



North Broward Hospital District

*Consolidated Basic Financial Statements as of and for the
Years Ended June 30, 2009 and 2008,
Required Supplementary Information,
and Independent Auditors' Report*

NORTH BROWARD HOSPITAL DISTRICT

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NORTH BROWARD HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2009 and 2008, and for the years then ended. Please read this analysis in conjunction with the consolidated basic financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

All of the revenue and expenses for the years ended June 30, 2009 and 2008, are accounted for in the consolidated statements of revenues, expenses, and changes in net assets. The statements measure the annual financial success of the District's operations and can be used to determine whether the District has successfully recovered all of its costs through its net patient service revenue, ad valorem taxes, and other sources of revenue.

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

FINANCIAL ANALYSIS OF THE NORTH BROWARD HOSPITAL DISTRICT

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

A comparative summary of the District's consolidated basic statements of net assets at June 30, 2009 and 2008, is presented below (in thousands):

	2009	2008
Current assets	\$ 551,013	\$ 546,267
Assets whose use is limited — net of current obligations	29,953	29,116
Investments	75,628	90,777
Capital assets	424,121	400,762
Noncurrent assets	<u>7,641</u>	<u>11,494</u>
 Total assets	 <u>\$ 1,088,356</u>	 <u>\$ 1,078,416</u>
 Current liabilities	 \$ 195,870	 \$ 170,181
Long-term debt	249,171	257,515
Other liabilities and minority interest	<u>79,476</u>	<u>73,578</u>
 Total liabilities	 <u>524,517</u>	 <u>501,274</u>
 Invested in capital assets — net of related debt	 164,913	 134,471
Restricted net assets:		
Donor-restricted	4,956	7,673
Unrestricted	<u>393,970</u>	<u>434,998</u>
 Total net assets	 <u>563,839</u>	 <u>577,142</u>
 Total liabilities and net assets	 <u>\$ 1,088,356</u>	 <u>\$ 1,078,416</u>

The net assets of the District totaled \$563.8 and \$577.1 million as of June 30, 2009 and 2008, respectively, a decrease of \$13.3 million from the prior year. The decrease in net assets was due primarily to unrealized and realized losses on investments. Losses on investments of \$63.0 million were offset by earnings related to the provision of patient care, including \$191.8 and \$192.6 million of ad valorem tax revenue for the years ended June 30, 2009 and 2008, respectively.

BUDGETARY HIGHLIGHTS

Overall, the District performed unfavorably to budget by \$64.7 million. This is due to the significant decline in the District's investment portfolio, which experienced a negative variance from budget of \$76.8 million. This is consistent with the overall negative economic conditions experienced in the District's market area. Operationally, the District performed favorably to budget by approximately \$10 million. This is due to an overall increase in admissions from budget, which primarily relates to an increase in compensated admissions. The increase in compensated admissions relates to the Medicaid population, where the District has been working to help patients complete the paperwork to qualify for Medicaid coverage. The District also implemented a cost reduction initiative during the year as a result of Medicaid rate cuts administered during the year that were not anticipated during the budgeting process. The

District also reduced service hours, closed programs, and reviewed significant contracts, including supply contracts, to reduce expenses by several million dollars.

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2009 and 2008, the District had capital assets of \$424.1 and \$400.8 million, respectively, an increase of \$23.3 and \$12.9 million from 2008 and 2007, respectively. The increases represent purchases of capital assets, net of disposals in the ordinary course of business, depreciation, and amortization expense.

Capital asset acquisitions during 2009 consisted of information technology upgrades totaling \$17.2 million, medical equipment purchases of \$10.0 million, and capital projects of \$34.4 million. Broward General Medical Center (BGMC) completed the construction and implementation of image guided radiation therapy equipment for \$4.1 million and spent \$0.7 million on Americans with Disabilities Act (ADA) projects. North Broward Medical Center (NBMC) completed construction and implementation of image guided radiation therapy (IGRT) and cyberknife equipment for \$5.5 million, spent \$0.6 million on ADA projects and \$1.6 million on a 128 slice CT Scanner and a 16 slice CT Scanner. Capital projects underway at Imperial Point Medical Center (IPMC) and Coral Springs Medical Center (CSMC) include the renovation and expansion of the Emergency Departments. IPMC's expected project costs are \$17.8 million, of which \$5.6 million was expended in 2009, and CSMC's expected project costs are \$21.0 million, of which \$2.9 million was expended in 2009. IPMC also bought a daVinci Robotic Surgery System (da Vinci) for \$1.6 million. CSMC spent \$0.7 million to replace a Radiology/Fluoroscopic room and spent \$0.4 million on ADA projects.

