

FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION,
AND SUPPLEMENTARY INFORMATION

South Broward Hospital District
d/b/a Memorial Healthcare System
Year Ended April 30, 2016
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

Year Ended April 30, 2016

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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 year ended April 30, 2016, 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 audit. We conducted our audit 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

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

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

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 the South Broward Hospital District d/b/a Memorial Healthcare System as of April 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1 to the financial statements, as of May 1, 2015, the System implemented Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. 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 – 11 and the schedule of changes in the System's net pension liability and related ratios, schedule of System contributions last 10 fiscal years, and schedule of investment returns on pages 70 – 75 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 76 – 78 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 18, 2016, 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 18, 2016

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

Management's Discussion and Analysis

April 30, 2016

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; the Memorial Cardiac and Vascular 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, 2016, the System operates a total of 1,907 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; however, it is included as the aggregate remaining fund information of the System.

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 statement of net position includes all of the System's assets, deferred outflows, and liabilities and provides 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 year's revenue and expenses are accounted for in the statement of revenues, expenses, and changes in fund net position. This statement communicates the performance of the System's operations over the past year. This statement also provides 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 statement is the statement of cash flows. The primary purpose of this statement is to provide information about the System's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operating, non-capital 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, 2016, and for the year 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.

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, 2016 and 2015

	Condensed Statements of Net Position			
	April 30		Dollar	Percentage
	2016	2015 (*)	Increase (Decrease)	Increase (Decrease)
	<i>(In Thousands)</i>			
Other non-capital assets	\$ 2,242,651	\$ 2,002,334	\$ 240,317	12.0%
Capital assets, net	731,030	750,965	(19,935)	(2.7)
Total assets	2,973,681	2,753,299	220,382	8.0
Deferred outflows	62,011	15,026	46,985	312.7
Total current liabilities	315,870	267,848	48,022	17.9
Long-term debt, net of current portion	602,664	614,396	(11,732)	(1.9)
Total liabilities	1,152,963	956,281	196,682	20.6
Unrestricted net position	1,682,418	1,606,661	75,757	4.7
Net investment in capital assets	128,103	135,716	(7,613)	(5.6)
Restricted net position	72,208	69,667	2,541	3.7

(*) 2015 amounts do not reflect the adoption of GASB Statements No. 68 and No. 71.

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

Management's Discussion and Analysis (continued)

Summary of Financial Information (continued)

	Summary of Revenues, Expenses and Changes in Fund Net Position			
	Year Ended April 30 2016	2015 (*)	Dollar Increase (Decrease)	Percentage Increase (Decrease)
	<i>(In Thousands)</i>			
Operating revenue:				
Net patient service revenue	\$ 1,806,556	\$ 1,630,804	\$ 175,752	10.8%
Disproportionate share distributions	46,997	83,420	(36,423)	(43.7)
Other revenue	43,521	49,983	(6,462)	(12.9)
Total operating revenue	1,897,074	1,764,207	132,867	7.5
Operating expenses:				
Salaries and wages	842,174	756,247	85,927	11.4
Employee benefits	157,932	151,129	6,803	4.5
Professional fees	44,321	38,204	6,117	16.0
Supplies	305,412	272,959	32,453	11.9
Purchased services	108,536	99,791	8,745	8.8
Facilities	72,653	73,586	(933)	(1.3)
Depreciation and amortization	101,225	111,208	(9,983)	(9.0)
Other	69,293	68,749	544	0.8
Total operating expenses	1,701,546	1,571,873	129,673	8.2
Operating income	195,528	192,334	3,194	1.7
Nonoperating losses, net (including depreciation of \$2,125 and \$2,165 in 2016 and 2015, respectively)	(7,503)	(2,583)	(4,920)	190.5
Income before capital contributions and grants	188,025	189,751	(1,726)	(0.9)
Capital contributions and grants	709	1,618	(909)	(56.2)
Increase in net position	188,734	191,369	(2,635)	(1.4)
Net position at the beginning of the year	1,812,044	1,620,675	191,369	11.8
Net impact of GASB Statements No. 68 and No. 71 implementation	(118,049)	-	(118,049)	(100.0)
Net position as restated, beginning of the year	1,693,995	1,620,675	73,320	4.5
Net position at the end of the year	\$ 1,882,729	\$ 1,812,044	\$ 70,685	3.9%

(*) 2015 amounts do not reflect the adoption of GASB Statements No. 68 and No. 71.

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 remained relatively consistent, with both an increase in net revenue and operating expenses due to increased volumes over the prior year. For fiscal year 2016, total operating revenue increased by 7.5%, while operating expenses increased by 8.2%, resulting in operating income increasing by 1.7% from the prior year of \$192.3 million to approximately \$195.5 million. The System's excess of revenues and net nonoperating losses over expenses decreased from \$189.8 million for the fiscal year ended April 30, 2015, to \$188.0 million for the fiscal year ended April 30, 2016.

Net patient service revenue increased by 10.8% from \$1.631 billion for fiscal year ended April 30, 2015, to \$1.807 billion for the fiscal year ended April 30, 2016. Total admissions for the fiscal years ended April 30, 2015 and 2016, which include both inpatient admissions as well as observation admissions, were 117,333 and 126,961, respectively, while the acuity of patients as measured by case-mix index increased from 1.39 to 1.45 for the fiscal years ended April 30, 2015 and 2016, respectively. Total surgical volume increased from 38,280 cases to 40,748 cases, or 6.4%, hospital outpatient visits increased from 466,639 to 494,505, or 6.0%, and emergency visits increased from 459,981 to 479,778, or 4.3%, for these periods.

Other operating revenue decreased, as the System recognized \$50.0 million and \$43.5 million for the years ended April 30, 2015 and 2016, respectively. The decrease is primarily attributable to a decrease in meaningful use incentive payment revenue, which is in accordance with the program winding down. Disproportionate share (DSH) distributions decreased as a result of state reallocations to rates which are reflected in net patient service revenue and offset the DSH decrease. DSH payments were \$83.4 million and \$47.0 million for the years ended April 30, 2015 and 2016, respectively.

Total expenses increased from \$1.572 billion for the fiscal year ended April 30, 2015, to \$1.702 billion for the fiscal year ended April 30, 2016, or 8.2%, as a result of the System's increased volumes, while maintaining focus on costs. The increase in salaries and wages, as well as employee benefits, is primarily attributable to the additional staffing needed due to growth in patient volumes and net patient service revenue as well as the continued growth of the System's employed physician model. The increase in professional fees is due to implementing a new hospitalist program with an outside vendor, as well as increased legal fees related to certain key strategic initiatives. The increase in supplies expense is directly correlated to the increase in

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

Management's Discussion and Analysis (continued)

Management's Discussion of Financial Performance (continued)

patient volume, as well as increasing drug costs due to inflation. The moderate increase in purchased services is due to increased patient and surgical volumes. Facilities expenses remained materially consistent when compared to the prior year due to routine repairs and maintenance of clinical equipment, as well as routine facility maintenance, and depreciation and amortization decreased when compared to the prior year due to winding down depreciation expense of certain large information technology equipment, partially offset by new capital equipment purchased. Other operating expenses remained materially consistent due to an increased Florida Agency for Health Care Administration assessment, which is driven by patient revenues, offset by a decrease in professional liability expenses, due to favorable claims activity.

Nonoperating losses, net, increased from a \$2.6 million loss for the fiscal year ended April 30, 2015, to a \$7.5 million loss for the fiscal year ended April 30, 2016, or by \$4.9 million. The System's conservative investment policy, which is further described in Note 5, was impacted unfavorably by interest rates. This resulted in a change of \$1.9 million in unrealized gains from a \$7.7 million gain in fiscal year 2015 to a \$5.8 million gain in fiscal year 2016.

The System's Board of Commissioners adopted a millage rate of 0.1737, which is less than the prior year millage rate of 0.1863. In fiscal years 2015 and 2016, the System used the gross tax proceeds solely to offset the cost of the county's Medicaid match and tax collector fees. No tax dollars were used for the operations of the System's facilities.

Income available for debt service was \$331.1 million and \$320.8 million for the fiscal years ended April 30, 2015 and 2016, respectively. The long-term debt service coverage ratio was 6.79 and 6.58 for the fiscal years ended April 30, 2015 and 2016, 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 restricted assets, increased from \$1.560 billion at April 30, 2015, to \$1.747 billion at April 30, 2016. Cash, cash equivalents, and investments, including restricted assets, increased from \$1.705 billion at April 30, 2015, to \$1.894 billion at April 30, 2016, as a result of excess of revenues and net nonoperating losses over expenses and a decrease in capital expenditures. Net patient accounts receivable increased from \$195.1 million at April 30, 2015, to \$240.3 million at April 30, 2016, due to increased volumes. Additions to capital assets increased from \$79.9 million in fiscal year 2015 to \$85.8 million in fiscal year

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

Management's Discussion and Analysis (continued)

Management's Discussion of Financial Performance (continued)

2016. The estimated cost to complete all construction projects in process at April 30, 2016, is \$127.4 million. Refer to Note 6 and Note 8 for further discussion of capital asset and long-term debt activity, respectively.

