in part on the System's indigent care service level. The System's policy is to recognize these distributions as revenue when amounts are due and collection is reasonably assured. The receipt of any additional distributions is contingent upon the continued support by the State Legislature.

EHR Incentive Payments

The System has accounted for electronic health record (EHR) meaningful use incentive payments under the grant accounting model. For the years ended April 30, 2014 and 2013, approximately \$14,466,000 and \$5,217,000, respectively, was recognized as other revenue in the accompanying statements of revenue and expenses and changes in net position.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounting for Pensions by State and Local Governmental Employers

The System conforms to the requirements of GASB Statement No. 27 (Statement No. 27), *Accounting for Pensions by State and Local Governmental Employers*. Pursuant to Statement No. 27, certain employers that participate in defined benefit pension plans are required to measure and disclose an amount for annual pension cost on the accrual basis of accounting.

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34*. Statement No. 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. Refer to Change in Reporting Entity within Note 1 for effect on current year financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. That statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Management has reclassified as deferred outflows of resources and outflows of resources certain items previously reported as assets. Refer to Note 7 for further discussion on prior period adjustments.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62*. That statement resolves conflicting guidance that resulted from the issuance of Statement No. 62. Statement No. 66 is effective for financial statements for periods beginning after December 15, 2012. The adoption of Statement No. 66 did not have a material effect on the System's financial statements.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which addresses an issue regarding application of the transition provisions in Statement No. 68. Among other provisions, Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. This statement calls for immediate recognition of more pension expense than is currently required. The provisions in Statement No. 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement No. 68 and Statement No. 71 are effective for fiscal years beginning after June 15, 2014. The System has not elected to implement these statements early; however, management is currently evaluating the effect of these statements on the System's financial statements when implemented.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which provides accounting and disclosure guidance for mergers, acquisitions, transfers of operations, and disposals. Statement No. 69 is effective for financial statements for periods beginning after December 15, 2013, with early adoption encouraged. The System has not elected to implement this statement early and the adoption of this statement is not expected to have a material effect on the System's financial statements.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. Further, when a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. Statement No. 70 is effective for financial statements for periods beginning after June 15, 2013, with early adoption encouraged. The early adoption of this statement did not have a material effect on the System's financial statements.

Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 financial statement presentation.

2. Uncompensated Care

The System maintains records to identify and monitor the level of uncompensated care it provides. These records include the amount of charges forgone for services provided under the System's charity care policy, as well as a provision for uncollectible accounts included in the accompanying statements of revenue and expenses and changes in net position. The following information measures the level of uncompensated care provided during the years ended April 30, 2014 and 2013 (in thousands).

| | 2014 | 2013 |
|---|-------------------|-------------|
| Uncompensated care, based on established rates | \$ 898,927 | \$ 919,841 |
| Percentage of uncompensated care patients to all patients served based upon total charges | 11.7% | 12.5% |

For the years ended April 30, 2014 and 2013, uncompensated care includes approximately \$455,402,000 and \$571,773,000, respectively, of charges forgone for services provided under the System's charity care policy. Using the System's average ratio of cost to charges, the cost of charity care provided was approximately \$86,142,000 and \$107,891,000 for the years ended April 30, 2014 and 2013, respectively.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

3. Net Patient Service Revenue

The System has contractual agreements with third-party payors (Medicare, Medicaid, and commercial insurance payors) that provide for prospective reimbursement at contractually established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare and Medicaid

Most of the System's Medicare patients are covered under the Medicare Prospective Payment System, which establishes predetermined rates for diagnosis-related groups, resource utilization groups, home health resource groups, case mix groups, and inpatient psychiatric per diems.

Reimbursement for certain services subject to special reimbursement formulas under the Medicare program is subject to audit and settlement by a Medicare Administrative Contractor. Such audits and final settlements have been completed for all years through 2011 for all facilities. Audit fieldwork has been completed for 2012, and final settlement amounts have been determined based on audit adjustments received. Medicare program beneficiaries accounted for approximately 18% of the System's gross patient charges in fiscal year 2014 and 19% in fiscal year 2013.

Inpatient and outpatient services rendered to Medicaid program beneficiaries were reimbursed under a cost-based prospective payment formula through June 30, 2013. Effective July 1, 2013, Medicaid inpatient services are reimbursed under a DRG based method. The System's Medicaid cost reports have been audited by the Medicaid Administrative Contractor through 2009 for all facilities. Medicaid program beneficiaries accounted for approximately 15% of the System's gross patient charges in fiscal year 2014 and in fiscal year 2013.

There were no material differences between original estimates and subsequent revisions, including final settlements, in fiscal years 2014 and 2013.

Insurance and Other

The System has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payments to the System under these agreements includes prospectively determined rates per discharge, allowances from established charges, and prospectively determined daily rates.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

3. Net Patient Service Revenue (continued)

The difference between gross patient charges and the contractually established rates, for the above programs, is accounted for as contractual adjustments. The System's gross patient charges, charity care write-offs, provision for doubtful accounts, and contractual adjustments for the years ended April 30 are as follows (in thousands):

| | <u>2014</u> | <u>2013</u> |
|---------------------------------|---------------------|---------------------|
| Gross patient charges | \$ 7,702,725 | \$ 7,384,130 |
| Charity care | (455,402) | (571,773) |
| Provision for doubtful accounts | (443,526) | (348,068) |
| Contractual adjustments | (5,342,774) | (5,085,779) |
| Net patient service revenue | <u>\$ 1,461,023</u> | <u>\$ 1,378,510</u> |

4. Other Funding Sources

The System receives funding from various components of the State Medicaid program, including the LIP and Medicaid rate enhancements. The State's LIP distributes funding to the System in support of programs that provide coverage for uninsured and underinsured patients. The LIP is a federal matching program that provides the State with the opportunity to receive additional distributions based upon a fixed annual pool of approximately \$1 billion distributed by the State based on the types and amount of programs provided by participating health care providers and for meeting specified quality metrics.

Total revenue recognized by the System from LIP and DSH funding was approximately \$52,877,000 and \$58,439,000 for the years ended April 30, 2014 and 2013, respectively, and are reported as disproportionate share distributions in the accompanying statements of revenue and expense and changes in net position.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

5. Cash, Cash Equivalents, and Investments

The book value of the System’s unrestricted bank accounts is approximately \$161,300,000 and \$95,386,000 at April 30, 2014 and 2013, respectively. The book value of the System’s bank accounts restricted by donors, included in assets whose use is limited, is approximately \$542,000 and \$1,896,000 at April 30, 2014 and 2013, respectively. These bank accounts are insured by a combination of federal depository insurance and a collateral pool pledged to the State Treasurer by financial institutions, which comply with the requirements of Florida Statutes and have been designated as qualified public deposits by the State Treasurer.

The current portion of assets whose use is limited of approximately \$7,009,000 and \$5,958,000 at April 30, 2014 and 2013, respectively, is included in other current assets in the accompanying statements of net position.

Cash Equivalents and Investments

At April 30, 2014 and 2013, respectively, the System’s cash equivalents and investments, including assets whose use is limited, are as follows (in thousands):

| | Fair Value | |
|---------------------------------------|---------------------|---------------------|
| | 2014 | 2013 |
| Unrestricted cash equivalents | \$ 249,213 | \$ 214,253 |
| Unrestricted investments | 909,990 | 920,380 |
| Assets whose use is limited: | | |
| By Board | 19,211 | 19,173 |
| Under self-insurance trust agreements | 54,696 | 54,509 |
| Under bond indentures | 21,377 | 21,245 |
| Externally restricted by donors | 542 | 1,896 |
| | \$ 1,255,029 | \$ 1,231,456 |

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

5. Cash, Cash Equivalents, and Investments (continued)

Interest Rate Risk

To the extent possible, the System attempts to match investment maturities with known cash needs and anticipated cash flow requirements. The System’s investment policy segments its investment portfolio into pools with identified asset allocation percentages that attempt to match its liquidity requirements. Investments of bond reserves, construction funds, and other indenture-restricted funds have maturities set in accordance with the relevant documents.

