

**NORTH BROWARD HOSPITAL DISTRICT**

Basic Financial Statements,  
Required Supplementary Information, and  
Supplemental Combining Information

June 30, 2016

(With Report of Independent Auditors' Thereon)

# NORTH BROWARD HOSPITAL DISTRICT

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## INDEPENDENT AUDITORS' REPORT

The Board of Commissioners  
North Broward Hospital District

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

We have audited the accompanying financial statements of the North Broward Hospital District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Broward Hospital District as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 22 to the financial statements, the District failed to comply with the terms of the Corporate Integrity Agreement and the impact of this noncompliance could have a material impact on the results of operations of the District. As discussed in Note 23 to the financial statements, multiple operational issues encountered during the year pose a significant business risk to the District. Our opinion is not modified with respect to these matters.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 10, and the schedule of changes in net pension liability and related ratios – defined benefit pension plan, the schedule of employer contributions – defined benefit pension plan, and the schedule of plan funding progress – other postemployment benefits on pages 58 to 60, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining information on pages 61 to 63 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Warren Averett, LLC*

Birmingham, Alabama  
February 24, 2017

## **NORTH BROWARD HOSPITAL DISTRICT**

### **Management's Discussion and Analysis (Unaudited)**

June 30, 2016

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, 2016 and for the fiscal year then ended. Please read this analysis in conjunction with the financial statements, which follow this section.

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.

#### **Overview of the Financial Statements**

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

#### **Required Financial Statements**

The District's financial statements report offers short-term and long-term financial information about its activities. The statement of net position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). The statement of net position also provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the District.

All of the revenue and expenses for fiscal year 2016 are accounted for in the statement of revenues, expenses, and changes in net position. The statement measures the annual financial performance of the District's operations and can be used to determine whether the District has 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 statement 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. The statement highlights 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 position, the difference between total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources, is a way to measure financial health or financial position. Over time, increases or decreases in the District's net position 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)

June 30, 2016

A comparative summary of the District's statements of net position at June 30, 2016 and 2015, is presented below:

	<b>2016</b>	<b>2015</b>
	(In thousands of dollars)	
<b>Assets:</b>		
Current assets	\$ 687,663	805,795
Asset whose use is limited, net of amount for current obligations	47,964	31,293
Investments	132,764	169,778
Capital assets, net	519,202	476,487
Other assets	36,293	26,424
Total assets	\$ 1,423,886	1,509,777
<b>Deferred outflows of resources:</b>		
Accumulated decrease in fair value of hedging derivatives	\$ 36,063	24,722
Deferred amount on debt refundings	12,403	13,393
Pension	27,491	7,841
Total deferred outflows of resources	\$ 75,957	45,956
<b>Liabilities:</b>		
Current liabilities	\$ 200,235	276,871
Long-term debt	222,525	234,125
Other liabilities	191,360	147,119
Total liabilities	\$ 614,120	658,115
<b>Deferred inflows of resources:</b>		
Pension	\$ 5,187	4,186
Total deferred inflows of resources	\$ 5,187	4,186
<b>Net position:</b>		
Net investment in capital assets	\$ 284,312	230,270
Restricted for donor restrictions	30,768	18,685
Restricted by counter party under interest rate swap agreements	16,550	—
Unrestricted	548,906	644,477
Total net position	\$ 880,536	893,432

The net position of the District totaled \$880.5 million and \$893.4 million as of June 30, 2016 and 2015, respectively. The decrease in net position of \$12.9 million in fiscal year 2016 was due to multiple factors, included among them, declines in admissions and patient days as well as a decline in outpatient visits, loss

## **NORTH BROWARD HOSPITAL DISTRICT**

### **Management's Discussion and Analysis (Unaudited)**

June 30, 2016

on investments of \$3.1 million, and a decrease in ad valorem tax revenue from \$139.7 million in fiscal year 2015 to \$136.7 million in fiscal year 2016.

#### **Budgetary Highlights**

Overall, the District performed below budget by \$14.1 million, in fiscal year 2016. Operationally, the District performed ahead of budget by approximately \$8.4 million. Factors affecting these results include a decrease in net operating revenue of \$66.5 million and a decrease in total operating expenses compared to budget by \$13.6 million. Net patient revenue was under budget by \$65.5 million, retail pharmacy was in excess of budget by \$2.2 million, and investment earnings fell short of budget by \$14.8 million. While gross patient revenue exceeded budget by \$26.2 million, or 0.7%, bad debt and charity care write-offs exceeded budget by \$13.9 million, or 2.5%, an indication of shifting payor mix. Patient days were under budget by 1.1% and admissions were under budget by 2.8%. Outpatient volumes were under budget by 11.8%, due to a reduction in primary care clinic visits, medical center visits, ancillary visits, as well as a reduction in the physician office visits. The District monitors salaries and benefits as a percentage of net operating revenue. Fiscal year 2016 results were 1.3% favorable compared to budget. Benefits were below budget by \$13.6 million or 9.6%, while full-time equivalents (FTEs) were under budget by 143 or 1.8%. Supplies exceeded budget by 2.5% due mainly to an overall increase in the use of implants and the escalating costs of drugs. The District also continued its strategy of employing physicians across numerous selected specialties, as well as internal medicine. In fiscal 2015, Broward Health Medical Center (BHMC) received designation as a statutory teaching hospital by the State of Florida Agency for Health Care Administration. During fiscal year 2016, the District recorded a \$18.1 million liability related to Disproportionate Share Hospital (DSH) payments received for fiscal year 2011-2012. The result was a decrease from budget of the Low-Income Pool (LIP) and DSH programs of \$19.4 million

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

As of June 30, 2016, and 2015, the District had capital assets of \$519.2 and \$476.5, respectively, an increase of \$42.7 from 2015 to 2016. The changes are a result of purchases of capital assets, net of disposals in the ordinary course of business, depreciation, and amortization expense.

During fiscal year 2016, Broward Health North (BHN) spent an additional \$32.8 million of the approved \$77.4 million project to construct a new emergency department and state-of-the art operating rooms, a new central energy plant and building façade. The central energy plant and operating room suites became operational in October 2016, the emergency department opened in December. BHN also spent \$1.4 million on medical and surgical equipment during fiscal year 2016. Broward Health Medical Center (BHMC) spent an additional \$13.0 million on the improvements and expansion of their Children's Hospital Project, and \$4.4 million on medical and surgical equipment. Broward Health invested \$3.3 million in systems and software for the ACO Services, Inc. (ACO). Of the approved \$1.5 million budget to resolve major structural deficiencies in the Children's Diagnostic and Treatment Center (CDTC) parking garage and electrical deficiencies in the building, the District spent \$497 thousand during fiscal year 2016. Additionally, the District spent \$490 thousand on the Corporate Office relocation and \$331 thousand for chiller replacement at the Information Services building. Broward Health Imperial Point (BHIP) invested \$2.4 million in renovations and furnishings, \$1.6 million for a DaVinci XI System, and \$2.0 million on medical equipment and surgical equipment. Broward Health Coral Springs (BHCS) invested \$1.7 million for a new CT Scanner, \$2.5 million of the \$64.8 million approved expansion of BHCS. The renovation

## NORTH BROWARD HOSPITAL DISTRICT

### Management's Discussion and Analysis (Unaudited)

June 30, 2016

will include an increased number of surgical beds, construction of private post-partum rooms and relocation of the neonatal intensive care unit. Upgrades will also be made to the campus's central energy plant. Additionally, BHCS invested \$3.8 million in medical equipment and surgical equipment.

Capital asset acquisitions during fiscal year 2015 consisted of the continuation of the \$70 million approved project at BHN including \$4.2 million spent on a central energy plant, emergency room expansion and expansion and improvements to their surgery suites. BHN also spent \$1.3 million in a hyperbaric wound care program and \$657 thousand for an on campus medical office building renovation. BHMC continues with its plans for improvements and expansion of their Children's Hospital project and pediatric programs including \$2.7 million on their neo-natal intensive care units, and \$4.2 million in design and construction for Children's Hospital facility improvements, \$2.4 million in CT technology for the trauma program, and \$1.0 million for internal communicative device replacement. BHCS spent \$1.2 million on diagnostic technology and surgical equipment. Additionally, the District received approval for a \$64 million inpatient expansion, scheduled for completion in 2018. The District purchased two office buildings bordering Commercial Boulevard during fiscal year 2014, at a cost of \$13.4 million to relocate the Corporate Office staff from the existing building. In fiscal year 2015, \$3.4 million was spent in renovations and improvements to prepare it for occupancy.

Capital assets at June 30, 2016 and 2015, are as follows:

	<b>2016</b>	<b>2015</b>
	(In thousands of dollars)	
Land and land improvements	\$ 51,092	\$ 50,969
Buildings and building improvements	660,195	650,424
Equipment	559,429	526,245
	<u>1,270,716</u>	<u>1,227,638</u>
Less accumulated depreciation	<u>(843,294)</u>	<u>(797,804)</u>
	427,422	429,834
Construction-in-progress	<u>91,780</u>	<u>46,653</u>
	<u>\$ 519,202</u>	<u>\$ 476,487</u>

More detailed information about the District's capital assets is presented in Note 5 within the accompanying financial statements.

### Revenues, Expenses, and Changes in Net Position

While the statement of net position shows all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, the statement of revenues, expenses, and changes in net position provides answers to the nature and source of the changes of net position.

**NORTH BROWARD HOSPITAL DISTRICT**

Management’s Discussion and Analysis (Unaudited)

June 30, 2016

The following table presents the District’s condensed statements of revenues, expenses, and changes in net position for fiscal years 2016 and 2015:

	<b>2016</b>	<b>2015</b>
	(In thousands of dollars)	
Operating revenues	\$ 1,014,598	1,038,196
Operating expenses	1,166,658	1,193,360
Operating loss	(152,060)	(155,164)
Unrestricted property tax revenue	136,663	139,726
Other nonoperating revenue (expenses), net	2,181	14,030
Capital contributions	320	111
Decrease in net position	(12,896)	(1,297)
Net position:		
Beginning of year	893,432	894,729
End of year	\$ 880,536	893,432

**Management’s Discussion of Recent Financial Performance**

***Overview – Fiscal Year 2016 as Compared to Fiscal Year 2015***

In fiscal year 2016, the District experienced a decrease in net position of \$12.9 million, as compared to a decrease in net position of \$1.3 million in the prior year. 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 0.6%, and the patient days decreased by 1.1% from prior-year. A growth in admissions occurred in Managed Care PSN, Medicaid Managed Care and Managed Care Medicare while there was a decline in admissions in all other compensated payors. Compensated admissions experienced a decrease of 0.5%, or 279 cases, with associated days decreasing by 0.2%, or 537 patient days. Self-pay and charity cases decreased by 75 admissions, or 0.9%. Within this total, charity cases decreased by 32 admissions, and self-pay cases decreased by 43 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 1.2%, or 151 cases. There was an offsetting increase in the Medicare HMO cases, which increased by 21 cases, or 0.2%. There was a 0.7% decrease in the Medicare case mix index from year to year, measured by the Medicare Severity Diagnostic Related Groups (MS-DRGs).

## **NORTH BROWARD HOSPITAL DISTRICT**

### **Management's Discussion and Analysis (Unaudited)**

June 30, 2016

Medicaid admissions decreased over the prior year by 456 cases, or 7.2%. Associated patient days decreased by 9.4%, or 4,141 days. The District continues its efforts of the Medicaid Eligibility Unit, the Medical Options for Patient Eligibility Department and the Department of Children's and Families (DCF) working to process applications in a more timely fashion and providing additional access for patients to apply for Medicaid or the new health exchange.

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 was an increase of 1,837 enrollees for fiscal year 2016, resulting in an increase of 44 admissions and an increase of 356 patient days over fiscal year 2015.

Managed care, including commercial payors, the District's largest payor category, increased by 328 admissions, or 1.0%, in fiscal year 2016. Associated patient days increased by 2.83% or by 4,753. Other Medicaid managed care increased by 308 admissions. Effective January 1, 2014, the Affordable Care Act required individuals to purchase health insurance. Based upon income determinations, some individuals can qualify for a federal subsidy to offset the cost of the annual premium. There are seven insurance company options available to individuals in Broward County and the District participates with six of the companies.