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. Beginning in fiscal year 2015, the System used the gross tax proceeds solely to pay the county's Medicaid match community redevelopment assessments and the tax collectors' fee.

The financial strength of the System minimizes the tax burden in south Broward County. In fiscal years 2015 and 2016, net tax revenues accounted for approximately 0% and 0%, respectively, of total net revenues. In September 2015, the System's Board of Commissioners voted to reduce the tax millage rate to 0.1737 mills.

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.

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

Management's Discussion and Analysis (continued)

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	
	2016	2015
Medicare	17.1%	17.9%
Medicaid	5.2	8.4
Managed care	63.4	59.2
Other	14.3	14.5
Total	100.0%	100.0%

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

Statement of Net Position – System
(In Thousands)

April 30, 2016

Assets

Current assets:

Cash and cash equivalents	\$ 545,209
Investments	1,201,304
Designated investments for capital improvements	883
Designated investments for employee disability	18,210
Patient accounts receivable, net of estimated uncollectibles of \$355,599 at April 30, 2016	240,272
Ad valorem taxes receivable	119
Inventories	31,914
Other current assets	56,431
Total current assets	<u>2,094,342</u>

Noncurrent assets

Asset whose use is limited:

Investments under self-insurance trust agreements	47,203
Restricted assets, net of current portion:	
Under indenture agreements	20,579
Under indenture – project funds	<u>51,629</u>
Total restricted assets	<u>72,208</u>

Capital assets, net	731,030
Other assets	<u>28,898</u>
Total assets	<u>2,973,681</u>

Deferred outflows of resources

Unrealized pension contributions	37,649
Unrealized pension losses	10,285
Loss on defeasance, net	<u>14,077</u>
Total deferred outflows of resources	<u>62,011</u>

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

Statement of Net Position – System (continued)
(In Thousands)

April 30, 2016

Liabilities

Current liabilities:

Accounts payable and accrued expenses	\$ 81,219
Accrued compensation and payroll taxes	141,135
Estimated third-party payor settlements	34,639
Current installments of long-term debt	9,650
Current portion of capital lease obligations	2,396
Current portion of estimated claims liability	15,157
Other current liabilities	31,674
Total current liabilities	315,870

Long-term portion of estimated claims liability	24,526
Net pension liability	159,285
Other noncurrent liabilities	48,324
Long-term portion of capital lease obligations	2,294
Long-term debt	602,664
Total liabilities	\$ 1,152,963

Net position

Net investment in capital assets	\$ 128,103
Restricted:	
For debt service	72,208
Unrestricted	1,682,418
Total net position	\$ 1,882,729

See accompanying notes.

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

Statement of Revenues, Expenses, and Changes in Fund Net Position – System
(In Thousands)

Year Ended April 30, 2016

Operating revenue:	
Net patient service revenue	\$ 1,806,556
Disproportionate share distributions	46,997
Other operating revenues	43,521
Total operating revenue	1,897,074
Operating expenses:	
Salaries and wages	842,174
Employee benefits	157,932
Professional fees	44,321
Supplies	305,412
Purchased services	108,536
Facilities	72,653
Depreciation and amortization	101,225
Other	69,293
Total operating expenses	1,701,546
Operating income	195,528
Nonoperating losses, net (including depreciation of \$2,125)	(7,503)
Income before capital contributions and grants	188,025
Capital contributions and grants	709
Increase in net position	188,734
Net position at the beginning of the year	1,812,044
Net impact of GASB Statements No. 68 and No. 71 implementation	(118,049)
Net position as restated, beginning of the year	1,693,995
Net position at the end of the year	\$ 1,882,729

See accompanying notes.

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

Statement of Cash Flows – System
(In Thousands)

Year Ended April 30, 2016

Operating activities

Receipts from third-party payors and patients	\$ 1,782,308
Payments to vendors	(609,714)
Other receipts	98,624
Payments to employees	(935,575)
Claims and self-insurance payments	(41,791)
Net cash provided by operating activities	293,852

Noncapital financing activities

Contribution and grant receipts	709
Contribution payments	(10,200)
Ad valorem tax receipts	7,697
Net cash used in noncapital financing activities	(1,794)

Capital and related financing activities

Acquisition and construction of capital assets	(84,281)
Principal payments on long-term debt	(9,265)
Principal payments and additions under capital lease obligation	(2,218)
Interest payments on long-term debt	(43,556)
Net cash used in capital and related financing activities	(139,320)

Investing activities

Proceeds from sales, maturities, or repayment of investments	705,319
Cost of investments acquired	(791,908)
Investment income received	35,894
Change in funding balance trustee accounts	(5,904)
Net cash used in investing activities	(56,599)

Net change in cash and cash equivalents	96,139
Cash and cash equivalents at beginning of year	449,070
Cash and cash equivalents at end of year	\$ 545,209

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

Statement of Cash Flows – System (continued)
(In Thousands)

Year Ended April 30, 2016

**Reconciliation of operating income to net cash
provided by operating activities**

Operating income	\$ 195,528
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	101,225
Provision for doubtful accounts	416,997
Loss on disposal of capital assets	1,474
Changes in operating assets and liabilities:	
Patient accounts receivable	(462,117)
Other current assets and inventories	3,178
Other assets	(9,555)
Accounts payable and accrued expenses	(3,783)
Accrued compensation and payroll taxes	25,409
Estimated third-party payor settlements	20,871
Other current liabilities	(5,653)
Other liabilities	8,858
Estimated claims liability	1,420
Net cash provided by operating activities	<u>\$ 293,852</u>

See accompanying notes.

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

Statement of Fiduciary Net Position – Pension Trust Fund
(In Thousands)

April 30, 2016

Assets

Investments:

Equities	\$ 82,886
U.S. government and agency obligations	60,303
Corporate debt	28,986
Commercial mortgage securities	8,951
Collateralized mortgage obligations	1,993
Asset-backed securities	3,275
Municipal bonds	6,300
SEC-registered money market funds	18,730
Preferred securities	99
International investments	174,153
Alternative investments	102,357
Total investments	<u>488,033</u>

Receivables:

Due from broker for investment sold	2,306
Total receivables	<u>2,306</u>
Total assets	<u>490,339</u>

Liabilities and net position restricted for pensions

Payables:

Due to broker for investment sold	307
Total liabilities	<u>307</u>
Net position restricted for pensions	<u>\$ 490,032</u>

See accompanying notes.

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

Statement of Changes in Fiduciary Net Position – Pension Trust Fund
(In Thousands)

Year Ended April 30, 2016

Additions

Contributions:

Employer pension contributions \$ 37,649

Investment income:

Net depreciation in fair value of investments (17,165)

Interest and dividends 9,776

Less investment expense (2,373)

Net investment loss (9,762)

Total additions 27,887

Deductions:

Benefit payments 16,302

Administrative expenses 236

Total deductions 16,538

Net increase in net position 11,349

Net position restricted for pensions:

Beginning of year 478,683

End of year \$ 490,032

See accompanying notes.

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

Notes to Financial Statements

April 30, 2016

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 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; the Memorial Cardiac and Vascular Institute, with locations on the campus of Memorial Regional Hospital and 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, 2016, the System operates a total of 1,907 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).

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 restricted assets 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 or absent such, by other pricing methods by the custodian. Alternative investments have been recorded at fair value in the financial statements based on the quoted market prices of underlying securities comprising the individual investments.

Restricted Assets

Restricted assets include resources restricted to a specific period or purpose.

Descriptions of the various funds are as follows:

Under indenture agreements – represents the principal and interest amount due for debt service payment on the 2006, 2007, 2008, 2009 and 2015 outstanding bonds.

Under indenture project funds – restricted for construction additions and improvements on the 2015 outstanding bond.

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

Notes to Financial Statements (continued)

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

Assets Whose Use Is Limited

Under self-insurance trust agreements – represents the assets invested to fund the workers' compensation, professional liability, and health and dental self-insurance.

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.

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). It also has dual status as a tax-exempt entity under Internal Revenue Code Section 501(a) as an entity described in Section 501(c)(3).

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

Notes to Financial Statements (continued)

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

Statement of Revenues, Expenses, and Changes in Fund 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.

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

The 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.

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

Notes to Financial Statements (continued)

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms.

Implementation of New Accounting Standards

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB Statement No. 68), which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Among other provisions, GASB 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. GASB Statement No. 68 calls for immediate recognition of more pension expense than is currently required. Additionally, in November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (GASB Statement No. 71). The objective of GASB Statement No. 71 is to address an issue regarding application of the transition provisions of GASB Statement No. 68. GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions in GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2014, with the provisions related to GASB Statement No. 71 to be applied simultaneously.