At April 30, 2014, the System had the following investments with the respective effective durations. (Fair value is in thousands and effective durations in years.)

| | 2014 | |
|--|-------------------|---------------------------|
| | Fair Value | Effective Duration |
| Cash and SEC registered money market funds | \$ 161,447 | N/A |
| U.S. Treasuries | 149,125 | 0.33 |
| U.S. agencies | 262,497 | 0.30 |
| U.S. agency mortgage bonds | 247,852 | 0.59 |
| Asset-backed securities | 102,335 | 0.15 |
| Commercial paper | 40,618 | 0.00 |
| Corporate debt | 231,350 | 0.53 |
| Municipal securities | 59,805 | 0.18 |
| | \$ 1,255,029 | 2.08 |

Credit Risk

The System has adopted an investment policy that authorizes the following instruments for investment: (1) the trust fund known as the Local Government Surplus Funds Trust Fund as created by Florida Statutes; (2) bankers’ acceptances; (3) commercial paper of prime quality rated by at least two nationally recognized debt rating agencies in the following manner: Moody’s Investor Services (Moody’s); Standard & Poors (S&P); A1+ or A1; Fitch, F1+ or F1 or secured by a letter of credit provided by a commercial bank that carries a credit rating in one of

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

5. Cash, Cash Equivalents, and Investments (continued)

the two highest ratings; (4) interest-bearing time deposits or savings accounts at institutions that are Qualified Public Depositories; (5) negotiable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the United States government; (6) obligations of federal agencies and instrumentalities; (7) interest-bearing notes, bonds, debentures, and other such evidence of indebtedness with a fixed maturity of any domestic listed corporation within the United States that when purchased carry ratings in one of the three highest classifications of at least two nationally recognized debt rating agencies or be secured by a letter of credit provided by a commercial bank not withstanding each investment manager will maintain an average portfolio credit quality of AA; (8) repurchase agreements and reverse repurchase agreements entered into with a member bank of the Federal Reserve System or a primary dealer in U.S. government securities, provided such repurchase agreements and reverse repurchase agreements are fully collateralized by the types of securities disclosed in sections (5) and (6) above; (9) SEC registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and (10) municipal bond investments that carry ratings in one of the top two classifications of at least two nationally recognized rating agencies or secured by bond insurance or a letter or credit by a commercial bank in one of the top two classifications.

The System's bond indentures stipulate permitted "Eligible Investments" for related bond funds. To the extent permitted by law, the System must invest bond funds in (1) U.S. Treasury obligations; (2) certain direct or guaranteed obligations of federal agencies; (3) certificates of deposit; (4) registered money market funds rated in the two highest rating categories by S&P and Moody's; (5) commercial paper rated Prime-1 by Moody's and A-1 or better by S&P; (6) municipal securities rated in the two highest rating categories by S&P and Moody's; (7) repurchase agreements; (8) investment agreements, including Guaranteed Investment Certificates acceptable to any credit facility provider; and (9) federal funds and bankers' acceptances from banks rated Prime-1 or A3 by Moody's and A-1 or A by S&P.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

5. Cash, Cash Equivalents, and Investments (continued)

At April 30, 2014, the System's investment securities have the following credit ratings as shown below (in thousands):

| | <u>Fair Value</u> | <u>Credit Rating*</u> |
|--|---------------------|-----------------------|
| Cash and SEC registered money market funds | \$ 157,909 | AAA |
| Cash and SEC registered money market funds | 3,538 | A-1+ |
| U.S. Treasuries | 149,125 | AA+ |
| U.S. agency discount notes | 31,199 | A-1+ |
| U.S. agency discount notes | 3,820 | AA+ |
| U.S. agencies | 227,478 | AA+ |
| U.S. agency mortgage bonds | 247,852 | AA+ |
| Asset-backed securities | 74,935 | AAA |
| Asset-backed securities | 27,400 | AA+ |
| Commercial paper | 32,120 | A-1+ |
| Commercial paper | 8,498 | A-1 |
| Corporate debt | 19,841 | AAA |
| Corporate debt | 38,994 | AA+ |
| Corporate debt | 28,038 | AA |
| Corporate debt | 29,553 | AA- |
| Corporate debt | 42,637 | A+ |
| Corporate debt | 38,206 | A |
| Corporate debt | 33,585 | A- |
| Corporate debt | 496 | BBB+ |
| Municipal securities | 28,736 | AAA |
| Municipal securities | 14,164 | AA+ |
| Municipal securities | 10,862 | AA |
| Municipal securities | 6,043 | AA- |
| | <u>\$ 1,255,029</u> | |

*Standard & Poor's ratings or comparable

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

5. Cash, Cash Equivalents, and Investments (continued)

Concentration of Credit Risk

The System's investment policy has established asset allocation and issuer limitations on the following investments, which are designated to reduce concentration of credit risk of the System's investments.

Local Government Surplus Funds Trust Fund. A maximum of 50% of the portfolio.

Bankers' acceptances. A maximum of 20% of the investment portfolio. Further limitations include original maturity of 210 days or less, maximum maturity of 180 days from date of purchase, and no more than 5% in a single issuer.

Commercial paper. Maximum of 30% of the portfolio. Further limitations include maximum maturity of 270 days from date of purchase and no more than 5% in a single issuer.

Interest-bearing time deposits. A maximum of 30% of the portfolio further subject to total of the lesser of 15% of the financial institution's capital or net worth or \$20 million and maximum maturity of one year. The financial institution must be a Qualified Public Depository.

Government securities. A maximum of 100% of the portfolio and minimum of 50% will be invested in government securities that include direct obligations of the U.S. Treasury, obligations guaranteed by the U.S. government, bonds, notes, debentures, and callable debt instruments issued or guaranteed by U.S. agencies. Further limitations include a 25% maximum limitation on adjustable interest rate and collateralized mortgage obligations and a 30-year maximum term.

Corporate debt. A maximum of 30% of the portfolio. Further limitations include no more than 10% in AAA-rated asset-backed securities, single industry concentration of 15%, no more than 5% to a single issuer, and maximum maturity of ten years. The maximum amount of corporate investments (total of commercial paper and corporate debt) will not exceed 50% of the investment portfolio. The maximum maturity of any corporate issue will not exceed ten years.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

5. Cash, Cash Equivalents, and Investments (continued)

Repurchase/reverse repurchase agreements. Maximum term of six months and subject to Public Securities Association documentation requirements. A maximum of 50% of the portfolio may be in repurchase agreements.

SEC registered money market funds. A maximum of 50% of the portfolio.

Municipal securities. A maximum of 30% of the portfolio. Further limitations include no more than 5% in any one issuer and a maximum maturity of ten years.

The System’s bond indentures stipulate permitted “eligible investments” for related bond funds. Asset allocation and issuer limitations are not stipulated in the related bond documents.

The following table shows the composition of the System’s investments at April 30, 2014 and 2013, respectively (in thousands):

| | <u>2014</u> | | <u>2013</u> | |
|--|---------------------|--------------------------------|---------------------|--------------------------------|
| | <u>Fair Value</u> | <u>Percentage of Portfolio</u> | <u>Fair Value</u> | <u>Percentage of Portfolio</u> |
| Cash and SEC registered money market funds | \$ 161,447 | 13% | \$ 157,998 | 13% |
| U.S. Treasuries | 149,125 | 12 | 166,108 | 13 |
| U.S. agencies | 262,497 | 21 | 292,295 | 24 |
| U.S. agency mortgage bonds | 247,852 | 20 | 247,576 | 20 |
| Asset-backed securities | 102,335 | 8 | 6,173 | 1 |
| Commercial paper | 40,618 | 3 | 5,198 | 0 |
| Corporate debt | 231,350 | 18 | 287,965 | 23 |
| Municipal securities | 59,805 | 5 | 68,143 | 6 |
| | <u>\$ 1,255,029</u> | <u>100%</u> | <u>\$ 1,231,456</u> | <u>100%</u> |

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

5. Cash, Cash Equivalents, and Investments (continued)

At April 30, 2014, investments in any one issuer representing 5.0% or more of the System's total investments are as follows: \$183,000,720 (14.6%) invested in issues of the Federal National Mortgage Association; \$97,771,202 (7.8%) invested in issues of the Government National Mortgage Corporation; \$93,550,940 (7.5%) invested in issues of the Federal Home Loan Mortgage Corporation; and \$77,717,452 (6.2%) invested in issues of the Federal Home Loan Bank. The System's investment policy does not have an issuer limitation for U.S. Treasury securities.

Custodial Credit Risk

Pursuant to Florida Statute 218.415, securities, with the exception of certificates of deposit, are held with a third-party custodian; and all securities purchased by, and all collateral obtained by the System, are properly designated as an asset of the System. The securities are held in an account separate and apart from the assets of the financial institution. At April 30, 2014 and 2013, the System's investment securities were held by U.S. Bank, a third-party custodian, as required by the System's investment policy.