Outpatient volumes decreased 5.8% in fiscal year 2016 over fiscal year 2015. Total outpatient medical center visits decreased by 12,069 visits. Total emergency department visits increased by 3,780, of which there was an increase in compensated visits of 6,590, and a decrease in uncompensated of 2,810. Physician office visits decreased by 26,648, and primary care clinic visits decreased by 24,866.

### ***Operating Revenues***

Net patient revenue has decreased, from \$967.8 million in fiscal year 2015 to \$941.8 million in fiscal year 2016.

Medicare net revenue decreased by \$11.48 million, or 5.7%. This is due to an overall increase in denials associated with Medicare accounts. Medicaid net revenue decreased over the prior fiscal year by \$21.7 million, or 29.7%. Increased volumes in the PSN and Medicaid managed care patient days resulted in an increase in net revenue of \$3.6 million, or 3.7%. Additional revenue received from the LIP and DSH programs totaled \$29.3 million, a decrease from the prior fiscal year of \$26.4 million. Managed care net revenue has experienced an increase of \$5.7 million, or 1%, from fiscal year 2015, which includes the Commercial payors, PSN (the District's Medicaid managed care program) and all other Medicaid managed care increases discussed previously.

## **NORTH BROWARD HOSPITAL DISTRICT**

### **Management's Discussion and Analysis (Unaudited)**

June 30, 2016

The provision for uncollectible accounts has increased by \$13.7 million, from \$400.4 million in fiscal year 2015, to \$414.1 million in fiscal year 2016, or an increase of 3.4%. During fiscal year 2016, charity care decreased by \$13.6 million, or 8.4%, from the prior fiscal year. During fiscal year 2016, 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 DCF to expedite the decisions on patient qualification for Medicaid. The reduction in charity care is due in large part to the availability of health insurance through the Affordable Care Act. With the new health exchanges, there are requirements for co-pays and deductibles which have increased the provision for uncollectible accounts.

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

Operating expenses decreased by \$26.7 million, or 2.2%, from \$1,193.4 million in fiscal year 2015 to \$1,166.7 million in fiscal year 2016. The decrease is largely due to settlement and related costs that were incurred in fiscal year 2015 partially offset by increases in salaries and benefits, supplies, professional fees, purchased services, other expenses, and outside services expense. Salaries and benefits increase equals 4.5%, increasing from \$598.3 million in fiscal year 2015 to \$624.9 million in fiscal year 2016. The annual merit increase provided in fiscal year 2016 of approximately 2.7% and an increase in benefits of 16.3% due to an increase in health insurance costs and OPEB accounts for the overall increases. FTEs per adjusted occupied bed increased from 4.57 in fiscal year 2015 to 4.74 in fiscal year 2016. Salaries and employee benefits as a percentage of net patient service revenues were 66.4% and 61.8% for fiscal years 2016 and 2015, respectively. These ratios indicate that expenses were consistent with patient volume.

Supplies expense represents the next largest expense category for the District. During fiscal year 2016, supplies expense increased by \$11.0 million, or 5%, from \$216.2 million in fiscal year 2015 to \$227.2 million in fiscal year 2016. Increases were realized in many supply categories, including implants, pacemakers, drugs, blood, and medical surgical supplies. Supplies expense as a percent to net patient service revenue was 23.9% in fiscal year 2016, while it was 22.3% in fiscal year 2015. The majority of the increase is related medical/surgical supplies, implants and drugs.

Insurance expense decreased by \$6.8 million or 42.8% from \$15.9 million in fiscal year 2015 to \$9.1 million in fiscal year 2016. The decrease is in claims liability/other claims at BHMC.

Outside services, FFS specialists, software and licenses have increased by \$14.4 million, or 20.9%, from \$69.0 million in 2015 to \$83.4 million in fiscal year 2016. This increase is primarily related to an increase in outside services and software fees.

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

For fiscal years 2016 and 2015, ad valorem tax revenues totaled \$136.7 million and \$139.7 million, respectively. As described in note 16 to the 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 2016 and 2015 were 1.4425 mills and 1.5939 and mills, respectively. In July 2014, taxable property values within the District's geopolitical boundaries increased from \$91.2 billion to \$96.5 billion, or 5.8%. In July 2015, the Broward County property appraiser released to the District the taxable property valuations for 2015/2016. These values increased to \$104.3 billion, an increase of 8.1%.

## **NORTH BROWARD HOSPITAL DISTRICT**

Management's Discussion and Analysis (Unaudited)

June 30, 2016

### ***Interest Expense***

Interest expense in fiscal year 2016 was \$8.7 million, as compared to \$10.0 million in fiscal year 2015, a decrease of \$1.3 million, or 13.0%.

### ***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 0.4% 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 a mostly flat market performance in the District's investment portfolio, as well as the \$70.6 million OIG settlement to the federal government and a decrease in compensated volumes, there was a decrease in unrestricted cash and investments from \$731.6 million to \$563.3 million at June 30, 2015 and 2016, respectively, with a corresponding decrease in days' cash on hand from 230.7 to 183.2, respectively. Cash to debt has decreased from 298% as of June 30, 2015 to 240.0% as of June 30, 2016. Average days' net revenue in accounts receivable has decreased from 49.7 days in fiscal year 2015 to 46.8 days in fiscal year 2016. Patient cash collections have exceeded prior fiscal year collections by \$3.3 million or 0.4%.

### **Credit Ratings**

The District has received underlying credit ratings of Baa2 and A- from Moody's Investors Service and Standard & Poor's, respectively. Both Moody's and Standard & Poor's assigned an outlook of "Negative." This rating by Moody's was affirmed in February 2016.

In March 2016, 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 is "Negative".

### **Request for Information**

This report is designed to provide a general overview of the District's finances. Questions or requests for additional information should be made in writing to the Chief Financial Officer at Broward Health, 1800 NW 49<sup>th</sup> Street, Suite 110, Fort Lauderdale Florida, 33309.

## **BASIC FINANCIAL STATEMENTS**

**NORTH BROWARD HOSPITAL DISTRICT**

Statement of Net Position

June 30, 2016

(In thousands of dollars)

**Assets**

Current assets:	
Cash and cash equivalents	\$ 43,538
Cash and investments externally restricted by donors	17,067
Short-term investments	386,987
Assets whose use is limited required for current liabilities – Investments	5,321
Due from patients and others, net of allowance for uncollectibles of \$235,265	155,457
Inventories	28,357
Estimated third-party payor settlements	13,111
Other current assets	37,825
Total current assets	687,663
Assets whose use is limited – Cash and investments:	
Amounts designated for self-insurance	36,735
Amounts held by counter party under interest rate swap agreements	16,550
	53,285
Less amount required to meet current obligations	(5,321)
Assets whose use is limited, net	47,964
Investments	132,764
Capital assets, net	519,202
Other assets	36,293
Total noncurrent assets	688,259
Total assets	\$ 1,423,886

**Deferred Outflows of Resources**

Accumulated decrease in fair value of hedging derivatives	\$ 36,063
Loss on debt refundings	12,402
Deferred pension amounts	27,492
Total deferred outflows of resources	\$ 75,957

**Liabilities**

Current liabilities:	
Current maturities of revenue bonds payable	\$ 11,600
Accounts payable and accrued expenses	91,839
Accrued salaries, benefits, and payroll taxes	27,149
Accrued personal leave	34,663
Current portion of lease obligations	123
Estimated third-party payor settlements	26,984
Current portion of self-insurance program liability	5,321
Interest payable	2,556
Total current liabilities	200,235
Revenue bonds, net of current maturities	222,525
Lease obligations, net of current portion	447
Self-insurance program liability, net of current portion	25,322
Net pension liability	26,010
Other postemployment benefit program liability	90,921
Derivative instruments	48,660
Total liabilities	\$ 614,120

**Deferred Inflows of Resources**

Deferred pension amounts	\$ 5,187
Total deferred inflows of resources	\$ 5,187

**Net Position**

Net investment in capital assets	\$ 284,312
Restricted for donor restrictions	30,768
Restricted by counter party under interest rate swap agreements	16,550
Unrestricted	548,906
Total net position	\$ 880,536

See accompanying notes to financial statements.

**NORTH BROWARD HOSPITAL DISTRICT**  
Statement of Revenues, Expenses, and Changes in Net Position  
Year ended June 30, 2016  
(In thousands of dollars)

Operating revenues:	
Net patient service revenue (net of provision for uncollectible accounts of \$414,121)	\$ 941,849
Other operating revenue	72,749
Total operating revenues	1,014,598
Operating expenses:	
Salaries	496,798
Employee benefits	128,142
Professional fees	62,494
Purchased services and temporary labor	19,519
Outside services	40,466
Supplies	227,240
Insurance	9,101
Utilities	17,702
Repairs and maintenance	20,188
State assessments	12,189
Depreciation and amortization	49,769
Other	83,050
Total operating expenses	1,166,658
Operating loss	(152,060)
Nonoperating revenues (expenses):	
Ad valorem tax revenue	136,663
Investment income, net	(3,090)
Interest expense	(8,744)
Other	14,015
Total nonoperating revenues	138,844
Loss before capital contributions	(13,216)
Capital contributions	320
Decrease in net position	(12,896)
Net position:	
Beginning of year	893,432
End of year	\$ 880,536

See accompanying notes to financial statements.

**NORTH BROWARD HOSPITAL DISTRICT**

Statement of Cash Flows

Year ended June 30, 2016

(In thousands of dollars)

Cash flows from operating activities:	
Receipts from third-party payors and patients	\$ 959,373
Payments to employees	(631,469)
Payments to suppliers and contractors	(487,845)
Other receipts and payments, net	<u>(17,456)</u>
Net cash used in operating activities	<u>(177,397)</u>
Cash flows from noncapital financing activities:	
Medicaid county funding	(9,631)
Ad valorem property taxes, net	136,847
Other	<u>43</u>
Net cash provided by noncapital financing activities	<u>127,259</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(85,591)
Proceeds from disposal of capital assets	42
Payments of interest on revenue bonds, swaps, and lease facilities	(10,782)
Principal paid on revenue bonds, swaps, and lease facilities	(11,357)
Payment of collateral on interest rate swaps	(16,550)
Capital contributions	<u>320</u>
Net cash used in capital and related financing activities	<u>(123,918)</u>
Cash flows from investing activities:	
Distributions and other amounts received from equity investment	7,670
Interest and dividends on investments and assets whose use is limited	8,791
Purchases of investments	(266,271)
Proceeds from the sale and maturity of investments	<u>397,910</u>
Net cash provided by investing activities	<u>148,100</u>
Net decrease in cash and cash equivalents	(25,956)
Cash and cash equivalents:	
Beginning of year	<u>69,494</u>
End of year	<u>\$ 43,538</u>

**NORTH BROWARD HOSPITAL DISTRICT**

Statement of Cash Flows (Continued)

Years ended June 30, 2016

(In thousands of dollars)

Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$	(152,060)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization		49,769
Provision for uncollectible accounts		414,121
Other		(4,131)
Changes in assets and liabilities:		
Due from patients and others		(425,144)
Inventories		(2,161)
Other assets		(9,652)
Accounts payable and accrued expenses		(70,799)
Accrued salaries, benefits, and payroll taxes		(22,507)
Accrued personal leave		1,226
Estimated third-party payor settlements		28,603
Self-insurance program liability		586
Net pension liability and related deferred outflows and inflows		4,239
Other postemployment benefit program liability		10,513
Net cash used in operating activities	\$	<u><u>(177,397)</u></u>

Supplemental noncash investing, capital, and financing activities:

Property and equipment acquired through accounts payable	\$	4,225
Property and equipment acquired through donation		629
Change in remarketing accruals		(118)
Interest capitalized on construction in progress		1,986
Change in fair value of investments		(27,174)
Change in fair value of interest rate swaps		(11,341)

See accompanying notes to financial statements.

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

June 30, 2016

### (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 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 financial statements include the activity of the District and its integrated healthcare 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.

#### ***Hospital Division***

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 with multiple specialties at BHMC.

Broward Health Weston is an outpatient facility with multiple specialties, which provides urgent care, radiology, and women's center services.