Capital asset acquisitions during 2008 consisted of information technology upgrades totaling \$13.7 million, medical equipment purchases of \$12.2 million, and capital projects of \$22.7 million. BGMC purchased a 16-slice PET/CT scanner for \$2.8 million, of which \$2.0 million was a capital lease and \$0.8 million was construction, a Proton Beam Therapy System for \$0.8 million, and image guided radiation therapy (IGRT) for \$0.5 million. NBMC completed the construction of its parking garage for \$8.0 million, spent \$0.8 million on IGRT, and \$0.7 million on a capital lease for its picture archiving and communication system (PACS). Capital projects underway as of June 2008 at IPMC and CSMC included the renovation and expansion of the Emergency Departments. IPMC's expected project costs as of June 2008 were \$17.8 million, of which \$0.8 million was expended in 2008, and CSMC's expected project costs were \$21.0 million, of which \$0.9 million was expended in 2008.

Property and equipment — net, at June 30, 2009 and 2008, is as follows (in thousands):

	2009	2008
Land and land improvements	\$ 45,501	\$ 45,304
Buildings and improvements	515,964	503,600
Equipment	454,941	418,627
Construction in progress	<u>34,034</u>	<u>18,054</u>
	1,050,440	985,585
Accumulated depreciation	<u>(626,319)</u>	<u>(584,823)</u>
Capital assets — net	<u>\$ 424,121</u>	<u>\$ 400,762</u>

In November 2007, the District issued \$131.2 million of Refunding Revenue Bonds, Series 2007 (the “2007 Bonds”), for the purpose of advance refunding the Refunding and Improvement Revenue Bonds, Series 1997 and Improvement Revenue Bonds, Series 2001. The District also entered into a related floating to fixed interest rate swap. On July 16, 2008, the District issued \$85.5 million of Refunding Revenue Bonds, Series 2008A (the “2008A Bonds”) for the purpose of refunding the outstanding 2005B Bonds. The 2008A bonds will bear interest at a weekly interest rate determined by Citigroup Global Markets, Inc.

In addition to the 2007 Bonds and the 2008A Bonds, the District continues to carry Refunding Revenue Bonds, Series 2005A (the “2005A Bonds”) with a related floating to fixed interest rate swap.

All the District bonds are variable-rate demand obligations (VRDOs) which are remarketed weekly, and all are insured. During fiscal year 2008, auctions of VRDOs began to reset at rates significantly in excess of the Securities Industry Financial Markets Association (SIFMA) rate, stemming from the subprime lending crisis in the U.S. This resulted in the District’s swaps being unable to effectively hedge interest rates and caused much higher than anticipated interest expense in fiscal year 2008.

In order to address the interest rate problems created by the subprime mortgage crisis, the District restructured the Bonds. On June 4, 2008, two separate irrevocable direct pay letters of credit, one securing the 2005A Bonds and the other securing the 2007 Bonds, were issued for the benefit of the registered bondholders to secure the payment of the principal and interest on the 2005A and 2007 Bonds, and the payment of the purchase price of the 2005A and 2007 Bonds tendered for purchase and not remarketed, due to the failed auctions. Simultaneous with the issuance of these letters of credit, the respective standby bond purchase agreements previously in place for the 2005A and 2007 Bonds were terminated. On July 15, 2008, an irrevocable direct pay letter of credit securing the 2008A Bonds was issued for the benefit of the registered bondholder and will secure the payment of the principal of and interest on the 2008A Bonds and the payment of the purchase price of the 2008A Bonds tendered for the purchase and not remarketed.

More detailed information about the District’s capital debt is presented in Notes 5, 6, 7, and 19 within the accompanying consolidated basic financial statements.

REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

The following table presents the District's condensed consolidated statements of revenues, expenses, and changes in net assets for the years ended June 30, 2009 and 2008 (in thousands):

	2009	2008
Operating revenues	\$ 857,757	\$ 814,584
Operating expenses	<u>981,447</u>	<u>934,553</u>
Operating loss	(123,690)	(119,969)
Unrestricted tax revenue	191,752	192,606
Nonoperating expenses — net	(81,752)	(24,125)
Capital contributions (grant and other)	<u>387</u>	<u>2,565</u>
(Decrease) increase in net assets	(13,303)	51,077
Beginning net assets	<u>577,142</u>	<u>526,065</u>
Ending net assets	<u>\$ 563,839</u>	<u>\$ 577,142</u>

MANAGEMENT'S DISCUSSION OF RECENT FINANCIAL PERFORMANCE

OVERVIEW — FISCAL YEAR 2009 AS COMPARED TO FISCAL YEAR 2008

For the year ended June 30, 2009, the District experienced a decrease in net assets and cash flow due to the overall decline in the investment market. The District continued to deliver a high standard of quality health care to the community. The decrease in net assets for the year ended June 30, 2009, totaled \$13.3 million, as compared to a prior-year total increase of \$51.1 million. Management continued its focus on expense reductions and improvement in revenue cycle management to offset the state imposed revenue cuts and the investment market declines.

Inpatient volumes, as measured by admissions, increased over the prior-year totals by 2.3%, while patient days decreased by 2.3% from prior year. The growth in admissions occurred in Medicaid, PSN, and managed care, while there was a decline in admissions in Medicare. Insured admissions experienced an increase of 2.9%, or 1,407 cases, and associated days decreased by 1.1% or 3,018 patient days. Self-pay and charity cases increased by 20 admissions, or 0.2%. Within this total, charity cases increased by 332 admissions, and self-pay cases decreased by 312 admissions. The District continues to direct additional resources, including intake coordinators, case managers, and a medical director, to manage service utilization. Uninsured utilization increased by 0.2%, thus maintaining capacity for more insured business, allowing the District to better manage resources based upon the need and condition of each patient.

Patient Volumes

Medicare inpatient volume, as measured by admissions, decreased by 1.6%, or 203 cases. This decrease was offset by an increase in Medicare HMO cases, which increased by 496 cases or 6.1%. This is accompanied by an increase in case mix of 8.6%. A portion of the increase is due to the restructuring of the diagnostic related groupings (DRGs) to improve the identification of patient severity. As of October 1, 2007, Medicare changed its reimbursement methodology from DRGs to Medicare Severity Diagnostic Related Groups (MS-DRGs), thus expanding the number of DRGs available for coding patient accounts. The new MS-DRGs increase the number from 538 DRGs to 745 MS-DRGs. This includes major comorbidities and complications (major CCs), CCs, and non-CCs. The District's Medicare population typically includes cases with secondary conditions or co-morbidities, thus increasing our case mix.

Medicaid admissions increased over the prior year by 1,262 cases or 16.0%. Associated patient days decreased by 8.0%, or 3,792 days. The increase in admissions is due in part to the efforts of the Medicaid Eligibility Unit and the Department of Children's and Families working to process applications in a more timely fashion.

During the 2005 Florida Legislative session, measures were approved that have resulted in significant changes to the Medicaid program ("Medicaid Reform"). This five-year plan will result in all Medicaid beneficiaries being enrolled in a managed care plan, whether it be with an HMO plan or a plan offered by a Provider Sponsored Network of hospitals and physicians (PSN). Other features of the plan will include certain member benefits for participation in health improvement programs as well as portable premiums that can be transferred for participation in employer based plans. The District, along with several other local health care systems, has operated a PSN since 2000. Broward County became a pilot site for Medicaid Reform beginning in September 2006, in which the PSN participates. A series of initiatives are underway to recruit membership and to optimize the utilization of care to this membership. There were 6,183 new enrollees for fiscal year 2009, resulting in 406 admissions and 513 patient days, offsetting the decline in Medicaid utilization. The increase in new enrollees is due to the departure of a large Medicaid HMO from the market.

Managed care, including commercial payors, the District's largest payor category, increased by 348 admissions, or 1.2%, in fiscal year 2009. Associated patient days decreased by 1.4%, demonstrating the ongoing oversight the managed care payors continue to have on patient care. Other Medicaid managed care increased by 137 admissions.

Outpatient volumes increased 4.4% in fiscal year 2009 over fiscal year 2008. Outpatient medical center visits increased by 42,936 visits. Emergency department visits increased by 14,812, physician office visits increased by 20,495, and primary care visits decreased by 1,924.

Operating Revenues

Net patient revenue has experienced growth of 5.5%, from \$756.1 million in 2008 to \$797.9 million in 2009.

