

# **North Broward Hospital District**

**Consolidated Financial Statements,  
Required Supplementary Information and  
Supplemental Consolidating Information  
June 30, 2012 and 2011**

**North Broward Hospital District**  
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**June 30, 2012 and 2011**

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**Section One - PricewaterhouseCoopers LLP**

# **North Broward Hospital District Management's Discussion and Analysis (Unaudited) June 30, 2012 and 2011**

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This section of the North Broward Hospital District's (the "District") annual financial report presents the District's analysis of its financial performance as of June 30, 2012 and 2011, and for the fiscal years then ended. Please read this analysis in conjunction with the consolidated basic financial statements, which follow this section.

## **Overview of the Financial Statements**

This annual financial report includes the management's discussion and analysis report, the report of independent certified public accountants, and the consolidated basic financial statements of the District. The consolidated basic financial statements also include notes that explain in more detail some of the information in the consolidated basic financial statements.

## **Required Financial Statements**

The District's consolidated basic financial statements report information using accounting methods similar to those used by private-sector and not-for-profit health care organizations which follow Governmental Accounting Standards Board ("GASB") pronouncements. These statements offer short-term and long-term financial information about its activities. The consolidated statements of net assets include all of the District's assets and liabilities, and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). The consolidated statements of net assets also provide the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the District.

All of the revenue and expenses for the fiscal years 2012 and 2011 are accounted for in the consolidated statements of revenues, expenses, and changes in net assets. The statements measure the annual financial success of the District's operations and can be used to determine whether the District has successfully recovered all of its costs through its net patient service revenue, ad valorem taxes, and other sources of revenue.

The final required statement is the consolidated statements of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing (capital and noncapital) activities. They highlight the key sources and uses of the District's cash and what the change in the cash balance was during the reporting period.

## **Financial Analysis of the North Broward Hospital District**

The District's net assets, the difference between assets and liabilities, are a way to measure financial health or financial position. Over time, increases or decreases in the District's net assets is one indicator of whether its financial health is improving or deteriorating. However, the financial statement user should consider other nonfinancial factors, such as changes in economic conditions, population growth, taxable property values and tax rates, and new or changed governmental legislation, when analyzing the District's financial position.

**North Broward Hospital District  
Management's Discussion and Analysis (Unaudited)  
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A comparative summary of the District's consolidated basic statements of net assets at June 30, 2012, 2011 and 2010 is presented below:

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Assets</b>			
Current assets	\$ 675,426	\$ 694,941	\$ 664,645
Asset whose use is limited, net of current obligations	31,031	30,583	30,003
Investments	139,337	126,986	31,502
Property and equipment, net	431,497	424,379	427,513
Other assets	<u>21,329</u>	<u>9,439</u>	<u>8,973</u>
Total assets	<u>\$ 1,298,620</u>	<u>\$ 1,286,328</u>	<u>\$ 1,162,636</u>
<b>Liabilities and Net Assets</b>			
Liabilities			
Current liabilities	\$ 202,850	\$ 195,882	\$ 199,132
Long-term debt	255,048	265,596	246,764
Other liabilities and minority interest	<u>141,472</u>	<u>115,932</u>	<u>111,556</u>
Total liabilities and minority interest	<u>599,370</u>	<u>577,410</u>	<u>557,452</u>
Net assets			
Invested in capital assets, net of related debt	164,468	146,094	170,059
Restricted net assets			
Donor-restricted	10,730	10,941	12,422
Unrestricted	<u>524,052</u>	<u>551,883</u>	<u>422,703</u>
Total net assets	<u>699,250</u>	<u>708,918</u>	<u>605,184</u>
Total liabilities and net assets	<u>\$ 1,298,620</u>	<u>\$ 1,286,328</u>	<u>\$ 1,162,636</u>

The net assets of the District totaled \$699.3, \$708.9 and \$605.2 million as of June 30, 2012, 2011 and 2010, respectively. The decrease in net assets of \$9.7 million in fiscal year 2012 was due primarily to an increase in the loss from operations due to Medicaid rate reductions. Loss on investments of \$0.8 million decreased the overall positive performance in earnings related to the provision of patient care, including \$149.5 million of ad valorem tax revenue for fiscal year 2012.

The increase in net assets of \$103.7 million in fiscal year 2011 was due primarily to unrealized and realized gain on investments. Gain on investments of \$70.8 million added to the positive performance in earnings related to the provision of patient care, including \$154.5 million of ad valorem tax revenue for fiscal year 2011.

# North Broward Hospital District

## Management's Discussion and Analysis (Unaudited)

### June 30, 2012 and 2011

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#### **Budgetary Highlights**

Overall, the District performed slightly below budget by \$0.6 million (excluding the impact of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB 53")) in fiscal year 2012. Operationally, the District performed favorably compared to budget by approximately \$16.1 million. This is due, in part, to the receipt of \$13.8 million for achieving Stage 1 meaningful use for electronic medical records as well as an offset due to Medicaid rate reductions. Patient days are under budget by 3.7% and admissions are under budget by 4.8%. Outpatient volumes are under budget by 5.1%, due in part to the transition of the outpatient radiation therapy services as well as a reduction in the physician office visits. The District monitors salaries and benefits as a percent to net revenue, which is on budget. Benefits are on budget, while full-time equivalents ("FTEs") are under budget by 98. There is an overall decrease in supplies of 0.9% due mainly to continued price negotiations with vendors. The District also continued its strategy of employing physicians to have the best coverage for the patients. The District also realized an increase of \$2.3 million from budget from the Low-Income Pool ("LIP") and Disproportionate Share Hospital ("DSH") programs, due to additional funds being available through the program.

Overall, the District performed favorably compared to budget by \$59.5 million (excluding the impact of GASB 53) in fiscal year 2011. This is due in part to the continuing improvement of the District's investment portfolio, which experienced a positive variance compared to budget of \$63.3 million. This is consistent with the overall economic conditions experienced in the District's market area. Operationally, the District performed favorably compared to budget by approximately \$0.2 million. Although patient days are under budget by 2.7%, admissions are over budget slightly at 0.4%, which primarily relates to an increase in compensated admissions. The District has also seen an increase in its outpatient volumes, especially the Emergency Department and physician office visits. The increase in compensated admissions relates to the Provider Service Network ("PSN") population, where patients are moving to a Medicaid Managed Care environment, offset by a decline in the traditional Medicaid volume. The District monitors salaries and benefits as a percent to net revenue, which is on budget. Benefits are under budget by 5.2% due to FTEs being under budget by 52, which decreases health insurance, pension expense and social security benefits. There is an overall increase in supplies of 6.0% due mainly to implants and pharmaceuticals usage and cost. The District also continued its strategy of employing physicians to have the best coverage for the patients. The District also realized a decrease of \$0.9 million from budget from the "LIP" and "DSH" programs, due to lower than expected distributions. The District, through the South Florida Community Care Network, received \$11.4 million in other operating revenue due to the effective and efficient administration of the program.

#### **Capital Assets and Debt Administration**

As of June 30, 2012, 2011 and 2010, the District had capital assets of \$431.5, \$424.4 and \$427.5 million, respectively, an increase of \$7.1 million from 2012 and 2011 and an decrease of \$3.1 million from 2011 and 2010, respectively. The changes are a result of purchases of capital assets, net of disposals in the ordinary course of business, depreciation, and amortization expense.

## **North Broward Hospital District Management's Discussion and Analysis (Unaudited) June 30, 2012 and 2011**

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Capital asset acquisitions during fiscal year 2012 consisted of information technology upgrades and personal computer replacements totaling \$7.4 million, medical equipment purchases of \$11.5 million and capital projects of \$37.3 million. The District has engaged in a personal computer replacement plan which resulted in spending of \$0.5 million during fiscal year 2012. The District also continued moving forward with the Americans with Disabilities Act ("ADA") projects as outlined by the Consent Decree and spent \$0.4 million, while also engaging a construction company to move forward with the remainder of the Consent Decree. Information Services continued the implementations necessary to comply with the electronic medical records mandate in order to achieve meaningful use. Broward Health Medical Center ("BHMC") continued the renovations of Phase 1 of the Chris Evert Children's Hospital, spending \$6.3 million of the \$22.5 million project. BHMC also purchased a Hybrid OR system for \$3.8 million. Broward Health North ("BHN") completed renovations of the Interventional Radiology lab for \$0.2 million, completed renovations of the Post Anesthesia Care Unit for \$1.0 million, approved implementation of Biplane equipment for \$2.8 million and purchased a Surgery O-Arm for \$1.1 million. Broward Health Imperial Point ("BHIP") purchased a nurse call system for \$0.3 million. Broward Health Coral Springs ("BHCS") purchased a MRI for \$2.6 million, including construction, purchased telemetry units for \$0.9 million and purchased laparoscopic video scopes for \$0.6 million. In addition, construction has begun on an Orthopedic Building on Andrews Avenue for a total cost of approximately \$13.0 million, of which \$1.8 million has been expended. The North Broward Hospital District also purchased a medical office building constructed on the BHIP campus for \$7.2 million. In November 2011, the District approved a renovation project at BHN for approximately \$70 million. The project will include renovations to the Emergency Department, Operating Room, patient floors, as well as infrastructure enhancements.

Capital asset acquisitions during fiscal year 2011 consisted of information technology upgrades and personal computer replacements totaling \$9.2 million, medical equipment purchases of \$8.7 million and capital projects of \$31.6 million. The District has engaged in a personal computer replacement plan which spent \$0.6 million during fiscal year 2011. The District also continued moving forward with the ADA projects as outlined by the Consent Decree and spent \$0.8 million, while also engaging a construction company to move forward with the remainder of the Consent Decree. Information Services continued the implementations necessary to comply with the electronic medical records mandate in order to achieve meaningful use. BHMC completed their Interventional Radiology Lab for a total cost of \$3.1 million, opened the Lillian S. Wells Women's Center for \$3.8 million which was renovated using donated funds, purchased a daVinci robot for \$1.9 million, upgraded to the Phillips PACS system for \$1.9 million, completed and installed a combo Siemens Cardiovascular and Electrophysiology Lab for \$1.5 million and made some infrastructure renovations for \$0.9 million. BHN renovated the 9<sup>th</sup> floor for \$0.6 million and began renovations on the Interventional Radiology Lab for \$0.7 million. BHIP purchased ultrasound equipment for \$0.5 million. BHCS has completed its emergency room renovations and expansion project and opened its new emergency department in June 2011, with a final cost of \$19.5 million, of which \$9.0 million was expended in fiscal year 2011. BHCS has purchased a digital C-Arm for \$0.2 million. The Corporate Office purchased a generator for \$0.3 million.

**North Broward Hospital District  
Management's Discussion and Analysis (Unaudited)  
June 30, 2012 and 2011**

Capital assets at June 30, 2012, 2011 and 2010 are as follows:

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Land and land improvements	\$ 45,473	\$ 45,868	\$ 45,619
Buildings and building improvements	573,909	567,279	540,961
Equipment	508,458	498,005	471,897
	<u>1,127,840</u>	<u>1,111,152</u>	<u>1,058,477</u>
Less: Accumulated depreciation	<u>(722,237)</u>	<u>(706,112)</u>	<u>(662,788)</u>
	405,603	405,040	395,689
Construction-in-progress	25,894	19,339	31,824
	<u>\$ 431,497</u>	<u>\$ 424,379</u>	<u>\$ 427,513</u>

In fiscal year 2011, the District issued a Bank Qualified Financing Agreement for \$30 million of Revenue Bonds, Series 2010 (the "2010 Bonds"), for the purpose of financing or refinancing (or reimbursing itself for) the costs of the BHCS and BHIP Emergency Room Project and paying certain costs associated with the issuance of the 2010 Bonds.

More detailed information about the District's capital debt is presented in Notes 5, 6 and 7 within the accompanying consolidated basic financial statements.

**Revenues, Expenses and Changes in Net Assets**

While the consolidated statements of net assets show the change in financial position of net assets, the consolidated statements of revenues, expenses, and changes in net assets provide answers to the nature and source of these changes.

The following table presents the District's condensed consolidated statements of revenues, expenses, and changes in net assets for fiscal years 2012, 2011 and 2010:

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Operating revenues	\$ 962,291	\$ 938,597	\$ 920,064
Operating expenses	<u>1,076,122</u>	<u>1,044,786</u>	<u>1,025,518</u>
Operating loss	(113,831)	(106,189)	(105,454)
Unrestricted property tax revenue	149,528	154,450	160,628
Nonoperating (expenses) revenue, net	(19,701)	48,873	20,979
Capital contributions (grant and other)	732	270	713
(Decrease) increase in fair value of hedging instruments	<u>(26,396)</u>	<u>6,330</u>	<u>(12,177)</u>
(Decrease) increase in net assets	(9,668)	103,734	64,689
<b>Net assets</b>			
Beginning of year	<u>708,918</u>	<u>605,184</u>	<u>540,495</u>
End of year	<u>\$ 699,250</u>	<u>\$ 708,918</u>	<u>\$ 605,184</u>

# North Broward Hospital District

## Management's Discussion and Analysis (Unaudited)

### June 30, 2012 and 2011

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#### Management's Discussion of Recent Financial Performance

##### **Overview — Fiscal Year 2012 as Compared to Fiscal Year 2011**

For fiscal year 2012, the District experienced a decrease in net assets due to an increase in revenue over expenses of \$16.7 million offset by the growth in the hedge accrual liability of \$26.4 million. The District continued to deliver a high standard of quality health care to the community. The decrease in net assets for fiscal year 2012, totaled \$9.7 million, as compared to a prior-year total increase of \$103.7 million. Management continued its focus on expense control and improvement in revenue cycle management.

Inpatient volumes, as measured by admissions, decreased over the prior-year totals by 1.5%, and the patient days decreased by 0.2% from prior-year. A growth in admissions occurred in Medicaid, HMO and Medicaid HMO, while there was a decline in admissions in Medicare, Medicare HMO and uninsured. Compensated admissions experienced an increase of 0.6%, or 305 cases, with associated days increasing by 2.1%, or 5,628 patient days. Self-pay and charity cases decreased by 1,269 admissions, or 9.6%. Within this total, charity cases decreased by 879 admissions, and self-pay cases decreased by 390 admissions. The District continues to direct resources, including intake coordinators, case managers, and a medical director to manage service utilization.

##### **Patient Volumes**

Medicare inpatient volume, as measured by admissions, decreased by 2.3%, or 294 cases. This decrease was also seen in the Medicare HMO cases, which decreased by 188 cases, or 1.9%. There was a 2.8% increase in the Medicare case mix index from year to year, measured by the Medicare Severity Diagnostic Related Groups ("MS-DRGs").

Medicaid admissions increased over the prior year by 318 cases, or 3.2%. Associated patient days increased by 2.5%, or 1,440 days. The increase in admissions is due to the continuing efforts of the Medicaid Eligibility Unit, the Medicaid Outpatient Patient Eligibility Department and the Department of Children's and Families working to process applications in a more timely fashion and providing additional access for patients to apply for Medicaid.

During the 2005 Florida Legislative session, measures were approved that have resulted in significant changes to the Medicaid program ("Medicaid Reform"). This five-year plan will result in all Medicaid beneficiaries being enrolled in a managed care plan, whether it be with an HMO plan or a plan offered by a "PSN". Other features of the plan will include certain member benefits for participation in health improvement programs as well as portable premiums that can be transferred for participation in employer based plans. The District, along with several other local health care systems, has operated a PSN since 2000. Broward County became a pilot site for Medicaid Reform beginning in September 2006, in which the PSN participates. A series of initiatives are underway to recruit membership and to optimize the utilization of care to this membership. There were 119 new enrollees for fiscal year 2012, resulting in an decrease of 25 admissions and an increase of 550 patient days over fiscal year 2011. As Medicaid managed care providers exit from the market, the PSN is able to enroll additional members.

Managed care, including commercial payors, the District's largest payor category, increased by 281 admissions, or 0.9%, in fiscal year 2012. Associated patient days increased by 4.0% or by 5,231. Other Medicaid managed care increased by 443 admissions.

Outpatient volumes increased 0.3% in fiscal year 2012 over fiscal year 2011. Total outpatient medical center visits increased by 3,848 visits. Emergency department visits increased by 6,114, physician office visits increased by 15,844, while primary care visits decreased by 156.

# North Broward Hospital District

## Management's Discussion and Analysis (Unaudited)

### June 30, 2012 and 2011

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#### **Operating Revenues**

Net patient revenue has increased, from \$854.7 million in fiscal year 2011 to \$868.6 million in fiscal year 2012.

Medicare net revenue increased by \$3.2 million, or 1.7%. This is consistent with the overall medicare rate increases published annually as well as the increase in the case mix index over prior year. Inpatient cases decreased by 294. An increase in outpatient volumes provided additional net revenue.

Medicaid net revenue decreased over the prior fiscal year by \$24.7 million, or 21.5%. Growth in the PSN and Medicaid managed care patient days resulted in an increase in net revenue of \$10.9 million, or 11.5%. There was an increase in intergovernmental transfers to the Agency for Healthcare Administration during fiscal year 2012 of \$22.7 million which accounts for the reduction in the Medicaid net revenue. Additional revenue received from the LIP and DSH programs totaled \$33.5 million, a decrease from the prior fiscal year of \$39.5 million. This decrease was due to continued reallocation of LIP and DSH funds.

Managed care net revenue has experienced a growth of \$43.4 million, or 7.8%, from fiscal year 2011, which includes the Commercial payors, PSN (the District's Medicaid managed care program) and all other Medicaid managed care increases discussed previously.

The provision for uncollectible accounts has increased by \$17.1 million, from \$379.0 million in fiscal year 2011, to \$396.1 million in fiscal year 2012, or an increase of 4.5%. During fiscal year 2012, charity care decreased by \$15.4 million, or 4.3%, from the prior fiscal year. During fiscal year 2012, the District has continued its focus on qualifying the uninsured for state reimbursement through focused programs of timely Medicaid application processing and continued partnering with the Department of Children and Families to expedite the decisions on patient qualification for Medicaid.

#### **Operating Expenses**

Operating expenses increased by \$31.3 million, or 3.0%, from \$1,044.8 million in fiscal year 2011 to \$1,076.1 million in fiscal year 2012. The increase is largely due to increases in salaries and benefits, supplies, and outside services expense and depreciation and amortization. Salaries and benefits growth equals 4.1%, increasing from \$561.8 million in fiscal year 2011 to \$585.0 million in fiscal year 2012. This increase is attributable to the annual merit increase provided in fiscal year 2012 of approximately 2.8% and an increase in benefits of 12.1% due to an increase in health insurance costs. FTEs per adjusted occupied bed remained relatively consistent at 4.64 in fiscal year 2012 and 4.66 in fiscal year 2011. Salaries and employee benefits as a percentage of net patient service revenues were 67.4% and 65.7% for fiscal years 2012 and 2011, respectively. These ratios indicate that expense increases were consistent with patient volume growth.

Supplies expense represents the next largest expense category for the District. During fiscal year 2012, supplies expense increased by \$5.1 million, or 2.6%, from \$199.2 million in fiscal year 2011 to \$204.3 million in fiscal year 2012. Increases were realized in many supply categories, including implants, pacemakers, drugs, blood, and medical surgical supplies. Increases were due to a combination of volume and pricing increases. Supplies expense as a percent to net patient service revenue was 23.5% in fiscal year 2012, while it was 23.3% in fiscal year 2011, showing that supplies cost are consistent with patient volume growth.

Outside services, data processing, software and licenses, and maintenance contracts have increased by \$3.2 million, or 4.9%, from \$65.3 million in 2011 to \$68.5 million in fiscal year 2012. This increase is primarily related to the implementation of clinical systems during the year related to attaining meaningful use as mandated by the Federal government, as well as other clinical expenses incurred for outside vendor services.

# North Broward Hospital District

## Management's Discussion and Analysis (Unaudited)

### June 30, 2012 and 2011

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#### ***Ad Valorem Tax Revenue***

For fiscal years 2012 and 2011, ad valorem tax revenues totaled \$149.5 million and \$154.5 million, respectively. As described in Notes 2 and 13 to the consolidated basic financial statements, the District annually levies and collects ad valorem taxes for the general support of its operations, as approved by the Board. The tax rates set by the Board for fiscal years 2012 and 2011 were both 1.875 mills. In July 2012, taxable property values within the District's geopolitical boundaries decreased from \$90.1 billion to \$87.2 billion, or 3.22%. In July 2012, the Broward County property appraiser released to the District the taxable property valuations for 2012/2013. These values increased to \$88.5 billion, an increase of 1.5%.