#### ***Community Health Services Division***

The Community Health Services Division, through contractual arrangements with Broward County, operates the Cora E. Braynon Family Health Center (formerly, the 7th Avenue Family Care Clinic) and the Annie L. Weaver Health Center (formerly, the Pompano Primary Care Clinic). The Annie L. Weaver Health Center offers adult primary care services to the community, and the Cora E. Braynon Family Health Center provides urgent care and prenatal care services. The District also provides physician services to the qualifying elderly and homeless populations through the Medivan program.

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, HIV/AIDS-related, and other medical conditions. The primary sources of funding for CDTC are a variety of federal, state, and local grants. CDTC is considered a component unit of the District because the Board appoints the voting majority of the board of directors of CDTC and the District has the

## **NORTH BROWARD HOSPITAL DISTRICT**

### Notes to the Financial Statements

June 30, 2016

ability to impose its will on CDTC. CDTC is reported as a blended component unit of the District as it provides services that benefit the District even though they are not provided directly to the District.

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.

#### ***Physician Services Division***

The Physician Services Division is also responsible for providing physician services to patients. The services provided include the broad range of specialist care, including, but not limited to, cardiology, pediatric, anesthesiology, emergency, radiology, orthopedic, obstetric, 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.

#### ***Insurance Management Division***

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 healthcare services of all providers along the care continuum. TCA is considered a component unit of the District because the Board appoints the voting majority of the board of directors of TCA and the District has the ability to impose its will on TCA. TCA is presented as a blended component unit of the District because it provides services exclusively to the District.

#### ***Other***

The District established a separate non-for-profit corporation, North Broward Hospital District Charitable Foundation, Inc. (Broward Health Foundation). Broward Health Foundation's mission is to improve the health of its community by providing resources to promote, support, and enhance the programs and initiatives of the District. Contributions raised by the Foundation assist the District in its continuous effort to provide world-class healthcare to its diverse population. Broward Health Foundation is considered a component unit of the District because the Board appoints the voting majority of the board of directors of Broward Health Foundation and the District has the ability to impose its will on Broward Health Foundation. Broward Health Foundation is reported as a blended component unit of the District because it provides services exclusive to the District.

The District established a separate non-for-profit corporation, Broward Health ACO Service, Inc. (BH ACO), for participation in the Medicare Shared Savings Program as an accountable care organization. The purpose of the BH ACO is to provide healthcare services through independent contractors and others to patients who include, but are not limited to, Medicare beneficiaries under contracts with third-party payors who include, but are not limited to, the Center for Medicare and Medicaid Services. BH ACO is considered a component unit of the District because the Board appoints the voting majority of the board of directors of BH ACO and the District has the ability to impose its will on BH ACO. BH ACO is reported as a blended component unit of the District as the governing body of BH ACO is substantially the same as the District and the District has operational responsibility for BH ACO.

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

June 30, 2016

### **Joint Venture**

The District is an equal partner of the South Florida Community Care Network (SFCCN), a managed care network governed by an agreement between two governmental entities: the District 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 in Broward County. Activity from SFCCN is accounted for as an investment and is included in other assets.

### **(2) Summary of Significant Accounting Policies**

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

#### **(a) Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting. Significant intercompany accounts and transactions have been eliminated.

#### **(b) 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.

#### **(c) 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 funds, as authorized by state statutes.

Investments are reported at fair value except for investments in debt securities with maturities less than one year at the time of purchase, which are reported at amortized cost. The District classifies investments in debt and equity securities in the accompanying statement of net position based on maturities (for debt securities) and based on management’s reasonable expectation with regards to these securities. Securities that are not available to be used for current operations 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.

As of June 30, 2016, these equity investments in private equity, real estate investments, and hedge funds make up approximately 3.9%, 6.1%, and 2.8%, respectively, of total cash and cash equivalents and investments in the accompanying statement of net position. 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

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

June 30, 2016

resulting from fair value fluctuations are recorded in the statement of revenue, expenses, and changes in net position as investment income, net, in the period such fluctuations occur.

**(d) *Assets whose Use is Limited – Cash and Investments***

These assets are reported at fair 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 and assets held by counter parties under interest rate swap agreements.

**(e) *Net Patient Accounts Receivable***

The District reports net patient accounts receivable at its estimated net realizable value due from patients, third-party payors, and others for services rendered. The provision for uncollectible accounts is based upon management's assessment of historical and expected collections, considering business and economic conditions, trends in healthcare coverage, and other collection indicators. Management regularly assesses the adequacy of the allowance for uncollectible accounts based upon these indicators. The results are used to establish an adequate allowance. Specific patient accounts identified as uncollectible are written off directly to the patient accounts receivable.

**(f) *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 value.

**(g) *Other Current Assets***

Other current assets consist primarily of property tax receivables, prepaid expenses, and deposits in the ordinary course of business.

**(h) *Capital Assets***

Capital assets are stated at cost, or if donated, at fair 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><u>Estimated Useful Lives</u></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

Amortization expense on equipment held under capital leases is included within depreciation and amortization in the statement of revenues, expenses, and changes in net position.

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

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

June 30, 2016

proceeds of the related tax-exempt borrowings is recorded as an offset to interest costs capitalized. Interest costs of approximately \$20.1 million has been capitalized as of June 30, 2016, of which approximately \$12.9 million has been amortized on the same basis as depreciation. Gains and losses on dispositions are recorded in the year of disposal.

**(i) Impairment**

Capital assets are reviewed for impairment in accordance with the methodology prescribed in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Asset impairment, as defined by this standard, is a significant, unexpected decline in the service utility of a capital asset and is not a function of the recoverability of the carrying amount of the asset. Service utility is the usable capacity of the asset that was expected to be used at the time of acquisition and is not related to the level of actual utilization, but the capacity for utilization. Indicators that the service utility of an asset has significantly declined include: (a) evidence of physical damage; (b) changes in legal or environmental circumstances; (c) technological development or evidence of obsolescence; (d) a change in the manner or expected duration of use of the asset; and (e) construction stoppage. The District has determined that no capital asset impairment exists at June 30, 2016.

**(j) Deferred Outflows and Inflows of Resources**

Deferred outflows of resources represent a consumption of net position that is applicable to a future reporting period. Deferred inflows of resources represent an acquisition of net position that is applicable to a future reporting period. Deferred outflows of resources have a positive effect on net position, similar to assets, and deferred inflows of resources have a negative effect on net position, similar to liabilities. Notwithstanding these similarities, deferred outflows of resources are not assets and deferred inflows of resources are not liabilities and, accordingly, are not included in those sections of the accompanying statement of net position, but rather, are separately reported.

**(k) Accrued Personal Leave**

The District provides accrued time off to eligible employees and those anticipated to be eligible 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.

**(l) Pensions**

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

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

June 30, 2016

**(m) Net Position**

Net position is categorized as “net investment in capital assets,” “restricted for donor restrictions,” “restricted by counterparty under interest note swap agreements,” and “unrestricted.” Net investment in capital assets, is intended to reflect the portion of net position that is associated with capital assets, reduced by the outstanding balances due on borrowings that are attributable to the acquisition, construction, or improvement of those assets as well as the deferred outflow of resources related to loss on refunding. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources, if any, related to those assets. The restrictions placed in the use of these assets are through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, constitutional provisions, or enabling legislation. Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

**(n) Classifications of Revenues and Expenses**

The District’s statement of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services, the District’s principal activity. Nonexchange revenues including property taxes, certain 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. Operating expenses are all expenses incurred to provide healthcare services, excluding financing costs.

**(o) Net Patient Service Revenue**

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

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 healthcare facilities participate in the federal Medicare program (Medicare). Approximately 18% of the District’s gross patient service revenue 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.

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

June 30, 2016

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' classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review. As of June 30, 2016, the Medicare cost reports were final audited, pending final settlement, by the health care facilities' Medicare fiscal intermediary through June 30, 2014 for all facilities, except BHMC, which was through June 30, 2013. In fiscal year 2016, the District did not record any material adjustments to net patient service revenue related to prior year Medicare settlements.

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. In November 2013, CMS suspended the medical necessity RAC reviews. The District has no outstanding liability for this type review. In 2017, the Center for Medicare and Medicaid Services will conduct reviews on DRG and outpatient services. Any overpayments will be recouped from subsequent payments to the hospitals.

### ***Medicaid***

Approximately 7% of the District's gross patient service revenue was derived under the Medicaid program for fiscal year 2016. Inpatient and outpatient services rendered to Medicaid program beneficiaries were paid based upon a cost reimbursement methodology subject to certain ceilings until June 30, 2013. Effective July 1, 2013, inpatient Medicaid claims 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. The health care facilities are reimbursed for outpatient services 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 report has been audited by the Medicaid fiscal intermediary through June 30, 2009, for BHMC and through June 30, 2012, for BHN, BHIP and BHCS. In addition to the prospectively determined rates per discharge and 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 year 2016, the District recognized approximately \$18.0 million related to the disproportionate share hospital payments from the State of Florida and this amount is reflected in net patient service revenues in the accompanying statements of revenue, expenses, and changes in net position. In fiscal year 2016, the District recorded \$18.1 million as a reduction to net patient service revenue for Medicaid settlements relating to prior years.

### ***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.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

June 30, 2016

**(p) 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 14).

**(q) Ad Valorem 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 unearned revenue at the date of assessment, less a reserve for estimated discounts (Note 16), and amortized into income over the respective year.

**(r) Restricted Donations**

Donations received by the District for specific operating purposes or property and equipment acquisitions are reported as nonoperating revenue or capital contributions, as appropriate, in the period received and all eligibility requirements have been met. Balances are reported as restricted for as long as the donor's restrictions remain in effect.

**(s) Grant Funding**

The District receives grants from federal and state funding agencies. Grant revenue received before the eligibility requirements are met is reported as unearned revenue or deferred inflows of resources, as appropriate, by the District and is recognized as revenue in the period that the eligibility requirements have been met. Grant revenue and other contributions received for the purpose of acquiring or constructing capital assets are reported as capital contributions, below nonoperating activities, by the District.

**(t) 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 required the use of this commercial coverage in the last three years.

**(u) Use of Estimates**

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The District considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net patient revenue; valuation of accounts receivable, including contractual allowances and provisions for bad debt; reserves for losses and expenses related to healthcare, professional, workers' compensation, and general liabilities; valuation of pension and other retirement obligations; valuation of alternative investments; and estimated third-party payor settlements. Management relies on historical experience

## NORTH BROWARD HOSPITAL DISTRICT

### Notes to the Financial Statements

June 30, 2016

and on other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ from those estimates.

(v) ***Income Taxes***

The District is not subject to income tax.

(w) ***New Accounting Pronouncements***

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No.75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, which replaced the requirements of GASB Statement No. 45. GASB Statement No. 75 requires governmental agencies to report a liability on the financial statement of other postemployment benefits (OPEB). GASB Statement No. 75 provides additional requirements for note disclosures and required supplementary information. Among the new required supplementary information is a schedule comparing a government's actual OPEB contributions to its contribution requirements. GASB Statement No. 75 is effective for fiscal years beginning after June 15, 2017. The District has not elected to implement this statement early; however, management is currently evaluating the impact of this statement in the year of adoption.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*, which establishes financial reporting standards for tax abatement agreements entered into by state and local governments. GASB Statement No.77 is effective for fiscal years beginning after December 15, 2015. The adoption of this statement is not expected to have material impact on the financial statements.

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

In March 2016, the GASB issued Statement No.81, *Irrevocable Split-Interest Agreements*, which establishes improved accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements in which the donor transfers resources to an intermediary to hold and administer for the benefits of a government and at least one other beneficiary. This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources and deferred outflow of resources at the inception of the agreement. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The District has not elected

## NORTH BROWARD HOSPITAL DISTRICT

### Notes to the Financial Statements

June 30, 2016

to adopt this statement early and is still evaluating the financial impact, if any, that adoption of this statement will have when adopted.

In March 2016, the GASB issued Statement No. 82, *Pension Issues*, which addresses certain concerns that have been raised with respect to GASB Statement No. 67, GASB Statement No. 68 and GASB Statement No. 73. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by the employers to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 is effective for reporting periods beginning after June 15, 2016. 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 financial statements.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Specifically, this statement requires that a governmental entity that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. GASB No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. This statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. GASB Statement No. 83 is effective for reporting periods beginning after June 15, 2018. The District has not elected to implement this statement early; however, management will evaluate the impact of this statement in the year of adoption.