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

Notes to Financial Statements (continued)

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

The effect of adopting GASB Statements No. 68 and No. 71 as of May 1, 2015 was as follows (in thousands of dollars):

Net position at April 30, 2015, as previously reported	\$ 1,812,044
Adjustment to record net pension liability in accordance with GASB Statement No. 68	(151,813)
Adjustment to record pension contributions made after April 30, 2014, but prior to May 1, 2015, in accordance with GASB Statement No. 71	33,764
Net position at May 1, 2015, as restated	<u>\$ 1,693,995</u>

See Note 9 for further information on adoption of GASB Statements No. 68 and No. 71.

New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB Statement No. 73). GASB Statement No. 73 establishes requirements for pensions and pension plans not administered through a trust with specified criteria, as those requirements are not covered by GASB Statement No. 67 and GASB Statement No. 68. GASB Statement No. 73 is effective for fiscal years beginning after June 15, 2015, except for provisions outlining employers and governmental non-employers contributing for pensions not within the scope of GASB Statement No. 68, which are effective after June 15, 2016. The System has not elected to implement this statement early; however, the adoption of this statement is not expected to have a material impact on the financial statements.

In June 2015, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, (GASB Statement No. 76) reduced the generally accepted accounting principles (GAAP) hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category involves GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants. These changes are intended to

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

Notes to Financial Statements (continued)

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

improve financial reporting for governments by establishing a framework for the evaluation of accounting guidance that will result in governments applying that guidance with less variation. The requirements of GASB Statement No. 76 are effective for reporting periods beginning after June 15, 2015. The System has not elected to implement this statement early; however, the adoption of this statement is not expected to have a material impact on the financial statements.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units* (GASB Statement No. 80), which amends the blending requirements established in paragraph 53 of GASB Statement No. 14, *The Financial Reporting Entity*. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of GASB Statement No. 80 are effective for reporting periods beginning after June 15, 2016. The System has not elected to implement this statement early; however, the adoption of this statement is not expected to have a material impact on the financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues* (GASB Statement No. 82), which addresses certain concerns that have been raised with respect to GASB Statement No. 67, GASB Statement No. 68 and GASB Statement No. 73. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 is effective for reporting periods beginning after June 15, 2016. The System has not elected to implement this statement early; however, the adoption of this statement is not expected to have a material impact on the financial statements.

Reclassifications

Certain reclassifications were made to the 2015 footnotes in the consolidated financial statements to conform to the classifications used in 2016.

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

Notes to Financial Statements (continued)

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 statement of revenues, expenses, and changes in fund net position. The following information measures the level of uncompensated care provided during the year ended April 30, 2016 (in thousands).

	<u>2016</u>
Uncompensated care, based on established rates	\$ 755,489
Percentage of uncompensated care patients to all patients served based upon total charges	7.6%

For the year ended April 30, 2016, uncompensated care includes approximately \$338,492,000 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 \$58,249,000 for the year ended April 30, 2016.

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 (DRG), 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 2014 for all

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

Notes to Financial Statements (continued)

3. Net Patient Service Revenue (continued)

facilities. Audit fieldwork has been completed for 2015, and final settlement amounts have been determined based on audit adjustments received. Medicare program beneficiaries accounted for approximately 17.1% of the System's gross patient charges in fiscal year 2016.

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.

Florida obtained a waiver from the Centers for Medicare and Medicaid Services to allow enrollment of nearly all Medicaid eligible individuals in managed care plans, such as health maintenance organizations (HMOs) and Provider Sponsored Networks in order to implement a statewide Medicaid Managed Medical Assistance program. This program has resulted in a substantial shift out of fee-for-service Medicaid utilization into managed care utilization. Medicaid program beneficiaries accounted for approximately 5.2% of the System's gross patient charges in fiscal year 2016.

There were no material differences between original estimates and subsequent revisions, including final settlements, in fiscal year 2016.

Insurance and Other

The System has entered into payment agreements with certain commercial insurance carriers, HMOs, 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 year ended April 30, 2016 are as follows (in thousands):

	<u>2016</u>
Gross patient charges	\$ 9,887,882
Charity care	(338,492)
Provision for doubtful accounts	(416,997)
Contractual adjustments	<u>(7,325,837)</u>
Net patient service revenue	<u>\$ 1,806,556</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 \$46,997,000 for the year ended April 30, 2016 and is reported as disproportionate share distributions in the accompanying statement of revenues, expenses, and changes in fund net position.

5. Cash, Cash Equivalents, and Investments

The book value of the System's unrestricted bank accounts is approximately \$323,142,000 at April 30, 2016. 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.

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

Notes to Financial Statements (continued)

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

The current portion of restricted assets of approximately \$8,622,000 at April 30, 2016 is included in other current assets in the accompanying statement of net position.

Cash Equivalents and Investments

At April 30, 2016, the System's cash equivalents and investments, including restricted assets, are as follows (in thousands):

	<u>Fair Value</u> <u>2016</u>
Unrestricted cash equivalents	\$ 222,067
Unrestricted investments	1,201,304
Designated investments	19,093
Assets whose use is limited:	
Investments under self-insurance trust agreements	55,825
Restricted assets:	
Under bond indentures	72,208
	<u><u>\$ 1,570,497</u></u>

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.

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, 2016, the System had the following investments with the respective effective durations with fair value in thousands and effective duration in years.

	2016	
	Fair Value	Effective Duration
Cash and SEC-registered money market funds	\$ 79,674	N/A
U.S. Treasuries	342,554	0.66
U.S. agencies	453,135	0.48
U.S. agency mortgage bonds	201,240	0.28
Asset-backed securities	135,010	0.13
Commercial paper	45,954	0.00
Corporate debt	251,149	0.44
Municipal securities	61,781	0.13
	\$ 1,570,497	2.12

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 & Poor's (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 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 rated as described above; not withstanding each investment manager will maintain an average portfolio credit quality of AA; (8) repurchase

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

Notes to Financial Statements (continued)

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

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 of 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 as described in the relevant Indentures; (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, forward purchase agreements, and reserve fund put agreements; 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, 2016, 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	\$ 79,674	AAA
U.S. Treasuries	342,554	AA+
U.S. agency discount notes	154,958	AA+
U.S. agencies	298,177	AA+
U.S. agency mortgage bonds	200,727	AA+
U.S. agency mortgage bonds	513	AA
Asset-backed securities	127,956	AAA
Asset-backed securities	7,053	AA+
Commercial paper	4,498	A-1+
Commercial paper	41,456	A-1
Corporate debt	4,658	AAA
Corporate debt	17,873	AA+
Corporate debt	16,026	AA
Corporate debt	36,155	AA-
Corporate debt	27,412	A+
Corporate debt	89,975	A
Corporate debt	38,730	A-
Corporate debt	20,321	BBB+
Municipal securities	34,170	AAA
Municipal securities	10,494	AA+
Municipal securities	14,582	AA
Municipal securities	2,535	AA-
	<u>\$ 1,570,497</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 the 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 the 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, 2016 (in thousands):

	2016	
	Fair Value	Percentage of Portfolio
Cash and SEC-registered money market funds	\$ 79,674	5%
U.S. Treasuries	342,554	22
U.S. agencies	453,135	29
U.S. agency mortgage bonds	201,240	13
Asset-backed securities	135,010	8
Commercial paper	45,954	3
Corporate debt	251,149	16
Municipal securities	61,781	4
	\$ 1,570,497	100%

At April 30, 2016, investments in any one issuer representing 5% or more of the System’s total investments are as follows: \$216,418,256 (13.8%) invested in issues of the Federal National Mortgage Association; \$163,781,456 (10.4%) invested in issues of the Federal Home Loan Mortgage Corporation. The System’s investment policy does not have an issuer limitation for U.S. Treasury securities.

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

Notes to Financial Statements (continued)

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

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, 2016, 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.

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, 2015	Additions	Transfers	Deletions	Balance at April 30, 2016
Land improvements	\$ 26,447	\$ -	\$ 52	\$ -	\$ 26,499
Buildings and improvements	1,078,645	2,489	20,062	(1,238)	1,099,958
Equipment	626,074	33,218	19,445	(61,528)	617,209
Depreciable assets	1,731,166	35,707	39,559	(62,766)	1,743,666
Accumulated depreciation	(1,040,956)	(103,388)	-	60,833	(1,083,511)
Net depreciable assets	690,210	(67,681)	39,559	(1,933)	660,155
Land	35,035	250	-	-	35,285
Construction in progress	25,720	49,887	(39,559)	(458)	35,590
Capital assets, net	\$ 750,965	\$ (17,544)	\$ -	\$ (2,391)	\$ 731,030

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

Notes to Financial Statements (continued)

6. Capital Assets (continued)

The System is currently engaged in expansion projects at its facilities. The estimated cost to complete all construction projects in process at April 30, 2016, is approximately \$127.4 million.

7. 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 judgment, or portions thereof, that 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.