#### ***Interest Expense***

Interest expense in fiscal year 2012 was \$12.7 million, as compared to \$14.3 million in fiscal year 2011, a decrease of \$1.6 million, or 11.2%. The decrease is mainly due to the decrease in fees paid on the letters of credit.

#### ***Liquidity and Cash Position***

Management continues to drive improvement of the District's financial position, with cash being the focal point. Average monthly cash collections have increased by 1.9% over the prior fiscal year. In addition, capital expenditures have been carefully reviewed in an effort to reduce the outflow of funds, excluding the large ongoing projects.

With slight declines in market performance in the District's investment portfolio, a timing difference regarding receipt of LIP payments from the Agency for Health Care Administration ("AHCA") and an increase in capital expenditures, there was a decrease in unrestricted cash and investments from \$591.1 million to \$532.5 million at June 30, 2011 and 2012, respectively, with a corresponding decrease in days' cash on hand from 213.4 to 181.7, respectively. Cash to debt has decreased from 212.4% as of June 30, 2011 to 199.4% as of June 30, 2012. Average days' net revenue in accounts receivable has increased from 50.9 days in fiscal year 2011 to 53.9 days in fiscal year 2012. Patient cash collections have exceeded prior fiscal year collections by \$16.2 million or 1.9%.

#### ***Credit Ratings***

The District has received underlying credit ratings of A2 and A from Moody's Investors Service and Standard & Poor's, respectively. Moody's has assigned an outlook of "Stable" while Standard & Poor's has assigned an outlook of "Positive." This rating by Moody's was affirmed in June 2012.

In August 2011, Standard and Poor's Ratings Services affirmed its 'AAA/A-1+' ratings and 'A' underlying ratings (SPURs) on the North Broward Hospital District, Fla.'s Series 2005A, 2007 and 2008A Variable-Rate Demand Hospital Revenue Bonds. The outlook remains "positive".

#### ***Capital Projects***

The District continues the renovations of existing space at the medical office building at BHMC.

BHMC has received approval to move forward with renovations to the 3<sup>rd</sup> and 4<sup>th</sup> South Tower Post Partum Units at an expected cost not to exceed \$22.5 million. The project is expected to be completed in fiscal year 2013.

BHN has received approval to move forward with renovations and infrastructure improvements at an expected cost not to exceed \$70 million. The project is expected to have a 4 year timeline for completion.

# North Broward Hospital District

## Management's Discussion and Analysis (Unaudited)

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#### **Overview — Fiscal Year 2011 as Compared to Fiscal Year 2010**

For fiscal year 2011, the District experienced an increase in net assets due to the slight growth in volume, by maintaining expenses and through an increase in the return of the investment portfolio. The District continued to deliver a high standard of quality health care to the community. The increase in net assets for fiscal year 2011, totaled \$103.7 million, as compared to a prior-year total increase of \$64.7 million. Management continued its focus on expense control and improvement in revenue cycle management.

Inpatient volumes, as measured by admissions, increased over the prior-year totals by 0.4%, as the patient days decreased by 2.7% from prior year. The growth in admissions occurred in PSN and Medicare, while there was a decline in admissions in Medicaid, Medicaid HMO and Commercial managed care. Compensated admissions experienced an increase of 0.4%, or 218 cases, with associated days decreasing by 3.8%, or 10,451 patient days. Self-pay and charity cases increased by 62 admissions, or 0.4%. Within this total, charity cases increased by 130 admissions, and self-pay cases decreased by 68 admissions. The District continues to direct resources, including intake coordinators, case managers, and a medical director, to manage service utilization. Uninsured utilization increased by 0.4%, thus maintaining capacity for more compensated business, allowing the District to better manage resources based upon the need and condition of each patient.

#### **Patient Volumes**

Medicare inpatient volume, as measured by admissions, increased by 1.4%, or 170 cases. This increase was also seen in the Medicare HMO cases, which increased by 554 cases, or 6.0%. There was no change in the Medicare case mix index from year to year, measured by the Medicare Severity Diagnostic Related Groups ("MS-DRGs").

Medicaid admissions decreased over the prior year by 348 cases, or 3.4%. Associated patient days decreased by 4.9%, or 2,990 days. The decrease in admissions is due in part to regulatory changes made by the Agency for Healthcare Administration regarding approval for illegal aliens. The District continues its efforts of the Medicaid Eligibility Unit, the Medicaid Outpatient Patient Eligibility Department and the Department of Children's and Families working to process applications in a more timely fashion and providing additional access for patients to apply for Medicaid.

During the 2005 Florida Legislative session, measures were approved that have resulted in significant changes to the Medicaid program ("Medicaid Reform"). This five-year plan will result in all Medicaid beneficiaries being enrolled in a managed care plan, whether it be with an HMO plan or a plan offered by a Provider Sponsored Network of hospitals and physicians ("PSN"). Other features of the plan will include certain member benefits for participation in health improvement programs as well as portable premiums that can be transferred for participation in employer based plans. The District, along with several other local health care systems, has operated a PSN since 2000. Broward County became a pilot site for Medicaid Reform beginning in September 2006, in which the PSN participates. A series of initiatives are underway to recruit membership and to optimize the utilization of care to this membership. There were 1,436 new enrollees for fiscal year 2011, resulting in an increase of 980 admissions and 3,446 patient days over fiscal year 2010. As Medicaid managed care providers exit from the market, the PSN is able to enroll additional members.

Managed care, including commercial payors, the District's largest payor category, increased by 396 admissions, or 1.3%, in fiscal year 2011. Associated patient days decreased by 2.9%. Other Medicaid managed care decreased by 691 admissions.

Outpatient volumes increased 4.8% in fiscal year 2011 over fiscal year 2010. Total outpatient medical center visits increased by 51,888 visits. Emergency department visits increased by 9,852, physician office visits increased by 41,542, while primary care visits decreased by 2,281.

# North Broward Hospital District

## Management's Discussion and Analysis (Unaudited)

### June 30, 2012 and 2011

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#### ***Operating Revenues***

Net patient revenue has remained relatively consistent, from \$853.0 million in fiscal year 2010 to \$854.7 million in fiscal year 2011.

Medicare net revenue increased by \$4.7 million. Inpatient cases increased by 170 and case mix remained constant from prior year. An increase in outpatient volumes provided additional net revenue.

Medicaid net revenue increased over the prior fiscal year by \$14.4 million, or 14.4%. Growth in the PSN and Medicaid managed care resulted in an increase in net revenue of \$17.0 million, or 21.9%. The increases in net revenue were due to overall increases in the Medicaid rates paid by the Agency for Healthcare Administration. Additional revenue received from the LIP and DSH programs totaled \$39.5 million, a decrease from the prior fiscal year of \$10.3 million. This decrease was due to the release of rollover funds associated with the reform waiver in the prior year, which was a one time allocation.

Managed care net revenue has experienced a growth of \$17.1 million, or 3.2 %, from fiscal year 2010, which includes the Commercial payors, PSN (the District's Medicaid managed care program) and all other Medicaid managed care increases discussed previously.

The provision for uncollectible accounts has increased by \$18.9 million, from \$360.1 million in fiscal year 2010, to \$379.0 million in fiscal year 2011, or an increase of 5.2%. During fiscal year 2011, charity care increased by \$0.9 million, or 0.2%, from the prior fiscal year. During fiscal year 2011, the District has continued its focus on qualifying the uninsured for state reimbursement through focused programs of timely Medicaid application processing and continued partnering with the Department of Children and Families to expedite the decisions on patient qualification for Medicaid.

#### ***Operating Expenses***

Operating expenses increased by \$19.3 million, or 1.9%, from \$1,025.5 million in fiscal year 2010 to \$1,044.8 million in fiscal year 2011. The increase is largely due to increases in salaries and benefits, supplies, and outside services expense and depreciation and amortization. Salaries and benefits growth equals 0.3%, increasing from \$560.3 million in fiscal year 2010 to \$561.8 million in fiscal year 2011. This increase is attributable to the annual merit increase provided in fiscal year 2011 of approximately 2.8% and a decrease in benefits of 7.0% due to a decrease in health insurance costs. Full-time equivalents ("FTEs") per adjusted occupied bed remained relatively consistent at 4.66 in fiscal year 2011 and 4.62 in fiscal year 2010. Salaries and employee benefits as a percentage of net patient service revenues were 65.7% for fiscal years 2011 and 2010. These ratios indicate that expense increases were consistent with patient volume growth.

Supplies expense represents the next largest expense category for the District. During fiscal year 2011, supplies expense increased by \$10.5 million, or 5.6%, from \$188.7 million in fiscal year 2010 to \$199.2 million in fiscal year 2011. Increases were realized in many supply categories, including implants, pacemakers, drugs, blood, and medical surgical supplies. Increases were due to a combination of volume and pricing increases. Supplies as a percent to net patient service revenue was 23.3% in fiscal year 2011, while it was 22.1% in fiscal year 2010, showing that supplies cost are consistent with patient volume growth.

Outside services, data processing, software and licenses, and maintenance contracts have increased by \$3.7 million, or 6.0%, from \$61.6 million in 2010 to \$65.3 million in fiscal year 2011. This increase is primarily related to the implementation of clinical systems during the year related to attaining meaningful use as mandated by the Federal government, as well as other clinical expenses incurred for outside vendor services.

# North Broward Hospital District

## Management's Discussion and Analysis (Unaudited)

### June 30, 2012 and 2011

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#### ***Ad Valorem Tax Revenue***

For fiscal years 2011 and 2010, ad valorem tax revenues totaled \$154.5 million and \$160.6 million, respectively. As described in Notes 2 and 13 to the consolidated basic financial statements, the District annually levies and collects ad valorem taxes for the general support of its operations, as approved by the Board. The tax rates set by the Board for fiscal years 2011 and 2010 were 1.875 and 1.70 mills, respectively. In July 2011, taxable property values within the District's geopolitical boundaries decreased from \$103.4 billion to \$90.1 billion, or 12.9%. In July 2011, the Broward County property appraiser released to the District the taxable property valuations for 2011/2012. These values decreased to \$88.3 billion, a decrease of 2.0%.

#### ***Interest Expense***

Interest expense in fiscal year 2011 was \$14.3 million, as compared to \$15.7 million in fiscal year 2010, an decrease of \$1.4 million, or 9.0%. The decrease is mainly due to the decrease in fees paid on the letters of credit.

#### ***Liquidity and Cash Position***

Management continues to drive improvement of the District's financial position, with cash being the focal point. Average monthly cash collections have increased by 3.5% over the prior fiscal year. In addition, capital expenditures have been carefully reviewed in an effort to reduce the outflow of funds, excluding the large ongoing projects.

Significant improvements in market performance in the District's investment portfolio resulted in an increase in unrestricted cash and investments from \$458.4 million to \$591.1 million at June 30, 2010 and 2011, respectively, with a corresponding increase in days' cash on hand from 161.6 to 213.4, respectively. Cash to debt has increased from 181% as of June 30, 2010 to 212.4% as of June 30, 2011. Average days' net revenue in accounts receivable has decreased from 52.7 days in fiscal year 2010 to 50.9 days in fiscal year 2011. Patient cash collections have exceeded prior fiscal year collections by \$28.5 million or 3.5%.

#### ***Credit Ratings***

The District has received underlying credit ratings of A2 and A from Moody's Investors Service and Standard & Poor's, respectively. Moody's has assigned an outlook of "Stable" while Standard & Poor's has assigned an outlook of "Positive". These ratings were affirmed in July 2010.

In August 2011, Standard and Poor's Ratings Services affirmed its 'AAA/A-1+' ratings and 'A' underlying ratings (SPURs) on the North Broward Hospital District, Fla.'s Series 2005A, 2007 and 2008A Variable-Rate Demand Hospital Revenue Bonds. The outlook remains positive.

#### ***Capital Projects***

The District completed the renovations and expansion of the Emergency Services departments at BHCS in June 2011. The cost of the expansion was approximately \$19.5 million.

The District continues the renovations of existing space at the medical office building at BHMC.

BHMC has received approval to move forward with renovations to the 3<sup>rd</sup> and 4<sup>th</sup> South Tower Post Partum Units at an expected cost not to exceed \$22.5 million. The project is expected to be completed in fiscal year 2013. The renovation of the Lillian S. Wells Women's Center was completed in January 2011 for \$3.8 million, funded by a generous donor.



## Report of Independent Certified Public Accountants

To the Board of Commissioners of  
North Broward Hospital District

In our opinion, the accompanying consolidated statements of net assets and the related consolidated statements of revenue, expenses and changes in net assets and cash flows present fairly, in all material respects, the financial position of the North Broward Hospital District (the "District") as of June 30, 2012 and 2011, and the changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying Management's Discussion and Analysis ("MD&A") (Unaudited) for the years ended June 30, 2012 and 2011, the Schedule of Plan Funding Progress as of July 1, 2006 (Unaudited) through July 1, 2011 (Unaudited), the Historical Summary of Actual and Required Pension Contributions as of July 1, 2006 through July 1, 2011 (Unaudited), and the Schedule of Plan Funding Progress under GASB Statement No. 45 as of July 1, 2008, 2009 and July 1, 2011 (Unaudited), as listed in the index, are required by accounting principles generally accepted in the United States of America to supplement the consolidated basic financial statements. Such information, although not a part of the consolidated basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated basic financial statements, and other knowledge we obtained during our audits of the consolidated 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2012 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2012. 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* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the consolidated basic financial statements taken as a whole. The accompanying consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated basic financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated 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 consolidated basic financial statements or to the consolidated basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated basic financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated basic financial statements rather than to present the financial position, and changes in financial position of the individual companies and is not a required part of the consolidated basic financial statements. Accordingly, we do not express an opinion on the financial position, and changes in financial position of the individual companies. The accompanying financial information on pages 60 to 64, listed as Supplemental Schedules for the year ended June 30, 2012 in the foregoing index are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. In addition, the accompanying Consolidated Schedule of Expenditures of Federal Awards and State Projects and Note are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the Florida Rules of the Auditor General Chapter 10.550, *Local Governmental Entity Audits*, and are not a required part of the consolidated basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated basic financial statements. The Consolidated Schedule of Federal Awards and State Projects and Note have been subjected to the auditing procedures applied in the audit of the consolidated 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 consolidated basic financial statements or the consolidated basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Consolidated Schedule of Federal Awards and State Projects and Note are fairly stated, in all material respects, in relation to the consolidated basic financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

September 30, 2012

**North Broward Hospital District**  
**Consolidated Statements of Net Assets**  
**June 30, 2012 and 2011**

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 32,278	\$ 78,577
Cash and investments externally restricted by donors	10,092	9,081
Short-term investments	360,882	385,563
Assets whose use is limited required for current liabilities	5,188	5,438
Due from patients and others, net of allowance for uncollectibles of \$229,101 and \$241,581 as of June 30, 2012 and 2011, respectively	155,409	141,152
Inventories	24,276	21,868
Estimated third-party payor settlements	1,612	-
Other current assets	85,689	53,262
Total current assets	<u>675,426</u>	<u>694,941</u>
Assets whose use is limited		
Held by trustee for self-insurance	36,219	36,021
Less amount required to meet current obligations	<u>(5,188)</u>	<u>(5,438)</u>
Assets whose use is limited, net	<u>31,031</u>	<u>30,583</u>
Investments		
Capital assets, net	139,337	126,986
Other assets	431,497	424,379
	<u>21,329</u>	<u>9,439</u>
Total assets	<u>\$ 1,298,620</u>	<u>\$ 1,286,328</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Current maturities of revenue bonds payable	\$ 10,015	\$ 9,660
Accounts payable and accrued expenses	86,935	88,672
Accrued salaries, benefits and payroll taxes	50,264	42,778
Accrued personal leave	31,283	29,686
Current portion of lease obligations	1,966	3,029
Estimated third-party payor settlements	14,332	13,681
Current portion of self-insurance program liability	5,188	5,438
Interest payable	<u>2,867</u>	<u>2,938</u>
Total current liabilities	202,850	195,882
Revenue bonds, net of current maturities	254,114	263,353
Lease obligations	934	2,243
Self-insurance program liability	25,202	32,402
Early retirement incentive program liability	21,319	22,673
Other postemployment benefit program liability	43,290	35,390
Liability related to hedging instruments	51,207	24,811
Other long-term liabilities	<u>-</u>	<u>63</u>
Total liabilities	<u>598,916</u>	<u>576,817</u>
Minority interest	<u>454</u>	<u>593</u>
Commitments and contingencies		
Net assets		
Invested in capital assets, net of related debt	164,468	146,094
Restricted net assets-donor restrictions	10,730	10,941
Unrestricted	<u>524,052</u>	<u>551,883</u>
Total net assets	<u>699,250</u>	<u>708,918</u>
Total liabilities and net assets	<u>\$ 1,298,620</u>	<u>\$ 1,286,328</u>

The accompanying notes are an integral part of these consolidated financial statements.

**North Broward Hospital District**  
**Consolidated Statements of Revenues, Expenses, and Changes in Net Assets**  
**Years Ended June 30, 2012 and 2011**

(in thousands of dollars)

	2012	2011
<b>Operating revenues</b>		
Net patient service revenue (net of provision for uncollectible accounts of \$396,117 and \$379,043 in 2012 and 2011, respectively)	\$ 868,568	\$ 854,709
Other operating revenue	93,723	83,888
Total operating revenues	<u>962,291</u>	<u>938,597</u>
<b>Operating expenses</b>		
Salaries	471,374	460,419
Employee benefits	113,621	101,337
Professional fees	67,119	65,248
Purchased services and temporary labor	9,848	8,569
Outside services	39,995	37,377
Supplies	204,311	199,192
Insurance	4,506	10,336
Utilities	16,543	16,408
Repairs and maintenance	20,169	20,144
State assessments	11,064	10,749
Depreciation and amortization	52,436	51,444
Other	65,136	63,563
Total operating expenses	<u>1,076,122</u>	<u>1,044,786</u>
Operating loss	<u>(113,831)</u>	<u>(106,189)</u>
Nonoperating revenues (expenses)		
Unrestricted property tax revenue	149,528	154,450
Investment (loss) gain, net	(847)	70,836
Interest expense	(12,697)	(14,327)
Other	(6,157)	(7,636)
Total nonoperating revenues (expenses)	<u>129,827</u>	<u>203,323</u>
Gain before capital contributions and changes in fair value of hedging instruments	15,996	97,134
Capital contributions (grant and other)	732	270
(Decrease) increase in fair value of hedging instruments	<u>(26,396)</u>	<u>6,330</u>
(Decrease) increase in net assets	(9,668)	103,734
<b>Net assets</b>		
Beginning of year	<u>708,918</u>	<u>605,184</u>
End of year	<u>\$ 699,250</u>	<u>\$ 708,918</u>

The accompanying notes are an integral part of these consolidated financial statements.

**North Broward Hospital District  
Consolidated Statements of Cash Flows  
Years Ended June 30, 2012 and 2011**

*(in thousands of dollars)*

	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Receipts from third-party payors and patients	\$ 809,403	\$ 873,691
Payments to employees	(569,426)	(554,878)
Payments to suppliers and contractors	(374,209)	(379,434)
Other receipts and payments, net	29,052	23,859
Net cash used in operating activities	<u>(105,180)</u>	<u>(36,762)</u>
<b>Cash flows from noncapital financing activities</b>		
Medicaid county funding	(8,206)	(15,962)
Ad valorem property taxes, net	149,800	155,722
Other	(515)	(205)
Net cash provided by noncapital financing activities	<u>141,079</u>	<u>139,555</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition and construction of capital assets	(56,081)	(44,153)
Proceeds from disposal of capital assets	44	71
Payments of interest on revenue bonds, swaps, and lease facilities	(12,381)	(12,916)
Principal and collateral paid on revenue bonds, swaps, and lease facilities	(26,164)	(12,733)
Proceeds from bond issuance	-	30,000
Payments of bond issuance costs and letter of credit costs	(20)	(158)
Capital contributions (grant and other)	732	271
Net cash used in capital and related financing activities	<u>(93,870)</u>	<u>(39,618)</u>
<b>Cash flows from investing activities</b>		
Interest and dividends on investments and assets whose use is limited	7,062	6,644
Purchases of investments	(420,394)	(469,094)
Proceeds from the sale and maturity of investments	425,004	443,304
Net cash provided (used) in investing activities	<u>11,672</u>	<u>(19,146)</u>
Net (decrease) increase in cash and cash equivalents	(46,299)	44,029
<b>Cash and cash equivalents</b>		
Beginning of year	<u>78,577</u>	<u>34,548</u>
End of year	<u>\$ 32,278</u>	<u>\$ 78,577</u>

The accompanying notes are an integral part of these consolidated financial statements.