### **(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, 2016, is as follows:

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

June 30, 2016

	Fair value	Investment Maturities			
		Less than 1 year	1–5 years	6–10 years	More than 10 years
U.S. government securities	\$ 36,000	\$ 3,170	17,413	6,503	8,914
U.S. government agency securities	3,941	3,704	150	—	87
Corporate bonds	102,412	22,002	60,435	11,751	8,224
Mortgage-backed securities	31,891	—	2,497	1,607	27,787
International government securities	971	310	661	—	—
	175,215	\$ 29,186	81,156	19,861	45,012
Common stock	268,550				
Mutual funds	32,064				
Private equity	25,003				
Hedge funds	17,894				
Real estate	38,621				
Other investments	390				
Money markets	38,053				
Bank deposits	37,851				
	<u>\$ 633,641</u>				

	Fair value	Ratings					
		AAA	AA	A	BBB	<BBB	Not rated
U.S. government securities	\$ 36,000	36,000	—	—	—	—	—
U.S. government agency securities	3,941	3,854	—	—	—	—	87
Corporate bonds	102,412	6,170	17,646	48,486	20,260	6,655	3,195
Mortgage-backed securities	31,891	7,317	229	—	39	502	23,804
International government securities	971	—	661	310	—	—	—
	<u>\$ 175,215</u>	<u>53,341</u>	<u>18,536</u>	<u>48,796</u>	<u>20,299</u>	<u>7,157</u>	<u>27,086</u>

### ***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.

#### ***a) Credit Risk***

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 within their custody, 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

## NORTH BROWARD HOSPITAL DISTRICT

### Notes to the Financial Statements

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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 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.

#### ***b) 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, 2016, the District did not have any investments that equaled or exceeded this threshold. The investment policy includes an overall asset deployment policy which sets allowable ranges per asset class. Liquid asset allocation may include up to: Domestic Equity (30% – 35%), International Equity (10% – 15%), Private Equity (0% – 5%), Real Estate (0% – 5%), Hedge Funds (0%-5%) and Fixed Income (40% – 55%). The invested assets may include up to: Domestic Equity (35% – 45%), International Equity (10%-20%), Emerging Markets Equity (0%-10%), Private Equity (5% – 10%), Real Estate (5% – 15%), Hedge Funds (2.5% – 7.5%) and Fixed Income (10% – 20%) and High Yield (0% - 7%).

#### ***c) 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, 2016, in the preceding investment composition table.

#### ***d) 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.

#### ***e) Custodial Credit Risk***

##### *Investments*

As of June 30, 2016, 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.

##### *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

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

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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. At June 30, 2016, the District's deposits were entirely covered by federal depository insurance or by collateral pledged with the State Treasurer pursuant to Chapter 280, *Florida Statutes*.

### (4) Fair Value Measurements

The North Broward Hospital District values its investments in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, for financial assets and liabilities. The pronouncement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 Quoted prices (unadjusted) for identical assets or liabilities in an active market with daily pricing that a government can access at the measurement date. At June 30, 2016, the type of investments included in Level 1 consists of money market accounts, bank deposits, and debt and equity securities.

Level 2 Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date but are not the same as those used in Level 1. Inputs within Level 2 of the fair value hierarchy include inputs that are directly observable for an asset or liability (including quoted prices for similar assets or liabilities), as well as inputs that are not directly observable for the asset and liability. Fair value is determined through the use of models or other valuation methodologies.

Level 3 Inputs are unobservable for an asset or liability. Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of discounted cash flow models or similar techniques. At June 30, 2016, Level 3 securities include private equity funds in limited partnerships and investments in real estate.

The District's fair value measurements are determined as follows:

***Money Market Funds, Equity Securities and Mutual Funds:*** These types of investments are managed primarily through investments held by independent investment advisors with discretionary investment authority. The securities consist primarily of common stocks and equity mutual funds. These investments are valued at the closing price reported in the active market in which the individual securities are traded.

***U.S. Government Securities, U.S. Government Agency Securities, Corporate Bonds, Mortgage-backed Securities, and International Government Securities:*** These types of investments are managed by independent investment advisors with discretionary investment authority. These securities include U.S. and non-U.S. debt instruments. These investments are valued at the closing price reported in the active market in which the individual securities are traded.

***Private Equity Funds:*** This type of investment includes investment in private equity limited partnerships that invest in a diversified portfolio of private companies. The District participates in these partnerships as a limited partner. These investments can never be redeemed with the funds. Instead, the nature of the

# NORTH BROWARD HOSPITAL DISTRICT

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investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is expected that the majority of the underlying assets of the funds would be liquidated over five to eight years. However, as of June 30, 2016, it is probable that all of the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of the Plan's ownership interest in the partners' capital. Therefore, the fair values of the investment in this type have been determined by the general partners using the recent observable transaction information for similar investments, valuation multiples of revenues and/or EBITDA, and nonbinding bids received from potential buyers of investments.

**Real Estate:** The investments consist of a diversified portfolio of institutional quality industrial, apartment, retail and office real estate assets, using a core investment strategy within the United States. The values of real estate properties have been prepared giving consideration to the income, cost and sales comparison approaches of estimating property values. The income approach estimates an income stream for a property (typically 10 years) and discounts this income plus a reversion (presumed sale) into the present value at a risk adjusted rate. Yield rates and growth assumptions utilized in this approach are derived from market transactions as well as other financial and industry data. The cost approach estimates the replacement cost of the building less physical depreciation plus the land value. The sales comparison approach compares recent transactions to the appraised property. Adjustments are made for dissimilarities which typically provide a range of values. The fair value of the real estate investments has been determined by an independent third party appraiser and is based on significant unobservable inputs (terminal cap rate, discount rate, and average market rent growth).

**Hedge Funds:** This type of investment consists of a diversified portfolio of multiple hedge funds which utilize a variety of investment strategies. Some of those strategies include credit-oriented strategies, capital structure strategies, event-driven strategies, long/short strategies and multiple strategies, among others. The fair values of hedge fund investments are generally determined using the reported net asset value per share (NAV), or its equivalent, as a practical expedient for fair value.

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

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The following table presents financial instruments that are measured at fair value on a recurring basis as of June 30, 2016:

	<b>Fair Value Measurements Using</b>			
	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Investments by fair value level:				
Money Markets	\$ 38,053	\$ 38,053	-	-
Bank Deposits	37,851	37,851	-	-
Debt Securities				
U.S. government securities	36,000	36,000	-	-
U.S. government agency securities	3,941	3,941	-	-
Corporate bonds	102,412	102,412	-	-
Mortgage-backed securities	31,891	31,891	-	-
International government securities	971	971	-	-
Total Debt Securities	<u>175,215</u>	<u>175,215</u>	<u>-</u>	<u>-</u>
Equity Securities				
Common stock	268,550	268,550	-	-
Mutual funds	32,064	32,064	-	-
Other investments	390	390	-	-
Total Equity Securities	<u>301,004</u>	<u>301,004</u>	<u>-</u>	<u>-</u>
Private Equity	25,003	-	-	25,003
Real Estate	38,621	-	-	38,621
Total investments by fair value level	<u>615,747</u>	<u>552,123</u>	<u>-</u>	<u>63,624</u>
Investments measured at net asset value (NAV):				
Hedge Funds	<u>17,894</u>			
Total investments measured at fair value	<u>\$ 633,641</u>			
<b>Liabilities:</b>				
Interest Rate Swaps (see Note 9 related to how fair value is determined)	<u>\$ 48,660</u>	<u>-</u>	<u>48,660</u>	<u>-</u>

### ***Additional Disclosures for Fair Value Measurements of Investments in Certain Entities that Calculate Net Asset Value per Share or its Equivalent***

The hedge funds that the District invests in include various limits on the redemption frequency of those investments as well as redemption notice periods. The limits on redemption frequency generally range from being non-redeemable to a redemption frequency that is daily, monthly, quarterly, semi-annually or annually. The redemption notice periods generally range from daily to notice periods of 5, 15, 30, 60, 75 or 90 days. The private equity funds that the District invests in include unfunded commitments as of June 30, 2016 totaling approximately \$14 million.

**NORTH BROWARD HOSPITAL DISTRICT**

Notes to the Financial Statements

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**(5) Capital Assets**

A summary of changes in capital assets during fiscal year 2016, is as follows:

	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Deletions/ transfers</u>	<u>Balance June 30, 2016</u>
Capital assets not being depreciated:				
Land	\$ 43,080	—	—	43,080
Construction-in-progress	<u>46,653</u>	<u>92,358</u>	<u>(47,231)</u>	<u>91,780</u>
Total capital assets not being depreciated	<u>89,733</u>	<u>92,358</u>	<u>(47,231)</u>	<u>134,860</u>
Capital assets being depreciated:				
Buildings and improvements	650,424	9,760	11	660,195
Land improvements	7,889	123	—	8,012
Equipment	525,171	37,622	(4,438)	558,355
Equipment under capital lease	<u>1,074</u>	<u>—</u>	<u>—</u>	<u>1,074</u>
Total capital assets being depreciated	<u>1,184,558</u>	<u>47,505</u>	<u>(4,427)</u>	<u>1,227,636</u>
Accumulated depreciation:				
Buildings and improvements	381,688	18,781	(13)	400,456
Land improvements	6,308	190	—	6,498
Equipment	409,490	30,642	(4,266)	435,866
Equipment under capital lease	<u>318</u>	<u>156</u>	<u>—</u>	<u>474</u>
Total accumulated depreciation	<u>797,804</u>	<u>49,769</u>	<u>(4,279)</u>	<u>843,294</u>
Total	<u>\$ 476,487</u>	<u>90,094</u>	<u>(47,379)</u>	<u>519,202</u>

The estimated cost-to-complete of construction-in-progress at June 30, 2016, totaled approximately \$155 million.

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

June 30, 2016

### (6) Long-Term Obligations

Changes in long-term liabilities for the year ended June 30, 2016, was as follows:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2016</u>	<u>Amount due in one year</u>
Revenue bonds	\$ 245,315	—	(11,190)	234,125	11,600
Lease obligations	737	—	(167)	570	123
Derivative instruments	38,281	11,341	(962)	48,660	—
Net pension liability	3,123	40,687	(17,800)	26,010	—
Self-insurance program	30,058	6,324	(5,739)	30,643	5,321
Other postemployment benefit program	80,407	17,900	(7,386)	90,921	—
	<u>\$ 397,921</u>	<u>76,252</u>	<u>(43,244)</u>	<u>430,929</u>	<u>17,044</u>

### (7) Revenue Bonds

#### a) 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 interest rate at June 30, 2016 was .4%. 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 9). 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 2011, the District entered into an extension for the letter of credit related to the 2005A Bonds.

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 deferred outflow of resources. As of June 30, 2016, the unamortized portion is approximately \$2.2 million.

#### b) 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 interest rate at June 30, 2016 was .4%. 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.

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

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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 statement of net position. Some of these escrowed funds were used to pay the 1997 Bonds that were refinanced 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 9). 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 2011, the District entered into an extension for the letter of credit related to the 2007 Bonds.

The original 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 deferred outflow of resources. As of June 30, 2016, the unamortized portion is approximately \$3.3 million.

**c) *Refunding Revenue Bonds, Series 2008A (the 2008A Bonds)***

In July 2008, the District issued \$85.5 million of 2008A Bonds for the purpose of refunding the outstanding 2005B Bonds. The interest rate at June 30, 2016 was .41%. The 2008A Bonds are collateralized by a letter of credit through August 16, 2020. 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, *Accounting and Financial Reporting for Derivative Instruments*, at the time the 2005B Bond transaction was completed. 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 comprises 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. In connection with the Novation Agreement (Note 9), the portion of the interest rate swap that was determined to be a borrowing was modified and the carrying value of such at June 30, 2016 was \$9.1 million, which is being amortized over the remaining scheduled life of the old debt of 17 years.