Medicare net revenue increased by \$19.0 million. Although inpatient cases decreased by 203 overall, case mix increased by 8.6% over the prior year, due to the continuing implementation of electronic medical records and an emphasis on documentation, and the change to MS-DRGs. An increase in outpatient volumes provided additional net revenue.

Medicaid net revenue increased over the prior year by \$4.9 million, or 5.9%. Growth in the PSN and Medicaid managed care resulted in an increase in net revenue of \$17.1 million or 1.6%. Additional revenue received from the Disproportionate Share Hospital and Low Income Pool (DSH and LIP) program totaled \$41.9 million, a decrease from the prior year of \$3.2 million. This decrease was due to a reduction in LIP pool funding available for allocation under Medicaid Reform.

Managed care net revenue has experienced a growth of \$35.5 million, or 9.1%, from 2008, which includes the Commercial payors, PSN (the District's Medicaid managed care program) and all other Medicaid managed care increases discussed previously.

The provision for uncollectible accounts has increased by \$13.0 million, from \$344.2 million in 2008, to \$357.2 million in 2009, or an increase of 3.8%. During 2009, charity care also increased by \$25.8 million, or 7.7%, over the prior year. Local and national trends continue to increase in the uninsured and underinsured sectors. During fiscal year 2009, the District has continued its focus on qualifying the uninsured for state reimbursement through focused programs of timely Medicaid application processing and continued partnering with the Department of Children and Families to expedite the decisions on patient qualification for Medicaid.

Operating Expenses

Operating expenses increased by \$46.9 million, or 5.0%, from \$934.6 million in 2008 to \$981.4 million in 2009. The increase is largely due to increases in salaries and benefits, supplies, and outside services expense and depreciation and amortization. Salaries and benefits growth equals 3.1%, increasing from \$511.5 million in 2008 to \$527.5 million in 2009. This increase is attributable to the annual merit increase provided in 2009 of approximately 4.10%. Full time equivalents (FTEs) per adjusted occupied bed remained relatively consistent at 4.6 in 2009, as compared to 4.7 in 2008. Salaries and employee benefits as a percentage of net patient service revenues were 66.1% for FY 2009 and 67.6% for FY2008. These ratios indicate that expense increases were consistent with patient volume growth.

Supplies expense represents the next largest expense category for the District. During the current year supplies expense increased by \$11.2 million, or 6.5%, from \$172.5 million in 2008 to \$183.7 million in 2009. Increases were realized in many supply categories, including implants, pacemakers, purchased drugs, blood, and medical surgical supplies. Increases were due to a combination of volume and pricing increases.

Outside services increased by \$1.6 million, or 4.6%, from \$35.1 million in 2008 to \$36.7 million in 2009. This increase is primarily related to the implementation of clinical systems during the year, as well as other clinical expenses incurred for outside vendor services.

Ad Valorem Tax Revenue

For the years ending June 30, 2009 and 2008, ad valorem tax revenues totaled \$191.8 million and \$192.6 million, respectively. As described in Notes 2 and 13 to the consolidated basic financial statements, the District annually levies and collects ad valorem taxes for the general support of its operations, as approved by the Board. In September 2008, the Board set the tax rate at 1.70 mills for fiscal year 2009. The proposed tax rate for the September 2009 meeting is 1.70 mills for fiscal year 2010. In July 2008, taxable property values within the District's geopolitical boundaries decreased from \$124.0 billion to \$116.7 billion, or 5.9%. In July 2009, the Broward County property appraiser released to the District the taxable property valuations for 2009/2010. These values decreased to \$104.6 billion, a decrease of 10.4%.

Interest Expense

Interest expense in 2009 was \$14.1 million, as compared to \$17.5 million in 2008, a decrease of \$3.4 million, or 19.4%. As described previously, the decrease is primarily due to the issuance of letters of credit and refinancing of the long term debt by the District.

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 8.9% over the prior year. In addition, capital expenditures have been carefully scrutinized in an effort to reduce the outflow of funds, excluding the large ongoing projects.

Significant market declines in the District's investment portfolio resulted in a decrease in unrestricted cash and investments from \$432.0 million to \$397.7 million at June 30, 2008 and 2009, respectively, with a corresponding decrease in days' cash on hand from 169 to 144. Cash to debt has declined from 162.2% as of June 30, 2008 to 153.0% as of June 30, 2009. Average days' net revenue in accounts receivable has increased from 52 days in 2008 to 57 days in 2009, due to an overall increase in patient cash collections of \$63.6 million.