**North Broward Hospital District**  
**Consolidated Statements of Cash Flows, (continued)**  
**Years Ended June 30, 2012 and 2011**

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Loss from operations	\$ (113,831)	\$ (106,189)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation and amortization	52,436	51,444
Provision for uncollectible accounts	396,117	379,043
Minority interest	(122)	(100)
Other	588	2,409
Changes in assets and liabilities		
Due from patients and others	(410,374)	(372,722)
Inventories	(2,408)	(1,094)
Other assets	(32,339)	(559)
Accounts payable and accrued expenses	(2,402)	167
Accrued salaries, benefits and payroll taxes	7,486	(2,195)
Accrued personal leave	1,597	1,868
Estimated third-party payor settlements	(961)	759
Self-insurance program liability	(7,450)	1,980
Early retirement incentive program liability	(1,354)	(1,321)
Other postemployment benefit program liability	7,900	9,755
Other long-term liabilities	(63)	(7)
Net cash used in operating activities	<u>\$ (105,180)</u>	<u>\$ (36,762)</u>
<b>Supplemental noncash investing, capital and financing activities</b>		
Capital lease obligations	\$ 712	\$ 650
Property and equipment acquired through accounts payable	5,994	3,641
Property and equipment acquired through donation	344	4,186
Interest capitalized on construction-in-progress	524	297

The accompanying notes are an integral part of these consolidated financial statements.

# North Broward Hospital District

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

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#### 1. Organization and Description of Business

##### Reporting Entity

North Broward Hospital District (the "District") d/b/a Broward Health, is a special independent taxing district created pursuant to Chapter 27438, Laws of Florida, Special Acts of 1951, as amended (the "Act"), for the purpose of establishing and operating the necessary health facilities for the preservation of the public health and well-being of the citizens of the District. Governance and management of the District are independent of metropolitan county and city governments. The governing body of the District is the Board of Commissioners (the "Board"), composed of seven members appointed by the Governor of Florida.

For financial reporting purposes, the accompanying consolidated basic financial statements include all of the operations of the District and its hospital system as a governmental unit. The District is considered a separate reporting entity since the Board exercises complete control. Such control was determined on the basis of the Board's ability to significantly influence operations; select the senior executive management; participate in the fiscal management of the entity; exercise budgetary and taxing authority; as well as determine the scope of services to be provided to the community, as defined by the Act.

These consolidated basic financial statements include the activity of the District and its integrated health care services system, which includes the operations of the Hospital Division, Community Health Services Division, Physician Services Division, and Insurance Management Division. All significant intercompany transactions have been eliminated.

The Hospital Division includes the operations of Broward Health Medical Center ("BHMC"), a 716-bed acute care facility; Broward Health North ("BHN"), a 409-bed acute care facility; Broward Health Imperial Point ("BHIP"), a 204-bed acute care facility; and Broward Health Coral Springs ("BHCS"), a 200-bed acute care facility. Included within hospital operations are a rehabilitation distinct part unit at BHN, a psychiatric distinct part unit at BHMC and BHIP, a hospital-based home health agency at BHN, trauma services at BHMC and BHN, and an approved residency training program in family practice medicine at BHMC.

Broward Health Weston, an all-inclusive outpatient facility, provides physician services, urgent care, radiology, and laboratory services. The Surgery Center of Weston, LLC ("Weston LLC"), an ambulatory surgery center, has been established as a limited liability corporation. As of June 30, 2012 and 2011, the District held an ownership interest of approximately 20.0% with the remaining 80.0% owned by physicians. The District maintains majority voting rights on the Board of Directors of Weston LLC and therefore, has continued to control and consolidate Weston LLC in the accompanying consolidated basic financial statements. A minority interest related to the Weston LLC at June 30, 2012 and 2011 of \$0.5 million and \$0.6 million, respectively, has been recorded in the accompanying consolidated statements of net assets.

The Community Health Services Division, through contractual arrangements with Broward County, operates the 7th Avenue Family Care Clinic and the Pompano Primary Care Center. The Pompano Primary Care Center offers adult primary care services to the community, and the 7th Avenue Family Care Clinic provides urgent care and prenatal care services. The District also provides physician services to the qualifying elderly and homeless populations through the Medivan program, and operates several school clinics to deliver adult pediatric and prenatal care.

# North Broward Hospital District

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

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The District also owns and operates other Community Health Services facilities for the benefit of the community. The District is the sole member of the Children's Diagnostic and Treatment Center ("CDTC"), which provides an array of pediatric professional services to patients suffering from developmental, substance abuse, and HIV/AIDS-related conditions. The primary sources of funding for CDTC are a variety of federal, state, and local grants.

The District, through ownership and partnerships, operates several group practices which provide family and internal medicine services and the Comprehensive Care Center which offers primary care services to adult patients afflicted by HIV or AIDS.

The Physician Services Division is also responsible for providing physician services to patients. The services provided include the full range of specialist care, including, but not limited to, cardiology, pediatric, anesthesiology, emergency, radiology, orthopedic, obstetric, pathology, and trauma physician services. The costs associated with the provision of physician care to the indigent are reimbursed to the division from the District's unrestricted tax revenue.

The District's Insurance Management Division is operated through Total Claims Administration, Inc. ("TCA"), which provides claims administration and other third-party administrative services to the District's employee health insurance plan. TCA also provides the District with a vehicle to participate in the insurance management business primarily through the creation of Best Choice Plus. Beginning in June 1994, the District, d/b/a Best Choice Plus, entered into contractual relationships with physician and ancillary providers for the purpose of integrating the health care services of all providers along the care continuum.

In November 1995, the District established a separate nonprofit entity, North Broward Hospital District Infusion Network, Inc., to manage and to enter into a partnership with PHM of Broward, Inc., to provide outpatient intravenous and related health care services.

The District is a one-third partner of the South Florida Community Care Network ("SFCCN"), a managed care network governed by an inter-local agreement between three governmental entities: the District, the Public Health Trust of Miami — Dade County, and the South Broward Hospital District. SFCCN administers various programs, including the Title XXI — Children Medical Services Network, Title XIX — Children Medical Services Medicaid Network, and the "PSN" operating under Florida's Medicaid Reform program. The PSN is a network of hospitals, physicians, and other ancillary care providers developed to provide integrated, managed care services to a population of Medicaid covered enrollees.

## 2. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies followed by the District in the presentation of these consolidated basic financial statements:

### **Basis of Presentation**

The District applies all applicable Governmental Accounting Standards Board ("GASB") pronouncements as well as the Financial Accounting Standards Board ("FASB") statements which do not conflict and were issued on or before November 30, 1989. The District does not apply FASB statements and interpretations issued after that date.

### **Proprietary Fund Accounting**

The District utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. All revenues and expenses are subject to accrual.

# North Broward Hospital District

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

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#### **Net Assets**

Net assets are categorized as “invested in capital assets, net of related debt,” “restricted,” and “unrestricted.” Invested in capital assets, net of related debt is intended to reflect the portion of net assets that are associated with nonliquid capital assets, less outstanding balances due on borrowings used to finance the purchase or construction of those assets related to debt. Restricted net assets have restrictions placed on the use of net assets through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, constitutional provisions, or enabling legislation. Unrestricted net assets are net assets that do not meet the definition of invested in capital assets, net of related debt and have no third-party restrictions on use.

#### **Use of Estimates**

The preparation of the consolidated basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated basic financial statements and the reported amounts of revenues and expenses during the reporting period. The District considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated basic financial statements, including the following: recognition of net patient revenues; valuation of accounts receivable, including contractual allowances and provisions for bad debt; reserves for losses and expenses related to health care, professional, workers' compensation, and general liabilities; valuation of pension and other retirement obligations; and estimated third-party payor settlements. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ from those estimates.

#### **Charity Care**

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue (Note 11).

#### **Operating Revenues and Expenses**

The District's consolidated statements of revenues, expenses, and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the District's principal activity. Nonexchange revenues; including property taxes, grants, and donations, are reported as nonoperating revenues. Grants and donations received for the purpose of acquiring or constructing capital assets are recorded below nonoperating revenues as capital contributions (grant and other). Operating expenses are all expenses incurred to provide health care services, excluding financing costs.

#### **Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered. The District presents its provision for uncollectible accounts as a direct reduction to net patient service revenue.

# North Broward Hospital District

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

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The District has agreements with numerous third-party payors that provide for reimbursement at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the established rates for services and amounts reimbursed by third-party payors. Such amounts are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. A summary of the basis of reimbursement with major third-party payors is as follows:

#### **Medicare**

The District's health care facilities participate in the federal Medicare program ("Medicare"). Approximately 19% of the District's gross patient service revenue in both fiscal year 2012 and 2011 was derived from services to Medicare beneficiaries. Inpatient acute care services rendered to Medicare beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Inpatient nonacute services, outpatient services, and defined capital costs related to Medicare beneficiaries are reimbursed based upon a prospective reimbursement methodology. The health care facilities are paid for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the health care facilities and audits by the Medicare fiscal intermediary. The health care facilities' classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review. As of June 30, 2012, the Medicare cost reports were final audited, pending final settlement, by the health care facilities' Medicare fiscal intermediary through June 30, 2007, for all facilities except for BHCS, which is final settled through June 30, 2008.

During 2010, the Center for Medicare and Medicaid Services implemented the Recovery Audit Contractors ("RAC") to all states, including Florida, which was part of the initial demonstration project. RAC reviews medical records and claims from health care facilities to ensure compliance with billing and coding guidelines. The District's estimated liability related to potential RAC audits in the amount of \$1.7 million and \$1.2 million are included in estimated third-party payor settlements in the consolidated statement of net assets at June 30, 2012 and June 30, 2011, respectively.

Additionally, the District settled an outstanding appeal related to prior-year cost reports during fiscal year 2012. The impact of this settlement, related to the rural floor budget neutrality appeal, was an increase to net patient service revenues for fiscal year 2012 of \$5.8 million. During fiscal year 2012, revised social security income ("SSI") numbers were published for fiscal years 2007 to fiscal year 2010. These percentages are used to determine the disproportionate share add-on to a hospital's payment rate. There was a significant change in the newly published percentages, resulting in a negative impact to the facilities of \$6.5 million, which is included in the consolidated statement of net assets at June 30, 2012.

# North Broward Hospital District

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

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#### **Medicaid**

Approximately 12% and 13%, of the District's gross patient service revenue for fiscal years 2012 and 2011, respectively, was derived under the Medicaid program. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based upon a cost reimbursement methodology subject to certain ceilings. The health care facilities are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the health care facilities and audits by the Medicaid fiscal intermediary. The Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2007, for all four medical centers. In addition to the tentative payments received by the District for the provision of health care services to Medicaid beneficiaries, the State of Florida provides a disproportionate share payment adjustment to reflect the additional costs associated with treating the Medicaid population in the District's service area. During fiscal years 2012 and 2011, the District recognized approximately \$33.5 million and \$39.5 million, respectively, related to the disproportionate share hospital payments from the State of Florida and these amounts are reflected in net patient service revenues in the accompanying consolidated statements of revenue, expenses, and changes in net assets.

#### **Other Third-Party Payors**

The District has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined per diem rates, and capitation.

It is management's opinion that settlements of outstanding Medicare and Medicaid cost reports, when received, will not vary materially from the estimated amounts, which are recorded as current liabilities in the accompanying consolidated statements of net assets.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity at the date of purchase of three months or less, excluding amounts whose use is limited by Board designation or other arrangements under trust or donation agreements.

#### **Investments**

Investments typically consist of common stocks, preferred stocks, depository receipts (American Depository Receipts and Global Depository Receipts), mutual funds, corporate bonds, U.S. government securities and U.S. government agency securities, time deposits with Board-approved financial institutions, commercial paper, money market funds, asset-backed securities, variable-rate demand obligations, hedge funds, pooled real estate vehicles and private equity, as authorized by state statutes.

Investments are carried at fair value except for investments in debt securities with maturities less than one year at the time of purchase. These investments are reported at amortized cost, which approximates fair value. The District classifies investments in debt and equity securities in the accompanying consolidated statements of net assets based on maturities (for debt securities) and based on management's reasonable expectation with regards to these securities. Securities that are not expected to be converted to cash within one year are classified as noncurrent. Interest, dividends, and gains and losses on such debt and equity investments, both realized and unrealized, are included in nonoperating revenues when earned.

# North Broward Hospital District

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

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The estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. Alternative investments held by the District and the District's pension plan (Note 8); include private equity, real estate investments, and hedge funds. The District classifies its alternative investments as long-term investments in the accompanying consolidated statement of net assets as management does not have the intent, and in the case of its investments in private equity and real estate funds, does not have the ability to sell the alternative investments in the near term. The hedge fund managers, at their discretion, can restrict the District's ability to sell its investments in hedge funds. As of June 30, 2012 and 2011, there are no such restrictions in place. The estimated fair value of the private equity, real estate investments, and hedge funds is based on valuations provided by the respective partnerships, trusts, or funds. The District reviews and evaluates the values provided by the partnerships, trusts, or funds and agrees with the valuation methods and assumptions used in determining the fair value of the private equity, real estate investments, and hedge fund investments. As of June 30, 2012, these equity investments in private equity, real estate investments, and hedge funds make up approximately 2.2%, 4.6%, and 2.9%, respectively, of total investments in the accompanying consolidated statement of net assets. As of June 30, 2011, these equity investments in private equity, real estate investments, and hedge funds make up approximately 1.5%, 2.3%, and 2.9%, respectively, of total investments in the accompanying consolidated statement of net assets. Because private equity, real estate investments, and hedge funds are not readily marketable, their estimated value is subject to uncertainty and therefore, may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the consolidated statements of revenue, expenses, and changes in net assets in the period such fluctuations occur.

#### **Inventories**

Inventories, consisting primarily of pharmaceutical, medical, and surgical supplies, are stated at the lower of cost (computed on a first-in, first-out basis) or fair market value.

#### **Other Current Assets**

Other current assets consist primarily of amounts due from the State of Florida for disproportionate share funding and property tax receivables, prepaid expenses, and deposits in the ordinary course of business.

#### **Capital Assets**

Capital assets are stated at cost, or if donated, at fair market value on the date of donation, less the allowance for depreciation. Depreciation is computed on the straight-line method using estimated useful lives as summarized below:

	<b>Estimated Useful Lives</b>
Land improvements	5–25 years
Buildings and building improvements	5–40 years
Equipment	5–20 years
Equipment held under capital lease	3–15 years

# North Broward Hospital District

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

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Expenditures that materially increase values, change capacities, or extend useful lives are capitalized, as are interest costs, during the period of construction. Expenditures for repairs and maintenance are charged to operating expenses when incurred. For those qualifying assets acquired with tax-exempt borrowings, the District capitalizes interest cost from the date of the borrowing until the assets are ready for their intended use. Any interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowings is recorded as an offset to interest costs capitalized. Capitalized interest cost is amortized on the same basis as depreciation. Gains and losses on dispositions are recorded in the year of disposal.

#### **Long-Lived Assets**

The District evaluates long-lived assets regularly for impairment. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of assets. An impairment charge is recorded on those assets for which the estimated fair value is below its carrying amount. Impairment charges are recorded as either operating expenses, a special item, or an extraordinary item, depending on the facts and circumstances of the impairment.

During fiscal year 2012, the District learned that its Crystal Lago property did not pass its 40 year inspection and would have to undergo extensive repairs to meet applicable building code. The District elected not to invest in the repairs, therefore, the property was considered impaired. The property was placed for sale on an as is basis during fiscal year 2012 and a loss of \$0.5 million was recognized in the consolidated statement of revenue, expenses and changes in net assets for the year ended June 30, 2012. No impairment charges to long-lived assets were recorded for fiscal year 2011.

#### **Unrestricted Property Tax Revenue**

Property taxes are levied by Broward County on the District's behalf annually. Amounts levied are based on assessed property values as of the preceding year. The District collects the ad valorem taxes for the general support of its operations, as approved by the Board. Property taxes are recognized under the accrual method of accounting, wherein the tax levy is recognized as deferred revenue at the date of assessment, less a reserve for estimated discounts (Note 13), and amortized into income over the respective year.

#### **Restricted Donations**

Donations received by the District for specific operating purposes or property and equipment acquisitions are reported as revenue in the period received. Net assets are reported as restricted for as long as the donor's restrictions or time requirements remain in effect.

#### **Grant Funding**

The District receives grants from federal and state funding agencies. Grant revenues received before the eligibility requirements are met are reported as deferred revenue by the District. Grant revenues and other contributions received for the purpose of acquiring or constructing capital assets are reported as capital contributions (grant and other), below nonoperating (revenues and expenses), by the District.

#### **Assets Whose Use is Limited**

These assets are reported at fair market value and include cash, cash equivalents, and investments whose use is limited by time or action, including assets set aside by the Board for future payment of self-insurance liabilities.

# North Broward Hospital District

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

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#### **Derivatives**

In connection with the issuance of the 2005A, 2005B (amended to 2008A), and 2007 Bond Series as described in Note 6, the District entered into three separate floating to fixed interest rate swap agreements. Under the terms of these agreements, the District pays fixed rates of interest in return for variable rates of interest based upon London Interbank Offered Rate ("LIBOR") or the Securities Industry Financial Markets Association ("SIFMA") Municipal Swap Index.

The District has entered into floating to fixed interest rate swap agreements to reduce the market risk associated with the changes in interest rates related to the District's revenue bonds. Management has determined that the interest rate swaps qualify for hedge accounting as they are highly effective in offsetting changes to expected future cash flows on interest payments. Changes in the fair value of the interest rate swap agreements are recorded in the consolidated statements of net assets and do not affect the consolidated statements of revenues, expenses and changes in net assets.

#### **Accrued Personal Leave**

The District provides accrued time off to eligible employees for vacations, holidays, short-term illness and personal business depending on their years of continuous service and their payroll classification. No more than two years' annual accumulation of personal leave time is permitted for each eligible employee. The District accrues the estimated expense related to personal leave based on pay rates currently in effect. Upon termination of employment, employees will have their eligible accrued personal leave paid in full.

#### **New Accounting Pronouncements**

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* ("GASB 62"). That statement supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The provisions of GASB 62 are effective for financial statements for periods beginning after December 15, 2011, with early application encouraged. The District has not elected to implement this statement early; however, the adoption of this statement is not expected to have a material impact on the consolidated financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63"). GASB 63 improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of GASB 63 are effective for financial statements for periods beginning after December 15, 2011. The adoption of this statement is not expected to have a material impact on the consolidated financial statements.

# North Broward Hospital District

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

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In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* ("GASB 64"), an amendment of GASB 53. GASB 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. GASB 64 sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of GASB 64 are effective for financial statements for periods beginning after June 15, 2011. The District adopted the provisions of GASB 64 for the year ended June 30, 2012; however, the adoption of this statement in fiscal year 2012 did not have an impact on the consolidated financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"). That Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 is effective for financial statements for periods beginning after December 15, 2012, with early application encouraged. The District elected not to implement this statement for the year ended June 30, 2012, and has not evaluated the impact on the consolidated financial statements.

In March 2012, the GASB also issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62* ("GASB 66"). That Statement resolves conflicting guidance that resulted from the issuance of GASB 62. GASB 66 is effective for financial statements for periods beginning after December 15, 2012, with early application encouraged. The District elected not to implement this statement for the year ended June 30, 2012, however, the adoption of this statement is not expected to have a material impact on the consolidated financial statements.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans* ("GASB 67"), which revises existing guidance for the financial reports of most pension plans and GASB No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"), which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Among other provisions, GASB 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 ("RSI"). GASB 68 calls for immediate recognition of more pension expense than is currently required. The provisions in GASB 67 are effective for financial statements for periods beginning after June 15, 2013, and the provisions in GASB 68 are effective for fiscal years beginning after June 15, 2014. The District has elected to not implement these statements for the year ended June 30, 2012, and has not yet evaluated the impact on the consolidated financial statements.

#### **Risk Management**

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters in excess of self-insured limits. Settled claims have not exceeded this commercial coverage in either fiscal year 2012 or 2011.

# North Broward Hospital District

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

#### Reclassification

Reclassifications have been made to the prior year consolidated financial statements to conform with the current year presentation.