The System's bond indentures stipulate that all bond and trustee held funds be maintained in separate accounts with a bond trustee. U.S. Bank is the trustee for all the System's outstanding bonds and revenue certificate indebtedness. All bond and trustee held investments are held in accounts separate and apart from the assets of the financial institution.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

6. Capital Assets

A summary of the activity in the capital assets and the related accumulated depreciation accounts is as follows (in thousands):

| | Balance at May 1, 2013 | Additions | Transfers | Deletions | Balance at April 30, 2014 |
|----------------------------|-----------------------------------|------------------|------------------|------------------|--------------------------------------|
| Land improvements | \$ 26,463 | \$ – | \$ – | \$ – | \$ 26,463 |
| Buildings and improvements | 1,030,433 | 8,907 | 16,387 | (1,335) | 1,054,392 |
| Equipment | 543,335 | 31,529 | 59,681 | (30,064) | 604,481 |
| Depreciable assets | 1,600,231 | 40,436 | 76,068 | (31,399) | 1,685,336 |
| Accumulated depreciation | (860,493) | (120,079) | – | 30,273 | (950,299) |
| Net depreciable assets | 739,738 | (79,643) | 76,068 | (1,126) | 735,037 |
| Land | 33,439 | 1,546 | – | – | 34,985 |
| Construction in progress | 54,687 | 36,768 | (76,068) | (22) | 15,365 |
| Capital assets, net | \$ 827,864 | \$ (41,329) | \$ – | \$ (1,148) | \$ 785,387 |

| | Balance at May 1, 2012 | Additions | Transfers | Deletions | Balance at April 30, 2013 |
|----------------------------|-----------------------------------|------------------|------------------|------------------|--------------------------------------|
| Land improvements | \$ 26,392 | \$ – | \$ 126 | \$ (55) | \$ 26,463 |
| Buildings and improvements | 1,023,079 | 1,141 | 6,213 | – | 1,030,433 |
| Equipment | 487,982 | 14,597 | 53,907 | (13,151) | 543,335 |
| Depreciable assets | 1,537,453 | 15,738 | 60,246 | (13,206) | 1,600,231 |
| Accumulated depreciation | (758,213) | (114,768) | – | 12,488 | (860,493) |
| Net depreciable assets | 779,240 | (99,030) | 60,246 | (718) | 739,738 |
| Land | 33,439 | – | – | – | 33,439 |
| Construction in progress | 26,306 | 88,627 | (60,246) | – | 54,687 |
| Capital assets, net | \$ 838,985 | \$ (10,403) | \$ – | \$ (718) | \$ 827,864 |

The System is currently engaged in expansion projects at its facilities. The estimated cost to complete all construction projects in process at April 30, 2014, is approximately \$55,800,000.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

7. Prior Period Adjustment

During fiscal year 2014, the System implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Per GASB Statement No. 65, certain items that were previously reported as assets and liabilities are now reported as outflows of resources or inflows of resources. This change has been reflected in the accompanying statements of net position.

Paragraph 15 of GASB Statement No. 65 indicates that debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. The cumulative debt issuance costs from prior fiscal years are reported as a restatement of beginning net position as shown in the table below (in thousands):

| | |
|---|---------------------|
| Net position, April 30, 2012 | \$ 1,409,091 |
| Cumulative effect of implementing GASB Statement No. 65 | <u>(7,042)</u> |
| Net position, April 30, 2012 (restated) | <u>\$ 1,402,049</u> |

8. Self-Insurance

The System is exposed to various risks of loss related to professional liability, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and certain employee health plan costs; and natural disasters. The System believes it is more economical to manage its risks internally and set aside assets for claim settlement. Commercial insurance is carried on property, directors and officers, accidents, and vehicles. The System's commercial property insurance program excludes windstorm coverage.

The System, as a subdivision of the State, has sovereign immunity in tort actions. Therefore, in accordance with Chapter 768.28 of the Florida Statutes, for claims with occurrence dates subsequent to October 1, 2011, the System is not liable to pay a claim or judgment by any one person that exceeds the sum of \$200,000 or any claim or judgments, or portions thereof, which when totaled with all other claims or judgments paid by the State or its agencies or subdivisions arising out of the same incident or occurrence exceeds the sum of \$300,000.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

8. Self-Insurance (continued)

Chapter 768.28 of the Florida Statutes also provides that judgments may be claimed or rendered in excess of these limits; however, these amounts must be reported to, and approved by, the State Legislature. In addition, the System has \$18 million in excess insurance coverage, with a \$2 million self-insured retention, to cover any damages rendered against it as a result of the passage of a claims bill.

The System's management estimates and accrues for the cost of unreported claims based on historical data and actuarial projections. The estimated claims liability has been discounted based on an interest rate of 1.5% at April 30, 2014 and 2013. The System has established a trust fund for the purpose of setting aside assets to fund future self-insurance losses. The trust assets can only be used for payment of losses and administrative expenses. Earnings on investments in the self-insurance trust are reported as nonoperating gains, net, in the statements of revenue and expenses and changes in net position and are retained as part of the fund. A rollforward of the System's claims liability for self-insurance claims is as follows (in thousands):

| Year Ended April 30 | Liability at Beginning of Year | New Claims and Changes in Estimates | Claim Payments | Liability at End of Year | Estimated Amount Due Within One Year |
|------------------------|--------------------------------------|--|-------------------|-----------------------------|---|
| 2012 | \$ 47,087 | \$ 39,441 | \$ (49,343) | \$ 37,185 | \$ 6,344 |
| 2013 | 37,185 | 28,405 | (33,086) | 32,504 | 12,839 |
| 2014 | 32,504 | 40,326 | (38,316) | 34,514 | 14,270 |

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

9. Long-Term Debt

The following is a summary of long-term debt as of April 30 (in thousands):

| | 2014 | 2013 |
|--|------------------|-------------|
| Series 2009 Hospital Revenue Bonds – \$150,000 authorized and issued: | | |
| 6.978% Term Bond due May 1, 2039 | \$ 40,000 | \$ 40,000 |
| 7.278% Term Bond due May 1, 2044 | 110,000 | 110,000 |
| | 150,000 | 150,000 |
| | | |
| Series 2008 Hospital Refunding Revenue Bonds – \$156,575 authorized and issued: Serial Bonds, interest rates of 4.00% to 5.25% maturing in amounts ranging from \$1,400 to \$4,000 through May 1, 2017 | 6,854 | 8,625 |
| 5.25% Term Bond due May 1, 2022 | 8,180 | 8,180 |
| 5.00% Term Bond due May 1, 2028 | 30,270 | 30,270 |
| 5.00% Term Bond due May 1, 2036 | 102,885 | 102,885 |
| | 148,189 | 149,960 |
| | | |
| Series 2007 Hospital Refunding Revenue Bonds – \$112,745 authorized and issued: Serial Bonds, interest rate of 4.75% maturing in amounts ranging from \$4,695 to \$6,595 through May 1, 2024 | 16,200 | 16,200 |
| 4.75% Term Bond due May 1, 2028 | 34,215 | 34,215 |
| 4.75% Term Bond due May 1, 2032 | 62,330 | 62,330 |
| | 112,745 | 112,745 |
| | | |
| Unamortized premium, net | 2,336 | 2,467 |
| | 115,081 | 115,212 |

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

9. Long-Term Debt (continued)

| | 2014 | 2013 |
|---|------------------|-------------|
| Series 2006 Hospital Revenue and Refunding Revenue Bonds – \$120,000 authorized and issued: Serial Bonds, interest rates of 4.000% to 5.000% maturing in amounts ranging from \$930 to \$8,735 through May 1, 2023 | \$ 50,150 | \$ 50,150 |
| 4.375% Term Bond due May 1, 2025 | 7,440 | 7,440 |
| 4.500% Term Bond due May 1, 2030 | 20,865 | 20,865 |
| 5.000% Term Bond due May 1, 2035 | 27,595 | 27,595 |
| 4.500% Term Bond due May 1, 2037 | 13,950 | 13,950 |
| | 120,000 | 120,000 |
| Unamortized premium, net | 2,220 | 2,316 |
| | 122,220 | 122,316 |
| Series 2003A Refunding Revenue Bonds – \$39,945, and Series 2003B Revenue Bonds – \$5,065 authorized and issued: Serial Bonds, interest rates of 2.75% to 5.25% maturing in amounts ranging from \$380 to \$4,155, through May 1, 2015 | 2,425 | 7,040 |
| Unamortized premium, net | 109 | 254 |
| | 2,534 | 7,294 |
| Series 2001 Revenue Certificate – \$10,000 authorized and issued: Payable in annual installments of \$400 commencing May 1, 2002, through and including May 1, 2016, and a balloon payment of \$4,000 due on November 1, 2016. Interest is payable semiannually based on the following formula [(one month LIBOR + 0.550%)/1.5037]. The LIBOR rate at April 30, 2014, was 0.150% | 5,200 | 5,600 |