Credit Ratings

The District has received underlying credit ratings of A2 and A from Moody's Investor Services and Standard & Poor's, respectively. Both firms have assigned an outlook of "Stable." These ratings were affirmed in July 2008 and 2009, respectively.

Capital Projects

The District announced plans to enhance its cancer center programs by purchasing two Varian Trilogy IGRT units, one Accuray Cyberknife Stereotactic Radiosurgery Unit, and one Still River Systems Clinatron 250 Proton Beam Therapy System. The IGRT and Cyberknife systems were installed and operational at Broward General Medical Center and North Broward Medical Center during fiscal year 2009, while the Proton Beam Therapy system is anticipated to be operational in 2011. The capital outlay for these significant projects will be approximately \$32.8 million.

The District also announced plans to renovate and expand the Emergency Services departments at CSMC and IPMC. The cost of the expansions will be approximately \$38.8 million. The project at CSMC is expected to be completed by December 2010, while the project at IPMC is expected to be completed by December 2009.

The District has leased property at IPMC to a local developer who has completed construction of a medical office building. The grand opening of the building was June 2009. IPMC has rented space in the building and will be constructing an Ambulatory Surgery Center. The District is also moving forward with renovations of existing space at the medical office building at BGMC.

OVERVIEW — FISCAL YEAR 2008 AS COMPARED TO FISCAL YEAR 2007

For the year ended June 30, 2008, the District experienced a strong increase in net assets and cash flow while consistently delivering a high standard of quality health care to the community. The increase in net assets for the year ended June 30, 2008, totaled \$51.1 million, as compared to a prior-year total increase of \$89.2 million.

Management believes that this performance is the result of a continued focus on initiatives that are directed at revenue cycle improvements and disciplined cost containment, as described in the following paragraphs.

Patient Volumes

Inpatient volumes, as measured by admissions, increased over the prior-year totals by 0.1%, while patient days decreased by 1.4% from prior year. The growth in admissions occurred primarily in the managed care arena, while there was a decline in admissions in Medicare and Medicaid. Insured admissions experienced a decrease of 0.2%, or 111 cases, and associated days decreased by 0.8%. Self-pay and charity cases increased by 192 admissions, or 1.5%. Within this total, charity cases decreased by 116 admissions, and self-pay cases increased by 308 admissions. The District continues to direct additional resources, including intake coordinators, case managers, and a medical director, to manage service utilization. Uninsured utilization increased by 0.3%, thus maintaining capacity for more insured business, allowing the District to better manage resources based upon the need and condition of each patient.

Medicare inpatient volume decreased by 2.2%, or 275 cases. This decrease was offset by an increase in Medicare HMO cases, which increased by 771 cases. This is accompanied by an increase in case mix of 7.2%. A portion of the increase is due to the restructure of the diagnostic related groupings (DRGs) to improve the identification of patient severity. As of October 1, 2007, Medicare changed its reimbursement methodology from DRGs to Medicare Severity Diagnostic Related Groups (MS-DRGs), thus expanding the number of DRGs available for coding patient accounts. The new MS-DRGs increase the number from 538 DRGs to 745 MS-DRGs. This includes major comorbidities and complications (CCs), CCs, and non-CCs. The District's Medicare population typically includes cases with secondary conditions or co-morbidities, thus increasing our case mix.

Medicaid admissions decreased over the prior year by 584 cases or 6.9%. Associated patient days decreased by 7.5%, or 3,882 days. All of the decrease in Medicaid admissions was offset by an increase in Medicaid HMO volumes resulting from Medicaid Reform, as described below.

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. Some of the utilization management programs were implemented and utilized during fiscal year 2006. There were 1,955 new enrollees for fiscal year 2008, resulting in 274 admissions and 2,198 patient days, offsetting the decline in Medicaid utilization.

Managed care, the District's largest payor category, increased by 626 admissions, or 2.5%, in fiscal year 2008. Associated patient days increased by 5.4%, reflecting an increase in the severity of the patients receiving inpatient care. As mentioned previously, much of this growth is attributed to Medicaid Reform. Other Medicaid managed care increased by 502 admissions.

Commercial admissions have increased by 4%, or 122 cases, with associated patient days increasing by 17.7%. Despite volume growth within this payor category, net revenue decreased by 1.4% over the prior year, mostly attributed to revisions in personal injury protection regulations throughout fiscal year 2008.