### 3. Cash, Cash Equivalents and Investments

The composition and credit ratings of the District's cash and cash equivalents, investments, and assets whose use is limited as of June 30, 2012 is as follows:

<i>(in thousands of dollars)</i>	Original Cost	Market Value	Investment Maturities			
			Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
U.S. government securities	\$ 49,263	\$ 51,105	\$ 25,507	\$ 15,264	\$ -	\$ 10,334
U.S. government agency securities	2,103	2,122	726	1,392	4	-
Corporate bonds	121,329	122,411	44,174	71,495	3,440	3,302
Mortgage-backed securities	87,450	88,390	35,880	23,506	3,461	25,543
International government securities	577	634	306	-	328	-
	<u>260,722</u>	<u>264,662</u>	<u>\$ 106,593</u>	<u>\$ 111,657</u>	<u>\$ 7,233</u>	<u>\$ 39,179</u>
Common stock	173,939	181,335				
Mutual funds	32,640	35,967				
Private equity	9,990	11,886				
Hedge funds	13,993	15,556				
Real estate	27,921	24,641				
Other investments	457	443				
Money markets	28,134	28,134				
Bank deposits	16,184	16,184				
	<u>\$ 563,980</u>	<u>\$ 578,808</u>				

<i>(in thousands of dollars)</i>	Original Cost	Market Value	Ratings					
			AAA	AA	A	BBB	<BBB	Not Rated
U.S. government securities	\$ 49,263	\$ 51,105	\$ 36,624	\$ -	\$ -	\$ 313	\$ -	\$ 14,168
U.S. government agency securities	2,103	2,122	-	2,118	-	-	-	4
Corporate bonds	121,329	122,411	22,153	19,899	57,042	19,482	967	2,868
Mortgage-backed securities	87,450	88,390	6,365	58,825	321	-	818	22,061
International government securities	577	634	-	-	306	328	-	-
	<u>260,722</u>	<u>264,662</u>						
Common stock	173,939	181,335	-	-	-	-	-	181,335
Mutual funds	32,640	35,967	-	-	-	-	-	35,967
Private equity	9,990	11,886	-	-	-	-	-	11,886
Hedge funds	13,993	15,556	-	-	-	-	-	15,556
Real estate	27,921	24,641	-	-	-	-	-	24,641
Other investments	457	443	-	-	-	-	-	443
Money markets	28,134	28,134	-	-	-	-	-	28,134
Bank deposits	16,184	16,184	-	-	-	-	-	16,184
	<u>\$ 563,980</u>	<u>\$ 578,808</u>	<u>\$ 65,142</u>	<u>\$ 80,842</u>	<u>\$ 57,669</u>	<u>\$ 20,123</u>	<u>\$ 1,785</u>	<u>\$ 353,247</u>

**North Broward Hospital District**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

The composition and credit ratings of the District's cash and cash equivalents, investments, and assets whose use is limited as of June 30, 2011 is as follows:

<i>(in thousands of dollars)</i>	Original Cost	Market Value	Investment Maturities			
			Less Than 1 Year	1–5 Years	6–10 Years	More Than 10 Years
U.S. government securities	\$ 80,243	\$ 80,705	\$ 51,824	\$ 17,390	\$ -	\$ 11,491
U.S. government agency securities	176	177	-	-	-	177
Corporate bonds	126,150	126,665	52,605	69,380	1,972	2,708
Mortgage-backed securities	74,663	75,404	17,881	32,886	2,876	21,761
International government securities	577	618	-	316	302	-
	<u>281,809</u>	<u>283,569</u>	<u>\$ 122,310</u>	<u>\$ 119,972</u>	<u>\$ 5,150</u>	<u>\$ 36,137</u>
Common stock	155,626	177,292				
Mutual funds	51,384	50,862				
Private equity	6,781	8,095				
Hedge funds	13,993	16,006				
Real estate	17,492	13,018				
Other investments	284	357				
Money markets	58,216	58,299				
Bank deposits	28,730	28,730				
	<u>\$ 614,315</u>	<u>\$ 636,228</u>				

<i>(in thousands of dollars)</i>	Original Cost	Market Value	Ratings					
			AAA	AA	A	BBB	<BBB	Not Rated
U.S. government securities	\$ 80,243	\$ 80,705	\$ 77,427	\$ -	\$ -	\$ 304	\$ -	\$ 2,974
U.S. government agency securities	176	177	-	-	-	-	-	177
Corporate bonds	126,150	126,665	31,585	36,626	39,871	8,345	768	9,470
Mortgage-backed securities	74,663	75,404	54,260	599	443	-	863	19,239
International government securities	577	618	-	-	316	302	-	-
	<u>281,809</u>	<u>283,569</u>						
Common stock	155,626	177,292	-	-	-	-	-	177,292
Mutual funds	51,384	50,862	-	-	-	-	-	50,862
Private equity	6,781	8,095	-	-	-	-	-	8,095
Hedge funds	13,993	16,006	-	-	-	-	-	16,006
Real estate	17,492	13,018	-	-	-	-	-	13,018
Other investments	284	357	-	-	-	-	-	357
Money markets	58,216	58,299	-	-	-	-	-	58,299
Bank deposits	28,730	28,730	-	-	-	-	-	28,730
	<u>\$ 614,315</u>	<u>\$ 636,228</u>	<u>\$ 163,272</u>	<u>\$ 37,225</u>	<u>\$ 40,630</u>	<u>\$ 8,951</u>	<u>\$ 1,631</u>	<u>\$ 384,519</u>

# North Broward Hospital District

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

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#### **Investment Risk Factors**

There are many factors that can affect the value of investments. Some, such as concentration of credit risk, custodial credit risk, interest rate risk and foreign currency risk, may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are sensitive to credit risk and changes in interest rates.

#### **Credit Risk**

State of Florida Statutes Section 218.415 provides for each unit of local government or political subdivision to adopt investment policies that are commensurate with the nature and size of public funds within their custody. These policies must include consideration for safety of capital, liquidity of funds, diversification of investments, investment income, maturity requirements, and performance measurement. The District has a Board-approved policy for the investment of funds. In accordance with this policy, the District invests in marketable fixed income securities rated in the first four credit quality grades as established by one or more of the nationally recognized bond rating services. Securities downgraded by any of these rating agencies subsequent to purchase resulting in a violation of the investment quality guidelines may be held at the discretion of the professional investment managers retained by the District. However, written notice including the investment manager's rationale shall be promptly submitted to the District's Investment Committee.

#### **Concentration of Credit Risk**

Investments in any one issuer that represent 5% or more of the District's investment portfolio are required to be disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. As of June 30, 2012 and 2011, the District did not have any investments that equaled or exceeded this threshold.

#### **Custodial Credit Risk**

As of June 30, 2012 and 2011, the District's investments were not exposed to custodial credit risk since the full amount of investments were insured or registered in the District's name.

#### **Interest Rate Risk**

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Refer to the distribution of the District's investment in fixed income securities by maturity as of June 30, 2012 and 2011 in the preceding investment composition table.

#### **Deposit Risk**

In addition to insurance provided by the Federal Depository Insurance Corporation, all demand deposits are held in banking institutions approved by the State of Florida state treasurer to hold public funds. Under the Florida Statutes Chapter 280, *Florida Security for Public Deposits Act* ("Chapter 280"), the state treasurer requires all qualified public depositories to deposit with the treasurer or another banking institution eligible collateral equal to amounts ranging from 50% to 125% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. government and agency securities, state or local government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses in excess of amounts insured and collateralized.

**North Broward Hospital District**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

**Foreign Currency Risk**

The District's investment policy allows for the investment in international equity securities. The District's exposure to foreign currency risk is partially mitigated through investments in depository receipts and forward foreign currency contracts.

The effective yield on the District's investments for fiscal years 2012 and 2011 was approximately (0.2%) and 14.5%, respectively.

Investment gain, net for fiscal years 2012 and 2011 is as follows:

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>
Interest income	\$ 9,341	\$ 8,816
Realized (loss) gain, net	(1,055)	6,716
Net (decrease) increase in the fair value of investments	(7,084)	57,179
Investment management fees	(2,049)	(1,875)
Investment (loss) gain, net	<u>\$ (847)</u>	<u>\$ 70,836</u>

Realized gains and losses on investments that had been held for more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year. The calculation of realized losses is independent of the calculation of the net increase in the fair value of investments.

**4. Capital Assets**

A summary of changes in capital assets during fiscal years 2012 and 2011 is as follows:

	<b>Balance at June 30, 2011</b>	<b>Additions</b>	<b>Disposals and Transfers</b>	<b>Balance at June 30, 2012</b>
Equipment	\$ 485,476	\$ 19,264	\$ (6,050)	\$ 498,690
Building and improvements	567,279	12,499	(5,869)	573,909
Land	39,320	-	(1,007)	38,313
Land Improvements	6,548	249	363	7,160
Equipment held under capital lease	12,529	712	(3,473)	9,768
Totals at historical cost	<u>1,111,152</u>	<u>32,724</u>	<u>(16,036)</u>	<u>1,127,840</u>
<b>Less: Accumulated depreciation for</b>				
Equipment	369,102	33,405	(21,468)	381,039
Building and improvements	325,476	16,765	(13,707)	328,534
Land Improvements	5,448	212	-	5,660
Equipment held under capital lease	6,086	2,054	(1,136)	7,004
	706,112	52,436	(36,311)	722,237
Construction-in-progress	19,339	27,175	(20,620)	25,894
Capital assets, net	<u>\$ 424,379</u>	<u>\$ 7,463</u>	<u>\$ (345)</u>	<u>\$ 431,497</u>

**North Broward Hospital District**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

	Balance at June 30, 2010	Additions	Disposals and Transfers	Balance at June 30, 2011
Equipment	\$ 457,476	\$ 27,713	\$ 287	\$ 485,476
Building and improvements	540,961	12,886	13,432	567,279
Land	39,320	-	-	39,320
Land Improvements	6,299	26	223	6,548
Equipment held under capital lease	14,421	650	(2,542)	12,529
Totals at historical cost	<u>1,058,477</u>	<u>41,275</u>	<u>11,400</u>	<u>1,111,152</u>
<b>Less: Accumulated depreciation for</b>				
Equipment	340,790	33,821	(5,509)	369,102
Building and improvements	309,430	16,065	(19)	325,476
Land improvements	5,273	175	-	5,448
Equipment held under capital lease	7,295	1,383	(2,592)	6,086
	662,788	51,444	(8,120)	706,112
Construction-in-progress	31,824	9,364	(21,849)	19,339
Capital assets, net	<u>\$ 427,513</u>	<u>\$ (805)</u>	<u>\$ (2,329)</u>	<u>\$ 424,379</u>

Amortization expense on equipment held under capital leases, which is included within depreciation and amortization in the consolidated statements of revenues, expenses and changes in net assets for fiscal years 2012 and 2011 totaled \$2.1 million and \$1.4 million, respectively. Accumulated amortization on equipment held under capital leases as of June 30, 2012 and 2011 totaled \$7.0 million and \$6.1 million, respectively. The estimated cost-to-complete of construction-in-progress at June 30, 2012 totaled \$65.1 million.

**5. Revenue Bonds**

**Refunding Revenue Bonds, Series 2005A (the "2005A Bonds")**

In July 2005, the District issued \$71.5 million of 2005A Bonds, which are variable-rate demand bonds remarketed weekly. The net proceeds of the 2005A Bonds (after payment of \$2.5 million in bond issuance costs, including underwriting, legal and accounting, and insurance fees) were principally used to fund an escrow account in the amount of \$68.9 million for the advance refunding of \$66.3 million of Refunding and Improvement Revenue Bonds, Series 1997 (the "1997 Bonds"), which were called in January 2008, and \$2.7 million to cover scheduled interest payments on the 1997 Bonds. Based upon long-term historical patterns, at the time of issuance of the 2005A Bonds, the variable interest paid on these bonds was expected to correlate very closely to the rate received on the related floating to fixed interest rate swap agreement (Note 6). The result of issuance of the 2005A Bonds and the related interest rate swap was expected to be a synthetic fixed rate of interest on the 2005A Bonds of approximately 3.345%. Both the 2005A Bonds and the related interest rate swap are insured through financial guarantee insurance policies with financial services institutions. During 2008 due to various matters resulting from the subprime lending crisis in the United States, the District entered into a letter of credit related to the 2005A Bonds, which is described later in Note 5.

# North Broward Hospital District

## Notes to Consolidated Financial Statements

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The difference between the reacquisition price and the net carrying amount of the old debt of approximately \$4.6 million is being deferred and amortized as a component of interest expense over the remaining scheduled life of the old debt of 19 years with the unamortized portion reported as a reduction of long-term debt. As of June 30, 2012 and 2011, the unamortized portion is \$3.1 million and \$3.3 million, respectively. The District advance refunded the 1997 Bonds to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$2.3 million.

#### **Refunding Revenue Bonds, Series 2005B (the “2005B Bonds”)**

In October 2005, the District issued \$86.3 million of 2005B Bonds, which were variable rate demand bonds remarketed weekly. The net proceeds of the 2005B Bonds (after payment of \$3.4 million in bond issuance costs, including underwriting, legal and accounting, and insurance fees) were principally used to fund an escrow account for the advance refunding of \$75.0 million of Improvement Revenue Bonds, Series 2001 (the “2001 Bonds”) and \$7.9 million to cover scheduled interest payments on the 2001 Bonds through the January 15, 2011, call date. The 2001 Bonds carried fixed interest rates ranging from 6.0% to 6.1% and were called on January 15, 2011. Based upon long-term historical patterns, at the time of issuance of the 2005B Bonds, the variable interest paid on these bonds was expected to correlate very closely to the rate received on the related interest rate swap agreement. The result of issuance of the 2005B Bonds and the related floating to fixed interest rate swap was expected to be a synthetic fixed rate of interest on the 2005B Bonds of approximately 4.084%. Both the 2005B Bonds and the related interest rate swap were insured.

The difference between the reacquisition price and the net carrying amount of the old debt of approximately \$8.6 million is being deferred and amortized as a component of interest expense over the life of the new debt of 23 years, with the unamortized portion reported as a reduction of long-term debt. As of June 30, 2012 and 2011, the unamortized portion is \$6.3 million and \$6.7 million, respectively. The District advance refunded the 2001 Bonds to obtain an economic gain of \$7.4 million.

#### **Refunding Revenue Bonds, Series 2007 (the “2007 Bonds”)**

In November 2007, the District issued \$131.2 million of 2007 Bonds, which are variable rate demand bonds remarketed weekly. The net proceeds of the 2007 Bonds (after payment of \$2.6 million in bond issuance costs, including underwriting, legal and accounting, and insurance fees) were principally used to fund an escrow account in the amount of \$128.6 million for the advance refunding of \$106.1 million of 1997 Bonds, \$25.1 million of 2001 Bonds, and \$2.3 million to cover scheduled interest payments on the 1997 Bonds and 2001 Bonds. The refunded 1997 Bonds carried interest rates ranging from 5.125% to 5.75%. The refunded 2001 Bonds carried interest rates ranging from 5.0% to 6.0%. The net proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1997 Bonds and 2001 Bonds. As a result, the advance refunded 1997 Bonds and 2001 Bonds were considered to be defeased in substance and the liability for those bonds has been removed from the accompanying consolidated statements of net assets. Some of these escrowed funds were used to pay the 1997 Bonds that were re-financed with this transaction. Based upon long-term historical patterns, at the time of issuance of the 2007 Bonds, the variable interest on these bonds was expected to correlate very closely to the rate received on the related floating to fixed interest rate swap agreement (Note 6). The result of issuance of the 2007 Bonds and the related interest rate swap was expected to be a synthetic fixed rate of interest on the 2007 Bonds of approximately 4.159%. Both the 2007 Bonds and the related interest rate swap are insured through financial guarantee insurance policies with financial services institutions. During 2008, due to various

# North Broward Hospital District

## Notes to Consolidated Financial Statements

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matters resulting from the subprime lending crisis in the United States, the District entered into a letter of credit related to the 2007 Bonds, which is described later in Note 5.

The difference between the reacquisition price and the net carrying amount of the old debt of approximately \$5.9 million is being deferred and amortized as a component of interest expense over the remaining scheduled life of the old debt of 19 years, with the unamortized portion reported as a reduction of long-term debt. As of June 30, 2012 and 2011, the unamortized portion is \$4.5 million and \$4.8 million, respectively. The District advance refunded the 1997 Bonds and 2001 Bonds to obtain an economic gain of \$7.5 million.

#### **Refunding Revenue Bonds, Series 2008A (the “2008A Bonds”)**

In 2008, the District issued \$85.5 million of 2008A Bonds for the purpose of refunding the outstanding 2005B Bonds. The 2008A Bonds are collateralized by a letter of credit through March 30, 2016. The 2008A Bonds are variable-rate demand bonds, which are remarketed weekly. The proceeds of the 2008A Bonds were used for the sole purpose of extinguishing the 2005B Bonds. The 2008A Bonds are not insured. As part of this transaction, the District modified the floating to fixed interest rate swap that had been put in place at the time that the 2005B Bond transaction was completed. The fixed rate payable by the District on this swap transaction changed from 4.084% to 4.154%. The counterparty payment rate to the District on this swap continues to be the weekly SIFMA rate. The result of the combination of these transactions is expected to be a synthetic fixed rate of interest on the 2008A Bonds of approximately 4.154%.

The District determined that the modified interest rate swap was a hybrid instrument under GASB 53. At the time of pricing the modified interest rate swap in July 2008, the fixed rate on the swap was off-market such that the District deferred the repayment of the liability on the original interest rate swap. As such, the interest rate swap is comprised of a derivative instrument, an at-the-market swap, and a companion instrument, a borrowing, represented by the deferred repayment of \$4.4 million in July 2008. The deferred repayment will be amortized over the remaining scheduled life of the old debt of 23 years. As of June 30, 2012 and 2011, the unamortized portion is \$4.0 million and \$4.2 million, respectively.

The difference between the reacquisition price and the net carrying amount of the old debt of approximately \$3.0 million is being deferred and amortized as a component of interest expense over the remaining scheduled life of the old debt of 23 years, with the unamortized value of the deferred amount is reported as a reduction of long-term debt. As of June 30, 2012 and 2011, the unamortized portion is \$2.5 million and \$2.6 million, respectively. The District advance refunded the 2005B Bonds and no economic gain was realized.

# North Broward Hospital District

## Notes to Consolidated Financial Statements

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#### **Revenue Bond, Series 2010 (the “2010 Bonds”)**

In December 2010, the District issued a Bank Qualified Bond, for \$30.0 million for the purpose of reimbursing the District for expenses incurred relating to the planning, construction and expansion of hospital facilities. The 2010 Bonds bear interest at a variable rate equal to 65% of the daily LIBOR rate plus 105 basis points, which re-sets on the first business day of each month. Associated issuance costs including legal, financial advisor and trustee of approximately \$0.1 million that were associated with this transaction were paid from other operating funds. The 2010 Bonds are not collateralized and are not insured. The 2010 Bonds carry a 20 year amortization schedule. Interest is due and payable semi-annually, commencing on July 15, 2011 through January 15, 2031, at which point in time, all unpaid principal and interest shall be due and payable. The 2010 Bonds are subject to optional earlier prepayment by the District and to mandatory tender by the bank to the District on the mandatory tender date of January 15, 2021. At the written request of the District at least 180 days prior to the mandatory tender date then in effect, the mandatory tender date may be extended in the sole discretion of the bank.

#### **Irrevocable Direct Pay Letters of Credit (“LOC”)**

In 2008, two separate LOC's, one collateralizing the 2005A Bonds and the other collateralizing the 2007 Bonds, were issued for the benefit of the registered bondholders to collateralize the payment of the principal and interest on the 2005A and 2007 Bonds and the payment of the purchase price of the Bonds tendered for purchase and not remarketed. In January 2011, both LOCs were renewed. The LOC supporting the 2005A Bonds and the 2007 bonds were extended to January 19, 2016 and January 19, 2015, respectively. As described previously, the 2008A Bonds are collateralized by a letter of credit through March 30, 2016.

The District is required to maintain a standby bond purchase agreement, alternative liquidity facility, or alternative letter of credit at all times for the outstanding bonds. If the LOC is not extended or replaced, the Indenture requires the trustee to purchase all outstanding bonds before the final expiration date of the LOC, and the LOC bank will become the holder of all outstanding 2005A, 2007 and 2008A Bonds. The bonds will remain outstanding under the Indenture, and the District is required to convert the bonds to another interest rate mode or obtain a new liquidity facility.

The Indenture for the District's 2005A, 2007, 2008A and 2010 Bonds, and the LOC's, include covenants that require the District to maintain specified financial ratios, levels of working capital and equity, and other qualitative covenants. The District was in compliance with these covenants as of June 30, 2012 and 2011.