The difference between the reacquisition price and the net carrying amount of the old debt of approximately \$11.6 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 reported as a deferred outflow of resources. As of June 30, 2016, the unamortized portion is

## NORTH BROWARD HOSPITAL DISTRICT

### Notes to the Financial Statements

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approximately \$6.9 million. The District advance refunded the 2005B Bonds and no economic gain was realized.

**d) *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 plus 105 basis points, which resets on the first business day of each month. The interest rate at June 30, 2016 was 1.64%. 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 semiannually, 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.

**e) *Irrevocable Direct Pay Letters of Credit (LOC)***

In 2008, the District entered into two separate LOC's, one collateralizing the 2005A Bonds and the other collateralizing the 2007 Bonds, 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, the LOC supporting the 2005A Bonds and the 2007 Bonds were extended to January 19, 2016, and January 19, 2015, respectively. On September 29, 2014, the District entered into an agreement, on substantially the same terms, to extend the maturity date of the LOC supporting the 2007 Bonds from January 19, 2015, to September 29, 2017. On December 16, 2015, the District entered into an agreement, on substantially the same terms, to extend the maturity date of the LOC supporting the 2005A Bonds from January 19, 2016, to December 16, 2020. The 2008A Bonds are collateralized by a letter of credit through August 16, 2020.

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. 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.

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, 2016. The District received extensions for requirements for audited financial statements through February 28, 2017 or later.

# NORTH BROWARD HOSPITAL DISTRICT

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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:

	Series 2005A		Series 2007		Series 2008A		Series 2010		Total debt service	Total debt service
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	(In thousands of dollars)									
Years ending June 30:										
2017	\$ 3,400	1,451	6,310	3,339	475	3,431	1,415	290	11,600	8,511
2018	3,525	1,335	6,590	3,071	500	3,410	1,435	272	12,050	8,088
2019	3,650	1,215	6,885	2,792	525	3,389	1,450	254	12,510	7,650
2020	3,780	1,091	7,190	2,500	550	3,367	1,470	236	12,990	7,194
2021	3,915	963	7,500	2,195	575	3,343	1,485	218	13,475	6,719
2022-2026	21,810	2,716	41,110	5,945	4,850	16,297	7,725	805	75,495	25,763
2027-2031	4,845	87	7,595	170	75,350	9,253	8,215	310	96,005	9,820
	<u>\$ 44,925</u>	<u>8,858</u>	<u>83,180</u>	<u>20,012</u>	<u>82,825</u>	<u>42,490</u>	<u>23,195</u>	<u>2,385</u>	<u>234,125</u>	<u>73,745</u>

### (8) Lease Obligation

The District enters into various leases as part of its ongoing business.

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

	<u>Principal</u>	<u>Interest</u>
	(In thousands of dollars)	
Years ending June 30:		
2017	\$ 123	26
2018	103	21
2019	108	15
2020	114	10
2021	119	3
2022	<u>3</u>	<u>—</u>
Total due	<u>570</u>	<u>75</u>
Amount due within one year	<u>(123)</u>	
Amount due, excluding due within one year	<u>\$ 447</u>	

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

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### (9) Interest Rate Swaps

On June 30, 2016, the District had the following derivative instruments outstanding:

Item	Type	Objective	Notional amount	Effective date	Maturity date	Terms	Fair Value (In thousands of dollars)
2005A	Receive variable interest rate swap	Hedge of changes in cash flows on the 2005A Bonds	\$ 44,925	09/12/2013	01/15/2027	Pay fixed rate of 3.345%. Receive 62.4% of one month LIBOR plus 29 basis points	\$ (6,054)
2007	Receive variable interest rate swap	Hedge of changes in cash flows on the 2007 Bonds	83,180	11/15/2007	01/15/2027	Pay fixed rate of 4.159%. Receive SIFMA Municipal Swap Index Rate	(15,173)
2008A PNC Bank	Receive variable interest rate swap	Hedge of changes in cash flows on 35% of 2008A Bonds	28,989	09/12/2013	01/15/2031	Pay fixed rate of 4.154%. Receive SIFMA Municipal Swap Index Rate	(9,600)
2008A Wells Fargo Bank	Receive variable interest rate swap	Hedge of changes in cash flows on 65% of 2008A Bonds	53,836	09/12/2013	01/15/2031	Pay fixed rate of 4.154%. Receive SIFMA Municipal Swap Index Rate	<u>(17,833)</u>
							<u>\$ (48,660)</u>

At June 30, 2016, the 2005A, 2007, and 2008A interest rate swaps qualified for hedge accounting under GASB 53 and, as a result, approximately \$36.1 million related to the fair value of the interest rate swaps was recorded as a liability related to the hedging instruments and a corresponding deferred outflow of resources in the accompanying statement of net position. A decrease in the fair value of the interest rate swaps in fiscal year 2016 of approximately \$11.3 million is reported in the statement of net position as a liability and a deferred outflow of resources.

Approximately \$9.1 million related to the fair value of the 2008A derivative instrument is recorded as a liability at June 30, 2016. Additionally, \$3.5 million related to the fair value of the 2005A derivative instrument is recorded as a liability at June 30, 2016.

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.

#### a) Credit Risk

The District has sought to limit its counterparty risk by contracting only with highly rated entities. As of June 30, 2016, the credit ratings for PNC Bank, the counterparty of the 2005A interest rate swap agreement and 35% of the 2008A swap agreement, were A2, A, and A+ from Moody's, Standard & Poor's, and Fitch rating agencies, respectively. The credit ratings for Wells Fargo, the counterparty of the 2007 interest rate swap agreement and 65% of the 2008A swap agreement, were Aa2, AA-, and AA from Moody's, Standard & Poor's, and Fitch rating agencies, respectively. Each of the

## NORTH BROWARD HOSPITAL DISTRICT

### Notes to the Financial Statements

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counterparties may be required to post collateral should they fail to meet certain minimum credit ratings.

**b) 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.

**c) 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 remarketed every seven days. As of June 30, 2016, the weighted variable interest rate on the District's hedged variable rate debt is 0.0725%, while the SIFMA swap index is 0.41%, and 62.04% of one month LIBOR plus 29 basis points is 0.57%.

**d) 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 insurer of the 2007 interest rate swap 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.

**e) Commitments**

The 2005A and 2008A interest rate swap agreements require 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. As of June 30, 2016, the fair value of the 2005A and 2008A interest rate swaps met the negative value threshold limit and the District was required to post collateral in the amount of \$16.6 million with PNC. The collateral is included within assets whose use is limited in the statement of net position.

As of June 30, 2016, the District was not required to post collateral on the 2007 interest rate swap agreement.

**(10) Defined-Benefit Pension Plan**

**a) Plan Description**

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. The Plan is not subject to the requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and does not issue a stand-alone financial report.

Funding levels and obligations to contribute to the Plan are established and can be amended by the Board.

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## Notes to the Financial Statements

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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 one-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.

Number of employees covered:	
Active employees	6,230
Inactive employees currently receiving benefits	1,451
Inactive employees entitled to but not yet receiving benefits	<u>1,629</u>
Total membership	<u><u>9,310</u></u>

### ***b) Contributions***

The annual contribution for the current year was determined by management and the Board. While the District's independent actuary annually determines a range for the annual contributions, the District is not required to contribute an amount equal to the total funding contribution. 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. The contributions to the Plan for fiscal year 2016 totaled \$15.2 million, which equaled the normal cost as computed through the actuarial valuation date as of June 30, 2016. The contributions represent approximately 4.43% of current covered payroll for fiscal year 2016. Maximum actuarial contributions are based upon the funding levels that would be required of an ERISA plan.

### ***c) Net Pension Liability***

The District's net pension liability was measured as of June 30, 2016, based upon rolling forward the results of the actuarial valuation as of July 1, 2015.

**NORTH BROWARD HOSPITAL DISTRICT**

Notes to the Financial Statements

June 30, 2016

*Actuarial Valuation and Assumptions* - Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future. The District's net pension liability was calculated using the following methods and assumptions:

Inflation	2.50%
Investment rate of return	7.50%
Projected salary increases	4.50%
Cost-of-living adjustment	None

For active members, inactive members, and retirees, the RP-2014 Mortality tables for employees, healthy annuitants, and disabled annuitants with generational projection per MP-2014 are used.

Actuarial assumptions are subject to periodic revisions. The retirement and salary scale assumptions are reviewed each year compared to actual experience and are adjusted as needed. Other demographic assumptions are reviewed periodically to determine the need for adjustments.

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

June 30, 2016

**Long-term Rate of Return** - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per the actuary's investment consulting practice and are reviewed biannually. The 7.5% assumption reflects the composite expected return based on the target asset allocation for the Plan. The actuary uses the Global Capital Asset Pricing Model (Global CAPM) methodology to determine expected returns for each asset class, rather than relying on historical returns or other estimates. The CAPM is an economic model for valuing stocks, securities, derivatives, and/or assets by relating risk and expected return and is based on the idea that investors demand additional expected return if they are asked to accept additional risk.

The following is the Plan's adopted asset allocation policy and long-term expected rate of return as of June 30, 2016:

Asset Class	Index	Target Allocation	Long-Term Expected Arithmetic Real Rate Of Return	Long-Term Expected Geometric Real Rate of Return
Cash	Citigroup 90-Day-T-Bills	3.79%	0.58%	0.57%
Core Fixed Income	Barclays Aggregate	4.82%	2.16%	2.03%
Mortgages	Barclays Mortgage	5.05%	2.60%	2.49%
Non-US Fixed Income	JPM GBI Global ex-US	2.94%	0.98%	0.40%
Large Cap US Equities	S&P 500	37.60%	5.15%	3.86%
Mid Cap US Equities	Russell Mid Caps	17.16%	5.70%	4.00%
Core Bonds	Barclays Gov/Cred	3.56%	1.98%	1.83%
Developed Foreign Equities	MSCI EAFE	0.79%	6.52%	4.74%
Real Estate (REITS)	FTSE NAREIT Equity REIT	7.83%	5.21%	3.32%
Private Equity	Cambridge Associates	11.71%	9.07%	5.27%
Hedge Funds/Absolute Return	HFRI Fund of Funds	4.75%	5.36%	4.64%
Assumed Inflation-Mean			2.30%	2.30%
Assumed Inflation-Standard Deviation			1.85%	1.85%
Portfolio Real Mean Return			5.06%	4.45%
Portfolio Nominal Mean Return			7.39%	6.51%
Portfolio Expected Return-50th Percentile (25th Percentile = 5.14%, 75th Percentile = 8.64%)				6.48%
Portfolio Standard Deviation				14.06%
Long-Term Expected Rate of Return				7.50%

**NORTH BROWARD HOSPITAL DISTRICT**

Notes to the Financial Statements

June 30, 2016

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that the District's contributions will be made at rates equal to the actuarially determined contribution rates. Based upon those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on plan assets was applied to all periods of projected benefit payments to determine the total pension liability. The following section discusses the sensitivity of the net pension liability to changes in the discount rate.

**d) Changes in Net Pension Liability**

	<b>Total Pension Liability (a)</b>	<b>Increase (Decrease) Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
	(In thousands of dollars)		
Balance as of June 30, 2015	\$ 331,183	328,061	3,122
Changes for the year:			
Service cost	10,603	—	10,603
Interest on total pension liability	24,568	—	24,568
Effect of economic/demographic gains or losses	(2,600)	—	(2,600)
Effect of assumptions changes or inputs	965	—	965
Benefit payments	(25,626)	(25,626)	—
Employer contributions	—	15,200	(15,200)
Net investment income	—	(1,210)	1,210
Administrative expenses	—	(2,126)	2,126
Balance as of June 30, 2016	\$ <u>339,093</u>	<u>314,299</u>	<u>24,794</u>

**Sensitivity Analysis** - The following presents the net pension liability of the District's, calculated using the discount rate of 7.50%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate.