Outpatient volumes increased 3.4% in fiscal year 2008 over fiscal year 2007. Outpatient medical center visits increased by 2,541 visits. Emergency department visits increased by 10,116, physician office visits increased by 16,085, and primary care visits increased by 2,620.

Operating Revenues

Net patient revenue has experienced growth of 2.1%, from \$740.9 million in 2007 to \$756.1 million in 2008.

Medicare net revenue increased by \$1.5 million. Although inpatient cases decreased by 275 overall, case mix increased by 7.2% over the prior year, due to the change from DRGs to MS-DRGs as noted above, with increases in outpatient volumes providing additional net revenue.

Medicaid net revenue decreased over the prior year by \$1.1 million, or 1.3%. However, under Medicaid Reform, growth in the PSN and Medicaid managed care offset this decrease with growth of \$5.6 million in net revenue. Additional revenue received from the Disproportionate Share Hospital Low Income Pool (DSH and LIP) program totaled \$45.1 million. This decrease of approximately \$6.4 million over the prior year was due to a reduction in LIP pool funding available for allocation under Medicaid Reform.

Managed care net revenue has experienced a growth of \$15.9 million, or 4.2%, from 2007, which includes the PSN (the District's Medicaid managed care program) and all other Medicaid managed care increase discussed previously.

Within other net patient service revenue, gross self-pay revenues have increased by \$42.8 million, or approximately 12.4%, from the prior year. Correspondingly, the provision for uncollectible accounts has also increased by \$31.1 million, from \$313.1 million in 2007, to \$344.2 million in 2008, or an increase of 9.9%. During 2008, charity care also increased by \$9.0 million, or 2.7%, over the prior year. Local and national trends continue to increase in the uninsured and underinsured sectors; during fiscal year 2008, the District has continued its focus on processing Medicaid applications and is working with the Department of Children and Families.

Operating Expenses

Operating expenses increased by \$16.6 million, or 1.8%, from \$918.0 million in 2007 to \$934.6 million in 2008. The increase is largely due to increases in salaries and benefits, supplies, and outside services expense. Salaries and benefits growth equals 0.9%, increasing from \$507.1 million in 2007 to \$511.5 million in 2008. This increase is attributable to the annual merit increase provided in 2008 and 2007 of approximately 4.15% and 3.75%, respectively. Full time equivalents (FTEs) per adjusted occupied bed remained relatively consistent at 4.68 in 2008, as compared to 4.70 in 2007. Salaries and employee benefits as a percentage of net patient service revenues were consistent year over year at approximately 68%. These ratios indicate that expense increases were consistent with patient volume growth.

Supplies expense represents the next largest expense category for the District. During the current year supplies expense increased by \$10.3 million, or 6.4%, from \$162.2 million in 2007 to \$172.5 million in 2008. Increases were realized in many supply categories, including implants, pacemakers, purchased and donated drugs, blood, and medical surgical supplies. Increases were due to a combination of volume and pricing increases.

Outside services increased by \$6.1 million, or 21.0%, from \$29.0 million in 2007 to \$35.1 million in 2008. This increase is primarily rated to the implementation of clinical systems during the year, as well as other clinical expenses incurred for outside vendor services and an outsourced laboratory compliance review.

Ad Valorem Tax Revenue

For the years ending June 30, 2008 and 2007, ad valorem tax revenues totaled \$192.6 million and \$196.5 million, respectively. As described in Notes 2 and 13 to the consolidated basic financial statements, the District annually levies and collects ad valorem taxes for the general support of its operations, as approved by the Board. In September 2007, the Board lowered the tax rate from 1.83 mills to 1.62 mills for fiscal year 2008, but increased the tax rate in September 2008 to 1.70 mills for fiscal year 2009. In July 2007, taxable property values within the District's geopolitical boundaries increased from \$111.2 billion to \$124.0 billion, or 11.5%. In July 2008, the Broward County property appraiser released to the District the taxable property valuations for 2008/2009. These values decreased to \$117.5 billion, a decrease of 5.2%.

Interest Expense

Interest expense in 2008 was \$17.5 million, as compared to \$13.9 million in 2007, an increase of \$3.6 million, or 25.9%. As described previously, the increase is primarily due to the failure of VRDO auctions and related increased interest rates incurred by the District.

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 5.5% over the prior year. In addition, capital expenditures have been carefully scrutinized in an effort to reduce the outflow of funds.