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

9. Long-Term Debt (continued)

| | 2014 | 2013 |
|--|-------------------|-------------|
| Series 2000 Revenue Certificate – \$10,000 authorized and issued: Payable in annual installments ranging from approximately \$206 to \$400 commencing May 1, 2002, through and including May 1, 2015, and a balloon payment of approximately \$6,300 due on November 1, 2015. The interest rate is fixed at 5.155% | \$ 6,700 | \$ 7,100 |
| Series 1998 Revenue Certificate – \$10,000 authorized and issued: Payable in annual installments of \$400 through and including May 1, 2017, and a balloon payment of \$2,400 due May 1, 2018. The interest rate is fixed at 4.374% | 4,000 | 4,400 |
| Total debt | 553,924 | 561,882 |
| Less current portion | (7,880) | (7,585) |
| Long-term portion | \$ 546,044 | \$ 554,297 |

During 2014 and 2013, interest cost of approximately \$574,000 and \$1,115,000, respectively, was capitalized. During 2014 and 2013, interest earned on invested Revenue Certificates and bond proceeds was \$1,000 and is netted against capitalized interest. Capitalized interest is included in capital assets.

The Revenue Bonds are secured by gross patient charges and certain pledge funds and have been issued as parity debt under the Master Trust Indenture dated as of September 1, 2003 (Master Indenture).

On September 12, 2003, the System executed and delivered the Master Indenture. Upon execution and delivery of the Master Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, and the Fifth Supplemental Indenture, respectively, and together with certain amended and unamended portions of the Trust Indenture, became what is referred to in the Master Indenture as the Bond Indentures for the respective series of Revenue Bonds that were issued thereunder. After the execution and delivery of the Master Indenture, the System, pursuant to the Master Indenture, issued obligations to the trustee under the Trust Indenture, as bond trustee for each of the series of Revenue Bonds issued

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

9. Long-Term Debt (continued)

thereunder and to each of the Revenue Certificate holders to evidence their security under the Master Indenture. The Master Indenture provides that the System becomes part of an obligated group. The System is the only member of the obligated group. The obligations issued under the Master Indenture are payable solely from and are secured by a pledge of and a lien on the gross patient charges of the obligated group and any future member of the obligated group and certain accounts created under the Master Indenture, provided, however, the lien and pledge of the accounts under the Master Indenture does not extend to obligations issued for the benefit of the Revenue Certificate holders.

The Series 2003A Refunding Revenue Bonds were issued to provide funds, to refund the Series 1993 Refunding and Revenue Bonds, and the Series 2003B Revenue Bonds were issued to provide funds, together with other available funds, to pay the costs of acquisition, construction, and equipping of certain improvements to the hospital facilities, including the reimbursement of certain funds advanced by the System. The computations performed in accordance with GASB Statement No. 23 for the refunding of the 1993 Refunding and Revenue Bonds resulted in a loss on defeasance of approximately \$1,559,000 and is reported in the accompanying statements of net position as a deferred outflow. At April 30, 2014 and 2013, respectively, the unamortized value of the deferred amount was approximately \$59,000 and \$117,000. The deferred amount is being charged to operations through the year 2016 using an effective interest amortization method. The Series 2003A Refunding Revenue Bonds and the Series 2003B Revenue Bonds maturing after May 1, 2013, are callable at par and in such proportion within maturities as may be directed by the System.

The Series 2006 Hospital Revenue and Revenue Refunding Bonds were issued in the amount of \$120,000,000. The Series 2006 Hospital Revenue and Revenue Refunding Bonds were issued to (1) reimburse the System for prior capital expenditures for the acquisition, construction, and equipping of certain facilities and routine equipment purchased by the System; (2) refund all the Series 1996 Revenue Refunding Bonds; and (3) pay certain costs of issuance. The Series 2006 Hospital Revenue and Revenue Refunding Bonds were issued as fixed rate bonds and are callable after May 2, 2016, at par, without premium.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

9. Long-Term Debt (continued)

The System completed the refunding of its Series 1996 Hospital Refunding Revenue Bonds as a part of the Series 2006 Hospital Refunding Revenue Bonds to reduce its total debt service payments and to extend the maturity of the debt. On a matched-maturity basis, the cash flow savings, not including the funds held in related bond debt service accounts, was approximately \$7,056,000. The economic gain (the difference between the present values of the old and new debt service payments taken together with the return of certain bond fund monies) of the refunding on a matched-maturity basis was approximately \$2,652,000.

The computations performed in accordance with GASB Statement No. 23 for the refunding of the Series 1996 Revenue Refunding Bonds resulted in a loss on defeasance of approximately \$5,246,000 and is reported in the accompanying statements of net position as a deferred outflow. At April 30, 2014 and 2013, respectively, the unamortized value of the deferred amount was approximately \$2,554,000 and \$2,640,000. The deferred amount is being charged to operations through the year 2022 using an effective interest amortization method.

The Series 2007 Hospital Refunding Revenue Bonds were issued in the amount of \$112,745,000. The Series 2007 Hospital Refunding Revenue Bonds were issued to (1) advance refund all the outstanding Series 2002 Revenue Bonds; (2) pay an issuer settlement amount to the provider of a rate lock agreement dated February 8, 2007; and (3) pay certain costs of issuance. The Series 2007 Hospital Refunding Revenue Bonds were issued as fixed rate bonds and are callable after May 1, 2017, at par, without premium. The computations performed in accordance with GASB Statement No. 23 for the advance refunding of the Series 2002 Hospital Revenue Bonds resulted in a loss on defeasance of approximately \$7,197,000 and is reported in the accompanying statements of net position as a deferred outflow. At April 30, 2014 and 2013, respectively, the unamortized value of the deferred amount was approximately \$5,151,000 and \$5,440,000. The deferred amount is being charged to operations through the year 2033 using an effective interest amortization method.

On May 27, 2008, the Series 2008 Hospital Refunding Revenue Bonds were issued in the amount of \$156,575,000 to (1) pay prior to maturity the principal of and accrued interest on the Bank of America Loan Agreement, and (2) pay certain costs of issuance. On March 1, 2008, the System entered into a loan agreement with Bank of America, National Association and executed

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

9. Long-Term Debt (continued)

a promissory note as of March 24, 2008, to evidence debt incurred under the Bank of America Loan Agreement, which debt was incurred for the purpose of refunding its (i) Series 2003C Refunding Revenue Bonds, (ii) Series 2004A Hospital Revenue Bonds, and (iii) Series 2004B Hospital Revenue Bonds. These prior bonds were issued as auction rate certificates, all of which experienced failed auctions during the 2008 fiscal year. The loan agreement temporarily refunded the bonds until a permanent financing could be completed. The Series 2008 Hospital Refunding Revenue Bonds were issued as fixed rate bonds and are callable after May 1, 2018, at par, without premium. The computations performed in accordance with GASB Statement No. 23 for the advance refunding of the Series 2003 and 2004 Hospital Revenue Bonds resulted in a loss on defeasance of approximately \$4,829,000 and is reported in the accompanying statements of net position as a deferred outflow. At April 30, 2014 and 2013, respectively, the unamortized value of the deferred amount was approximately \$3,934,000 and \$4,215,000. The deferred amount is being charged to operations through the year 2037 using an effective interest amortization method.

On October 28, 2009, Series 2009 Hospital Revenue Bonds were issued in the amount of \$150,000,000 to provide funds to (1) acquire, construct, renovate, and equip certain of its health care facilities, including reimbursement of certain moneys advanced prior to issuance, and (2) pay certain costs of issuance. The Series 2009 Hospital Revenue Bonds were issued as fixed rate bonds and are callable on or after May 1, 2019, at par, without premium. The 2009 Hospital Revenue Bonds are issued as Build America Bonds pursuant to the American Recovery and Reinvestment Act of 2009. The System will be eligible, subject to certain conditions, to receive cash subsidy payments from the U.S. Department of the Treasury equal to 35% of the interest payable on the Series 2009 Hospital Revenue Bonds.