	<b>1% Decrease 6.50%</b>	<b>Current Discount Rate 7.50%</b>	<b>1% Increase 8.50%</b>
	(In thousands of dollars)		
Net pension liability	\$ 44,839	24,794	6,961

**NORTH BROWARD HOSPITAL DISTRICT**

Notes to the Financial Statements

June 30, 2016

**Pension Plan Fiduciary Net Position** – Additional information about the Plan’s fiduciary net position (i.e. plan assets) is as follows:

The following tables present the composition and credit ratings of the defined-benefit pension plan’s cash and cash equivalents and investments as of June 30, 2016:

	Fair value	Investment maturities			
		Less than 1 year	1–5 years	6–10 years	More than 10 years
U.S. government securities	\$ 9,062	\$ —	—	4,024	5,038
Corporate bonds	27,422	2,774	12,265	6,285	6,098
Mortgage-backed securities	18,094	—	1,194	876	16,024
International government securities	251	—	251	—	—
	54,829	\$ 2,774	13,710	11,185	27,160
Common stock	169,407				
Mutual funds	18,903				
Private equity	17,637				
Hedge funds	14,571				
Real estate	29,831				
Money markets	9,121				
	\$ 314,299				

	Fair value	Ratings					
		AAA	AA	A	BBB	<BBB	Not rated
U.S. government securities	\$ 9,062	9,062	—	—	—	—	—
Corporate bonds	27,422	307	4,239	9,100	12,063	956	757
Mortgage-backed securities	18,094	4,169	252	—	—	243	13,430
International government securities	251	—	—	—	—	251	—
	\$ 54,829	13,538	4,491	9,100	12,063	1,450	14,187

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

June 30, 2016

The following table presents information about the fair value measurements of the Plan's fiduciary net position as of June 30, 2016.

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Plan investments by fair value level:</b>				
Money Markets	\$ 9,121	9,121	—	—
Debt Securities				
U.S. government securities	9,062	9,062	—	—
Corporate bonds	27,422	27,422	—	—
Mortgage-backed securities	18,094	18,094	—	—
International government securities	251	251	—	—
Total debt securities	54,829	54,829	—	—
Equity Securities				
Common stock	169,407	169,407	—	—
Mutual funds	18,903	18,903	—	—
Total Equity Securities	188,310	188,310	—	—
Private Equity	17,637	—	—	17,637
Real Estate	29,831	—	—	29,831
Total Plan investments by fair value level	299,728	252,260	—	47,468
Plan investments measured at net asset value (NAV):				
Hedge Funds	14,571			
Total investments measured at fair value	\$ 314,299			

See Note 4 for an explanation of the methods used to determine fair value and the levels within the fair value hierarchy.

Additional Disclosures for Fair Value Measurements of Plan Investments in Certain Entities that Calculate Net Asset Value per Share or its Equivalent: The hedge funds that the Plan invests in include various limits on the redemption frequency of those investments as well as redemption notice periods. The limits on redemption frequency generally range from being non-redeemable to a redemption frequency that is daily, monthly, quarterly, semi-annually or annually. The redemption notice periods generally range from daily to notice periods of 5, 15, 30, 60, 75 or 90 days. The private equity funds that the Plan invests in include unfunded commitments as of June 30, 2016 totaling approximately \$8 million.

***e) Pension Expense***

The pension expense for the year ended June 30, 2016 is \$18.3 million.

**NORTH BROWARD HOSPITAL DISTRICT**

Notes to the Financial Statements

June 30, 2016

**f) Deferred Inflows/Outflows of Resources**

A summary of deferred outflows and deferred inflows of resources as of June 30, 2016 is as follows:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
	(In thousands of dollars)	
Differences between expected and actual experience	\$ —	\$ (1,934)
Changes of assumption	718	(2,742)
Net difference between projected and actual earnings	<u>26,162</u>	<u>—</u>
 Total	 <u>\$ 26,880</u>	 <u>\$ (4,676)</u>

The net amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the next four years as follows:

Year ending June 30:	
2017	\$ 5,168
2018	5,312
2019	6,653
2020	<u>5,071</u>
	 <u>\$ 22,204</u>

**(11) 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 Star Plus 403(b) 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 year 2016 was \$496.4 million. The total covered payroll for eligible employees during the same period is not determinable. For fiscal year June 30, 2016, the District's contribution was \$6.9 million, representing 1.4% of total payroll. The employees' contribution for fiscal year June 30, 2016 was \$26.3 million, representing 5.0% of total payroll.

**NORTH BROWARD HOSPITAL DISTRICT**

Notes to the Financial Statements

June 30, 2016

**(12) Florida Retirement System**

The District has seventeen employees that participate in the Florida Retirement System (FRS), a cost-sharing multiple employer defined benefit plan administered by the State of Florida (the FRS Plan).

The following amounts have been recorded in the District's financial statements as of and for the year ended June 30, 2016 representing its proportionate share of the net pension liability and the related pension expense and deferred outflows/inflows of resources of the FRS Plan:

	<u>2016</u>	
	(In thousands of dollars)	
Net pension liability	\$	1,216
Deferred outflows of resources		611
Deferred inflows of resources		(511)
Pension expense		86

The remaining disclosures and required supplementary information related to the District's participation in the FRS Plan have not been presented in the accompanying financial statements due to immateriality.

**(13) Other Postemployment Benefits**

In addition to providing pension benefits, the District provides certain healthcare and life insurance benefits for approximately 1,073 eligible retired employees, which include those at the healthcare 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 accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. Annual OPEB costs are 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 actuarially determined cost for providing benefits to retirees and current employees during fiscal year June 30, 2016 was \$17.9 million. This includes \$7.4 million of actual payments (contributions) during fiscal year June 30, 2016.

**a) 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 healthcare 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 the Financial Statements

June 30, 2016

**b) Funding Policy**

The Annual Required Contribution (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 year June 30, 2016, the District contributed \$7.4 million to the healthcare plan, which is net of retiree contributions. Retiree contributions for fiscal year 2016 were \$2.9 million according to the following table:

Best Choice Plus Medical	<u>Single</u>	<u>Employee + 1</u>
Rule of 80:		
Medical pre-65	\$ 120.77	276.08
Medical post-65	92.99	212.58
Retiree and Spouse one older and one younger than 65	N/A	245.52
Other retirees:		
Medical pre-65	\$ 603.83	1,254.90
Medical post-65	464.95	966.28
Retiree and Spouse one older and one younger than 65	N/A	1,116.02
Aetna EPO Medical		
Rule of 80:		
Medical pre-65	\$ 136.43	308.67
Medical post-65	105.05	237.64
Retiree and Spouse one older and one younger than 65	N/A	274.51
Other retirees:		
Medical pre-65	\$ 619.49	1,287.49
Medical post-65	477.01	991.34
Retiree and Spouse one older and one younger than 65	N/A	1,145.01
Aetna HDHP Medical		
Rule of 80:		
Medical pre-65	\$ 27.55	82.36
Medical post-65	21.21	63.39
Retiree and Spouse one older and one younger than 65	N/A	73.24
Other retirees:		
Medical pre-65	\$ 510.61	1,061.18
Medical post-65	393.17	817.09
Retiree and Spouse one older and one younger than 65	N/A	943.74

**NORTH BROWARD HOSPITAL DISTRICT**

Notes to the Financial Statements

June 30, 2016

	<u>Single</u>	<u>Employee + 1</u>
Reliance Dental		
Rule of 80:		
Retiree	\$ 8.32	
Retiree and Spouse	N/A	17.29
Other retirees:		
Retiree	\$ 24.04	
Retiree and Spouse	N/A	49.96
Safeguard Dental		
Rule of 80:		
Retiree	\$ 6.41	
Retiree and Spouse	N/A	12.18
Other retirees:		
Retiree	\$ 18.53	
Retiree and Spouse	N/A	35.20

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

***c) 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 healthcare plan, and changes in the District's net OPEB obligation as of June 30, 2016, are as follows:

	<u>2016</u>
	(In thousands of dollars)
Annual required contribution	\$ 17,282
Interest on net OPEB obligation	3,216
Adjustment to annual required contribution	<u>(2,598)</u>
Annual OPEB cost	17,900
Contributions made	<u>7,386</u>
Increase in net OPEB obligations	10,514
Net OPEB obligation	
Beginning of year	<u>80,407</u>
End of year	<u><u>\$ 90,921</u></u>

**NORTH BROWARD HOSPITAL DISTRICT**

Notes to the Financial Statements

June 30, 2016

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the healthcare plan, and the net OPEB obligation for fiscal year 2016 and two prior fiscal years was as follows:

	<b>Annual OPEB cost</b>	<b>Percentage of annual OPEB cost contributed</b>	<b>Net OPEB obligation</b>
	(In thousands of dollars)		
Fiscal years ended:			
June 30, 2016	\$ 17,900	41.3%	\$ 90,921
June 30, 2015	17,268	42.8%	80,407
June 30, 2014	17,657	33.4%	72,339

**d) Funded Status and Funding Progress**

As of June 30, 2016, the unfunded actuarial accrued liability (UAAL) for benefits was \$304.9 million. The covered payroll (annual payroll of active employees covered by the plan) was \$351.8 million, and the ratio of the UAAL to the covered payroll was 86.7%. In accordance with post-employment benefit guidance, actuarial valuations are completed on a biannual basis. The last valuation was completed as of July 1, 2014. As permitted under GASB 45, the report for fiscal year ending June 30, 2016, was produced by performing a roll-forward of the results of the full valuation for the year beginning July 1, 2014.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the 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.

**e) 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 July 1, 2014, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0% discount rate for 2016, 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 the Financial Statements

June 30, 2016

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

Salary increases	Salaries are assumed to increase at 4.5% per year
Healthcare cost trend rates	The trend rates of incurred claims represent the rate of increase in employer claims payments

Medical annual rates of increase:

Initial trend rate	5.90%
Ultimate trend rate	4.50
Year that the rate reaches the ultimate trend rate	2086

Dental annual rates of increase:

Initial trend rate	5.56%
Ultimate trend rate	3.90
Year that the rate reaches the ultimate trend rate	2026

**(14) 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 year 2016, based on established rates, was \$148.1 million. Charity care provided reflects inpatient services of \$66.7 million and outpatient services of \$81.4 million for fiscal year 2016. The estimated cost of charity care was \$37.7 million for fiscal year 2016. Charity care costs for inpatient services were \$18.1 million and for outpatient services were \$19.6 million for fiscal year 2016. The estimated costs were derived using a cost accounting system, which included indirect and direct costs.

**NORTH BROWARD HOSPITAL DISTRICT**

Notes to the Financial Statements

June 30, 2016

**(15) Net Patient Service Revenue**

Net patient service revenue for fiscal year 2016 consisted of the following:

	<u>2016</u>
	(In thousands of dollars)
Gross patient service revenue:	
Medicare	\$ 727,387
Medicaid	503,188
HMO/PPO	2,061,701
Indigent Write-Off	148,099
Other	<u>578,154</u>
	<u>4,018,529</u>
Allowances:	
Medicare	538,623
Medicaid	434,424
HMO/PPO	1,486,245
Indigent Write Off	148,099
Other	<u>55,168</u>
Total allowances	2,662,559
Provision for uncollectible amounts	<u>414,121</u>
Total deductions from patient service revenue	<u>3,076,680</u>
Net patient service revenue	<u>\$ 941,849</u>

**(16) Ad Valorem 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 year 2016, the levy was 1.4425 mills. The total assessed value for which fiscal year 2016 levies was based was approximately \$104.3 billion, with total taxes, net of associated fees, levied at the District level aggregating \$136.7 million for fiscal year 2016. The Broward County Property Appraiser assesses and the Broward County Tax Collector collects all ad valorem taxes within Broward County.

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.

**NORTH BROWARD HOSPITAL DISTRICT**

Notes to the Financial Statements

June 30, 2016

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.

**(17) Concentrations of Credit Risk**

The District grants credit without collateral to their patients, most of who 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, 2016, 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.

	<u>2016</u>
Medicare	12.4%
Managed care	63.0
Medicaid	6.3
Commercial insurance	3.7
Self-pay and all other	14.6
	<u>100.0%</u>

**(18) Risk Management**

The District’s exposures are subject to Florida’s sovereign immunity laws, effective October 1, 2011, limiting the exposure to \$200,000 indemnity per person and \$300,000 per occurrence and prior to October 1, 2011, the limits were \$100,000/\$200,000. If a lawsuit results in a claim exceeding the sovereign immunity limits, a claims bill must be passed through the Florida Legislature and signed by the Governor.