The initiatives have resulted in an increase in unrestricted cash and investments from \$405.8 million to \$432.0 million at June 30, 2007 and 2008, respectively, with a corresponding increase in days' cash on hand from 162 to 164. Cash to debt has improved from 155.2% as of June 30, 2007 to 162.2% as of June 30, 2008. Average days' net revenue in accounts receivable has decreased from 54 days in 2007 to 52 in 2008, due to an overall increase in cash collections of \$37.3 million.

Credit Ratings

The District has received underlying credit ratings of A2 and A from Moody's Investor Services and Standard & Poor's, respectively. Both firms have assigned an outlook of "Stable." These ratings were both affirmed in May of 2008.

Capital Projects

The District announced plans to enhance its cancer center programs by purchasing two Varian Trilogy IGRT units, one Accuray Cyberknife Stereotactic Radiosurgery Unit, and one Still River Systems Clinatron 250 Proton Beam Therapy System. The IGRT and Cyberknife systems will be installed and operational during fiscal year 2009, while the Proton Beam Therapy system will be operational in 2011. The capital outlay for these significant projects will be approximately \$32.8 million.

The District also announced plans to renovate and expand the Emergency Services departments at CSMC and IPMC. The cost of the expansions will be approximately \$38.8 million. The project at CSMC is expected to be completed by December 2010, while the project at IPMC is expected to be completed by January 2010.

NBMC completed the construction of a four-story, two-bay parking garage at a cost of \$9.0 million in April 2008. The addition of a parking garage will provide additional parking on the campus to accommodate future expansion and improve overall campus flow and space efficiency.

The District has leased property at IPMC to a local developer who has begun construction of a medical office building, based upon speculation, with an expected completion date of June 2009. The District is also moving forward with renovations of existing space at the medical office building at BGMC. The District is negotiating for a medical office building at NBMC, but no commitments have been made.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated basic statements of net assets of North Broward Hospital District (the "District") as of June 30, 2009 and 2008, and the related consolidated basic statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated basic financial statements present fairly, in all material respects, the financial position of the District as of June 30, 2009 and 2008, and the results of its revenues, expenses, and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The schedule of plan funding progress as of July 1, 2005 through July 1, 2008 (unaudited), the historical summary of actual and required pension contributions as of July 1, 2003 through July 1, 2008 (unaudited), the schedule of plan funding progress under GASB Statement No. 45 as of July 1, 2006 (date of adoption) through July 1, 2008 (unaudited), and Management's Discussion and Analysis (unaudited), listed in the table of contents, are not a required part of the consolidated basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the District's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information, and express no opinion on it.

Deloitte & Touche LLP

October 29, 2009

NORTH BROWARD HOSPITAL DISTRICT

CONSOLIDATED STATEMENTS OF NET ASSETS

AS OF JUNE 30, 2009 AND 2008

(In thousands)

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 72,314	\$ 145,739
Cash and investments externally restricted by donors	4,956	7,673
Short-term investments	249,748	195,456
Assets whose use is limited required for current liabilities	5,380	5,607
Due from patients and other — net of allowance for uncollectibles of \$225,298 and \$211,210 as of June 30, 2009 and 2008, respectively	134,521	131,645
Inventories	20,714	18,997
Estimated third-party payor settlements receivable	-	548
Other current assets	<u>63,380</u>	<u>40,602</u>
Total current assets	<u>551,013</u>	<u>546,267</u>
ASSETS WHOSE USE IS LIMITED:		
Held by trustee for self-insurance	35,333	34,723
Less amount required to meet current obligations	<u>(5,380)</u>	<u>(5,607)</u>
Assets whose use is limited — net	29,953	29,116
INVESTMENTS	75,628	90,777
PROPERTY AND EQUIPMENT — Net	424,121	400,762
OTHER ASSETS	<u>7,641</u>	<u>11,494</u>
TOTAL	<u>\$ 1,088,356</u>	<u>\$ 1,078,416</u>

(Continued)

NORTH BROWARD HOSPITAL DISTRICT

CONSOLIDATED STATEMENTS OF NET ASSETS AS OF JUNE 30, 2009 AND 2008 (In thousands)