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 1.2% for professional liability and 0.8% for workman's compensation at April 30, 2016. 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

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

Notes to Financial Statements (continued)

7. Self-Insurance (continued)

nonoperating losses, net, in the statement of revenues, expenses, and changes in fund 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
2014	\$ 32,504	\$ 40,327	\$ (38,317)	\$ 34,514	\$ 14,270
2015	34,514	44,794	(41,044)	38,264	15,480
2016	38,264	43,210	(41,791)	39,683	15,157

8. Long-Term Debt

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

	2016
Series 2015 Hospital Revenue and Refunding Revenue Bonds – \$154,905 authorized and issued: Serial Bonds, interest rates of 3.00% to 5.00%, maturing in amounts ranging from \$1,195 to \$7,915 through May 1, 2037	\$ 126,610
4.00% Term Bond due May 1, 2040	9,560
4.00% Term Bond due May 1, 2045	18,735
	<u>154,905</u>
Unamortized premium, net	10,457
Unamortized bond underwriter discount, net	(1,653)
	<u>163,709</u>
Series 2009 Hospital Revenue Bonds – \$150,000 authorized and issued:	
6.978% Term Bond due May 1, 2039	40,000
7.278% Term Bond due May 1, 2044	110,000
	<u>150,000</u>

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

Notes to Financial Statements (continued)

8. Long-Term Debt (continued)

	2016
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	\$ 2,855
5.25% Term Bond due May 1, 2022	8,180
5.00% Term Bond due May 1, 2028	30,270
5.00% Term Bond due May 1, 2036	102,885
	144,190
Unamortized discount, net	(1768)
	142,422
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
4.75% Term Bond due May 1, 2028	34,215
4.75% Term Bond due May 1, 2032	62,330
	112,745
Unamortized premium, net	2,074
	114,819
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	14,425
4.375% Term Bond due May 1, 2025	1,995
4.500% Term Bond due May 1, 2030	5,600
5.000% Term Bond due May 1, 2035	7,415
4.500% Term Bond due May 1, 2037	3,755
	33,190
Unamortized premium, net	574
	33,764

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

Notes to Financial Statements (continued)

8. Long-Term Debt (continued)

	2016
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, 2016, was 0.65%.	\$ 4,400
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%.	3,200
Total debt	612,314
Less current portion	(9,650)
Long-term portion	\$ 602,664

During 2016, interest cost of approximately \$447,000 was capitalized. During 2016, 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 (the 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, 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 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

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

Notes to Financial Statements (continued)

8. Long-Term Debt (continued)

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 (Series 2003A Bonds) were issued to provide funds and to refund the Series 1993 Refunding and Revenue Bonds, and the Series 2003B Revenue Bonds (Series 2003B 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 Series 2003A and Series 2003B Bonds were repaid on May 1, 2015.

The Series 2006 Hospital Revenue and Revenue Refunding Bonds (Series 2006 Bonds) were issued in the amount of \$120,000,000 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 Bonds were partially advance refunded with the Series 2015 Hospital Revenue and Revenue Refunding Bonds (Series 2015 Bonds) described below. The remaining outstanding Series 2006 Bonds after May 2, 2016, are at par, without premium.

The computations performed in accordance with GASB Statement No. 23 for the refunding of the Series 1996 Revenue Refunding Bonds refunded by the Series 2006 Bonds resulted in a loss on defeasance of approximately \$5,246,000. At April 30, 2016, the unamortized value of the deferred amount was approximately \$428,000, which is included in loss on defeasance, net in the accompanying statement of net position. The deferred amount is being charged to operations through the year 2022 using a straight-line interest amortization method.

The Series 2007 Hospital Refunding Revenue Bonds (Series 2007 Bonds) were issued in the amount of \$112,745,000 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 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. At April 30, 2016, the unamortized value of the deferred amount was approximately \$4,573,000,

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

Notes to Financial Statements (continued)

8. Long-Term Debt (continued)

which is included in loss on defeasance, net in the accompanying statement of net position. The deferred amount is being charged to operations through the year 2033 using a straight-line interest amortization method.

On May 27, 2008, the Series 2008 Hospital Refunding Revenue Bonds (Series 2008 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 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 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. At April 30, 2016, the unamortized value of the deferred amount was approximately \$3,372,000, which is included in loss on defeasance, net in the accompanying statement of net position. The deferred amount is being charged to operations through the year 2037 using a straight-line interest amortization method.

On October 28, 2009, Series 2009 Hospital Revenue Bonds (Series 2009 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 Bonds were issued as fixed rate bonds and are callable on or after May 1, 2019, at par, without premium. The 2009 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 Bonds.

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

Notes to Financial Statements (continued)

8. Long-Term Debt (continued)

On April 14, 2015, Series 2015 Bonds were issued in the amount of \$154,905,000 to provide funds to (1) refund and redeem a portion of the Series 2006 Bonds; (2) acquire, construct, renovate, and equip certain of its health care facilities, including reimbursement of certain moneys advanced prior to issuance; and (3) pay certain costs of issuance. The Series 2015 Bonds were issued as fixed rate bonds and are callable on or after May 1, 2025, at par, without premium.

The System completed the advance refunding of a portion of its Series 2006 Bonds as a part of the Series 2015 Bonds to reduce its total debt service payments. On a matched-maturity basis, the cash flow savings, not including the funds held in related bond debt service accounts, was approximately \$8,169,000.

The computations performed in accordance with GASB Statement No. 23 for the refunding of the Series 2006 Bonds resulted in a loss on defeasance of approximately \$5,975,000. At April 30, 2016, the unamortized value of the deferred amount was approximately \$5,703,000, which is included in loss on defeasance, net in the accompanying statement of net position. The deferred amount is being charged to operations through the year 2038 using a straight-line interest amortization method.

The fair value of the System's long-term debt, as calculated by an independent third party, was approximately \$635,370,000 at April 30, 2016. 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, and includes principal payments due May 1, 2016.

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

Notes to Financial Statements (continued)

8. Long-Term Debt (continued)

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

Years ending April 30:	Principal	Estimated Interest Payments	Estimated Total Debt Service
2017	\$ 9,650	\$ 28,669	\$ 38,319
2018	10,050	29,291	39,341
2019	10,840	27,784	38,624
2020	10,945	27,245	38,190
2021	11,430	26,681	38,111
2022–2026	70,000	124,048	194,048
2027–2031	114,780	101,787	216,567
2032–2036	143,955	72,624	216,579
2037–2041	116,330	40,347	156,677
2042–2047	104,650	11,422	116,072
	<u>\$ 602,630</u>	<u>\$ 489,898</u>	<u>\$ 1,092,528</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, 2016.

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

	Year Ended April 30, 2016
Balance at beginning of year	\$ 623,660
Principal payments on long-term debt	(9,265)
Amortization of premiums or discounts	(2,081)
Balance at end of year	<u>\$ 612,314</u>

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

Notes to Financial Statements (continued)

9. Pension Plan

As disclosed in Note 1, the System adopted GASB Statements No. 68 and No. 71 as of May 1, 2015.

Plan Description

The System administers the Retirement Plan for Employees of the South Broward Hospital District. The Plan is 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; however, it is reported as a pension trust fund in these financial statements of the System. The Board of Commissioners of the South Broward Hospital District has the authority to establish and amend the benefit provisions of the Plan. The Board consists of seven members appointed by the Governor of the State of Florida. The Board delegates certain responsibilities to management and the Finance Committee related to Plan administration, monitoring and policy formulation.

Benefits Provided

Retirement benefits are based on employees' years and completed months of continuous service from date of employment to date of termination and average compensation during the highest consecutive 60-month period in the last 120 months preceding termination or retirement. Employees become eligible for normal retirement based on the attainment of a specified age ranging from 55 to 65 years and years of credited service ranging from 5 to 30 years. Early and late retirement options are available subject to certain conditions.

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.

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

Notes to Financial Statements (continued)

9. Pension Plan (continued)

Funding Policy

The Plan's funding policy provides for actuarially determined amounts, which, together with investment earnings, are sufficient to fund the Plan. There are no employee contributions. The Plan's funding policy provides for actuarially determined periodic contributions that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The portion of the actuarially determined contribution 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 10 years as of May 1, 2015. The same amortization method is used 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 annual required contributions to the Plan during the fiscal year ended April 30, 2016 of \$37,649,228 were made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of May 1, 2015. During the fiscal year ended April 30, 2016, contributions as a percentage of covered payroll was 9.29%.

Listed below is information regarding plan membership or employees covered by the benefit terms:

Participant data as of April 30, 2016 and 2015:

Active plan members or employees	5,909
Inactive plan members or employees or beneficiaries currently receiving benefits	1,578
Inactive plan members or employees entitled to but not yet receiving benefits	2,955
Total	<u><u>10,442</u></u>

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

Notes to Financial Statements (continued)

9. Pension Plan (continued)

Net Pension Liability

The net pension liability of the System reported as of April 30, 2016 was measured as of April 30, 2015. The total pension liability reported by the System as of April 30, 2016 is based on the liability determined using May 1, 2014 census data and a May 1, 2014 valuation date using update procedures to roll forward to the measurement date of April 30, 2015.