*Public Liability, Medical Malpractice, and Workers’ Compensation*

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 healthcare 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 and 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

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

June 30, 2016

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 \$30.6 million at June 30, 2016 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 statement of revenues, expense, and changes in net position.

Changes in the District's self-insurance program claims liability during 2016 were as follows:

	<b>2016</b>
	(In thousands of dollars)
Liability at beginning of year	\$ 30,058
Current year claims expense	6,324
Current year claims payments	(5,739)
Liability at end of year	<u>\$ 30,643</u>

### *Medical Health Benefits*

In 2009, the District developed a self-insurance program to provide medical health benefits for its employees.

The estimated reserve for the District's health benefits as of June 30, 2016, for non-retirees is \$14.0 million and is included in accrued salaries, benefits and payroll taxes in the accompanying statement of net position. The District considered the need for a margin for adverse deviation from the best estimate of reserve based on the variability of claims and have included a 10% explicit margin. 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 such claims.

Changes in the District's health plan liability during fiscal year 2016 were as follows:

	<b>2016</b>
	(In thousands of dollars)
Liability at beginning of year	\$ 12,747
Current year claims expense	84,393
Current year claims payments	(83,121)
Liability at end of year	<u>\$ 14,019</u>

The District contracts with Total Claims Administration (CVS/Caremark is its Pharmacy Benefit Manager) and Aetna (both medical and pharmacy) to provide for adjudication of medical and prescription claims.

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

June 30, 2016

In the opinion of management, the District's self-insured medical plan complies with Section 112.08, Florida Statutes, regarding the Plan's actuarial soundness and compliance requirements.

Since dental became fully insured as of January 1, 2012, and vision became fully insured as of January 1, 2014, there is no remaining material self-insured plan run-out reserve liability as of June 30, 2016.

### (19) 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 four of thirteen seats on the Board of Directors. The District rented beds from Broward House for its patients at a cost of \$0.7 million in fiscal year 2016. The District also utilized the Broward House's Homeless Outreach program at a cost of \$0.1 million in fiscal year 2016.

The District is an equal partner of the South Florida Community Care Network (SFCCN), a managed care network governed by an agreement between two governmental entities: the District 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 in Broward County. As of June 30, 2016, the District's investment in SFCCN was approximately \$11.9 million and is included in other assets. The District recorded equity in earnings of \$7.9 million and received a distribution of \$6.65 million during 2016. As of June 30, 2016, the District had a receivable balance from SFCCN of approximately \$8.6 million included in other assets.

Summarized financial information taken from the audited financial statements of SFCCN as of December 31, 2015 were as follows:

	<u>2015</u>
	(In thousands of dollars)
<b>Assets</b>	
Current assets	\$ 31,857
Capital assets, net	2,612
Other assets	<u>25,090</u>
Total assets	<u>\$ 59,559</u>
<b>Liabilities and Net Position</b>	
Current liabilities	\$ 15,421
Long-term liabilities	<u>16,418</u>
Total liabilities	<u>31,839</u>
Net position	<u>27,720</u>
Total liabilities and net position	<u>\$ 59,559</u>

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

June 30, 2016

	<u>2015</u>
	(In thousands of dollars)
Revenue	\$ 142,121
Expenses:	
Medical services expenses	108,325
General administrative expenses	<u>22,537</u>
Total expenses	<u>130,862</u>
Operating income	11,259
Other income	<u>420</u>
Increase in net position	11,679
Net position:	
Beginning of year	15,201
Capital contribution	840
End of year	<u>\$ 27,720</u>

### (20) 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. During fiscal year 2016, approximately \$11.5 million was recorded as an operating expense in the accompanying statement of revenues, expenses, and changes in net position.

### (21) Commitments and Contingencies

#### a) Operating Leases

The District leases various equipment and facilities under operating lease arrangements. Total rental expense under operating leases in fiscal year 2016 was \$5.9 million and is included in other expenses in the accompanying statement of revenues, expenses, and changes in net position.

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

June 30, 2016

Future minimum lease payments under operating leases as of June 30, 2016, with initial or remaining lease terms in excess of one year are as follows (in thousands of dollars):

Years ending June 30:		
2017	\$	3,010
2018		1,204
2019		705
2020		569
2021		372
Thereafter		62
	\$	<u>5,922</u>

### ***b) 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 adverse material impact on the District's net position, operations, or its cash flows.

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.

### ***c) Other Industry Risks***

The healthcare industry is subject to numerous complex laws and regulations imposed by federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation by both the District with respect to implementation as well as the government with respect to retrospective review. In addition, at this time, regulatory actions are unknown and unasserted.

In the past few years, federal government activity has increased with respect to investigations and allegations concerning possible violations by healthcare 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, including grant agreements. To the extent that issues with noncompliance are identified, the District's management takes the appropriate steps to correct such matters. Management of the District believes that the ultimate exposure from any such matters would not have a material effect on the financial statements of the District.

# NORTH BROWARD HOSPITAL DISTRICT

## Notes to the Financial Statements

June 30, 2016

### *d) Corporate Integrity Agreement*

As part of the District's requirements under its August 31, 2015 Corporate Integrity Agreement ("CIA") with the Office of Inspector General of the Department of Health and Human Services ("OIG"), the District Board is required to submit a resolution each year summarizing the Board's review and oversight of the District's compliance with Federal health care program requirements and the obligations of the CIA. The Board is required to conclude either that the District has implemented an effective compliance program to meet these requirements or explain why it is unable to provide the conclusion and explain the steps being taken to implement an effective Compliance Program. On January 11, 2017, the District Board resolved that it was "unable to conclude that the Compliance Program has been effective in meeting the obligations" of the District's CIA, and the resolution further details ten specific steps the Board, in its oversight capacity, and the District have taken and are taking to implement an effective compliance program.

If the OIG determines that the District has failed to comply with its CIA obligations, it has the authority to impose contractually stipulated penalties, which could be material to the organization. The OIG provides notice if it finds a failure to comply, which includes notice of the OIG's exercise of its contractual right to demand payment of penalties. As of February 24, 2017, the OIG had not provided such notice to the District.

On December 7, 2016, the District's outside counsel, on behalf of the District, reported to the OIG that a former executive of the District, while serving as an executive of Broward Health North, engaged in conduct that constitutes a "probable violation" (as defined in the CIA ) of the Anti-Kickback Statute. The District is currently responding to additional information requested by the OIG related to the probable violation, including the impact to the Federal health care programs. The amount of any penalties cannot be determined at this time, but could be material to the organization.

### **(22) Significant Business Risk**

The District has experienced decreases in their net positions in two consecutive years. The District has also experienced downgrades in credit ratings from Moody's and S&P during 2016. Also, during, and subsequent to, the year ended June 30, 2016, the District experienced significant turnover in the Board of Commissioners and the executive management team and has not had a permanent CEO or CFO for over one year. The Independent Review Organization hired as a result of the Corporate Integrity Agreement (see Note 21) noted issues with lack of communication among the senior management team. Further, as noted previously, the District failed to comply with the certain requirements of the Corporate Integrity Agreement in its first year. These items individually and in the aggregate pose a significant business risk to the organization.

**NORTH BROWARD HOSPITAL DISTRICT**

Notes to the Financial Statements

June 30, 2016

**(23) Condensed Financial Information – Component Units**

The following tables represent the condensed financial information of the District’s component units (in thousands of dollars):

	<b>Children’s Diagnostic &amp; Treatment Center</b>	<b>Broward Health Foundation</b>	<b>Total Claims Administration</b>	<b>Broward Health ACO</b>	<b>Total of Blended Component Units</b>
<b>Assets:</b>					
Due from other components	\$ —	3,653	—	—	3,653
Other current assets	7,983	10,217	3,949	470	22,619
Total current assets	7,983	13,870	3,949	470	26,272
Capital assets, net	1,529	6	8	4,712	6,255
Other assets	—	12,783	2,182	—	14,965
Total assets	9,512	26,659	6,139	5,182	47,492
Deferred outflows of resources	581	24	80	61	746
<b>Liabilities:</b>					
Due to other components	439	—	346	10,044	10,829
Other current liabilities	6,485	10,860	442	243	18,030
Total current liabilities	6,924	10,860	788	10,287	28,859
Other long-term liabilities	1,691	115	287	164	2,257
Total liabilities	8,615	10,975	1,075	10,451	31,116
Deferred inflows of resources	95	5	17	12	129
<b>Net position:</b>					
Net investment in capital assets	1,529	6	8	4,712	6,255
Restricted net position	4,183	24,680	—	—	28,863
Unrestricted net position	(4,329)	(8,983)	5,119	(9,932)	(18,125)
Total net position	\$ 1,383	15,703	5,127	(5,220)	16,993

**NORTH BROWARD HOSPITAL DISTRICT**

Notes to Financial Statements

June 30, 2015

	<b>Children's Diagnostic &amp; Treatment Center</b>	<b>Broward Health Foundation</b>	<b>Total Claims Administration</b>	<b>Broward Health ACO</b>	<b>Total of Blended Component Units</b>
Operating revenues	\$ 16,399	—	3,196	459	20,054
Operating expenses	17,134	1,409	1,824	2,647	23,014
Operating (loss) income	(735)	(1,409)	1,372	(2,188)	(2,960)
Nonoperating revenues (expenses)	404	11,553	(13)	—	11,944
Increase (decrease) in net position	(331)	10,144	1,359	(2,188)	8,984
Net position:					
Beginning of year	1,714	5,559	3,768	(3,032)	8,009
End of year	\$ 1,383	15,703	5,127	(5,220)	16,993
	<b>Children's Diagnostic &amp; Treatment Center</b>	<b>Broward Health Foundation</b>	<b>Total Claims Administration</b>	<b>Broward Health ACO</b>	<b>Total of Blended Component Units</b>
Net cash provided (used) by:					
Operating activities	\$ (502)	—	1,113	3,454	4,065
Capital and related financing activities	(474)	—	(1)	(3,257)	(3,732)
Investing activities	—	—	(85)	—	(85)
Net increase (decrease) in cash and cash equivalents	\$ (976)	—	1,027	197	248
Cash and cash equivalents:					
Beginning of year	\$ 1,230	—	2,583	63	3,876
End of year	\$ 254	—	3,610	260	4,124

**REQUIRED SUPPLEMENTARY INFORMATION**  
(Unaudited)

**NORTH BROWARD HOSPITAL DISTRICT**

Schedule of Changes in Net Pension Liability and Related Ratios - Defined Benefit Pension Plan (Unaudited)  
(in thousands)

	<u>2016</u>	<u>2015</u>
<b>Total Pension Liability</b>		
Service cost	\$ 10,603	9,775
Interest on total pension liability	24,568	25,875
Effect of economic/demographic gains or losses	(2,600)	—
Effect of assumption changes or inputs	965	(5,629)
Benefit payments	<u>(25,626)</u>	<u>(24,520)</u>
Net change in total pension liability	7,910	5,501
Total pension liability, beginning	<u>331,184</u>	<u>325,683</u>
Total pension liability, ending (a)	<u>\$ 339,094</u>	<u>331,184</u>
<b>Fiduciary Net Position</b>		
Employer contributions	\$ 15,200	17,600
Investment income net of investment expenses	(1,210)	15,583
Benefit payments	(25,626)	(24,520)
Administrative expenses	<u>(2,126)</u>	<u>(2,533)</u>
Net change in plan fiduciary net position	(13,762)	6,130
Fiduciary net position, beginning	<u>328,061</u>	<u>321,931</u>
Fiduciary net position, ending (b)	<u>\$ 314,299</u>	<u>328,061</u>
Net pension liability, ending = (a) - (b)	<u>\$ 24,795</u>	<u>3,123</u>
Fiduciary net position as a % of total pension liability	92.69%	99.06%
Covered payroll	\$ 353,296	351,806
Net pension liability as a % of covered payroll	7.02%	0.89%

See accompanying independent auditors' report.