During the time the bank would own the outstanding bonds, the LOC requires payment of a higher interest rate and requires that the bonds be redeemed in equal quarterly principal payments over five years, with principal payments commencing on the 15th day of January, April, July, or October following the first anniversary from the bank's date of purchase.

**North Broward Hospital District**  
**Notes to Consolidated Financial Statements**  
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Maturities of the 2005A, 2007, 2008A and 2010 Bonds, including corresponding interest due, over the next five years and in five-year increments thereafter are as follows:

<i>(in thousands of dollars)</i>	Series 2005A		Series 2007		Series 2008A		Series 2010		Total Debt Service	Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
<b>Years ending June 30,</b>										
2013	\$ 2,950	\$ 1,919	\$ 5,320	\$ 4,405	\$ 400	\$ 3,513	\$ 1,345	\$ 358	\$ 10,015	\$ 10,195
2014	3,055	1,821	5,565	4,184	425	3,496	1,365	341	10,410	9,842
2015	3,165	1,718	5,805	3,953	450	3,479	1,380	324	10,800	9,474
2016	3,285	1,613	6,055	3,711	450	3,460	1,400	307	11,190	9,091
2017	3,400	1,503	6,310	3,459	475	3,441	1,415	290	11,600	8,693
2018–2022	18,930	5,723	35,990	13,120	2,750	16,890	7,345	1,179	65,015	36,912
2023–2027	22,595	2,321	40,880	5,019	7,125	16,209	7,820	708	78,420	24,257
2028–2031	-	-	-	-	72,475	7,804	6,616	208	79,091	8,012
	57,380	\$ 16,618	105,925	\$ 37,851	84,550	\$ 58,292	28,686	\$ 3,715	276,541	\$ 116,476
Less: Loss on defeasance	(3,088)		(4,484)		(4,840)		-		(12,412)	
	<u>\$ 54,292</u>		<u>\$ 101,441</u>		<u>\$ 79,710</u>		<u>\$ 28,686</u>		<u>\$ 264,129</u>	

A summary of changes in revenue bonds during fiscal years 2012 and 2011 is as follows:

<i>(in thousands of dollars)</i>	2012	2011
<b>Beginning balance</b>	\$ 273,013	\$ 249,604
Add:		
New bonds, par value	-	30,000
Amortization of discount and defeasance losses	776	1,044
Less: Payments	(9,660)	(7,635)
<b>Ending balance</b>	<u>\$ 264,129</u>	<u>\$ 273,013</u>

# North Broward Hospital District

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

#### 6. Interest Rate Swaps

On June 30, 2012, the District had the following derivative instruments outstanding:

(in thousands of dollars)

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	2012 Fair Value	2011 Fair Value
2005A	Receive-variable, interest rate swap	Hedge of changes in cash flows on the 2005A Bonds	\$ 57,380	7/28/2005	1/15/2027	Pay fixed rate of 3.345%. Receive 62.4% of one month LIBOR plus 29 basis points.	\$ (9,546)	\$ (5,736)
2007	Receive-variable, interest rate swap	Hedge of changes in cash flows on the 2007 Bonds	\$ 105,925	11/15/2007	1/15/2027	Pay fixed rate of 4.159%. Receive SIFMA Municipal Swap Index rate.	\$ (23,529)	\$ (15,346)
2008A	Receive-variable, interest rate swap	Hedge of changes in cash flows on the 2008A Bonds	\$ 84,550	07/16/2008	1/15/2031	Pay fixed rate of 4.154%. Receive SIFMA Municipal Swap Index rate.	\$ (25,194)	\$ (10,862)

During the years ended June 30, 2012 and 2011, the fixed rate 2005A, 2007 and 2008A interest rate swaps qualified for hedge accounting under GASB 53. At June 30, 2012, approximately \$51.2 million and \$2.7 million related to the fair value of interest rate swaps is recorded in the liability related to hedging instruments and interest payable, respectively, in the accompanying consolidated statement of net assets. At June 30, 2011, approximately \$24.8 million and \$2.8 million related to the fair value of interest rate swaps is recorded in liability related to hedging instruments and interest payable, respectively, in the accompanying consolidated statement of net assets. Approximately \$4.4 million related to the fair value of the 2008A derivative instrument is recorded as a borrowing for both years. See additional discussion in Note 5. The decrease in the fair value of the swaps in fiscal year 2012 of \$26.4 million and the increase in fair value of the swaps in fiscal year 2011 of \$6.3 million is reported within the consolidated statements of revenue, expenses and changes in net assets.

The fair values of the interest rate swaps are estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

#### Credit Risk

The District has sought to limit its counterparty risk by contracting only with highly rated entities. As of June 30, 2012, the credit ratings for the counterparty of the 2005A and 2008A swap agreements were Baa2, A-, and A from Moody's, Standard & Poor's, and Fitch rating agencies, respectively. The credit ratings for the counterparty of the 2007 interest rate swap agreement were Aa3, AA-, and AA- from Moody's, Standard & Poor's, and Fitch rating agencies, respectively. Each of the counterparties may be required to post collateral should they fail to meet certain minimum credit ratings.

#### Interest Rate Risk

The District is not exposed to interest rate risk on its interest rate swap agreements as they are all structured in a receive variable, pay fixed rate mode.

**North Broward Hospital District**  
**Notes to Consolidated Financial Statements**  
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**Basis Risk**

The District is exposed to basis risk on its interest swap agreements because the variable-rate payments received by the District on these hedging derivative instruments are based on a rate or index other than the interest rates that the District pays on its hedged variable rate debt, which is re-marketed every 7 days. As of June 30, 2012, the weighted variable interest rate on the District's hedged variable rate debt is 0.15%, while the SIFMA swap index is 0.18%, and 62.4% of one month LIBOR plus 29 basis points is 0.443%.

**Termination Risk**

The interest rate swap agreements use the International Swap Dealers Association Master Agreement, which includes standard termination events provisions, such as failure to pay and bankruptcy. The District and the insurers of the 2005A and 2007 interest rate swaps are also required to maintain minimum credit ratings. Failure to do so may require the District to post collateral or give the counterparty the right to terminate the interest rate swap agreement.

**Commitments**

The 2008A interest rate swap agreement requires collateral to be posted if the fair value of the interest rate swap is negative. The collateral amount required to be posted, if any, depends on the District's unenhanced credit rating as determined by Standard & Poor's and Moody's Investor Service. At the District's credit rating on June 30, 2012, the collateral required to be posted is the negative value in excess of \$10.0 million. As of June 30, 2012 and 2011, the fair value of the 2008A interest rate swap was a negative value of \$25.2 million and \$10.9 million, respectively. The negative excess value remains in collateral with Citigroup Financial Products Inc., and is included within other assets in the consolidated statement of net assets.

As of June 30, 2012 and 2011, the District was not required to post collateral on the 2005A and 2007 interest rate swap agreements.

**7. Lease Obligation**

The District enters into various leases as part of its ongoing business. No new significant leases were entered into during fiscal years 2012 or 2011.

Principal and interest payments due on capital leases are as follows:

<i>(in thousands of dollars)</i>	<b>Principal</b>	<b>Interest</b>
<b>Years ending June 30,</b>		
2013	\$ 1,966	\$ 72
2014	545	23
2015	209	10
2016	155	4
2017	25	-
	<u>\$ 2,900</u>	<u>\$ 109</u>

# North Broward Hospital District

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

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#### 8. Retirement Plans

##### **Defined Benefit Plan**

The District maintains a single-employer, noncontributory defined benefit (cash balance) pension plan (the "Plan") covering substantially all full-time or part-time eligible District employees. Accordingly, the amounts disclosed herein relate to the Plan as a whole. Separate financial statements for the Plan have not been issued. The Plan is not subject to the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"), and the assets and liabilities of the Plan are not recorded in the consolidated basic financial statements in accordance with governmental accounting standards.

The District accounts for the Plan under the provisions of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, ("GASB 25"), GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* ("GASB 27"), and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and No. 27* ("GASB 50"). GASB 27 adopts the use of an Actuarial Accrued Liability ("AAL") as the standardized measure of disclosure on a net present value basis of pension benefits, which will become payable at future dates. The calculation of the AAL includes projected salary increases and step-rate benefits estimated to be payable in the future based upon employee service to date. This measure is intended to help users assess the funding status of the pension plan on a going-concern basis, assess progress in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. This actuarial measure is the basis for the determination of the annual funding requirements used to determine the contributions made to the Plan. Funding levels and obligations to contribute to the Plan are established by the Board and can be amended by the Board.

Effective January 1, 1997, employees are eligible for Plan participation after completing one year of credited service and the attainment of age 21. Benefits are vested after five years of credited service. Accrued monthly pension benefits as of December 1, 1996, were converted to lump-sum cash balances, and the Plan guarantees a minimum annuity based on the benefits accrued as of December 31, 1996. Benefits upon retirement are based upon a District contribution of 5% of the participant's covered earnings for each year of credited service and an annual interest credit on the employee's account balance equal to the yield on the 1-year Treasury Bill for the month of May preceding each Plan year plus 1%. Vested plan participants who were at least age 45 on January 1, 1997, are eligible for additional "grandfathered" pension contributions. Normal retirement age under the Plan is 65 with provisions for early retirement if the participant is 55 to 64 years of age and has attained five years of credited service. These benefit levels may be modified upon approval by the Board. Benefits under the early retirement provision are reduced to reflect the Plan participant's age at the time benefits begin.

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**Contribution Requirements and Contributions Made**

The annual required contribution ("ARC") for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method with frozen initial supplemental present value. The Plan's funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. All contributions to the Plan are made by the employer and are intended to fund both the actuarially determined costs, as well as the Plan's operating costs. The District's practice is to make sufficient annual contributions in accordance with the actuarial funding requirements of the Florida Statutes. Annual required contributions to the Plan for fiscal years 2012 and 2011 totaled \$19.1 million and \$18.2 million, respectively, which equaled the normal cost as computed through the actuarial valuation dates as of June 30, 2012 and 2011, respectively. The contributions represent approximately 5.7% and 5.8% of current covered payroll for fiscal years 2012 and 2011, respectively. Maximum actuarial contributions are based upon the funding levels that would be required of an ERISA plan. Total pension expense for fiscal years 2012 and 2011 totaled \$18.6 million and \$17.6 million, respectively. As of June 30, 2012 and 2011, the District has a pension liability of \$2.4 million and a pension asset of \$2.2 million, respectively. Pension expense is allocated to the District facilities based on budgeted full-time equivalents.

Information regarding payroll and participant data used in the calculation of the current-year actuarial information is as follows:

*(in thousands of dollars)*

	<b>2012</b>	<b>2011</b>
Covered payroll for the calculation of the actuarial information	<u>\$ 335,101</u>	<u>\$ 315,874</u>
Covered payroll as a percentage of total payroll of \$471,374 and \$460,419 in 2012 and 2011, respectively	<u>71 %</u>	<u>69 %</u>
Participant data as of July 1, 2011 (date of most recent valuation)		
Active	6,598	
Retired	1,485	
Terminated vested	<u>1,473</u>	
	<u>9,556</u>	

**North Broward Hospital District**  
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The more significant actuarial assumptions utilized in the most recent actuarial valuation (July 1, 2011) for computing the annual required contributions for the Plan are as follows:

Assumed rate of return on investments	8.5% per annum including inflation, compounded annually. In addition, it is assumed that the annual investment return on Plan assets will exceed the periodic adjustment to member cash balance accounts by 1.75%
Mortality basis	RP-2000 Combined Mortality Table (2011 IRS Version)
Amortization method	Level percent closed
Remaining amortization period	30 years
Asset valuation method	Three-year smoothing method
Assumed inflation rate	2.75% Consumer price index
Assumed post-retirement benefit increase	None
Termination	Graduated rates from 20 to 60 are as follows:

**Table of Select and Ultimate Withdrawal Rates**  
**Withdrawal (Based on Years of Service)**

Age	<2	2-4	5-9	10+
20	0.2519	0.1987	0.2100	0.1225
25	0.3044	0.2400	0.1814	0.1225
30	0.2605	0.1901	0.1175	0.0678
35	0.2349	0.1543	0.1001	0.0703
40	0.2227	0.1449	0.0841	0.0581
45	0.2167	0.1326	0.0815	0.0522
50	0.2184	0.1246	0.0745	0.0489
55	0.1893	0.1095	*	*
60	0.1908	0.1098	*	*

\* Retirement eligible – see table below

**North Broward Hospital District**  
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Salary increases 4.5% during the current year

Retirement age Graduated rates from age 55 to 70+ are as follows:

Age	Probability of Retirement
55	10 %
56–58	6
59–60	10
61	15
62	25
63–64	20
65	40
66–69	30
70+	100

**Funding Status and Progress**

The District's AAL as of July 1, 2011 and 2010 was \$303.8 million and \$295.5 million, respectively. The actuarial value of the Plan assets available to pay these benefits at June 30, 2012 and 2011 totaled \$227.8 million and \$223.9 million, respectively, leaving a deficit as compared to the AAL of \$76.0 million and \$71.6 million at June 30, 2012 and 2011, respectively. The AAL and the actuarial value of Plan net assets for the current year are based upon the July 1, 2011, actuarial valuation projected forward to June 30, 2012. The schedules of Plan funding progress, presented as RSI following the notes to the consolidated basic financial statements, present multiyear trend information about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the AAL for benefits.

The funded status of the Plan as of July 1, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) AAL Entry Age Normal	(b-a) Unfunded AAL ("UAAL")	(a/b) Funded Ratio	(c) Covered Payroll	(b-a)/(c) Percentage of Covered Payroll
July 1, 2011	\$ 227,760,809	\$ 303,832,772	\$ 76,071,963	75.0 %	\$ 335,100,745	22.7 %

The present value of accumulated plan benefits is computed to measure the funds required as of the valuation date to provide in full the benefits earned to date by all Plan participants. As of July 1, 2011 and 2010, the present value of the accumulated Plan benefits totaled \$293.7 million and \$287.5 million, respectively.

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**Notes to Consolidated Financial Statements**  
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**Trend Information**

This information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. The trend information for each of the last three fiscal years is as follows:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net assets available for benefits as a percentage of the AAL	75.0 %	75.8 %	70.4 %
Unfunded actuarial accrued liability as a percentage of covered payroll	22.7	22.7	27.3
Minimum employer contributions as a percentage of covered payroll	5.1	4.4	3.9

Showing unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. For the three fiscal years presented, contributions to the Plan were made in accordance with actuarially determined requirements.

A summary of annual pension cost and the change in the net pension obligation for the last three fiscal years is as follows:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Annual required contribution	\$ 19,067	\$ 18,230	\$ 19,787
Interest on net pension obligation	(187)	(71)	(91)
Adjustment to annual required contribution	316	118	151
Annual pension cost	19,196	18,277	19,847
Contributions made with interest	<u>(14,587)</u>	<u>(19,658)</u>	<u>(21,055)</u>
Increase (decrease) in net pension obligation	4,609	(1,381)	(1,208)
<b>Net pension (asset) obligation</b>			
Beginning of year	<u>(2,211)</u>	<u>(830)</u>	<u>378</u>
End of year	<u>\$ 2,398</u>	<u>\$ (2,211)</u>	<u>\$ (830)</u>
Percentage of annual required contribution	<u>76.5 %</u>	<u>107.8 %</u>	<u>106.4 %</u>

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A summary of Plan assets as of June 30, 2012 and 2011 and of the changes in Plan assets for fiscal years 2012 and 2011 is as follows:

*(in thousands of dollars)*

Statement of Plan Net Assets	Ratings						2012
	AAA	AA	A	BBB	<BBB	Not Rated	
<b>Investments at fair value</b>							
U.S. government securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,761	\$ 7,761
U.S. government agency securities	-	889	-	-	-	-	889
Corporate bonds	203	1,662	5,947	6,026	737	73	14,648
Mortgage backed securities	3,323	480	261	-	881	14,968	19,913
							43,211
Common and preferred stock	-	-	-	-	-	123,567	123,567
Mutual funds	-	-	-	-	-	26,963	26,963
Private equity	-	-	-	-	-	11,886	11,886
Hedge funds	-	-	-	-	-	12,667	12,667
Real estate	-	-	-	-	-	14,500	14,500
Money markets	-	-	-	-	-	5,473	5,473
Net assets held in trust for pension benefits	<u>\$ 3,526</u>	<u>\$ 3,031</u>	<u>\$ 6,208</u>	<u>\$ 6,026</u>	<u>\$ 1,618</u>	<u>\$ 217,858</u>	<u>\$ 238,267</u>

*(in thousands of dollars)*

Statement of Plan Net Assets	Ratings						2011
	AAA	AA	A	BBB	<BBB	Not Rated	
<b>Investments at fair value</b>							
U.S. government securities	\$ 8,854	\$ -	\$ -	\$ -	\$ -	\$ 127	\$ 8,981
U.S. government agency securities	-	-	-	-	-	210	210
Corporate bonds	405	2,002	4,345	5,630	484	255	13,121
Mortgage backed securities	4,582	449	359	-	968	14,424	20,782
							43,094
Common and preferred stock	-	-	-	-	-	123,883	123,883
Mutual funds	-	-	-	-	-	38,852	38,852
Private equity	-	-	-	-	-	8,096	8,096
Hedge funds	-	-	-	-	-	13,033	13,033
Real estate	-	-	-	-	-	13,440	13,440
Money markets	-	-	-	-	-	5,655	5,655
Net assets held in trust for pension benefits	<u>\$ 13,841</u>	<u>\$ 2,451</u>	<u>\$ 4,704</u>	<u>\$ 5,630</u>	<u>\$ 1,452</u>	<u>\$ 217,975</u>	<u>\$ 246,053</u>

**North Broward Hospital District**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

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*(in thousands of dollars)*

<b>Statements of Changes in Plan Net Assets</b>	<b>2012</b>	<b>2011</b>
<b>Beginning investment value of account</b>	\$ 246,053	\$ 201,289
Receipts		
Employer contributions	5,578	9,400
Realized and unrealized (losses) gains, net	(5,313)	47,791
Interest and dividends	4,506	4,035
Total receipts	<u>4,771</u>	<u>61,226</u>
Disbursements		
Annuity payments and benefits paid from fund	10,904	8,629
Realized and unrealized gains, net	1	-
Fees	1,652	7,833
Total disbursements	<u>12,557</u>	<u>16,462</u>
<b>Ending investment value of account</b>	<u>\$ 238,267</u>	<u>\$ 246,053</u>

**Defined Contribution Plan**

Effective January 1, 1990, the District implemented a defined contribution plan (the "Star Plus 403(b) Plan") for all employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate immediately and full-time and part-time employees are eligible for employer matching contributions upon the completion of one year of service. The Board approved the Star Plus 403(b) Plan, which requires an employer contribution of 100% of the employee's contribution not to exceed 1% of the employee's compensation (subject to limitations) and 35% of the contribution between 1% and 4% of the employee's compensation. The District's contribution for each employee is fully vested after five years of continuous service (partial vesting between two and five years of service). The District's contribution for, and interest forfeited by, employees who leave employment before vesting is used to reduce the District's current period contribution requirement.

The District's total payroll for fiscal years 2012 and 2011 was \$471.4 million and \$460.4 million, respectively. The total covered payroll for eligible employees during the same periods is not determinable. For fiscal years 2012 and 2011, the District's contribution was \$6.2 million and \$6.0 million, respectively, representing 1.3% of total payroll in each of the years. The employees' contribution for fiscal years 2012 and 2011 was \$23.3 million and \$22.7 million, respectively, representing 4.9% of total payroll, each year.

# North Broward Hospital District

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

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#### 9. 2001 Early Retirement Incentive Program

In September 2000, the District extended an offer of an early retirement benefit program to qualifying employees (the "2001 Early Retirement Incentive Program"). A total of 518 employees accepted this offer during the election period of October 1, 2000 through November 30, 2000. For employees who accepted the offer, the District offered special termination benefits, which included adding five years of additional vesting credit to their years of service and one additional week of pay for each year worked in excess of five years. Certain employees who have attained certain age and tenure requirements receive health insurance. The District recorded a charge during fiscal year 2001 totaling \$26.9 million. Such charge was actuarially determined, and the related liability is being amortized over the average projected remaining life of the participating employees, which was estimated to be 30 years. As of June 30, 2012, the District has a liability recorded pertaining to the 2001 Early Retirement Incentive Program totaling \$16.5 million and an additional \$4.8 million from a similar program offered during fiscal years 1990 and 1991. As of June 30, 2011, the District has a liability recorded pertaining to the 2001 Early Retirement Incentive Program totaling \$17.4 million and an additional \$5.3 million from a similar program offered during fiscal years 1990 and 1991.