The fair value of the System's long-term debt, as calculated by an independent third party, was approximately \$570,952,000 and \$580,618,000 at April 30, 2014 and 2013, respectively. The fair value of the System's long-term debt was based primarily on quoted market prices and excludes the variable rate 2001 Revenue Certificate, which is priced at par.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

9. Long-Term Debt (continued)

Maturities of long-term debt for the next five years and thereafter are (in thousands):

| | Principal | Estimated Interest Payments | Estimated Total Debt Service |
|------------------------|-------------------|--|---|
| Years ending April 30: | | | |
| 2015 | \$ 7,880 | \$ 26,923 | \$ 34,803 |
| 2016 | 9,265 | 26,681 | 35,946 |
| 2017 | 8,455 | 26,229 | 34,684 |
| 2018 | 8,800 | 25,915 | 34,715 |
| 2019 | 9,530 | 25,473 | 35,003 |
| 2020–2024 | 52,160 | 119,877 | 172,037 |
| 2025–2029 | 88,320 | 103,689 | 192,009 |
| 2030–2034 | 120,100 | 78,355 | 198,455 |
| 2035–2039 | 121,590 | 46,365 | 167,955 |
| 2040–2045 | 123,159 | 20,713 | 143,872 |
| | <u>\$ 549,259</u> | <u>\$ 500,220</u> | <u>\$ 1,049,479</u> |

For purposes of determining estimated future interest payments for the System’s variable interest rate debt, estimated future interest payments were calculated using the rates in effect at April 30, 2014.

Activity related to long-term debt is summarized as follows (in thousands):

| | Year Ended April 30 | |
|--------------------------------------|----------------------------|-------------------|
| | 2014 | 2013 |
| Balance at beginning of year | \$ 561,882 | \$ 569,540 |
| Principal payments on long-term debt | (7,585) | (7,285) |
| Amortization of premiums | (373) | (373) |
| Balance at end of year | <u>\$ 553,924</u> | <u>\$ 561,882</u> |

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

10. Pension Plan

The System administers a single employer, noncontributory defined benefit pension plan covering substantially all full-time regular employees that were hired on or before October 31, 2011. Effective November 1, 2011, the Plan was closed to new hires and rehires. The Plan does not issue a stand-alone financial report.

The Board has the authority to establish and amend the benefit provisions of the Plan. Contributions by the System are actuarially determined amounts, which, together with investment earnings, are sufficient to fund the Plan. The actuarial assumptions used to determine the System's contributions to the Plan are subject to review by the State Division of Retirement and the System is required under Part VII of Chapter 112 of the Florida Statutes to fund the Plan in accordance with these actuarial assumptions. There are no employee contributions.

Effective May 1, 2014, the Plan was amended to: (1) permit lump sum distributions to Participants when the Actuarial Equivalent present value of the retirement benefit is not greater than \$50,000 and the Participant has not begun receiving a monthly retirement benefit; (2) permit the Plan to distribute to the participant (if elected) or into an eligible retirement plan (if the participant does not make an election) the Actuarial Equivalent present value of a Participant's benefit when it exceeds \$1,000 but does not exceed \$5,000; and (3) distribute the Actuarial Equivalent present value of a Participant's benefit that is \$1,000 or less as soon as administratively practical following the Participant's date of termination.

Listed below is information regarding payroll and participant data used in the calculation of current year actuarial information:

| | |
|-------------------------------------|----------------------|
| Participant data as of May 1, 2013: | |
| Active | 7,182 |
| Retired | 1,349 |
| Terminated vested | 2,544 |
| Total | <u><u>11,075</u></u> |

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

10. Pension Plan (continued)

The Plan funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The contribution rate for normal cost is determined using the projected unit credit actuarial funding method with proration based on service. The actuary uses the level dollar method to amortize the unfunded liability over the average future working lifetime of active participants, which is 12 years as of May 1, 2013, for experience gains or losses, changes in benefits, or changes in actuarial assumptions. The actuarial value of assets uses a five-year smoothing for investment gains and losses. The significant actuarial assumptions used to compute the annual required contribution include a 7.50% rate of return on investments and an age-related salary increase scale (from 6.00% below age 35 to 4.50% for age 60 and older). The rate of return on investments and the projected salary increase rate include projected inflation of 2.50%.

The annual required contributions to the Plan were made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of May 1, 2013. The System's annual pension cost for the years ended April 30, 2014, 2013, and 2012, was approximately \$34,988,000, \$33,031,000, and \$29,899,000, respectively. The actuarial value of the Plan assets at April 30, 2014 and 2013, was \$434,247,000 and \$374,137,000, respectively. The System's contributions to the Plan during the years ended April 30, 2014, 2013, and 2012, were equal to 100% of annual pension cost for all three years. As of April 30, 2014 and 2013, the System's net pension obligation was zero.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

10. Pension Plan (continued)

The Plan has adopted an investment policy that adheres to the investment guidelines and permissible investments outlined in Florida Statutes, Title XIV, Chapters 215.44 and 215.47. The policy has target percentages for certain asset classes and permits variances of +/- 5% as an allowable range. At April 30, 2014 and 2013, the authorized asset allocation and target percentages were:

| Asset Class | Authorized | | Target Percent |
|--------------------------------|--------------|-------|-------------------|
| | 2014 | 2013 | |
| Global equity: | | | 55.0% |
| Value | 27.5% | 27.5% | |
| Growth | 27.5 | 27.5 | |
| Fixed income: | | | 35.0 |
| U.S. fixed income – core | 25.0 | 35.0 | |
| Global bonds – U.S. dollar | 5.0 | | |
| Global bonds – non-U.S. dollar | 5.0 | | |
| Alternative investments | 10.0 | 10.0 | 10.0 |
| Total Plan | | | <u>100.0%</u> |

The Plan provides the following guidelines and restrictions for the asset classes authorized:

(1) *Global equity (including dedicated emerging markets)*: The following list of investments may be purchased in a global equity portfolio: common and preferred stocks of issuers whose primary stock exchange listing, registration, or headquarters are located in the United States, or countries comprising the Morgan Stanley Capital International All Country World Index (MSCI ACQI Index). The exceptions to this are stocks in emerging markets, subject to certain limitations. Other permissible investments include: securities convertible into common stock, including offerings under Securities Act Rule 144, limited to 20% of the portfolio at market value; warrants; ADRs listed on a major U.S. exchange; forward contracts for foreign currency to be used in defensive hedging only; World Equity Benchmarks (WEBs); Exchange Traded Funds; Initial Public Offerings (only after notification to the System’s Finance Committee and its Investment Consultant; no-load mutual funds; bank, trust, or insurance company pooled funds; and cash or cash equivalents.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

10. Pension Plan (continued)

(2) *Fixed income*: The following list of investments may be purchased in the fixed-income portfolios: U.S. Treasury obligations, Treasury Inflation Protected Bonds, government agencies and government-sponsored agency debentures and mortgage pass-thru; mortgage-backed To-Be-Announced (TBAs) notes; collateralized mortgage obligations, limited to 25% of the portfolio; non-agency issued mortgages originated in the State per Florida Statute 215.47(2)(b)(c)(d); commercial mortgage-backed securities; corporate bonds and other corporate obligations, including equipment trust certificates; asset-backed securities; indexed notes, floaters, and other variable rate obligations; pooled accounts or other collective investment funds; certificates of deposit, bankers' acceptances, and commercial paper rated at least A-1 by S&P or P-1 by Moody's; mutual funds; municipal bonds; complex tranches of collateralized mortgage obligations, asset-backed securities, and commercial mortgage-backed securities (including interest only, principal only, super floaters, inverse floaters, and support bonds), limited to 10% of the portfolio at market value; and U.S. dollar global bonds and non-U.S. dollar global bonds, limited to 5% each (10% total) of the portfolio at market value. Investments not listed above may be purchased only if the investment manager receives written approval from the System's Finance Committee.