**NORTH BROWARD HOSPITAL DISTRICT**

Schedule of Employer Contributions - Defined Benefit Pension Plan (Unaudited)

July 1, 2006 Through June 30, 2016

(in thousands)

<b>Fiscal Year Ending June 30</b>	<b>Actuarially Determined Contribution*</b>	<b>Actual Employer Contribution**</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Contribution as a % of Covered Payroll</b>
2016	\$ 11,834	\$ 15,656	\$ (3,822)	\$ 353,296	4.43%
2015	14,957	18,126	(3,169)	351,806	5.15%
2014	15,688	18,169	(2,481)	336,524	5.40%
2013	17,205	20,204	(2,998)	345,555	5.85%
2012	17,120	19,587	(2,467)	335,101	5.85%
2011	14,042	19,658	(5,617)	315,874	6.22%
2010	11,932	19,605	(7,672)	307,858	6.37%
2009	6,191	17,253	(11,062)	280,724	6.15%
2008	9,063	16,834	(7,770)	262,897	6.40%
2007	11,957	15,697	(3,740)	258,696	6.07%

\*Minimum contribution determined as of plan year-end under Florida statutes.

\*\*Interest adjusted to plan year-end.

**Notes to Schedule**

Assumed rate of return on investments  
Mortality basis

7.50%

RP-2014 Mortality for employees, healthy annuitants, and disabled annuitants with generational projection per MP-2014

Amortization method  
Existing amortization period  
Asset valuation method

Level dollar layered

14 years

Smoothing period  
Corridor

3 years

90% to 110% of Market

Assumed inflation rate

2.50%

Salary increases

4.50%

Cost of living adjustments

None

Actuarial cost method

Entry age normal with frozen initial supplemental present value

See accompanying independent auditor's report.

**NORTH BROWARD HOSPITAL DISTRICT**

Schedule of Plan Funding Progress – Other Postemployment Benefits (Unaudited)

July 1, 2012 Through July 1, 2015

(in thousands)

<u>Actuarial valuation date</u>	<u>(a) Actuarial value of assets</u>	<u>(b) Actuarial accrued liability projected unit credit</u>	<u>(b-a) Unfunded AAL (UAAL)</u>	<u>(a/b) Funded ratio</u>	<u>(c) Covered payroll</u>	<u>(b-a)/(c) UAAL as a percentage of covered payroll</u>
July 1, 2015	\$ —	\$ 304,945	\$ 304,945	—	\$ 351,806	86.7
July 1, 2014	—	296,116	296,116	—	355,056	83.4
July 1, 2013	—	299,619	299,619	—	369,180	81.2

In accordance with post-retirement benefit guidance, actuarial valuations are completed on a biannual basis. The last valuation was completed as of July 1, 2013.

See accompanying independent auditors' report.

**SUPPLEMENTAL COMBINING INFORMATION**

**NORTH BROWARD HOSPITAL DISTRICT**

Combining Schedule of Net Position

June 30, 2016

(In thousands of dollars)

<b>Assets</b>	<b>Broward Health Medical Center</b>	<b>Broward Health North</b>	<b>Broward Health Imperial Point</b>	<b>Broward Health Coral Springs</b>	<b>Foundation</b>	<b>Other Non Hospital Entities</b>	<b>Eliminations</b>	<b>Total</b>
Current assets:								
Cash and cash equivalents	\$ 9	4	2	4	—	43,519	—	43,538
Cash and investments externally restricted by donors	698	127	65	204	7,526	8,447	—	17,067
Short-term investments	—	—	—	—	—	386,987	—	386,987
Assets whose use is limited required for current liabilities	2,752	1,231	525	409	—	404	—	5,321
Due from patients and other, net of allowance for uncollectibles	79,934	35,044	13,730	18,980	—	7,769	—	155,457
Inventories	13,444	7,064	2,879	4,224	—	746	—	28,357
Estimated third-party payor settlements	11,625	872	211	403	—	—	—	13,111
Other current assets	5,778	1,506	715	662	2,691	42,035	(15,562)	37,825
<b>Total current assets</b>	<b>114,240</b>	<b>45,848</b>	<b>18,127</b>	<b>24,886</b>	<b>10,217</b>	<b>489,907</b>	<b>(15,562)</b>	<b>687,663</b>
Assets whose use is limited - Cash and investments:								
Amounts designated for self-insurance	16,464	5,056	3,914	6,733	—	4,568	—	36,735
Amounts held by counter party under interest rate swap agreements	12,317	1,291	720	491	—	1,731	—	16,550
	28,781	6,347	4,634	7,224	—	6,299	—	53,285
Less amount required to meet current obligations	(2,752)	(1,231)	(525)	(409)	—	(404)	—	(5,321)
<b>Assets whose use is limited, net</b>	<b>26,029</b>	<b>5,116</b>	<b>4,109</b>	<b>6,815</b>	<b>—</b>	<b>5,895</b>	<b>—</b>	<b>47,964</b>
Investments	—	—	—	—	—	132,764	—	132,764
Due from/(to) affiliates	556,473	127,504	75,353	177,546	3,653	(940,529)	—	—
Capital assets, net	203,559	98,087	51,358	57,762	6	108,430	—	519,202
Other assets	717	318	177	120	12,783	22,178	—	36,293
<b>Total assets</b>	<b>901,018</b>	<b>276,873</b>	<b>149,124</b>	<b>267,129</b>	<b>26,659</b>	<b>(181,355)</b>	<b>(15,562)</b>	<b>1,423,886</b>
Deferred outflows of resources:								
Accumulated decrease in fair value of hedging derivatives	26,294	2,978	1,658	1,137	—	3,996	—	36,063
Loss on debt refundings	9,053	1,021	568	388	—	1,372	—	12,402
Deferred pension amounts	10,881	4,458	2,534	3,439	24	6,156	—	27,492
<b>Total deferred outflows of resources</b>	<b>46,228</b>	<b>8,457</b>	<b>4,760</b>	<b>4,964</b>	<b>24</b>	<b>11,524</b>	<b>—</b>	<b>75,957</b>

**NORTH BROWARD HOSPITAL DISTRICT**

Combining Schedule of Net Position (Continued)

June 30, 2016

(In thousands of dollars)

<b>Liabilities</b>	<b>Broward Health Medical Center</b>	<b>Broward Health North</b>	<b>Broward Health Imperial Point</b>	<b>Broward Health Coral Springs</b>	<b>Foundation</b>	<b>Other Non Hospital Entities</b>	<b>Eliminations</b>	<b>Total</b>
Current liabilities:								
Current maturities of revenue bonds payable	\$ 4,582	1,709	1,480	1,537	—	2,292	—	11,600
Accounts payable and accrued expenses	32,515	18,856	9,503	12,610	10,770	23,147	(15,562)	91,839
Accrued salaries, benefits and payroll taxes	9,497	3,808	2,129	2,854	24	8,837	—	27,149
Accrued personal leave	12,049	5,598	3,265	3,735	66	9,950	—	34,663
Current portion of lease obligations	106	6	5	4	—	2	—	123
Estimated third-party payor settlements	17,410	3,723	1,774	4,077	—	—	—	26,984
Current portion of self-insurance program liability	2,752	1,231	525	409	—	404	—	5,321
Interest payable	1,193	364	266	245	—	488	—	2,556
Total current liabilities	80,104	35,295	18,947	25,471	10,860	45,120	(15,562)	200,235
Revenue bonds, net of current maturities	132,424	20,837	19,720	21,593	—	27,951	—	222,525
Lease obligations, net of current portion	447	—	—	—	—	—	—	447
Self-insurance program liability, net of current portion	10,690	3,653	2,276	3,643	27	5,033	—	25,322
Net pension liability	10,025	4,120	2,334	3,132	21	6,378	—	26,010
Other postemployment benefit program liability	37,002	15,835	8,641	11,843	67	17,533	—	90,921
Derivative instruments	36,580	3,685	2,054	1,400	—	4,941	—	48,660
Total liabilities	307,272	83,425	53,972	67,082	10,975	106,956	(15,562)	614,120
Deferred inflows of resources:								
Deferred pension amounts	1,906	777	438	605	5	1,456	—	5,187
Total deferred inflows of resources	1,906	777	438	605	5	1,456	—	5,187
Net position:								
Net investment in capital assets	64,768	75,849	30,326	34,751	6	78,612	—	284,312
Restricted for donor restrictions	698	127	65	203	24,680	4,995	—	30,768
Restricted by counter party under interest rate swap agreements	12,317	1,291	720	491	—	1,731	—	16,550
Unrestricted	560,285	123,861	68,363	168,961	(8,983)	(363,581)	—	548,906
Total net position	\$ 638,068	201,128	99,474	204,406	15,703	(278,243)	—	880,536

See accompanying independent auditors' report.

**NORTH BROWARD HOSPITAL DISTRICT**  
Combining Schedule of Revenues, Expenses, and Changes in Net Position  
Year ended June 30, 2016  
(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>Foundation</b>	<b>Other Non Hospital Entities</b>	<b>Eliminations</b>	<b>Total</b>
Operating revenues:								
Net patient service revenue (net of provision for uncollectible accounts)	\$ 461,034	205,517	103,818	135,965	—	35,515	—	941,849
Other operating revenue	25,566	7,588	3,703	2,344	—	44,260	(10,712)	72,749
<b>Total operating revenues</b>	<b>486,600</b>	<b>213,105</b>	<b>107,521</b>	<b>138,309</b>	<b>—</b>	<b>79,775</b>	<b>(10,712)</b>	<b>1,014,598</b>
Operating expenses:								
Salaries	184,769	83,659	45,013	62,245	716	120,396	—	496,798
Employee benefits	47,485	21,443	11,803	13,787	163	34,682	(1,221)	128,142
Professional fees	5,907	1,936	3,794	5,026	—	52,037	(6,206)	62,494
Purchased services and temporary labor	7,686	5,730	1,858	2,825	—	1,420	—	19,519
Outside services	10,787	5,994	1,610	2,751	51	21,247	(1,974)	40,466
Supplies	114,266	57,974	21,770	26,578	9	6,643	—	227,240
Insurance	3,514	1,645	795	1,252	7	1,888	—	9,101
Utilities	6,028	2,610	1,928	1,873	6	5,257	—	17,702
Repairs and maintenance	6,761	3,740	2,534	2,294	—	4,859	—	20,188
State assessments	5,888	2,739	1,322	1,968	—	272	—	12,189
Depreciation and amortization	18,476	7,721	4,668	5,947	2	12,955	—	49,769
Other	80,574	38,504	23,260	28,179	455	(86,611)	(1,311)	83,050
<b>Total operating expenses</b>	<b>492,141</b>	<b>233,695</b>	<b>120,355</b>	<b>154,725</b>	<b>1,409</b>	<b>175,045</b>	<b>(10,712)</b>	<b>1,166,658</b>
<b>Operating income/(loss)</b>	<b>(5,541)</b>	<b>(20,590)</b>	<b>(12,834)</b>	<b>(16,416)</b>	<b>(1,409)</b>	<b>(95,270)</b>	<b>—</b>	<b>(152,060)</b>
Nonoperating revenues (expenses):								
Ad valorem tax revenue	41,579	21,617	8,714	12,525	—	52,228	—	136,663
Investment income, net	114	32	202	342	(283)	(3,497)	—	(3,090)
Interest expense	(6,283)	(17)	(729)	(569)	—	(1,146)	—	(8,744)
Other	(3,416)	(1,703)	(412)	(672)	11,836	8,382	—	14,015
<b>Total nonoperating revenues</b>	<b>31,994</b>	<b>19,929</b>	<b>7,775</b>	<b>11,626</b>	<b>11,553</b>	<b>55,967</b>	<b>—</b>	<b>138,844</b>
<b>Income (loss) before capital contributions</b>	<b>26,453</b>	<b>(661)</b>	<b>(5,059)</b>	<b>(4,790)</b>	<b>10,144</b>	<b>(39,303)</b>	<b>—</b>	<b>(13,216)</b>
Capital contributions								
	—	—	—	—	—	320	—	320
<b>Increase (decrease) in net position</b>	<b>26,453</b>	<b>(661)</b>	<b>(5,059)</b>	<b>(4,790)</b>	<b>10,144</b>	<b>(38,983)</b>	<b>—</b>	<b>(12,896)</b>
Net position:								
Beginning of year	611,615	201,789	104,533	209,196	5,559	(239,260)	—	893,432
End of year	\$ 638,068	201,128	99,474	204,406	15,703	(278,243)	—	880,536

See accompanying independent auditors' report.