The following schedule presents the change in net pension liability for the System for the fiscal year ended April 30, 2016 (in thousands):

Total pension liability	
Service cost	\$ 17,980
Interest	43,771
Benefit payments	(14,800)
Net change in total pension liability	<u>46,951</u>
Total pension liability – beginning	591,017
Total pension liability – ending (a)	<u><u>\$ 637,968</u></u>
 Plan fiduciary net position	
Contributions – employer	\$ 33,764
Net investment income	20,731
Benefit payments	(14,800)
Administrative expense	(216)
Net change in plan fiduciary net position	<u>39,479</u>
Plan fiduciary net position – beginning	439,204
Plan fiduciary net position – ending (b)	<u><u>\$ 478,683</u></u>
 Plan’s net pension liability – ending (a) – (b)	 <u><u>\$ 159,285</u></u>

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

Notes to Financial Statements (continued)

9. Pension Plan (continued)

Pension Expense and Deferred Outflows of Resources:

The System recorded \$30.9 million in pension expense for the fiscal year ended April 30, 2016, which is included in employee benefits in the accompanying statement of revenues, expenses, and changes in fund net position.

Deferred Outflows of Resources

The following schedule presents information about the pension-related deferred outflows of resources at April 30, 2016 (in thousands):

Employer's contribution to the plan subsequent to the measurement date of the net pension liability	\$ 37,649
Net difference between projected and actual earnings on pension plan investments	\$ 10,285

The following schedule presents the future amortization of pension-related deferred outflows of resources, excluding the balance attributable to the employer's contribution to the Plan in the current fiscal year and subsequent to the net pension liability measurement date. The difference between projected and actual earnings on pension investment is recorded in pension expense over a five-year period.

The employer's contribution to the Plan reported by the System in the fiscal year ended April 30, 2016 will be reported as a reduction in the net pension liability in the next fiscal year. Other amounts reported as deferred outflows of resources related to the Plan will be recognized in pension expense for the fiscal years ending April 30 as follows (in thousands):

2017	\$ 2,571
2018	2,571
2019	2,571
2020	2,572
Total	<u>\$ 10,285</u>

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

Notes to Financial Statements (continued)

9. Pension Plan (continued)

Actuarial Methods and Assumptions

The System recognizes annual Pension expense and Net pension liability in accordance with GASB Statement No. 68 and GASB Statement No. 71 based on information obtained from the annual actuarial report.

Annual actuarial amounts for reporting are calculated using the entry age normal cost method.

The assumptions used to measure the total pension liability of the System as of the measurement date of April 30, 2015 based on an actuarial valuation date of May 1, 2014 rolled forward to April 30, 2015 using update procedures include a discount rate of 7.50% per year, an inflation assumption of 2.5% per year and age-graded select and ultimate salary increases based on actual plan experience starting at 4% to 2.5% based on age for 2014 increasing to 6% to 4.5% based on age for 2022 and later. Mortality rates were based on the RP-2014 Employee/ Annuitant Mortality tables for males and females with the Scale MP-2014 backed out to 2006 and projected forward from 2006 generationally using Scale BB (male).

Significant assumptions used in the May 1, 2014 valuation date, with a measurement date of April 30, 2015 for the System used for financial reporting for the fiscal year ending April 30, 2016 under GASB Statements No. 67 and No. 68 was based on the results of various actuarial experience studies performed over the last five years.

Valuation date	May 1, 2014; Liabilities were projected from May 1, 2014 to April 30, 2015
Actuarial cost method	Entry age normal actuarial cost method for the total pension liability under GASB Statements No. 67 and No. 68.
Asset valuation method	Fair market value for fiduciary net position used to determine net pension liability under GASB Statements No. 67 and No. 68.
Long-term expected rate of return*	7.5%

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

Notes to Financial Statements (continued)

9. Pension Plan (continued)

Mortality rates Mortality rates were based on the RP-2014 Employee/Annuitant tables for males and females with the Scale MP-2014 backed out to 2006 and projected forward from 2006 generationally using Scale BB (male).

Projected salary increases* Age-based rates based on plan experience starting with the rates below and increasing 0.25% per year until 2022, where they remain constant thereafter. All increases in rates through 2022 are reflected in the May 1, 2014, valuation.

<u>Attained Age</u>	<u>Percentage Increase</u>
Less than 35	4.00%
35–39	3.75
40–44	3.50
45–49	3.25
50–54	3.00
55–59	2.75
60 or older	2.50

Cost of living adjustments Not applicable

*Includes inflation at 2.5%

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

Notes to Financial Statements (continued)

9. Pension Plan (continued)

Investment Policy

The Board adopted an investment policy for the Plan that adheres to the investment guidelines and permissible investments outlined in Florida Statutes, Title XIV, Chapters 215.44 and 215.47. The investment policy has target percentages for certain asset classes and permits variances of +/- 5% as an allowable range. The Board and its Finance Committee uses an independent registered financial advisor to assist in monitoring investment activities, investment policy formulation and investment manager selection. The following was the Board’s adopted target percentage allocation policy as of April 30, 2015:

Asset Class	Target Allocation
Global equity:	
Value	27.5%
Growth	27.5
Fixed income:	
U.S. fixed income – core	25.0
Global bonds – U.S. dollar	5.0
Global bonds – non-U.S. dollar	5.0
Alternative investments:	
Long/short equity hedge funds	10.0
Total plan	100.00%

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;

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

Notes to Financial Statements (continued)

9. Pension Plan (continued)

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.

- (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-through; mortgage-backed To-Be-Announced (TBA) notes; collateralized mortgage obligations, limited to 25% of the portfolio; non-agency issued mortgages originated in Florida per 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 – long/short equity hedge fund*: A hedge fund refers to an investment or strategy that is not a long-only portfolio of traditional equity. The Plan will generally invest in strategies that have at least yearly liquidity and reasonable levels of transparency.
- (4) *Alternative investments – commingled funds*: The Plan invests in U.S. and global bonds through a commingled fund that is considered an alternative investment vehicle under Chapter 215.44, Florida Statutes. The Plan considers this investment a component of its fixed income allocation.

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

Notes to Financial Statements (continued)

9. Pension Plan (continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position as of April 30, 2015 is available in the separately issued financial statements of the System for the years ended April 30, 2015 and 2014, which include the pension trust fund at <http://www.mhs.net/pdf/Fiscal-Year-2015-audited-financial-statements-May-April-30.pdf>.

Expected Rate of Return

The projected long-term real rate of return on pension plan investments valued at April 30, 2015 was determined using a model of current capital market simulations. It is designed to simulate a wide range of plausible scenarios of future capital market performance over a 20-year time period. It reflects the capital market conditions prevailing at the start date of the simulation. The long-term rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the largest asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of April 30, 2015, (see discussion of the Plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Rate of Return
Global equity	7.80%
Fixed income	3.17
Alternative investments	5.56

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

Notes to Financial Statements (continued)

9. Pension Plan (continued)

Discount Rate

The discount rate used to measure the total pension liability as of April 30, 2015, as reported by the System as of April 30, 2016 was 7.5%. The projection of cash flows used to determine the discount rate assumed that employer contributions are made at 100% of the annual actuarial determined value and that future contributions will be made in the same manner. Based on these assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan participants. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The Florida Statutes require the System to make an actuarially-determined contribution to the Plan each year. Thus, as long as the System continues to fund the Plan based on the contributions, the Plan will remain adequately funded. Actuaries perform a valuation on census data and asset information every year as of May 1st. The annual valuation includes a contribution amount that the System funds each year. An alternative method applies for the System due to the Florida Statutes requiring that the System fund an actuarially determined dollar amount of contribution each year. As long as the System remains financially able to make the contributions each year, there will never be a point in time where the fund runs out of money and can’t make the benefit payments.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the sensitivity of the net pension liability calculation to a 1.0% increase and a 1.0% decrease in the discount rate used to measure the total pension liability as of April 30, 2015, as reported by the System as of April 30, 2016 (in thousands):

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability	\$ 253,820	\$ 159,285	\$ 81,469

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

Notes to Financial Statements (continued)

10. Pension Plan Net Pension Liability as of April 30, 2016

The net pension liability of the Plan as of April 30, 2016 to be reported by the System as of April 30, 2017 was measured as of April 30, 2016. The total pension liability of the Plan as of April 30, 2016 is based on the liability determined using May 1, 2015 census data and a May 1, 2015 valuation date using update procedures to roll forward to the measurement date of April 30, 2016.

The components of the net pension liability of the Plan as of April 30, 2016, were as follows (in thousands):

Net pension liability	
Total pension liability	\$ 709,172
Plan fiduciary net position	(490,033)
Net pension liability	<u>\$ 219,139</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69.1%</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the sensitivity of the net pension liability calculation to a 1.0% increase and a 1.0% decrease in the discount rate used to measure the total pension liability as of April 30, 2016 (in thousands):

	1% Decrease	Current	1% Increase
	(6.0%)	Discount Rate	(8.0%)
	<hr/>		
Net pension liability	\$324,430	\$ 219,139	\$ 132,681

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

Notes to Financial Statements (continued)

10. Pension Plan Net Pension Liability as of April 30, 2016 (continued)

Actuarial Methods and Assumptions

Annual actuarial amounts for reporting are calculated using the entry age normal cost method.