(3) *Alternative investments*: An alternative investment refers to an investment or strategy that involves a non-traditional structure that invests in underlying assets. The Plan will generally invest in strategies that have at least yearly liquidity and reasonable levels of transparency. In November 2013, the Plan invested in a commingled bond fund structure to provide exposure to global fixed income securities. In January 2014, the Plan temporarily liquidated 100% of its long/short equity strategy and is in the process of replacing the manager for this strategy. Proceeds were temporarily invested 50% each in an S&P 500 Index Fund and a U.S. government money market fund.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

10. Pension Plan (continued)

Interest Rate Risk

At April 30, 2014, the Plan had the following investments with the respective effective durations. Fair values are determined primarily using quoted market prices or absent such, by other customary pricing methods by the custodian. (Fair values are in thousands and effective durations are in years.)

| | Fair Value | Effective Duration |
|--|-----------------------|-------------------------------|
| Domestic investments: | | |
| Equities | \$ 86,307 | N/A |
| U.S. government and agency obligations | 46,829 | 1.72 |
| Corporate debt | 21,025 | 1.07 |
| Commercial mortgage securities | 5,262 | 0.16 |
| Collateralized mortgage obligations | 742 | - |
| Asset-backed securities | 3,523 | 0.07 |
| Municipal bonds | 4,217 | 0.22 |
| SEC registered money market funds | 45,312 | N/A |
| Preferred securities | 256 | N/A |
| International investments: | | |
| Equities | 104,973 | N/A |
| Dodge & Cox global stock fund | 68,657 | N/A |
| Alternative investments: | | |
| U.S. and global bonds in commingled fund | 50,593 | N/A |
| Other: | | |
| Cash | 511 | N/A |
| Due from brokers | 1,232 | N/A |
| Advance contribution | (235) | N/A |
| | \$ 439,204 | |

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

10. Pension Plan (continued)

At April 30, 2014, the Plan's investment securities have the following credit ratings as shown below (in thousands).

| | <u>Fair Value</u> | <u>Credit Rating*</u> |
|-------------------------------------|-------------------|-----------------------|
| Domestic investments: | | |
| Equities | \$ 86,307 | Not Rated |
| U.S. Treasuries | 23,593 | AA+ |
| U.S. agencies | 481 | AA+ |
| U.S. agencies | 616 | AA- |
| U.S. agency mortgage bonds | 22,139 | AA+ |
| Corporate debt | 492 | AA+ |
| Corporate debt | 397 | AA |
| Corporate debt | 273 | AA- |
| Corporate debt | 676 | A+ |
| Corporate debt | 2,276 | A |
| Corporate debt | 4,224 | A- |
| Corporate debt | 4,966 | BBB+ |
| Corporate debt | 4,283 | BBB |
| Corporate debt | 3,188 | BBB- |
| Corporate debt | 232 | BB+ |
| Corporate debt | 18 | Not Rated |
| Commercial mortgage securities | 5,262 | AAA |
| Collateralized mortgage obligations | 32 | AA+ |
| Collateralized mortgage obligations | 79 | BB+ |
| Collateralized mortgage obligations | 56 | CCC |
| Collateralized mortgage obligations | 17 | CC |
| Collateralized mortgage obligations | 545 | D |
| Collateralized mortgage obligations | 13 | Not Rated |

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

10. Pension Plan (continued)

| | Fair Value | Credit Rating* |
|--|-------------------|-----------------------|
| Domestic investments (continued): | | |
| Asset-backed securities | \$ 2,830 | AAA |
| Asset-backed securities | 84 | B |
| Asset-backed securities | 251 | CCC |
| Asset-backed securities | 277 | D |
| Asset-backed securities | 81 | Not Rated |
| Municipal bonds | 521 | AA |
| Municipal bonds | 1,404 | AA- |
| Municipal bonds | 1,393 | A+ |
| Municipal bonds | 694 | A- |
| Municipal bonds | 205 | A |
| SEC registered money market funds | 45,312 | AAA |
| Preferred securities | 256 | D |
| International investments: | | |
| Equities | 104,973 | Not Rated |
| Dodge & Cox Global Stock Fund | 68,657 | Not Rated |
| Alternative investments: | | |
| U.S. and global bonds in commingled fund | 50,593 | Not Rated |
| Other: | | |
| Cash | 511 | Not Rated |
| Due from brokers | 1,232 | Not Rated |
| Advance contribution | (235) | Not Rated |
| | \$ 439,204 | |

*Standard & Poor's rating or equivalent

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

10. Pension Plan (continued)

Concentration of Credit Risk

The Plan's investment policy has established asset allocation and issuer limitations on the following investments, which are designated to reduce concentration of credit risk of the Plan's investments.

Global equity investments in any individual company may not represent more than 5% at cost and 8% at the market value. Investment in any individual company on a "Total Plan" basis shall not exceed 3%. The maximum exposure to emerging markets equity from global and dedicated emerging markets is 20% of total Plan assets.

No more than 10% of the bond portfolio at market value shall be invested in the securities of any one issuer, with the exception of the U.S. government. No more than 3% of the portfolio may be invested in one bond, with the exception being securities issued or guaranteed by the U.S. government. No more than 50% of the portfolio shall have exposure to non-government guaranteed agency obligations (at market value). Fixed-income securities should be rated BBB- (or its equivalent) or higher at time of purchase by a nationally recognized statistical rating agency. The minimum dollar-weighted average quality rating of the portfolio is "A." Asset-backed securities, mortgage-backed securities, and collateralized mortgage obligations should be rated "AAA" (or its equivalent) at the time of purchase by a nationally recognized statistical rating agency. For split ratings, the higher rating will be used to determine compliance with these guidelines. If issues are downgraded to non-investment grade, the investment manager will determine the appropriate action based on the perceived risk and expected return of the position and will inform System management and the investment consultant in writing of the action that was taken. The duration of the portfolio must be within +/- 10% of the indicated index. The maximum effective maturity of any single security should not exceed 40 years.

The Plan will generally invest in strategies that provide liquidity such that a significant withdrawal is available (>75% of the investment) at least once per year. Reasonable levels of transparency are expected in order to monitor underlying investments. Strategies that cause total leverage to exceed 2.5:1 and fund of funds managers that employ leverage at the fund of funds level shall be avoided. At no time will the Plan invest in a fund where the amount of dollars-at-risk exceeds the initial investment amount.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

10. Pension Plan (continued)

The following table shows the composition of the Plan's investments at April 30, 2014 and 2013 (in thousands):

| | 2014 | | 2013 | |
|--|-------------------|-----------------------|-------------------|-----------------------|
| | Fair Value | % of Portfolio | Fair Value | % of Portfolio |
| Domestic investments: | | | | |
| Equities | \$ 86,307 | 20% | \$ 55,356 | 15% |
| U.S. government and agency obligations | 46,829 | 11 | 64,227 | 17 |
| Corporate debt | 21,025 | 5 | 39,662 | 10 |
| Commercial mortgage securities | 5,262 | 1 | 7,484 | 2 |
| Collateralized mortgage obligations | 742 | – | 4,466 | 1 |
| Asset-backed securities | 3,523 | 1 | 4,526 | 1 |
| Municipal bonds | 4,217 | 1 | – | – |
| SEC registered money market funds | 45,312 | 10 | 21,159 | 6 |
| Preferred securities | 256 | – | 233 | – |
| International investments: | | | | |
| Equities | 104,973 | 24 | 93,571 | 25 |
| Dodge & Cox global stock fund | 68,657 | 16 | 54,708 | 14 |
| Alternative investments: | | | | |
| Long/short equity hedge fund | – | – | 32,652 | 9 |
| U.S. and global bonds in commingled fund | 50,593 | 11 | – | – |
| Other: | | | | |
| Cash | 511 | – | 768 | – |
| Due from brokers | 1,232 | – | 650 | – |
| Advance contribution | (235) | – | – | – |
| | \$ 439,204 | 100% | \$ 379,462 | 100% |

At April 30, 2014, there was no single investment representing 20% or more of the Plan's total investments.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

10. Pension Plan (continued)

Custodial Risk

GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, requires disclosure of deposits and investments exposed to custodial credit risk. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Plan would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of April 30, 2014 and 2013, the Plan’s investment portfolio was held by a single third-party custodian.

Foreign Currency Risk

GASB Statement No. 40 requires disclosure of deposits or investments exposed to foreign currency risk, which is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Plan’s exposure to foreign currency derives from its positions in foreign currency denominated bonds and equities. Global Equities have a Target Percentage of 55% of Plan Assets. Global Bonds are limited to 10% of Plan assets with non-U.S. dollar global bonds further limited to 5% of Plan assets. The following table shows the Plan’s exposure to foreign currencies as of April 30, 2014 (in thousands).

| | |
|--|-------------------|
| Australian Dollar | \$ 4,753 |
| British Sterling Pound | 18,623 |
| Canadian Dollar | 3,612 |
| Danish Kroner | 3,201 |
| EMU (Euro) | 23,333 |
| Hong Kong Dollar | 10,007 |
| Japanese Yen | 11,139 |
| Singapore Dollar | 4,616 |
| Swedish Krona | 2,680 |
| Swiss Franc | 22,243 |
| Thailand Baht | 765 |
| Global bonds in commingled fund | 30,963 |
| Total pension investments subject to foreign currency risk | <u>\$ 135,936</u> |

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

10. Pension Plan (continued)

Funded Status and Funding Progress

The funded status of the Plan as of May, 1, 2013, the most recent actuarial valuation date, is as follows (in thousands):

| Actuarial Value of Assets | Actuarial Accrued Liability | Unfunded Actuarial Accrued Liability | Funded Ratio | Annual Covered Payroll | Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll |
|---------------------------------|-----------------------------------|---|-----------------|------------------------------|--|
| \$ 434,247 | \$ 506,475 | \$ 72,228 | 85.7% | \$ 453,033 | 15.9% |

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of the plan assets are increasing or decreasing over time.