#### 10. Other Postemployment Benefits

In addition to providing pension benefits, the District provides certain health care and life insurance benefits for approximately 1,045 eligible retired employees, which include those at the health care facilities. Many of the District's employees may become eligible for those benefits if they reach retirement age while working for the District.

The GASB requires state and local governmental employers to account for and report the annual cost of other postemployment benefits ("OPEB") and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they become due. The GASB's provisions may be applied prospectively and do not require governments to fund their OPEB plans. The actuarially determined cost for providing benefits to retirees and current employees during fiscal years 2012 and 2011 was \$15.2 million and \$15.1 million, respectively. This includes \$6.4 million and \$5.4 million of actual payments (contributions) during fiscal years 2012 and 2011, respectively, and \$8.8 million and \$9.7 million of additional expense, respectively, recorded on the accrual basis.

##### **Plan Description**

The District maintains a single-employer defined benefit healthcare plan, providing medical and dental insurance benefits to eligible retirees and their spouses. The District does not issue separate financial statements for their plan. The authority to establish and amend benefit provisions of the District's plan is held by the CEO of the District.

**North Broward Hospital District**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

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**Funding Policy**

The GASB does not require funding of the OPEB expense. The ARC is based on projected pay-as-you-go financing requirements, with an additional amount required to be recognized and accumulated as the net OPEB obligation. For fiscal years 2012 and 2011, the District contributed \$6.4 million and \$5.4 million, respectively, to the plan, which is net of retiree contributions. Retiree contributions for fiscal years 2012 and 2011 were \$2.5 million and \$2.2 million, respectively, according to the following table:

	<b>Single</b>	<b>Employee + 1</b>
<b>Rule of 80</b>		
Medical Pre-65	\$ 101.25	\$ 220.94
Medical Post-65	75.94	165.70
Dental	7.24	15.02
<b>Other retirees</b>		
Medical Pre-65	\$ 506.24	\$ 1,052.11
Medical Post-65	379.68	789.07
Dental	24.12	50.08

Rule of 80 retirees pay the same rates as active employees. Other retirees pay the premium equivalent funding rate.

**Annual**

*OPEB Cost and Net OPEB Obligation* – The District’s annual OPEB cost is calculated based on its ARC, an amount actuarially determined in accordance with the GASB parameters. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation as of June 30, 2012 and 2011 are as follows:

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>
Annual required contribution	\$ 14,990	\$ 14,891
Interest on net OPEB obligation	1,475	1,136
Adjustment to annual required contribution	<u>(1,260)</u>	<u>(971)</u>
Annual OPEB cost	15,205	15,056
Contributions made	<u>6,382</u>	<u>5,389</u>
Increase in net OPEB obligations	8,823	9,667
<b>Net OPEB obligation</b>		
Beginning of year	<u>42,138</u>	<u>32,471</u>
End of year	<u>\$ 50,961</u>	<u>\$ 42,138</u>

The current portion of the District’s net OPEB obligation of \$7.7 million and \$6.7 million as of June 30, 2012 and 2011, respectively, is classified within accrued salaries, benefits and payroll taxes.

**North Broward Hospital District**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

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The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2012 and 2011 was as follows:

<i>(in thousands of dollars)</i>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
<b>Fiscal years ended</b>			
June 30, 2012	\$ 15,205	42.0 %	\$ 50,961
June 30, 2011	15,056	36.0	42,138
June 30, 2010	14,689	42.0	32,471

**Funded Status and Funding Progress**

As discussed above, the GASB does not require, and the District has not funded, the AAL. As of June 30, 2012, the unfunded actuarial accrued liability ("UAAL") for benefits was \$256.5 million. The covered payroll (annual payroll of active employees covered by the plan) was \$374.8 million, and the ratio of the UAAL to the covered payroll was 68.4%. In accordance with post-retirement benefit guidance, actuarial valuations are completed on a biannual basis. The last valuation was completed as of July 1, 2011.

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

**Actuarial Methods and Assumptions**

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

In the June 30, 2012 and 2010 actuarial valuations (as 2011 was an "off year"), the projected unit credit method was used. The actuarial assumptions included a 3.5% discount rate in each of the years, representing an estimate of the discount rate for an unfunded plan. The UAAL is being amortized as a level percentage of projected payroll with a 30-year amortization period.

**North Broward Hospital District**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

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The significant actuarial assumptions utilized in the most recent actuarial analysis are as follows:

Discount rate	3.5% per year
Salary increases	Salaries are assumed to increase at 4.5% per year
Retiree contribution increases	Retiree contributions are assumed to increase at the same rates as incurred claims
Health care cost trend rates	The trend rates of incurred claims represent the rate of increase in employer claims payments
Amortization method	Level percent closed

**Medical annual rates of increase**

Initial trend rate	7.70 %
Ultimate trend rate	4.50 %
Year that the rate reaches the ultimate trend rate	2028

**Dental annual rates of increase**

Initial trend rate	5.50 %
Ultimate trend rate	4.50 %
Year that the rate reaches the ultimate trend rate	2028

**11. Charity Care**

The District maintains records to identify and monitor the level of charity care it provides. These records include the amount of charity patients' hospital charges foregone for services and supplies furnished under its charity care policy. The level of charity care (charges foregone) provided during fiscal years 2012 and 2011, based on established rates, was \$342.1 million and \$357.5 million, respectively. Charity care provided reflects inpatient services of \$162.1 million and \$180.0 million and outpatient services of \$180.0 million and \$177.5 million for fiscal years 2012 and 2011, respectively. The estimated costs of charity care was \$71.6 million and \$79.6 million, for fiscal years 2012 and 2011, respectively. Charity care costs for inpatient services were \$42.7 million and \$49.9 million and for outpatient services were \$28.9 million and \$29.7 million for fiscal years 2012 and 2011, respectively. The estimated costs were derived using a cost accounting system, which included indirect and direct costs.

**North Broward Hospital District**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

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**12. Net Patient Service Revenue**

Net patient service revenue for fiscal years 2012 and 2011 consisted of the following:

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>
Gross patient service revenue	<u>\$ 3,509,050</u>	<u>\$ 3,431,840</u>
Allowances		
Medicare	549,669	534,095
Medicaid	342,794	368,778
HMO/PPO	1,129,284	1,098,089
Other	<u>222,619</u>	<u>197,126</u>
Total allowances	2,244,366	2,198,088
Provision for uncollectible amounts	<u>396,116</u>	<u>379,043</u>
Total deductions from patient service revenue	<u>2,640,482</u>	<u>2,577,131</u>
Net patient service revenue	<u>\$ 868,568</u>	<u>\$ 854,709</u>

**13. Unrestricted Property Tax Revenue**

The Board of the District is empowered and directed to annually levy upon all real and personal taxable property within the boundaries of the District a sufficient tax, not to exceed 2.5 mills, to accomplish the purposes of the District, as determined by the Board. For fiscal years 2012 and 2011, the levies were 1.875 mills for both years. The total assessed value for which fiscal years 2012 and 2011 levies were based was approximately \$87.2 billion and \$90.1 billion, respectively, with total taxes, net of associated fees, levied at the District level aggregating \$149.5 million and \$154.5 million for fiscal years 2012 and 2011, respectively. The Broward County Property Appraiser assesses and the Broward County Tax Collector collects all ad valorem taxes within Broward County (Note 2).

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied and are due and payable on November 1, of each year or as soon thereafter as the assessment roll is certified and delivered to the Revenue Collector. The District has a legal claim to the property taxes at the assessment date, generally during November of each tax year. Taxes may be paid upon receipt of such notice at declining discounts through the month of February.

All unpaid taxes on real and personal property become delinquent on April 1, of the year following the year in which taxes were levied or within 30 days after the mailing of the original tax notice on the final assessment date, whichever is later. Delinquent real property taxes bear interest at the rate of 1.5% per month, and interest continues to accrue until a certificate is sold at auction, from which time the interest rate shall be as bid by the buyer of the certificates. Personal property taxes bear interest at 1.5% per month from April 1, until paid. On or before April 25, delinquent personal property taxes must be advertised, and after May 1, a petition requesting the ratification and confirmation of tax warrants may be filed in the Circuit Court and upon issuance of an order, the property may be levied, seized, and sold.

**North Broward Hospital District**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

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**14. Concentrations of Credit Risk**

The District and its medical centers grant credit without collateral to their patients, most of whom are local residents and are covered under third-party payor agreements. The mix of receivables, net of contractual allowance reserves and provision for uncollectible accounts, from patients and third-party payors at June 30, 2012 and 2011 is detailed below. The District establishes reserves against these receivables based upon estimated collectability and credit risk. Self-pay receivables are, by nature, high risk; and estimated collectability is low. Therefore, the related net receivables represent a low percentage of the total mix of receivables in the table below.

	<b>2012</b>	<b>2011</b>
Medicare	14.1 %	13.5 %
Managed care	47.8	44.1
Medicaid	10.2	8.4
Commercial insurance	18.6	10.9
Self-pay and all other	9.3	23.1
	<u>100.0 %</u>	<u>100.0 %</u>

**15. Self-Insurance**

In 1975, the District developed a self-insurance program to provide coverage against public liability and medical malpractice claims. In September 1979, the District added workers' compensation to its self-insurance program. The District operates a comprehensive quality assurance program, which enables its health care facilities to closely monitor potential claims at the point of occurrence and to enhance its procedures for estimating accruals for such claims.

The District provides for losses in the self-insurance program based on limits set by sovereign immunity, except for the waiver of such immunity, relating to medical professional and general liability. Effective October 1, 2011, the limits increased from \$0.1 million to \$0.2 million per claimant or from \$0.2 million to \$0.3 million per incident. In November 1995, the District purchased a commercial umbrella insurance policy for malpractice insurance claims, which is renewed annually. This policy became effective for incidents incurred on or after January 22, 1996. Under the terms of the current policy, the District is insured for any individual incident in excess of \$2.0 million (self-insured retention) up to a maximum annual aggregate limit of \$20.0 million by the insurer.

The District established a current and noncurrent liability in the total amount of \$30.4 million and \$37.8 million at June 30, 2012 and 2011, respectively, to cover losses resulting from asserted and unasserted claims. The liability includes estimates of the ultimate costs of both reported claims and claims incurred but not reported. Management believes these reserves are adequate to cover losses from such claims after considering the limits provided by Florida Statutes as set forth above. The current year claims expense is included within insurance expenses in the consolidated statements of revenues, expense, and changes in net assets.

**North Broward Hospital District**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

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Changes in the District's self-insurance program claims liability during fiscal years 2012 and 2011 were as follows:

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>
<b>Liability at June 30, 2011 and 2010</b>	\$ 37,840	\$ 35,860
Current year claims expense	1,680	7,418
Current year claims payments	<u>(9,130)</u>	<u>(5,438)</u>
<b>Liability at June 30, 2012 and 2011</b>	<u>\$ 30,390</u>	<u>\$ 37,840</u>

**16. Related Parties**

In 1989, the State of Florida established and provided the initial capitalization for Broward House Inc., which operates a residential treatment facility for individuals afflicted with AIDS. The District holds five of 17 seats on the Board of Directors. The District rented beds from Broward House for its patients at a cost of \$0.7 million annually in fiscal years 2012 and 2011.

In 1995, the District established a separate nonprofit entity, North Broward Hospital District Home Infusion Network, Inc. ("Infusion Network"). Infusion Network was established exclusively for the purpose of entering into a joint venture partnership with PHM of Broward Inc., which developed into the establishment of Broward Infusion Group Inc. ("BIG"). Infusion Network owns 50% of BIG. The District accounts for this investment using the equity method. As of June 30, 2012 and 2011, the District's investment in this venture was \$0.5 million.

The District is a one-third partner of the SFCCN, a managed care network governed by an interlocal agreement between three governmental entities: the District, the Public Health Trust of Miami — Dade County, and the South Broward Hospital District. SFCCN administers various programs, including the Title XXI — Children Medical Services Network, Title XIX — Children Medical Services Medicaid Network, and the PSN operating under Florida's Medicaid Reform program. The PSN is a network of hospitals, physicians, and other ancillary care providers developed to provide integrated, managed care services to a population of Medicaid covered enrollees.

**17. Public Medical Assistance Trust Fund**

In 1984, the Agency for Healthcare Administration created a Public Medical Assistance Trust Fund to collect assessments from all hospitals in the State of Florida to fund enhancements to the Medicaid program. Hospitals in the State of Florida are required to deposit into the fund an amount equal to 1.5% of the hospital's prior-year net inpatient revenue, and 1.0% of the hospital's prior-year net outpatient revenue. The District accrues for these assessments in the fiscal year for which the assessments are made. During fiscal years 2012 and 2011, approximately \$10.5 million and \$10.1 million, respectively, was recorded as an operating expense in the accompanying consolidated statements of revenues, expenses, and changes in net assets.

**18. Commitments and Contingencies**

**Operating Leases**

The District leases various equipment and facilities under operating lease arrangements. Total rental expense under operating leases in fiscal years 2012 and 2011 was \$9.6 million and \$9.9 million, respectively.

# North Broward Hospital District

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

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Future minimum lease payments under operating leases as of June 30, 2012 with initial or remaining lease terms in excess of one year are as follows:

*(in thousands of dollars)*

<b>Years ending June 30,</b>	
2013	\$ 5,429
2014	4,825
2015	4,415
2016	3,924
2017	2,211
Thereafter	1,335
	<hr/>
	\$ 22,139

#### **Capital Call Commitments**

The District has investments in real estate and private equity limited partnerships, which require the District to fund capital calls for additional investments when requested to do so by the general partners. The life spans of these partnerships are estimated to be 10 years. As of June 30, 2012, no capital calls were due; however, the District has future capital call commitments of approximately \$5.3 million.

#### **Litigation**

The District is involved in litigation and regulatory examinations arising in the normal course of business. Management believes that the ultimate outcome of these matters will not have any material impact on the District's net assets, operations, or its cash flows, except as described below.

The District has been named as a defendant in a number of malpractice lawsuits. In the event that a claim exceeds its sovereign immunity level, the District may incur charges in excess of its established reserves that could have an adverse impact on the District's net income and net cash flows in the period in which it is recorded or paid. In order for the District to incur liability in excess of its sovereign immunity level, a claims bill must be presented and sponsored by a Senator or Representative of the State of Florida, passed through Committee, and signed by the Governor of Florida according to Florida Statute 768.28.

During fiscal year 2010, the District had entered into a settlement agreement for approximately \$2.2 million on one claim. During fiscal year 2011, the claim was approved for settlement through the claims bill process and the self-insured retention ("SIR") amount was subsequently paid in July 2011.

During fiscal year 2011, the District entered into two settlement agreements for approximately \$12.6 million on one claim and \$3.0 million on the other claim. Final payment of the SIR amounts related to these claims was paid in fiscal year 2012.

# North Broward Hospital District

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

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#### **Regulatory Matters**

On May 16, 2011, the Office of Inspector General (“OIG”) of the Department of Health and Human Services issued a Subpoena Duces Tecum (the “Subpoena”) to the District seeking certain documents principally related to contracts with 27 physicians and one group practice in connection with an investigation concerning the possible submission of false or otherwise improper claims for payment under Titles XVIII (Medicare) and XIX (Medicaid) of the Social Security Act. Since receiving the Subpoena, the District has produced a number of documents in connection with the investigation. The District is unable to predict the outcome of this investigation and the liability, if any, with respect to this matter.

#### **Other Industry Risks**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. There have also been numerous lawsuits filed against nonprofit hospitals related to charity care. These lawsuits allege various hospital practices related to the uninsured, including, among other things, charging uninsured patients more than what insurers would pay for the same services, rapidly raising prices, and aggressive collection policies. Management believes that the District is in compliance with current laws and regulations and that the District’s ultimate exposure from any such matters would not have a material effect on the consolidated basic financial statements of the District.

## **Required Supplementary Financial Information**

**North Broward Hospital District**  
**Schedule of Plan Funding Progress (Unaudited)**  
**July 1, 2006 Through July 1, 2011**

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<b>Actuarial Valuation Date</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL) Entry Age Normal (1)</b>	<b>(b-a) Unfunded AAL (UAAL)</b>	<b>(a/b) Funded Ratio</b>	<b>(c) Covered Payroll</b>	<b>(b-a)/(c) UAAL as a Percentage of Covered Payroll</b>
July 1, 2006	\$ 210,180,785	\$ 240,140,072	\$ 29,959,287	87.5 %	\$ 258,695,818	11.6 %
July 1, 2007	243,387,658	264,201,359	20,813,701	92.1	262,897,281	7.9
July 1, 2008	236,813,323	276,451,861	39,638,538	85.7	280,724,210	14.1
July 1, 2009	199,756,948	283,668,256	83,911,308	70.4	307,857,632	27.3
July 1, 2010	223,868,733	295,535,342	71,666,609	75.8	315,874,420	22.7
July 1, 2011	227,760,809	303,832,772	76,071,963	75.0	335,100,745	22.7

**North Broward Hospital District**  
**Historical Summary of Actual and Required Pension Contributions (Unaudited)**  
**July 1, 2006 Through July 1, 2011**

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<b>(Fiscal) plan year</b>	<b>Employer Contributions</b>	
	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
July 1, 2006	\$ 15,769,221	99.5 %
July 1, 2007	15,351,540	109.7
July 1, 2008	17,277,956	91.5
July 1, 2009	19,787,211	106.4
July 1, 2010	18,229,982	107.8
July 1, 2011	19,067,352	76.5

**North Broward Hospital District**  
**Schedule of Plan Funding Progress Under GASB Statement No. 45 (Unaudited)**  
**July 1, 2008 Through July 1, 2011**

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Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Projected Unit Credit	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	(b-a)/(c) UAAL as a Percentage of Covered Payroll
July 1, 2008	\$ -	211,363,948	211,363,948	0.0 %	351,893,000	60.1 %
July 1, 2009	-	241,769,211	241,769,211	0.0	356,591,000	67.8
July 1, 2011	-	256,467,715	256,467,715	0.0	374,753,000	68.4

In accordance with post-retirement benefit guidance, actuarial valuations are completed on a biannual basis. The last valuation was completed as of July 1, 2011.