The assumptions used to measure the total pension liability of the Plan as of the measurement date of April 30, 2016 based on an actuarial valuation date of May 1, 2015 rolled forward to April 30, 2016, using update procedures include a discount rate of 7.0% per year, an inflation assumption of 2.5% per year and age-graded select and ultimate salary increases based on actual plan experience starting at 4.25% to 2.75% based on age for 2015 increasing to 5.5% to 4.0% based on age for 2020 and later. Mortality rates were based on the RP-2014 Employee/Annuitant Mortality tables for males and females with the Scale MP-2014 backed out to 2006 and projected forward from 2006 generationally using Scale BB (male).

Significant assumptions used in the May 1, 2015 valuation, with a measurement date of April 30, 2016 under GASB Statement No. 67 was based on the results of various actuarial experience studies performed over the last five years.

Valuation date	May 1, 2015; Liabilities were projected from May 1, 2015 to April 30, 2016
Actuarial cost method	Entry age normal actuarial cost method for the total pension liability under GASB Statements No. 67 and No. 68.
Asset valuation method	Fair market value for fiduciary net position used to determine net pension liability under GASB Statements No. 67 and No. 68.
Long-term expected rate of return*	7.0%
Mortality rates	Mortality rates were based on the RP-2014 Employee/Annuitant tables for males and females with the Scale MP-2014 backed out to 2006 and projected forward from 2006 generationally using Scale BB (male).

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

Notes to Financial Statements (continued)

10. Pension Plan Net Pension Liability as of April 30, 2016 (continued)

Projected salary increases* Age-based rates based on plan experience starting with the rates below and increasing 0.25% per year until 2020, where they remain constant thereafter. All increases in rates through 2020 are reflected in the May 1, 2015, valuation.

<u>Attained Age</u>	<u>Percentage Increase</u>
Less than 35	4.25%
35–39	4.00
40–44	3.75
45–49	3.50
50–54	3.25
55–59	3.00
60 or older	2.75

Cost of living adjustments Not applicable

**Includes inflation at 2.5%*

Termination and Retirement Rates

As part of the demographic assumption studies performed every three to five years, to ensure that assumptions are still appropriate for the population, a study of termination and retirement rates was performed. The results of this study were not significant to the Plan valuations.

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

Notes to Financial Statements (continued)

10. Pension Plan Net Pension Liability as of April 30, 2016 (continued)

Investment Policy

The Board adopted an investment policy for the Plan that adheres to the investment guidelines and permissible investments outlined in Florida Statutes, Title XIV, Chapters 215.44 and 215.47. The investment policy has target percentages for certain asset classes and permits variances of +/- 5% as an allowable range. The Board and its Finance Committee use an independent registered financial advisor to assist in monitoring investment activities, investment policy formulation and investment manager selection. The following was the Board's adopted target percentage allocation policy as of April 30, 2016:

Asset Class	Target Allocation
Global equity:	
Value	27.5%
Growth	27.5
Fixed income:	
U.S. fixed income – core	25.0
Global bonds – U.S. dollar	5.0
Global bonds – non-U.S. dollar	5.0
Alternative investments:	
Long/short equity hedge funds	10.0
Total plan	100.00%

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 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

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

Notes to Financial Statements (continued)

10. Pension Plan Net Pension Liability as of April 30, 2016 (continued)

only; 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.

- (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-through; mortgage-backed TBA notes; collateralized mortgage obligations, limited to 25% of the portfolio; non-agency issued mortgages originated in Florida per 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 – long/short equity hedge fund: A hedge fund refers to an investment or strategy that is not a long-only portfolio of traditional equity. The Plan will generally invest in strategies that have at least yearly liquidity and reasonable levels of transparency.
- (4) Alternative investments – commingled funds: The Plan invests in U.S. and global bonds through a commingled fund that is considered an alternative investment vehicle under Chapter 215.44, Florida Statutes. The Plan considers this investment a component of its fixed income allocation.

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

Notes to Financial Statements (continued)

10. Pension Plan Net Pension Liability as of April 30, 2016 (continued)

The following are the key controls which the Finance Committee and Board utilize to mitigate investment risk:

Interest rate risk: The investment policy limits holdings in the Plan based on investment type, credit rating, maturity and duration and entrusts external investment managers to execute transactions on a discretionary basis in accordance with the parameters described in the investment policy.

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, 2016, the Plan's investment portfolio was held by a single third-party custodian.

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

Foreign currency risk: 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.

Rate of Return

For the fiscal year ended April 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (2.0)%. The money-weighted rate of return is used to express investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Expected Rate of Return

The projected long-term real rate of return on pension plan investments valued at April 30, 2016 was determined using a model of current capital market simulations. It is designed to simulate a wide range of plausible scenarios of future capital market performance over a 20-year time period. It reflects the capital market conditions prevailing at the start date of the simulation. The long-term rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

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

Notes to Financial Statements (continued)

10. Pension Plan Net Pension Liability as of April 30, 2016 (continued)

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the largest asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Percent</u>	<u>Long-Term Expected Rate of Return</u>
International stocks	35.7%	7.3%
U.S. stocks	25.4	7.2
BarCap aggregate bonds	24.4	3.6
Cash	5.7	2.9
Emerging market stocks	4.4	7.8
International bonds	4.4	2.7
Total Plan	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability as of April 30, 2016 of the Plan was 7.0%. The projection of cash flows used to determine the discount rate and assumed that employer contributions are made at 100% of the annual actuarial determined value and that future contributions will be made in the same manner. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan participants. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The Florida Statutes require the System to make an actuarially-determined contribution to the Plan each year. Thus, as long as the System continues to fund the Plan based on the contributions, the Plan will remain adequately funded. The valuation includes the annual contribution amount that the System funds each year. An alternative method applies for the System due to the Florida Statutes requiring that the System fund an actuarially determined dollar amount of contribution each year. As long as the System remains financially able to make the contributions each year, there will never be a point in time where the fund runs out of money and can't make the benefit payments.

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

Notes to Financial Statements (continued)

10. Pension Plan Net Pension Liability as of April 30, 2016 (continued)

Interest Rate Risk

At April 30, 2016, the Plan had the following investments with the respective effective durations. (Fair value is in thousands and effective duration is in years).

	<u>Fair Value</u>	<u>Effective Duration</u>
Investments		
Domestic investments:		
Equities	\$ 82,886	N/A
U.S. government and agency obligations	60,303	2.30
Corporate debt	28,986	1.83
Commercial mortgage securities	8,951	0.32
Collateralized mortgage obligations	1,993	0.05
Asset-backed securities	3,275	0.05
Municipal bonds	6,300	0.45
SEC-registered money market funds	18,730	–
Preferred securities	99	N/A
International investments:		
Equities	98,495	N/A
Dodge & Cox Global Stock Fund	75,658	N/A
Alternative investments		
Long/short equity hedge fund	51,101	N/A
U.S. and global bonds in a commingled fund	51,256	N/A
Other:		
Cash	1,623	N/A
Accrued interest	683	N/A
Due (to)/from brokers	(307)	N/A
	<u>\$ 490,032</u>	

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

Notes to Financial Statements (continued)

10. Pension Plan Net Pension Liability as of April 30, 2016 (continued)

At April 30, 2016, the Plan's investment securities have the following credit ratings as shown below (in thousands):

Investments	Fair Value	Credit Rating*
Domestic investments:		
Equities	\$ 82,886	Not Rated
U.S. Treasuries	34,195	AA+
U.S. agencies	496	AA+
U.S. agencies	675	AA-
U.S. agency mortgage bonds	24,937	AA+
Corporate debt	682	AA+
Corporate debt	281	AA
Corporate debt	717	AA-
Corporate debt	272	A+
Corporate debt	2,801	A
Corporate debt	5,369	A-
Corporate debt	4,524	BBB+
Corporate debt	7,140	BBB
Corporate debt	6,441	BBB-
Corporate debt	759	BB+
Commercial mortgage securities	7,956	AAA
Commercial mortgage securities	606	AA+
Commercial mortgage securities	253	A+
Commercial mortgage securities	136	A
Collateralized mortgage obligations	980	AA+
Collateralized mortgage obligations	61	B-
Collateralized mortgage obligations	113	CCC

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

Notes to Financial Statements (continued)

10. Pension Plan Net Pension Liability as of April 30, 2016 (continued)

	Fair Value	Credit Rating*
Investments (continued)		
Domestic investments (continued):		
Collateralized mortgage obligations	\$ 17	CC
Collateralized mortgage obligations	247	C
Collateralized mortgage obligations	25	C-
Collateralized mortgage obligations	550	D
Asset-backed securities	3,197	AAA
Asset-backed securities	43	B
Asset-backed securities	35	C-
Municipal bonds	1,260	AA
Municipal bonds	2,463	AA-
Municipal bonds	387	A+
Municipal bonds	393	A
Municipal bonds	1,302	A-
Municipal bonds	495	BBB
SEC-registered money market funds	18,730	AAA
Preferred securities	99	D
International investments:		
Equities	98,495	Not Rated
Dodge & Cox Global Stock Fund	75,658	Not Rated
Alternative investments:		
Long/short equity hedge fund	51,101	Not Rated
U.S. and global bonds in a commingled fund	51,256	Not Rated
Other:		
Cash	1,623	Not Rated
Accrued interest	683	Not Rated
Due (to) from brokers	(307)	Not Rated
	\$ 490,032	

**Standard & Poor's rating, or equivalent*

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

Notes to Financial Statements (continued)

10. Pension Plan Net Pension Liability as of April 30, 2016 (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 the System's 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.