Additional information as of the latest actuarial valuation follows:

| | |
|-------------------------------|--|
| Valuation date | May 1, 2013; Liabilities as of April 30, 2014 |
| Actuarial cost method | Projected Unit Credit Actuarial Cost Method |
| Amortization method | Level dollars amount, closed |
| Remaining amortization period | Various ranging from 11 to 12 years depending on items being amortized – the weighted-average period is 11 years |
| Asset valuation method | 5-year smoothing of market value |

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

10. Pension Plan (continued)

Actuarial assumptions:

| | |
|-----------------------------|--|
| Investment rate of return* | 7.5% |
| Projected salary increases* | Age-based rates based on plan experience |

| Attained Age | Percentage Increase |
|--------------|---------------------|
| Less than 35 | 6.00% |
| 35–39 | 5.75 |
| 40–44 | 5.50 |
| 45–49 | 5.25 |
| 50–54 | 5.00 |
| 55–59 | 4.75 |
| 60 or older | 4.45 |

| | |
|----------------------------|----------------|
| Cost-of-living adjustments | Not applicable |
|----------------------------|----------------|

*Includes inflation at 2.5%.

11. Regulatory Matters

In May 1984, the State Legislature enacted the Health Care Consumer Protection and Awareness Act (the Act). The Act empowered the State Health Care Board to levy assessments on all hospitals in the State. In 1992, the State Legislature transferred the authority to levy assessments to AHCA. The amount of the assessment is 1.5% of adjusted inpatient operating revenue and 1.0% of adjusted outpatient operating revenue.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

12. Other Noncurrent Liabilities

Other noncurrent liabilities primarily consist of accrued disability expenses, AHCA and other assessments, and retirement benefits.

Activity related to other noncurrent liabilities is summarized as follows (in thousands):

| | Year Ended April 30 | |
|------------------------------|----------------------------|-------------|
| | 2014 | 2013 |
| Balance at beginning of year | \$ 60,200 | \$ 67,711 |
| AHCA assessments | 18,915 | 17,505 |
| Disability (income) expense | (580) | (5,091) |
| Physician guarantee | 24 | - |
| Retirement benefits | 1,020 | - |
| Payments | (17,822) | (19,925) |
| Balance at end of year | \$ 61,757 | \$ 60,200 |

13. Leases

Effective July 1, 1995, the System entered into a lease (the Lease) of Pembroke Pines Hospital from HCA Inc. and affiliates. During 2006, HCA Inc. sold the facility to Hospital Realty, LLC.

The System operates the facility under the name of Memorial Hospital Pembroke. The Lease is for a period of ten years with two successive optional ten-year terms. Either party may elect not to renew the Lease at the end of the first and second ten-year term. During fiscal year 2005, the System exercised its option to renew the Lease for the first of the two successive optional ten-year terms. In May 2007, the System and Hospital Realty, LLC renegotiated the lease and extended the lease term through June 30, 2025.

The Lease, as renegotiated, calls for base rent of \$4,300,000 annually through June 30, 2008. Thereafter, the base rent increased by the prior year's base rent multiplied by 101.5%.

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

13. Leases (continued)

The System has operating lease commitments, including the Memorial Hospital Pembroke lease, office space, medical equipment, data processing equipment, and system support services, the expense for which was approximately \$20,376,000 and \$17,395,000 for the years ended April 30, 2014 and 2013, respectively. At April 30, 2014, future minimum lease payments by year under the noncancelable operating leases are as follows (in thousands):

| | |
|------------------------|-----------|
| Years ending April 30: | |
| 2015 | \$ 18,724 |
| 2016 | 13,646 |
| 2017 | 9,236 |
| 2018 | 8,239 |
| 2019 | 8,007 |
| 2020–2025 | 31,912 |

14. Nonoperating Gains, Net

Nonoperating gains consist of activities that are peripheral, incidental, or not considered to be central to the provision of health care services as follows (in thousands):

| | Year Ended April 30 | |
|----------------------------------|----------------------------|------------------|
| | 2014 | 2013 |
| Ad valorem tax revenue, net | \$ 9,208 | \$ 24,533 |
| Investment income and other, net | 27,958 | 28,072 |
| Unrealized losses on investments | (17,306) | (2,043) |
| Interest | (30,774) | (30,736) |
| Interest subsidy | 3,479 | 3,747 |
| Contribution | (10,000) | (10,000) |
| | <u>\$ (17,435)</u> | <u>\$ 13,573</u> |

South Broward Hospital District
d/b/a Memorial Healthcare System

Notes to Financial Statements (continued)

14. Nonoperating Gains, Net (continued)

Ad valorem tax revenue is unrestricted as to use and is recorded on an accrual basis in the year that taxes are levied and are net of tax expenses. An integral component of the System's tax expenses relate to the funding of Medicaid inpatient services for days 11 through 45 for residents who reside in the System's tax district, regardless of which hospital they are treated at (Medicaid match). During 2013, the State legislature changed the funding of the Medicaid match, which resulted in a one-time \$10.8 million reduction to the tax expenses.

15. Net Position

A summary of the activity in the net position accounts is as follows (in thousands):

| | Net Investment in Capital Assets | Restricted For Debt Service | Restricted by Donors | Restricted Under Self- Insurance Trust Agreements | Unrestricted | Total Net Position |
|--|---|-----------------------------------|-------------------------|---|--------------------|-----------------------|
| Balance at April 30, 2013 | \$ 279,976 | \$ 21,245 | \$ 1,896 | \$ 48,551 | \$1,167,547 | \$ 1,519,215 |
| Excess of revenue and net nonoperating gains over expenses | - | - | - | - | 99,591 | 99,591 |
| Net decrease in capital assets | (40,694) | - | - | - | 40,694 | - |
| Net transfers to and from unrestricted | - | 132 | - | (864) | 732 | - |
| Contributions and grants | - | - | (1,354) | - | 3,223 | 1,869 |
| Balance at April 30, 2014 | <u>\$ 239,282</u> | <u>\$ 21,377</u> | <u>\$ 542</u> | <u>\$ 47,687</u> | <u>\$1,311,787</u> | <u>\$ 1,620,675</u> |

| | Net Investment in Capital Assets | Restricted For Debt Service | Restricted by Donors | Restricted Under Self- Insurance Trust Agreements | Unrestricted | Total Net Position |
|--|---|-----------------------------------|-------------------------|---|--------------------|-----------------------|
| Balance at April 30, 2012 | \$ 283,374 | \$ 21,245 | \$ 1,896 | \$ 53,777 | \$1,041,757 | \$ 1,402,049 |
| Excess of revenue and net nonoperating gains over expenses | - | - | - | - | 101,148 | 101,148 |
| Net decrease in capital assets | (3,398) | - | - | - | 3,398 | - |
| Net transfers to and from unrestricted | - | - | - | (5,226) | 5,226 | - |
| Contributions and grants | - | - | - | - | 16,018 | 16,018 |
| Balance at April 30, 2013 | <u>\$ 279,976</u> | <u>\$ 21,245</u> | <u>\$ 1,896</u> | <u>\$ 48,551</u> | <u>\$1,167,547</u> | <u>\$ 1,519,215</u> |

Required Supplementary Information

South Broward Hospital District
d/b/a Memorial Healthcare System

Schedule of Funding Progress (Unaudited)
(In Thousands)

| Year Ended April 30 | Actuarial Value of Assets | Actuarial Accrued Liability* | Unfunded Actuarial Accrued Liability | Funded Ratio | Annual Covered Payroll | Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll |
|------------------------------------|--|---|---|-------------------------|---------------------------------------|---|
| 2009 | \$ 216,838 | \$ 312,744 | \$ 95,906 | 69.3% | \$ 360,160 | 26.6% |
| 2010 | 276,000 | 344,203 | 68,203 | 80.2 | 399,400 | 17.1 |
| 2011 | 306,235 | 384,397 | 78,162 | 79.7 | 421,333 | 18.6 |
| 2012 | 335,264 | 413,669 | 78,405 | 81.0 | 440,349 | 17.8 |
| 2013 | 374,137 | 457,821 | 83,684 | 81.7 | 464,209 | 18.0 |
| 2014 | 434,247 | 506,475 | 72,228 | 85.7 | 453,033 | 15.9 |

*The Actuarial Accrued Liability for each year ended April 30 is based on a beginning of the year (May 1) valuation projected forward to year-end (April 30).