## **Supplemental Consolidating Information**

**North Broward Hospital District**  
**Consolidating Schedule of Net Assets**  
**June 30, 2012**

<i>(in thousands of dollars)</i>	<b>Broward Health Medical Center</b>	<b>Broward Health North</b>	<b>Broward Health Imperial Point</b>	<b>Broward Health Coral Springs</b>	<b>Other Non Hospital Entities</b>	<b>Eliminations</b>	<b>Total</b>
<b>Assets</b>							
<b>Current assets</b>							
Cash and cash equivalents	\$ 8	\$ 5	\$ 1	\$ 4	\$ 32,260	\$ -	\$ 32,278
Cash and investments externally restricted by donors	-	-	-	-	10,092	-	10,092
Short-term investments	-	-	-	-	360,882	-	360,882
Assets whose use is limited required for current liabilities	2,631	1,231	524	422	380	-	5,188
Due from patients and other, net of allowance for uncollectibles	83,164	31,919	13,682	19,744	6,900	-	155,409
Inventories	11,736	5,162	2,937	3,665	776	-	24,276
Estimated third-party payor settlements	-	-	-	1,612	-	-	1,612
Other current assets	36,816	13,666	5,368	7,397	29,215	(6,773)	85,689
Total current assets	<u>134,355</u>	<u>51,983</u>	<u>22,512</u>	<u>32,844</u>	<u>440,505</u>	<u>(6,773)</u>	<u>675,426</u>
<b>Assets whose use is limited</b>							
Held by trustee for self-insurance	15,941	11,956	5,797	725	1,800	-	36,219
Less amount required to meet current obligations	(2,631)	(1,231)	(524)	(422)	(380)	-	(5,188)
Assets whose use is limited, net	<u>13,310</u>	<u>10,725</u>	<u>5,273</u>	<u>303</u>	<u>1,420</u>	<u>-</u>	<u>31,031</u>
Investments	-	-	-	-	139,337	-	139,337
Due to (from) affiliates	397,171	135,180	73,858	141,901	(748,110)	-	-
Capital assets, net	197,862	51,865	51,445	57,115	73,210	-	431,497
Other assets	17,404	657	400	309	2,581	(22)	21,329
Total assets	<u>\$ 760,102</u>	<u>\$ 250,410</u>	<u>\$ 153,488</u>	<u>\$ 232,472</u>	<u>\$ (91,057)</u>	<u>\$ (6,795)</u>	<u>\$ 1,298,620</u>

**North Broward Hospital District**  
**Consolidating Schedule of Net Assets (continued)**  
**June 30, 2012**

(in thousands of dollars)

	<b>Broward Health Medical Center</b>	<b>Broward Health North</b>	<b>Broward Health Imperial Point</b>	<b>Broward Health Coral Springs</b>	<b>Other Non Hospital Entities</b>	<b>Eliminations</b>	<b>Total</b>
<b>Liabilities and Net Assets</b>							
Current liabilities							
Current maturities of revenue bonds payable	\$ 3,891	\$ 1,457	\$ 1,313	\$ 1,398	\$ 1,956	\$ -	\$ 10,015
Accounts payable and accrued expenses	30,621	14,870	8,954	11,004	28,259	(6,773)	86,935
Accrued salaries, benefits and payroll taxes	12,402	5,306	3,042	3,988	25,526	-	50,264
Accrued personal leave	11,188	4,935	2,765	3,655	8,740	-	31,283
Current portion of lease obligations	591	16	15	11	1,333	-	1,966
Estimated third-party payor settlements	11,749	1,960	123	-	500	-	14,332
Current portion of self-insurance program liability	2,631	1,231	524	422	380	-	5,188
Interest payable	1,173	467	321	278	628	-	2,867
Total current liabilities	74,246	30,242	17,057	20,756	67,322	(6,773)	202,850
Revenue bonds, net of current maturities	141,859	25,898	24,613	27,006	34,738	-	254,114
Lease obligations	80	58	53	36	707	-	934
Self-insurance program liability	8,338	10,218	5,050	35	1,561	-	25,202
Early retirement incentive program liability	8,655	5,052	1,713	2,373	3,526	-	21,319
Other postemployment benefit program liability	17,575	7,883	4,103	5,675	8,054	-	43,290
Liability related to hedging instruments	33,894	5,280	2,943	2,006	7,084	-	51,207
Other long-term liabilities	-	-	-	-	22	(22)	-
Total liabilities	284,647	84,631	55,532	57,887	123,014	(6,795)	598,916
Minority interest	-	-	-	-	454	-	454
Commitments and contingencies							
Net assets							
Invested in capital assets, net of related debt	51,441	24,436	25,453	28,663	34,475	-	164,468
Restricted net assets - donor restrictions	1,269	360	70	263	8,768	-	10,730
Unrestricted	422,745	140,983	72,433	145,659	(257,768)	-	524,052
Total net assets	475,455	165,779	97,956	174,585	(214,525)	-	699,250
Total liabilities and net assets	\$ 760,102	\$ 250,410	\$ 153,488	\$ 232,472	\$ (91,057)	\$ (6,795)	\$ 1,298,620

**North Broward Hospital District**  
**Consolidating Schedule of Revenues, Expenses, and Changes in Net Assets**  
**Year Ended June 30, 2012**

*(in thousands of dollars)*

	<b>Broward Health Medical Center</b>	<b>Broward Health North</b>	<b>Broward Health Imperial Point</b>	<b>Broward Health Coral Springs</b>	<b>Other Non Hospital Entities</b>	<b>Eliminations</b>	<b>Total</b>
<b>Operating revenues</b>							
Net patient service revenue (net of provision for uncollectible accounts)	\$ 398,384	\$ 191,285	\$ 94,332	\$ 138,230	\$ 46,337	\$ -	\$ 868,568
Other operating revenue	22,520	8,934	4,323	4,593	59,109	(5,756)	93,723
Total operating revenues	420,904	200,219	98,655	142,823	105,446	(5,756)	962,291
<b>Operating expenses</b>							
Salaries	176,077	80,700	42,292	59,751	112,554	-	471,374
Employee benefits	43,087	20,706	10,061	12,436	28,474	(1,143)	113,621
Professional fees	3,923	1,885	1,080	2,194	58,037	-	67,119
Purchased services and temporary labor	3,066	2,412	1,130	1,962	1,278	-	9,848
Outside services	7,975	7,962	1,061	2,510	20,487	-	39,995
Supplies	97,378	47,903	19,909	26,293	12,828	-	204,311
Insurance	1,600	711	419	520	1,256	-	4,506
Utilities	6,545	2,386	1,975	1,872	3,765	-	16,543
Repairs and maintenance	7,937	3,555	2,055	2,841	3,781	-	20,169
State assessments	5,318	2,242	1,345	1,944	215	-	11,064
Depreciation and amortization	18,220	7,520	5,181	5,772	15,743	-	52,436
Other	60,871	30,259	17,055	23,294	(61,730)	(4,613)	65,136
Total operating expenses	431,997	208,241	103,563	141,389	196,688	(5,756)	1,076,122
Operating (loss) income	(11,093)	(8,022)	(4,908)	1,434	(91,242)	-	(113,831)
<b>Nonoperating revenues (expenses)</b>							
Unrestricted property tax revenue	45,521	24,009	8,199	13,028	58,771	-	149,528
Investment (loss) gain, net	24	27	160	249	(1,307)	-	(847)
Interest expense	(7,645)	(1,363)	(939)	(772)	(1,978)	-	(12,697)
Other	(4,326)	(1,468)	(366)	(457)	460	-	(6,157)
Total nonoperating revenues	33,574	21,205	7,054	12,048	55,946	-	129,827
Gain before capital contributions and changes in fair value of hedging instruments	22,481	13,183	2,146	13,482	(35,296)	-	15,996
Capital contributions (grant and other)	30	67	-	1	634	-	732
Increase in fair value of hedging instruments	(19,451)	(2,118)	(1,181)	(805)	(2,841)	-	(26,396)
Increase (decrease) in net assets	3,060	11,132	965	12,678	(37,503)	-	(9,668)
<b>Net assets</b>							
Beginning of year	472,395	154,647	96,991	161,907	(177,022)	-	708,918
End of year	\$ 475,455	\$ 165,779	\$ 97,956	\$ 174,585	\$ (214,525)	\$ -	\$ 699,250

## **Supplemental Schedules**

**North Broward Hospital District**  
**Schedule of Functional Expenses of Broward County Grants**  
**Year Ended June 30, 2012**

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	<u>Ryan White Ambulatory Care 272103</u>	<u>Medical Home 272128</u>	<u>Ryan White Ambulatory Care 111206</u>	<u>Ryan White Case Mgmt 111210</u>	<u>Ryan White Pharmacy 111211</u>	<u>Total</u>
<b>Direct expenses</b>						
Salaries	\$ 224,758	\$ 621,972	\$ 794,294	\$ 126,961	\$ 4,084	\$ 1,772,069
Agency	427	-	-	-	-	427
Employee benefits	80,066	227,927	133,736	44,695	865	487,289
Fees-other	40,347	10,563	47,639	1,455	-	100,004
Supplies	12,065	12,351	-	-	31,162	55,578
Other	156,844	93,550	523,734	(519)	(499)	773,110
Total direct expenses	514,507	966,363	1,499,403	172,592	35,612	3,188,477
Common service	10,363	35,743	275,353	38,604	8,504	368,567
Administration allocation	19,511	36,633	-	-	-	56,144
Total expenses	<u>\$ 544,381</u>	<u>\$ 1,038,739</u>	<u>\$ 1,774,756</u>	<u>\$ 211,196</u>	<u>\$ 44,116</u>	<u>\$ 3,613,188</u>

**North Broward Hospital District**  
**Schedule of Revenues, Expenses and Cash Receipts of Broward County Grants**  
**Year Ended June 30, 2012**

	<u>Ryan White Ambulatory Care 272103</u>	<u>Medical Home 272128</u>	<u>Ryan White Ambulatory Care 111206</u>	<u>Ryan White Case Mgmt 111210</u>	<u>Ryan White Pharmacy 111211</u>	<u>Total</u>
<b>Revenues</b>						
Grant revenue - federal	\$ 514,106	\$ -	\$ 1,716,385	\$ 122,512	\$ 30,663	\$ 2,383,666
Grant revenue - county	-	807,279	-	-	-	807,279
Grant Revenue - private	301	-	-	-	-	301
Other revenue (net)	8,500	12	-	-	-	8,512
Total revenues	<u>522,907</u>	<u>807,291</u>	<u>1,716,385</u>	<u>122,512</u>	<u>30,663</u>	<u>3,199,758</u>
<b>Direct expenses</b>						
Salaries	224,758	621,972	794,294	126,961	4,084	1,772,069
Agency	427	-	-	-	-	427
Employee benefits	80,066	227,927	133,736	44,695	865	487,289
Fees-other	40,347	10,563	47,639	1,455	-	100,004
Supplies	12,065	12,351	-	-	31,162	55,578
Other	156,844	93,550	523,734	(519)	(499)	773,110
Total direct expenses	<u>514,507</u>	<u>966,363</u>	<u>1,499,403</u>	<u>172,592</u>	<u>35,612</u>	<u>3,188,477</u>
Common service	10,363	35,743	275,353	38,604	8,504	368,567
Administration allocation	19,511	36,633	-	-	-	56,144
Total expenses	<u>544,381</u>	<u>1,038,739</u>	<u>1,774,756</u>	<u>211,196</u>	<u>44,116</u>	<u>3,613,188</u>
Deficiency of revenues over expenses	<u>\$ (21,474)</u>	<u>\$ (231,448)</u>	<u>\$ (58,371)</u>	<u>\$ (88,684)</u>	<u>\$ (13,453)</u>	<u>\$ (413,430)</u>
Cash receipts	<u>\$ 575,042</u>	<u>\$ 850,779</u>	<u>\$ 1,912,853</u>	<u>\$ 117,374</u>	<u>\$ 28,112</u>	<u>\$ 3,484,160</u>

**North Broward Hospital District**  
**Baker Act Contract – Schedule of State Earnings**  
**Year Ended June 30, 2012**

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	<b>Total</b>
Total expenditures	<u>\$ 2,666,454</u>
Less: Other State and Federal Funds	371,127
Less: Non Match SAMH Funds	<u>56,843</u>
Total allowable expenditures	2,238,484
Maximum allowable earnings	1,678,863
Amount of State Funds Requiring Match	<u>28,472</u>
Amount due to Department of Children and Families	<u>\$ 1,650,391</u>

**North Broward Hospital District**  
**Schedule of Program/Cost Center Actual Funding Sources and Revenues and Expenses**  
**Year Ended June 30, 2012**

<b>Funding Sources and Revenues</b>	<b>Mental Health Grants</b>	<b>Total for Program 1</b>	<b>Total for State SAMH-Funded Cost Centers</b>	<b>Total for Non State-Funded SAMH Cost Centers</b>	<b>Total for All State-Designated SAMH Cost Centers</b>	<b>Non SAMH Cost Center</b>	<b>Total Funding</b>
<b>State Substance Abuse and Mental Health (SAMH) funding</b>							
Mental health grant from Department of Children and Families	\$ 85,315	\$ 85,315	\$ 85,315	\$ -	\$ 85,315	\$ -	\$ 85,315
Total state SAMH funding	<u>85,315</u>	<u>85,315</u>	<u>85,315</u>	<u>-</u>	<u>85,315</u>	<u>-</u>	<u>85,315</u>
<b>Other government funding</b>							
Medicaid	230,059	230,059	230,059	-	230,059	637,042	867,101
Total other government funding	<u>230,059</u>	<u>230,059</u>	<u>230,059</u>	<u>-</u>	<u>230,059</u>	<u>637,042</u>	<u>867,101</u>
<b>Other revenues</b>							
3rd party payments (except Medicare)	32,281	32,281	32,281	-	32,281	514,694	546,975
Medicare	141,068	141,068	141,068	-	141,068	1,792,812	1,933,880
Other	698,837	698,837	698,837	-	698,837	194,165	893,002
Total other revenues	<u>872,186</u>	<u>872,186</u>	<u>872,186</u>	<u>-</u>	<u>872,186</u>	<u>2,501,671</u>	<u>3,373,857</u>
Total funding sources and revenues	<u>\$ 1,187,560</u>	<u>\$ 1,187,560</u>	<u>\$ 1,187,560</u>	<u>\$ -</u>	<u>\$ 1,187,560</u>	<u>\$ 3,138,713</u>	<u>\$ 4,326,273</u>

**North Broward Hospital District**  
**Schedule of Program/Cost Center Actual Funding Sources and Revenues and Expenses (continued)**  
**Year Ended June 30, 2012**

<b>Expense Categories</b>	<b>Mental Health Grants</b>	<b>Total for Program 1</b>	<b>Total for State -Funded SAMH Cost Centers</b>	<b>Total for Non State-Funded SAMH-Cost Centers</b>	<b>Total for All State-Designated SAMH Cost Centers</b>	<b>Non SAMH Cost Center</b>	<b>Other Support Costs (Optional)</b>	<b>Administration</b>	<b>Total Expenses</b>
<b>Personnel expenses</b>									
Salaries	\$ 1,332,800	\$ 1,332,800	\$ 1,332,800	\$ -	\$ 1,332,800	\$ 4,176,953	\$ 274,204	\$ -	\$ 5,783,957
Fringe benefits	373,184	373,184	373,184	-	373,184	306,320	20,243	-	699,747
Total personnel expenses	<u>1,705,984</u>	<u>1,705,984</u>	<u>1,705,984</u>	<u>-</u>	<u>1,705,984</u>	<u>4,483,273</u>	<u>294,447</u>	<u>-</u>	<u>6,483,704</u>
<b>Other expenses</b>									
Travel	446	446	446	-	446	-	-	-	446
Equipment	16	16	16	-	16	-	-	-	16
Food services	666	666	666	-	666	-	-	-	666
Medical and pharmacy	43,525	43,525	43,525	-	43,525	-	-	-	43,525
Subcontracted services	70,720	70,720	70,720	-	70,720	-	-	-	70,720
Operating supplies and expenses	20,347	20,347	20,347	-	20,347	106,175	152	-	126,674
Other	321,687	321,687	321,687	-	321,687	138,581	-	-	460,268
Total other expenses	<u>457,407</u>	<u>457,407</u>	<u>457,407</u>	<u>-</u>	<u>457,407</u>	<u>244,756</u>	<u>152</u>	<u>-</u>	<u>702,315</u>
Total personnel and other expenses	<u>2,163,391</u>	<u>2,163,391</u>	<u>2,163,391</u>	<u>-</u>	<u>2,163,391</u>	<u>4,728,029</u>	<u>294,599</u>	<u>-</u>	<u>7,186,019</u>
<b>Distributed indirect costs</b>									
Other support costs (optional)	503,063	503,063	503,063	-	503,063	-	-	-	503,063
Total distributed indirect costs	<u>503,063</u>	<u>503,063</u>	<u>503,063</u>	<u>-</u>	<u>503,063</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>503,063</u>
Total actual operating expenses	<u>2,666,454</u>	<u>2,666,454</u>	<u>2,666,454</u>	<u>-</u>	<u>2,666,454</u>	<u>4,728,029</u>	<u>294,599</u>	<u>-</u>	<u>7,689,082</u>
Total allowable operating expenses	<u>\$ 2,666,454</u>	<u>\$ 2,666,454</u>	<u>\$ 2,666,454</u>	<u>\$ -</u>	<u>\$ 2,666,454</u>	<u>\$ 4,728,029</u>	<u>\$ 294,599</u>	<u>\$ -</u>	<u>\$ 7,689,082</u>



**Report of Independent Certified Public Accountants on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

To the Board of Commissioners of  
North Broward Hospital District

We have audited the consolidated basic financial statements of North Broward Hospital District (the "District") as of and for the year ended June 30, 2012, and have issued our report thereon dated September 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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



### **Compliance and Other Matters**

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

We noted certain matters that we reported to management of the District in a separate letter dated December 7, 2012.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the entity, State of Florida Office of the Auditor General, federal and state awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*PricewaterhouseCoopers LLP*

September 30, 2012

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***North Broward  
Hospital District***  
Letter of comments  
and recommendations  
June 30, 2012

December 7, 2012





The Audit Committee of the Board of Commissioners  
of North Broward Hospital District  
303 Southeast 17th Street  
Fort Lauderdale, Florida 33316

Management of North Broward Hospital District  
303 Southeast 17<sup>th</sup> Street  
Fort Lauderdale, FL 33316

December 7, 2012

Dear Members of the Audit Committee and Management:

In planning and performing our audit of the consolidated basic financial statements of the North Broward Hospital District (the "District") as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we consider its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the District's internal control over financial reporting. Accordingly, we do not express an opinion on the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and is not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, of the AICPA Professional Standards includes the following definitions of a deficiency, a significant deficiency and a material weakness:

**Deficiency**—a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

**Significant Deficiency**—a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Material Weakness**—a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.



We are providing you with a full detail report of all deficiencies and operational or business observations that came to our attention in performing our audit.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which governs the conduct of local government entity audits performed in the State of Florida and requires that the “Letter of Comments and Recommendations” address the following matters, which are not included in the aforementioned auditor’s report:

- The Rules of the Auditor General (Section 10.554(1)(i)1.), require that we comment as to whether or not corrective actions have been taken to address recommendations made in the preceding annual financial audit report. The current status of comments reported in fiscal year 2011 is included in the status of prior year’s recommendations section of the attachment.
- As required by the Rules of the Auditor General (Section 10.554(1)(i)2.), we determined that the District complied with Section 218.415, Florida Statutes, regarding the investment of public funds.
- The Rules of the Auditor General (Section 10.554(1)(i)3.), require that we address in the management letter any recommendations to improve financial management. In connection with our audit, we are submitting for consideration the accompanying recommendations designed to help improve financial management.
- The Rules of the Auditor General (Section 10.554(1)(i)4.), require that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the consolidated basic financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- The Rules of the Auditor General (Section 10.554(1)(i)5.), require, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred; (2) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. We are submitting for consideration the accompanying recommendations designed to help improve internal control and ensure compliance with laws and regulations as required by the Rules of the Auditor General (Section 10.554(1)(i)5.).



- The Rules of the Auditor General (Section 10.554(1)(i)6.), require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the consolidated basic financial statements. We determined that this information is disclosed in the notes to the June 30, 2012 consolidated basic financial statements.
- The Rules of the Auditor General (Section 10.554(1)(i)7.a.), require a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- As required by the Rules of the Auditor General (Section 10.554(1)(i)7.b.), we determined that the annual financial report for the District for the year ended June 30, 2012, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended June 30, 2012. In connection with our audit, we determined that these two reports were in agreement.
- As required by the Rules of the Auditor General (Sections 10.554(1)(i)7.c. and 10.556(7)), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. In connection with our audit, our procedures did not disclose deteriorating financial conditions as defined in the aforementioned section.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the Board of Commissioners, management, others within the entity, State of Florida Office of the Auditor General, federal and state awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

If you would like any further information or would like to discuss any of the issues raised, please contact Ann Payne, Engagement Partner, at (813) 351-3378.

Yours very truly,

*PricewaterhouseCoopers LLP*

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## ***I. Current Year Comments and Recommendations***

### **1. Implementation of New Pronouncements Should be Addressed by Management**

In the past few years, a number of new Governmental Accounting Standards Board (“GASB”) pronouncements have been finalized which will need to be adopted by the District in the coming years. The adoption of some of these pronouncements may already be in the process of being evaluated by Management. In addition to GASB Statement No. 62 and GASB Statement No. 63, which were communicated last year, the following new pronouncements currently issued but not adopted as of June 30, 2012 include the following:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations, and limits the use of the term deferred in the financial statements. The provisions of GASB No. 65 are effective for financial statements for periods beginning after December 15, 2012. This statement will need to be adopted by the District for the year ended June 30, 2014.
- GASB Statement No. 66, *Technical Corrections – 2012, an Amendment of GASB Statements No. 10 and No. 62*, resolves conflicting guidance that resulted from the issuance of two pronouncements, GASB Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 66 amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in GASB Statement No. 54 and GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. GASB No. 66 also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The provisions of GASB No. 66 are effective for financial statements for periods

beginning after December 15, 2012. This statement, similar to GASB No. 66, will need to be adopted by the District for the year ended June 30, 2014.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*, improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB No. 68 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. GASB No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, GASB No. 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. In addition, GASB No. 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. GASB No. 68 is effective for fiscal years beginning after June 15, 2014. This statement will need to be adopted by the District for the year ended June 30, 2015.

#### Management's Response:

Management agrees with the recommendation and will evaluate and implement the new GASBs as necessary for the fiscal years 2013 and future years' consolidated financial statements, as applicable.