Investments in long/short equity hedge strategies require the manager to use a prime broker relationship when shorting stocks. 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 Net Pension Liability as of April 30, 2016 (continued)

At April 30, 2016, there was no single investment representing 5% or more of the Plan's fiduciary net position.

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, 2016, 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 the Plan's assets. Global bonds are limited to 10% of the Plan's assets with non-U.S. dollar global bonds further limited to 5% of the Plan's assets. The following table shows the Plan's exposure to foreign currencies as of April 30, 2016 (in thousands).

Australian dollar	\$ 3,155
British sterling pound	11,206
Canadian dollar	4,125
Danish krone	2,697
EMU (euro)	25,696
Hong Kong dollar	11,021
Japanese yen	15,530
Singapore dollar	2,174
Swedish krona	2,278
Swiss franc	19,994
Thailand baht	619
Global bonds in commingled fund	27,678
Total pension investments subject to foreign currency risk	<u>\$ 126,173</u>

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

Notes to Financial Statements (continued)

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.

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, 2016
Balance at beginning of year	\$ 74,037
AHCA assessments	1,024
Disability expense (income)	1,969
Physician guarantee	119
Retirement benefits	(1,521)
Financial Accounting Standards 13	(206)
Long-term portion of estimated claims liability	1,742
Long-term portion of capital lease obligations	(2,020)
Balance at end of year	\$ 75,144

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

Notes to Financial Statements (continued)

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%.

The System has operating lease commitments, including the Memorial Hospital Pembroke lease, for office space, medical equipment, data processing equipment, and system support services, the expense for which was approximately \$14,513,000 for the year ended April 30, 2016. At April 30, 2016, future minimum lease payments by year under the noncancelable operating leases are as follows (in thousands):

Fiscal years ending April 30:	
2017	\$ 15,043
2018	14,366
2019	13,378
2020	7,660
2021	7,371
2022–2026	26,739

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

Notes to Financial Statements (continued)

14. Nonoperating Gains (Losses), Net

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

	Year Ended April 30, 2016
Investment income and other, net	\$ 24,719
Unrealized gains on investments	5,806
Interest	(31,578)
Interest subsidy	3,750
Contribution	(10,200)
	\$ (7,503)

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	Unrestricted	Total Net Position
Balance at April 30, 2015	\$ 135,716	\$ 69,619	\$ 48	\$1,606,661	\$ 1,812,044
Cumulative effect of GASB Statements No. 68 and No. 71 implementation	-	-	-	(118,049)	(118,049)
Excess of revenue and net nonoperating losses over expenses	-	-	-	188,025	188,025
Net (decrease) increase in capital assets, net	(7,613)	-	-	7,613	-
Net transfers to and from unrestricted Capital contributions and grants		2,589	(48)	(2,589) 757	-
Balance at April 30, 2016	\$ 128,103	\$ 72,208	\$ -	\$1,682,418	\$ 1,882,729

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

Notes to Financial Statements (continued)

16. Subsequent Event

On June 29, 2016, the System issued its Series 2016 Hospital Refunding Revenue Bonds (Series 2016 Bonds) in the amount of \$173,040,000 to (1) currently refund and redeem all of the outstanding Series 2006 Bonds, (2) advance refund all (or a portion of) the Series 2008 Bonds and pay certain costs of issuance. The Series 2016 bonds were issued as fixed rate bonds and are callable after May 1, 2026, at par, without premium. The Series 2016 Bonds were issued on a matched maturity basis with the Series 2006 Bonds and Series 2008 Bonds maturities.

Required Supplementary Information

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

Schedules of Required Supplementary Information

Schedule of Changes in the System's Net Pension Liability and Related Ratios
(In Thousands)

	<u>2016</u>	<u>2015</u>
Total pension liability		
Service cost	\$ 17,579	\$ 17,980
Interest	45,778	43,771
Differences between expected and actual experience	(1,572)	–
Changes in assumptions	25,721	–
Benefit payments	(16,302)	(14,800)
Net change in total pension liability	<u>71,204</u>	<u>46,951</u>
Total pension liability – beginning	637,968	591,017
Total pension liability – ending (a)	<u>\$ 709,172</u>	<u>\$ 637,968</u>
Plan fiduciary net position		
Contributions – employer	\$ 37,649	\$ 33,764
Net investment income	(9,762)	20,731
Benefit payments	(16,302)	(14,800)
Administrative expense	(235)	(216)
Net change in plan fiduciary net position	<u>11,350</u>	<u>39,479</u>
Plan fiduciary net position – beginning	478,683	439,204
Plan fiduciary net position – ending (b)	<u>\$ 490,033</u>	<u>\$ 478,683</u>
Plan's net pension liability – ending (a) – (b)	<u>\$ 219,139</u>	<u>\$ 159,285</u>
Plan fiduciary net position as a percentage of total pension liability	69.1%	75.0%
Covered-employee payroll	\$ 405,279	\$ 430,332
Plan's net pension liability as a percentage of covered-employee payroll	54.1%	37.0%

This schedule is presented for only those years for which information is available until a full 10 year trend is compiled.

As disclosed in Note 1, the System adopted GASB Statement No. 68 and No. 71 as of May 1, 2015. The information above is reported in the System's financial statements one year in arrears.

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

Schedules of Required Supplementary Information

Schedule of Changes in the System's Net Pension Liability and Related Ratios
(continued)
(In Thousands)

Notes to Schedule

Valuation date Liability determined using May 1 census data and valuation date using update procedures to roll forward to the measurement date; census data and valuation date both one year prior to the measurement date and the Plan fiscal year end, reported by the System two years prior to its fiscal year end.

Methods and assumptions used to determine accounting and financial reporting under GASB Statements No. 67 and No. 68.

Actuarial cost method Entry age normal actuarial cost method for the total pension liability under GASB Statements No. 67 and No. 68.

Asset valuation method Fair market value for fiduciary net position used to determine net pension liability under GASB Statements No. 67 and No. 68.

Long-term expected rate of return* For the May 1, 2015, valuation, 7.0%; for the May 1, 2014, valuation, 7.5%

Mortality rates Mortality rates were based on the RP-2014 Employee/Annuitant tables for males and females with the Scale MP-2014 backed out to 2006 and projected forward from 2006 generationally using Scale BB (male).

Projected salary increases* For the May 1, 2015, valuation, an age-graded select and ultimate table of rates was used starting with 4.25% and grading down to 2.75% in 2015 and increasing 0.25% per year to 2020 when rates are 5.5% and grading down to 4.0%; for the May 1, 2014, valuation, an age-graded select and ultimate table of rates was used starting with 4.0% and grading down to 2.5% in 2014 and increasing 0.25% per year to 2022 when rates are 6.0% grading down to 4.5%.

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

Schedule of System Contributions Last 10 Fiscal Years
(In Thousands)

	2016	2015	2014	2013	2012
Actuarially determined contribution	\$ 37,649	\$ 33,764	\$ 34,988	\$ 33,031	\$ 29,899
Contributions in relation to the actuarially determined contribution	37,649	33,764	34,988	33,031	29,899
Contribution deficiency (excess)	-	-	-	-	-
Covered-employee payroll	\$ 405,279	\$ 430,332	\$ 453,033	\$ 464,209	\$ 440,349
Contributions as a percentage of covered-employee payroll	9.29%	7.85%	7.72%	7.12%	6.79%
	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 28,924	\$ 28,260	\$ 23,615	\$ 18,914	\$ 17,096
Contributions in relation to the actuarially determined contribution	28,924	28,260	23,615	18,914	17,096
Contribution deficiency (excess)	-	-	-	-	-
Covered-employee payroll	\$ 421,333	\$ 399,400	\$ 360,160	\$ 325,691	\$ 296,396
Contributions as a percentage of covered-employee payroll	6.86%	7.08%	6.56%	5.81%	5.77%

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

Schedule of System Contributions Last 10 Fiscal Years (continued)
(In Thousands)

Notes to Schedule

Valuation date Actuarially determined contributions are calculated as of the beginning of each fiscal year/plan year and interest-adjusted to the end of the year. 1/12 of this amount is paid by the System on a monthly basis.