South Broward Hospital District
d/b/a Memorial Healthcare System

Schedule of Employer Contributions (Unaudited)

| | Annual Required Contribution* | Percentage Contributed |
|----------------------|--|-----------------------------------|
| Year ended April 30: | | |
| 2009 | \$ 23,615,000 | 100% |
| 2010 | 28,260,000 | 100 |
| 2011 | 28,924,000 | 100 |
| 2012 | 29,899,000 | 100 |
| 2013 | 33,031,000 | 100 |
| 2014 | 34,987,940 | 100 |

*Annual Required Contribution consists of Normal Cost plus amortization of Unfunded Actuarial Accrued Liability (Funding Excess) and expenses as of the end of the year (i.e., interest is incorporated).

Supplementary Information

South Broward Hospital District
d/b/a Memorial Healthcare System

Combining Statement of Net Position – System
(In Thousands)

April 30, 2014

| | Memorial Regional Hospital and Affiliated Providers | Memorial Hospital West | Memorial Hospital Pembroke | Memorial Hospital Miramar | Other Non- Hospital Operations, Eliminations | Combined |
|--|---|------------------------------|----------------------------------|---------------------------------|---|------------|
| Assets | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 50 | \$ – | \$ – | \$ – | \$ 372,049 | \$ 372,099 |
| Investments | – | – | – | – | 948,404 | 948,404 |
| Patient accounts receivable, net | 90,383 | 47,777 | 9,805 | 19,243 | 1,405 | 168,613 |
| Ad valorem taxes receivable | 213 | – | – | – | 52 | 265 |
| Inventories | 16,769 | 6,145 | 2,457 | 1,885 | 770 | 28,026 |
| Other current assets | 20,471 | 7,210 | 3,405 | 3,106 | 37,814 | 72,006 |
| Total current assets | 127,886 | 61,132 | 15,667 | 24,234 | 1,360,494 | 1,589,413 |
| Assets whose use is limited, net of current portion: | | | | | | |
| By Board for capital improvements | – | – | – | – | 1,473 | 1,473 |
| By Board for employee disability | – | – | – | – | 17,738 | 17,738 |
| Under indenture agreements | – | – | – | – | 21,377 | 21,377 |
| Under self-insurance trust agreements | – | – | – | – | 47,687 | 47,687 |
| Externally restricted by donors | 542 | – | – | – | – | 542 |
| Total assets whose use is limited, net of current portion | 542 | – | – | – | 88,275 | 88,817 |
| Due from Memorial Healthcare System | – | 572,655 | – | 63,978 | (636,633) | – |
| Capital assets, net | 344,423 | 157,778 | 21,206 | 98,481 | 163,499 | 785,387 |
| Other assets | 219 | 17 | 173 | – | 9,861 | 10,270 |
| Total assets | 473,070 | 791,582 | 37,046 | 186,693 | 985,496 | 2,473,887 |
| Deferred outflows | | | | | | |
| Loss on defeasance, net | – | – | – | – | 13,642 | 13,642 |

| | Memorial Regional Hospital and Affiliated Providers | Memorial Hospital West | Memorial Hospital Pembroke | Memorial Hospital Miramar | Other Non- Hospital Operations, Eliminations | Combined |
|--|--|---------------------------------------|---|--|---|-----------------|
| Liabilities | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable and accrued expenses | \$ 20,821 | \$ 8,015 | \$ 6,257 | \$ 2,875 | \$ 35,569 | \$ 73,537 |
| Accrued compensation and payroll taxes | – | – | – | – | 107,475 | 107,475 |
| Estimated third-party payor settlements | 5,400 | 1,295 | 327 | 1,744 | 83 | 8,849 |
| Current portion of long-term debt | – | – | – | – | 7,880 | 7,880 |
| Current portion of capital lease obligations | – | – | – | – | 1,458 | 1,458 |
| Current portion of estimated claims liability | – | – | – | – | 14,270 | 14,270 |
| Other current liabilities | 10,552 | 2,398 | 1,028 | 1,505 | 5,495 | 20,978 |
| Total current liabilities | 36,773 | 11,708 | 7,612 | 6,124 | 172,230 | 234,447 |
| Due to Memorial Healthcare System | 7,161 | – | 32,966 | – | (40,127) | – |
| Long-term portion of estimated claims liability | – | – | – | – | 20,244 | 20,244 |
| Other noncurrent liabilities | 14,528 | 8,121 | 1,945 | 2,911 | 34,252 | 61,757 |
| Long-term portion of capital lease obligations | – | – | – | – | 4,365 | 4,365 |
| Long-term debt | – | – | – | – | 546,044 | 546,044 |
| Total liabilities | 58,462 | 19,829 | 42,523 | 9,035 | 737,008 | 866,857 |
| Net position: | | | | | | |
| Net investment in capital assets | 344,423 | 157,778 | 21,206 | 98,481 | (382,606) | 239,282 |
| Restricted: | | | | | | |
| For debt service | – | – | – | – | 21,377 | 21,377 |
| By donors | 542 | – | – | – | – | 542 |
| Under self-insurance trust agreements | – | – | – | – | 47,687 | 47,687 |
| Unrestricted | 69,643 | 613,978 | (26,683) | 79,176 | 575,673 | 1,311,787 |
| Total net position | \$ 414,608 | \$ 771,756 | \$ (5,477) | \$ 177,657 | \$ 262,131 | \$ 1,620,675 |

South Broward Hospital District
d/b/a Memorial Healthcare System

Combining Statement of Revenue and
Expenses and Changes in Net Position – System
(In Thousands)

Year Ended April 30, 2014

| | Memorial Regional Hospital and Affiliated Providers | Memorial Hospital West | Memorial Hospital Pembroke | Memorial Hospital Miramar | Other Non- Hospital Operations | Eliminations | Combined |
|---|--|---------------------------------------|---|--|---|---------------------|---------------------|
| Revenue: | | | | | | | |
| Net patient service revenue | \$ 729,101 | \$ 427,286 | \$ 101,642 | \$ 156,797 | \$ 46,197 | \$ – | \$ 1,461,023 |
| Disproportionate share distributions | 33,856 | 6,376 | 6,787 | 2,709 | 3,149 | – | 52,877 |
| Other operating revenues | 38,708 | 13,520 | 5,263 | 3,768 | (1,115) | – | 60,144 |
| Total revenue | 801,665 | 447,182 | 113,692 | 163,274 | 48,231 | – | 1,574,044 |
| Expenses: | | | | | | | |
| Salaries and wages | 366,099 | 164,141 | 55,647 | 59,083 | 63,069 | – | 708,039 |
| Employee benefits | 76,215 | 33,634 | 11,894 | 12,630 | 7,956 | – | 142,329 |
| Professional fees | 20,280 | 5,561 | 2,763 | 2,155 | 324 | – | 31,083 |
| Supplies | 141,352 | 63,784 | 15,650 | 15,980 | 2,697 | – | 239,463 |
| Purchased services | 46,122 | 25,956 | 10,888 | 7,847 | 3,486 | – | 94,299 |
| Facilities | 32,854 | 12,393 | 9,553 | 5,480 | 6,002 | – | 66,282 |
| Depreciation and amortization | 67,996 | 28,130 | 8,652 | 10,875 | 2,264 | – | 117,917 |
| Other | 32,571 | 15,951 | 4,788 | 5,021 | (725) | – | 57,606 |
| Total expenses | 783,489 | 349,550 | 119,835 | 119,071 | 85,073 | – | 1,457,018 |
| Income from operations | 18,176 | 97,632 | (6,143) | 44,203 | (36,842) | – | 117,026 |
| Non-operating gains (losses), net | (1,613) | (5,810) | (366) | (5,019) | (4,627) | – | (17,435) |
| Excess of revenues and net non-operating gains over expenses | 16,563 | 91,822 | (6,509) | 39,184 | (41,469) | – | 99,591 |
| Contributions and grants | (28,863) | 124 | 9 | 36 | 30,563 | – | 1,869 |
| Increase (decrease) in net position | (12,300) | 91,946 | (6,500) | 39,220 | (10,906) | – | 101,460 |
| Net position at the beginning of the year | 426,908 | 679,810 | 1,023 | 138,438 | 273,036 | – | 1,519,215 |
| Net position at the end of the year | \$ 414,608 | \$ 771,756 | \$ (5,477) | \$ 177,658 | \$ 262,130 | \$ – | \$ 1,620,675 |

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2014 Ernst & Young LLP.
All Rights Reserved.

ey.com