## **2. Evaluation of Fair Value of Investments at Year-end**

Management should ensure that all relevant fair value adjustments for investment are obtained and evaluated in connection with year-end financial reporting. For certain investment balances held by the District, timely valuation information is not available from the District's investment managers. The District has procedures in place to request the most recent available information and estimate the valuation at the time their books are closed in connection with the year-end closing process. Although the District performs certain due diligence procedures to address the availability of fair value information relating to their investments, their process should be enhanced to include additional procedures subsequent to closing the books to obtain updated information that could impact the year-end investment balances as it becomes available subsequent to year-end to ensure that investments balances are accurately stated as of the balance sheet date.

**Management's Response:**

Management agrees with the recommendations and will add additional year-end procedures to ensure the investments are stated as accurately as possible.

**3. Ensure Proper Documentation of Oversight for Changes to the Charge Description Master (CDM)**

Consistent with the District's policy, "Siemen's Charge Description Maintenance ("CDM")", documentation of appropriate approval should be completed prior to adding, changing, deactivating, or reactivating CDM codes. This should include consultation with the Regional Chief Financial Officer or his/her designee to determine appropriate price and approval from an appropriate Director or Manager. We recommend use of standardized documentation to ensure that proper evidence of approval is obtained and maintained by the District.

**Management's Response:**

Management will review the policy and revise the policy if necessary to ensure that charge changes are made appropriately and consistent with the policy.

**4. Physical Inventory Counts**

The District should evaluate their physical inventory practices and procedures. In the past two years, the District has had issues with the accuracy of the physical counts due to the outsourcing of this process to third party vendors. In fiscal year 2012, this resulted in certain inventories being recounted due to issues with the initial physical inventory. One alternative that management may want to consider is the practice of bringing the annual physical inventory counts in-house. Management should also ensure that all inventory balances are being counted at least once a year. Consideration of these recommendations would assist in ensuring the appropriateness of District's physical inventory in connection with the preparation of the year-end consolidated financial statements.

**Management's Response:**

Management is currently evaluating the most appropriate practice to use to account for its inventory. Management currently counts its inventory balances once per year and will continue to do so. It is a very large undertaking for this size organization to do the inventory using internal resources. Additional due diligence will be used in evaluating any company that will be used in the future.

## ***II. Status of Prior Year's Recommendations***

In connection with an audit of the District's June 30, 2011 consolidated financial statements, we made certain comments and recommendations, which have been reviewed in order to determine the status of implementation. A summary of the status of prior year's recommendations is as follows:

Recommendations	Status
<ul style="list-style-type: none"> <li>■ GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements</li> </ul>	Management continues to evaluate and implement the new GASB as necessary for the fiscal year 2013, as applicable.
<ul style="list-style-type: none"> <li>■ GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position</li> </ul>	Management continues to evaluate and implement the new GASB as necessary for the fiscal year 2013, as applicable.
<ul style="list-style-type: none"> <li>■ GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53</li> </ul>	Comment implemented by management in fiscal year 2012.
<ul style="list-style-type: none"> <li>■ Maintaining Support for Accounting Policy Judgments</li> </ul>	Comment implemented by management in fiscal year 2012.
<ul style="list-style-type: none"> <li>■ Evaluation of the Sufficiency Resources and the Need for Centralization of Functions Related to Information Security</li> </ul>	Comment implemented by management in fiscal year 2012.



**Section Two - Sharpton, Brunson & Company, P.A.**



# SHARPTON, BRUNSON & COMPANY, P.A.

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### **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

To the Board of Commissioners  
of North Broward Hospital District  
Fort Lauderdale, Florida

#### **Compliance**

We have audited the North Broward Hospital District's (the "District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the requirements described in the Department of Financial Services' State Projects Compliance Supplement, that could have a direct and material effect on each of the District's major Federal programs and State projects for the year ended June 30, 2012. The District's major Federal programs and State projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs and State projects is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit. We did not audit the federal award programs of the Children Diagnostic and Treatment Center, Inc. ("CDTC"), a subsidiary of the District, which expended approximately, \$8,307,000 in federal awards during the year ended June 30, 2012. Those federal awards were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amount of federal awards expended by CDTC, is based solely on the report of the other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.550, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion. Our audit and the audit performed by the other auditors do not provide a legal determination of the District's compliance with those requirements.

In our opinion, based on our audit and the report of the other auditors, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs and State projects for the year ended June 30, 2012.

## Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we and the other auditors considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program or State project to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we and the other auditors do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program or State project on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, *in internal control over compliance*, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program or State project will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the Board of Commissioners of North Broward Hospital District, others within the entity, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Sharpton Brunson & Company, P.A.*

September 30, 2012

**North Broward Hospital District  
 Schedule of Findings and Questioned Costs – Federal Program and State  
 Projects  
 Year Ended June 30, 2012**

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**Section I - Summary of Auditor's Results**

***Financial Statements:***

Type of auditor's report issued:

**Unqualified Opinion**

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_ Yes    X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_ Yes    X No
- Noncompliance material to financial statements noted? \_\_\_ Yes    X No

The auditors' report and opinion on the consolidated basic financial statements, and report on compliance and internal control based on the audit of the consolidated basic financial statements were issued by other auditors.

***Federal Awards:***

Internal control over major programs:

- Material weakness(es) identified? \_\_\_ Yes    X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_ Yes    X No

Type of auditor's report issued on compliance for major programs: **Unqualified Opinion**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

\_\_\_ Yes    X No

**Identification of major federal programs:**

<b><u>CFDA Number(s)</u></b>	<b><u>Name of Federal Program or Cluster</u></b>
93.526	Affordable Care Act (ACA) Grants for Capital Development in Health Centers
93.778	Medical Assistance Program
93.914	HIV Emergency Relief Project Grants (Ryan White Part A)
	<b><i>Health Centers Cluster:</i></b>
93.224	Consolidated Health Centers (Health Care for the Homeless)
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program
	<b><i>Early Intervention Services (IDEA) Cluster:</i></b>
*84.181	Special Education – Grants for Infants and Families with Disabilities
*84.393	ARRA - Special Education – Grants for Infants and Families with Disabilities

Dollar threshold used to distinguish between Type A and Type B programs (District):

\$ 300,000

\*Type A and Type B programs (CDTC):

\$ 300,000

Auditee qualified as low-risk auditee?

\_\_\_ Yes    X No

\* Programs administered by Children Diagnostic & Treatment Center, Inc. (CDTC)

**North Broward Hospital District  
 Schedule of Findings and Questioned Costs – Federal Program and State  
 Projects  
 Year Ended June 30, 2012**

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**Section I – Summary of Auditor’s Results (continued)**

***State Projects:***

**Type of auditor’s report issued: Unqualified Opinion**

Internal control over major projects:

- Material weakness(es) identified?        Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?        Yes   X   No

Type of auditor’s report issued on compliance for major projects: **Unqualified Opinion**

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.550 “Rules of the Auditor General?”        Yes   X   No

**Identification of major state projects:**

<b><u>CSFA Numbers</u></b>	<b><u>Name of State Projects</u></b>
65.002	Alzheimer Model Day Care
64.075	Trauma Center Financial Support (Red Light)

Dollar threshold used to distinguish between Type A and Type B projects: \$ 300,000

**North Broward Hospital District**  
**Schedule of Findings and Questioned Costs - Federal Programs and State**  
**Projects**  
**Year Ended June 30, 2012**

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**Section II – Financial Statement Findings and Questioned Costs**

None noted.

**Section III – Current Year Findings - Federal Awards and State Projects**

**Federal Awards**

No current year findings.

**State Projects**

No current year findings.

**Section IV – Prior Year Findings - Federal Awards and State Projects**

**Federal Awards**

No prior year findings.

**State Projects**

No prior year findings.

**Consolidated Schedule of Expenditures of  
Federal Awards and State Projects**

# North Broward Hospital District

## Consolidated Schedule of Expenditures of Federal Awards and State Projects

### Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	CFDA No.	Contract Grant No.	Federal Expenditures	Transfers to Sub-recipients
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
<b>Direct programs:</b>				
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	6 H76HA00210-14-01	\$ 898,236	\$ 87,706
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	1C8ACS21374-01-00	399,209	-
Affordable Care Act (ACA) Grants for School Based Health Centers Capital Expenditures	93.501	C12CS21903-01-00	55,388	-
ARRA-Grants to Health Center Programs (Capital Improvement Program)	93.703	C81CS14055-01-03	177,709	-
* Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	6H12HA2306-10-04	102,914	-
* Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	6H12HA23036-11-03	1,964,505	-
Total for Coordinated Services and Access to Research for Women, Infants, Children, and Youth			<u>2,067,419</u>	<u>-</u>
<b>Health centers cluster:</b>				
Consolidated Health Centers (Health Care for the Homeless)	93.224	6H80CS00019-10-03	551,918	33,250
Consolidated Health Centers (Health Care for the Homeless)	93.224	2 H80CS00019-11-05	609,653	39,617
Total Consolidated Health Centers (Health Care for the Homeless)			<u>1,161,571</u>	<u>72,867</u>
Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Centers Program	93.527	2 H80CS00019-11-05	413,679	26,882
Total health centers cluster			<u>1,575,250</u>	<u>99,749</u>
Total U.S. Department of Health and Human Services direct programs:			<u>5,173,211</u>	<u>187,455</u>
<b>Pass-through Broward County:</b>				
HIV Emergency Relief Project Grants (RW Part A - Out Patient Medical)	93.914	08HCS8111RW-July 2011 Funding Renewal Letter (Amend 10 - OAM)	121,079	-
HIV Emergency Relief Project Grants (RW Part A - Out Patient Medical)	93.914	08HCS8111RW-August 2011 Funding Renewal Letter (Amend 10 - OAM)	204,848	-
HIV Emergency Relief Project Grants (RW Part A - Out Patient Medical)	93.914	08HCS8111RW-September 2011 Funding Renewal Letter (Amend 10 - OAM)	262,605	-
HIV Emergency Relief Project Grants (RW Part A - Out Patient Medical)	93.914	11-CP--HCS-8111-RW (Oct.'11 through Feb.'12) OAM	992,261	-
HIV Emergency Relief Project Grants (RW Part A - Out Patient Medical)	93.914	11-CP--HCS-8111-RW Renewal Letter (Mar.'12-Feb.'13) OAM	523,447	-
HIV Emergency Relief Project Grants (MAI - RW Part A - Out Patient Medical)	93.914	08MAIHCS8111RW (Amend 3) 08MAIOAM Mar.'11-Feb.'12	78,242	-
HIV Emergency Relief Project Grants (MAI - RW Part A - Out Patient Medical)	93.914	08MAIHCS8111RW (Amend 4) 08MAIOAM Mar.'12-Jun.'12	49,981	-
HIV Emergency Relief Project Grants (RW CM)	93.914	08HCS8111RW-July 2011 Funding Renewal Letter (Amend 10 - MCM)	8,333	-
HIV Emergency Relief Project Grants (RW CM)	93.914	08HCS8111RW-August 2011 Funding Renewal Letter (Amend 10 - MCM)	7,390	-
HIV Emergency Relief Project Grants (RW CM)	93.914	08HCS8111RW-September 2011 Funding Renewal Letter (Amend 10 - MCM)	6,887	-
HIV Emergency Relief Project Grants (RW CM)	93.914	1-CP-HCS-8111-RW (Mar.'11 through Feb.'12) MCM plus Reallocation Letter 4/3/12	62,677	-
HIV Emergency Relief Project Grants (RW CM)	93.914	11-CP--HCS-8111-RW Renewal Letter (Mar.'12 - Feb.'13) MCM	38,215	-
HIV Emergency Relief Project Grants (RW Pharmacy)	93.914	08HCS8111RW-July 2011 Funding Renewal Letter (Amend 10 - APA)	1,629	-
HIV Emergency Relief Project Grants (RW Pharmacy)	93.914	08HCS8111RW-August 2011 Funding Renewal Letter (Amend 10 - APA)	2,799	-
HIV Emergency Relief Project Grants (RW Pharmacy)	93.914	08HCS8111RW-September 2011 Funding Renewal Letter (Amend 10 - APA)	2,261	-
HIV Emergency Relief Project Grants (RW Pharmacy)	93.914	11-CP--HCS-8111-RW (Oct.'11 through Feb.'12) APA	10,856	-
HIV Emergency Relief Project Grants (RW Pharmacy)	93.914	11-CP--HCS-8111-RW Renewal Letter (Mar.'12-Feb.'13) APA	13,119	-
Total HIV Emergency Relief Project Grants			<u>2,386,629</u>	<u>-</u>
<b>Pass-through Broward Healthy Start Coalition, Inc.</b>				
Medical Assistance Program	93.778	BHCC10	276,729	-
Maternal and Child Health Services Block Grant to the States	93.994	BHCC10	50,386	-
<b>Pass-through Area-wide Council on Aging</b>				
National Family Caregiver Support, Title III, Part E	93.052	JA111-50-2011	7,417	-
National Family Caregiver Support, Title III, Part E	93.052	JA012-50-2012	6,676	-
Total National Family Caregiver Support, Title III, Part E			<u>14,093</u>	<u>-</u>
<b>Research and development cluster:</b>				
<b>Pass-through National Childhood Cancer Foundation</b>				
Cancer Treatment Research (COG Trial)	93.395	020833 (Amend1)	21,250	-
Cancer Treatment Research (COG Trial)	93.395	020833 (Amend1)	8,800	-
<b>Pass-through University of Michigan</b>				
Cancer Treatment Research (SWOG CTI Trial) NBMC	93.395	CA-32102	2,000	-
Cancer Treatment Research (SWOG CTI Trial) BGMC	93.395	CA-32102	38,400	-
Total Cancer Treatment Research			<u>70,450</u>	<u>-</u>

\* Programs administered by Children Diagnostic & Treatment Center, Inc. (CDTC)

The accompanying note is an integral part of this schedule.

# North Broward Hospital District

## Consolidated Schedule of Expenditures of Federal Awards and State Projects

### Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	CFDA No.	Contract Grant No.	Federal Expenditures	Transfers to Sub-recipients
<b>Research and development cluster (cont'd):</b>				
<i>U.S. Department of Health and Human Services direct programs:</i>				
* Child Health and Human Development Extramural Research (Adolescent Medicine)	93.865	5U01HD040476-10(Revised)	107,886	-
<b>Pass-through University of Alabama at Birmingham</b>				
* Child Health and Human Development Extramural Research (HAART)	93.865	032-ATN 071(2U01HD040533-11)	9,293	-
* Child Health and Human Development Extramural Research (HAART)	93.865	032-ATN 071(5U01HD040533-12)	4,348	-
<b>Pass-through Harvard School of Public Health</b>				
* Child Health and Human Development Extramural Research (ATN Community)	93.865	2U01 HD052102-06	13,515	-
* Child Health and Human Development Extramural Research (ATN Community)	93.865	3U01 HD052102-07S1	124,288	-
* Child Health and Human Development Extramural Research (SMAART)	93.865	2U01 HD052102-06S1	13,822	-
* Child Health and Human Development Extramural Research (SMAART)	93.865	5U01 HD052102-07 Amend.#4	168,073	-
<b>Pass-through Westat Inc.</b>				
* Child Health and Human Development Extramural Research (ATN096)	93.865	8182-S12(5U01HD040533-10)	1,314	-
Total Child Health and Human Development Extramural Research			442,539	-
<b>Pass-through University of Miami</b>				
* ARRA-Trans-NIH Recovery Act Research Support (SMARTT)	93.701	1R01HD060325-02 Amend#3	2,000	-
<b>Pass-through Harvard School of Public Health</b>				
* ARRA-Trans-NIH Recovery Act Research Support	93.701	114050.0006(3U01HD052102-05S1)Amend	35,627	-
<b>Pass-through Westat Inc.</b>				
* ARRA-Trans NIH Recovery Act Research Support(ATN 093)	93.701	8771-S13 (3U01HD040533-09)Mod#2	17,067	-
* ARRA-Trans NIH Recovery Act Research Support(ATN 093)	93.701	8771-S13 (3U01HD040533-09)Mod#3	60,220	-
Total ARRA-Trans-NIH Recovery Act Research Support			114,914	-
<b>Pass-through The Regents of the University of California</b>				
* Mental Health Research Grant (AMP)	93.242	1R01MH084794-02A2(PO10305962-002)	6,359	-
* Mental Health Research Grant (AMP)	93.242	5R01MH084794-03(PO10305962-003)	7,447	-
Total Mental Health Research Grant			13,806	-
<b>Pass-through University of Miami</b>				
* Nursing Research (AMP MITO SUB)	93.361	5R01NR012885-02	3,000	-
Total research and development cluster			644,709	-
Total U.S Dept of Health and Human Services			8,545,757	187,455
<b>Department of Homeland Security</b>				
<b>Pass-through State of Florida Department of Community Affairs</b>				
Hazard Mitigation Grant	97.039	09HM-37-11-16-08-075	15,578	-
<b>U.S Department of Education</b>				
<b>Early Intervention Services (IDEA) Cluster:</b>				
<b>Pass-through State of Florida Department of Health</b>				
* Special Education-Grants for Infants and Families(MOE)	84.181	COQTW	1,265,948	-
* Special Education-Grants for Infants and Families(EIP)	84.181	COQTW	2,292,532	-
* Special Education-Grants for Infants and Families(MOE)	84.181	COQJR-R1 (Amend16)	821,474	-
* Special Education-Grants for Infants and Families(EIP)	84.181	COQJR-R1 (Amend16)	484,459	-
Total Special Education- Grants for Infants and Families			4,864,413	-
* ARRA-Special Education-Grants for Infants and Families, Recovery Act (EIP)	84.393	COQJR-R1 (Amend16)	800,411	-
Total Early Intervention Services (IDEA) Cluster			5,664,824	-
Total U.S Department of Education			5,664,824	-
Total Expenditures of Federal Awards			\$ 14,226,159	\$ 187,455

\* Programs administered by Children Diagnostic & Treatment Center, Inc. (CDTC) - \$8,306,502

The accompanying note is an integral part of this schedule.

**North Broward Hospital District  
Consolidated Schedule of Expenditures of Federal Awards and State Projects  
Year Ended June 30, 2012**

<u>State Agency/ State Project</u>	<u>CSFA No.</u>	<u>Contract Grant No.</u>	<u>State Expenditures</u>
<b>State of Florida Department of Health</b>			
Primary Care (Expansion Grant) 10-10 to 9-11	64.007	BW114	\$ 61,155
Primary Care (Expansion Grant) 10-11 to 9-12	64.007	BW161	184,281
Total Primary Care ( Expansion Grant)			<u>245,436</u>
Deerfield Beach Health Center	64.049	COH5E	367,149
Trauma Center Financial Support (Red Light)	64.075	MOU-TRA04 R	378,876
Trauma Center Financial Support (Red Light)	64.075	MOU-TRA13 R	225,701
Total Trauma Center Financial Support			<u>604,577</u>
Total State of Florida Department of Health			1,217,162
<b>State of Florida Department of Children and Families</b>			
Baker Act (Adult Mental Health) 7-11 to 6-12	60.006	JH330 Amendment #0002	85,417
<b>State of Florida Department of Elder Affairs</b>			
Alzheimer Model Day Care, Memory Disorder Clinics & Alzheimer Special Projects	65.002	XZ105	<u>227,801</u>
Total expenditures of state financial assistance			<u>\$ 1,530,380</u>

The accompanying note is an integral part of this schedule.

**North Broward Hospital District**  
**Note to the Consolidated Schedule of Expenditures of Federal Awards and State**  
**Projects**  
**Year Ended June 30, 2012**

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**General**

The accompanying Consolidated Schedule of Expenditures of Federal Awards and State Projects (the "Schedule") presents the activity of all federal awards and state projects of the North Broward Hospital District (the "District") for the year ended June 30, 2012. All federal awards and state projects expended from federal and state agencies, and federal awards passed through other government agencies are included in the Schedule.

**Basis of Presentation**

The accompanying Consolidated Schedule of Expenditures of Federal Awards and State Projects include the federal and state grant activity of the North Broward Hospital District and are presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and Chapter 10.550 "Rules of the Auditor General." Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the consolidated financial statements.

**Summary of Significant Accounting Policies**

Expenditures reported on the Consolidated Schedule of Expenditures of Federal Awards and State Projects are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**Contingencies**

Grant monies received and disbursed by the District are for specific purposes and are subject to review by the grantor agencies. Such audit may result in requests for reimbursements due to disallowed expenditures. Based upon prior experiences, the District does not believe that such disallowance, if any, would have a material effect on the financial position of the District.