Methods and assumptions used to determine annual required contributions

Actuarial cost method Projected unit credit cost method

Amortization method Starting with the May 1, 2012, valuation – Level dollar amount, closed; Prior to May 1, 2012 – Level percent of pay, closed

Remaining amortization period 10 – 12 years, the average future work life expectancy of the active participants in the year the amortization base is established. Prior to May 1, 2012, any new assumption or plan change was amortized over 30 years and experience change was amortized over 15 years.

Asset valuation method Five-year smoothed market value

Inflation 2.50% starting with the May 1, 2010, valuation; 3.50% for May 1, 2008, and May 1, 2009 valuations; 4% for valuations prior to May 1, 2008

Salary increases For the May 1, 2015, valuation, an age-graded select and ultimate table of rates was used starting with 4.25% and grading down to 2.75% in 2015 and increasing 0.25% per year to 2020 when rates are 5.5% and grading down to 4.0%; for the May 1, 2014, valuation, an age-graded select and ultimate table of rates was used starting with 4.0% and grading down to 2.5% in 2014 and increasing 0.25% per year to 2022 when rates are 6.0% grading down to 4.5%; for the May 1, 2009 through May 1, 2013, valuations, age-graded rates starting with 6.0% and grading down to 4.5%; prior to May 1, 2009, age-graded rates starting with 7.25% and grading down to 5.25%.

Investment rate of return 7.0% as of May 1, 2015; 7.5% for May 1, 2008 through May 1, 2014 valuations; 8.0% for valuations prior to May 1, 2008

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

Schedule of System Contributions Last 10 Fiscal Years (continued)
(In Thousands)

Notes to Schedule (continued)

Mortality	Starting with the May 1, 2014, valuation – RP-2014 Employee/Annuitant tables for males and females with the Scale MP-2014 backed out to 2006 and projected forward from 2006 generationally using Scale BB (male); May 1, 2013, valuations – RP-2000 sex distinct rates projected to ten years past the valuation year using Scale AA; May 1, 2009 through May 1, 2012, valuations – RP-2000 sex distinct rates projected to the valuation year using Scale AA; May 1, 2008, valuation – RP-2000 sex distinct rates (no projection); May 1, 2007, valuation – 1983 Group Annuity Mortality Table for males and set back six years for females.
Other information	The benefit formula for participants hired after May 1, 2010, was changed. At May 1, 2011, the Plan was closed to employees hired or rehired after October 31, 2011.

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

Schedules of Required Supplementary Information

Schedule of Investment Returns

	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return, net of investment expense	(2.00)%	4.62%

This schedule is presented for only those years for which information is available until a full 10 year trend is compiled.

Supplementary Information

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

Combining Statement of Net Position – System
(In Thousands)

April 30, 2016

	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	\$ –	\$ –	\$ –	\$ 545,159	\$ 545,209
By Board for capital improvements	–	–	–	–	883	883
By Board for employee disability	–	–	–	–	18,210	18,210
Investments	–	–	–	–	1,201,304	1,201,304
Patient accounts receivable, net	145,561	55,253	15,551	19,291	4,616	240,272
Ad valorem taxes receivable	–	–	–	–	119	119
Inventories	19,595	6,991	2,565	2,030	733	31,914
Other current assets	9,439	2,226	1,385	1,134	42,247	56,431
Total current assets	174,645	64,470	19,501	22,455	1,813,271	2,094,342
Assets whose use is limited:						
Investments under self-insurance trust agreements	–	–	–	–	47,203	47,203
Restricted assets, net of current portion:						
Under indenture agreements	–	–	–	–	20,579	20,579
Under indenture – project funds	–	–	–	–	51,629	51,629
Total restricted assets	–	–	–	–	72,208	72,208
Due from Memorial Healthcare System	363,431	823,023	–	157,570	(1,344,024)	–
Capital assets, net	329,219	150,750	16,179	93,966	140,916	731,030
Other assets	148	5	9	–	28,736	28,898
Total assets	\$ 867,443	\$ 1,038,248	\$ 35,689	\$ 273,991	\$ 758,310	\$ 2,973,681
Deferred outflows of resources						
Unrealized pension contributions	\$ –	\$ –	\$ –	\$ –	\$ 37,649	\$ 37,649
Unrealized pension losses	–	–	–	–	10,285	10,285
Loss on defeasance, net	–	–	–	–	14,077	14,077
Total deferred outflows of resources	\$ –	\$ –	\$ –	\$ –	\$ 62,011	\$ 62,011

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

Combining Statement of Net Position – System
(In Thousands)

April 30, 2016

	Memorial Regional Hospital and Affiliated Providers	Memorial Hospital West	Memorial Hospital Pembroke	Memorial Hospital Miramar	Other Non- Hospital Operations, Eliminations	Combined
Liabilities and net assets						
Current liabilities:						
Accounts payable and accrued expenses	\$ 26,013	\$ 8,775	\$ 3,304	\$ 3,127	\$ 40,000	\$ 81,219
Accrued compensation and payroll taxes	15,320	8,036	2,888	3,222	111,669	141,135
Estimated third-party payor settlements	22,515	6,285	2,699	3,121	19	34,639
Current installments of long-term debt	-	-	-	-	9,650	9,650
Current portion of capital lease obligations	-	-	-	-	2,396	2,396
Current portion of estimated claims liability	-	-	-	-	15,157	15,157
Other current liabilities	16,082	8,554	2,543	2,868	1,627	31,674
Total current liabilities	79,930	31,650	11,434	12,338	180,518	315,870
Due to Memorial Healthcare System	-	-	27,966	-	(27,966)	-
Long-term portion of estimated claims liability	-	-	-	-	24,526	24,526
Net pension liability	-	-	-	-	159,285	159,285
Other noncurrent liabilities	6,701	3,222	4,302	1,139	32,960	48,324
Long-term portion of capital lease obligations	-	-	-	-	2,294	2,294
Long-term debt	-	-	-	-	602,664	602,664
Total liabilities	\$ 86,631	\$ 34,872	\$ 43,702	\$ 13,477	\$ 974,281	\$ 1,152,963
Net assets:						
Net investment in capital assets	\$ 329,219	\$ 150,750	\$ 16,179	\$ 93,966	\$ (462,011)	\$ 128,103
Restricted:						
For debt service	-	-	-	-	72,208	72,208
Unrestricted	451,593	852,626	(24,192)	166,548	235,843	1,682,418
Total net position	\$ 780,812	\$ 1,003,376	\$ (8,013)	\$ 260,514	\$ (153,960)	\$ 1,882,729

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

Combining Statement of Revenues, Expenses,
and Changes in Fund Net Position – System

(In Thousands)

Year Ended April 30, 2016

	Memorial Regional Hospital and Affiliated Providers	Memorial Hospital West	Memorial Hospital Pembroke	Memorial Hospital Miramar	Other Non- Hospital Operations	Combined
Revenue:						
Net patient service revenue	\$ 932,192	\$ 493,949	\$ 128,675	\$ 180,106	\$ 71,634	\$ 1,806,556
Disproportionate share distributions	33,560	7,649	2,578	3,074	136	46,997
Other operating revenues	29,411	6,724	3,228	2,084	2,074	43,521
Total operating revenue	995,163	508,322	134,481	185,264	73,844	1,897,074
Operating expenses:						
Salaries and wages	418,641	186,716	66,146	71,093	99,578	842,174
Employee benefits	83,754	37,599	13,351	14,491	8,737	157,932
Professional fees	25,198	9,750	5,303	4,040	30	44,321
Supplies	183,407	79,469	19,092	19,474	3,970	305,412
Purchased services	50,876	30,139	13,228	10,271	4,022	108,536
Facilities	34,681	12,898	10,180	6,605	8,289	72,653
Depreciation and amortization	57,364	23,993	7,448	9,533	2,887	101,225
Other	38,654	17,598	5,988	6,018	1,035	69,293
Total operating expenses	892,575	398,162	140,736	141,525	128,548	1,701,546
Operating income (loss)	102,588	110,160	(6,255)	43,739	(54,704)	195,528
Nonoperating (losses) gains, net	(13,126)	(5,727)	(460)	(4,921)	16,731	(7,503)
Income before capital contributions and grants	89,462	104,433	(6,715)	38,818	(37,973)	188,025
Capital contributions and grants	661	38	10	-	-	709
Increase (decrease) in net position	90,123	104,471	(6,705)	38,818	(37,973)	188,734
Net position at the beginning of the year	690,689	898,905	(1,308)	221,696	2,062	1,812,044
Net impact of GASB Statements No. 68 and No. 71 implementation	-	-	-	-	(118,049)	(118,049)
Net position at the end of the year	\$ 780,812	\$ 1,003,376	\$ (8,013)	\$ 260,514	\$ (153,960)	\$ 1,882,729

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