	2009	2008
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current maturities of revenue bonds payable	\$ 7,610	\$ 7,320
Accounts payable and accrued expenses	125,763	96,613
Accrued salaries and payroll taxes	21,251	26,483
Current portion of lease obligation	2,427	1,456
Accrued personal leave	25,450	23,268
Estimated third-party payor settlements payable	4,643	4,107
Interest payable	3,346	5,327
Current portion of self-insurance program liability	<u>5,380</u>	<u>5,607</u>
Total current liabilities	<u>195,870</u>	<u>170,181</u>
REVENUE BONDS — Net of current maturities	243,699	252,793
LEASE OBLIGATION	5,472	4,722
SELF-INSURANCE PROGRAM LIABILITY	29,638	29,128
OTHER LONG-TERM LIABILITIES	75	81
EARLY RETIREMENT INCENTIVE PROGRAM LIABILITY	25,283	26,544
OTHER POSTEMPLOYMENT BENEFIT PROGRAM LIABILITY	<u>23,880</u>	<u>17,462</u>
Total liabilities	<u>523,917</u>	<u>500,911</u>
MINORITY INTEREST	<u>600</u>	<u>363</u>
COMMITMENTS AND CONTINGENCIES (Note 18)		
NET ASSETS:		
Invested in capital assets — net of related debt	164,913	134,471
Restricted net assets — donor restrictions	4,956	7,673
Unrestricted	<u>393,970</u>	<u>434,998</u>
Total net assets	<u>563,839</u>	<u>577,142</u>
TOTAL	<u>\$1,088,356</u>	<u>\$1,078,416</u>

See notes to consolidated basic financial statements.

(Concluded)

NORTH BROWARD HOSPITAL DISTRICT

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (In thousands)

	2009	2008
OPERATING REVENUES:		
Net patient service revenue (net of provision for uncollectible accounts of \$357,189 in 2009 and \$344,184 in 2008)	\$ 797,861	\$ 756,092
Other operating revenue	<u>59,896</u>	<u>58,492</u>
Total operating revenues	<u>857,757</u>	<u>814,584</u>
OPERATING EXPENSES:		
Salaries	433,054	419,688
Employee benefits	94,418	91,763
Professional fees	63,694	59,012
Purchased services — temporary labor	9,690	9,066
Outside services	36,699	35,066
Supplies	183,707	172,540
Insurance	7,801	6,256
Utilities	17,511	16,622
Repairs and maintenance	23,250	22,905
State assessments	9,886	8,111
Other	55,563	53,016
Depreciation and amortization	<u>46,174</u>	<u>40,508</u>
Total operating expenses	<u>981,447</u>	<u>934,553</u>
OPERATING LOSS	<u>(123,690)</u>	<u>(119,969)</u>
NONOPERATING REVENUES (EXPENSES):		
Unrestricted property tax revenue	191,752	192,606
Investment loss — net	(62,962)	(1,713)
Interest expense	(14,125)	(17,522)
Other	<u>(4,665)</u>	<u>(4,890)</u>
Total nonoperating revenues	<u>110,000</u>	<u>168,481</u>
(LOSS) INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>(13,690)</u>	<u>48,512</u>
CAPITAL CONTRIBUTIONS (GRANT AND OTHER)	<u>387</u>	<u>2,565</u>
(DECREASE) INCREASE IN NET ASSETS	(13,303)	51,077
NET ASSETS — Beginning of year	<u>577,142</u>	<u>526,065</u>
NET ASSETS — End of year	<u>\$ 563,839</u>	<u>\$ 577,142</u>

See notes to consolidated basic financial statements.

NORTH BROWARD HOSPITAL DISTRICT

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (In thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from third-party payors and patients	\$ 761,871	\$ 746,213
Payments to employees	(436,110)	(418,328)
Payments to suppliers and contractors	(416,872)	(417,805)
Other receipts and payments — net	<u>4,572</u>	<u>5,796</u>
Net cash used in operating activities	<u>(86,539)</u>	<u>(84,124)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Donations — net received for noncapital items	1,216	1,345
Ad valorem property taxes	202,456	189,034
Other	<u>(5,272)</u>	<u>(6,235)</u>
Net cash provided by noncapital financing activities	<u>198,400</u>	<u>184,144</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(57,773)	(47,042)
Proceeds from disposal of capital assets	261	75
Payments of interest on revenue bonds, swaps, and lease facility	(15,223)	(15,665)
Principal paid on revenue bonds, swaps, and lease facility	(9,353)	(9,493)
Proceeds from bond issuances	86,070	131,155
Payments for bond issuance and letter of credit costs	(542)	(3,342)
Capital contributions (grant and other)	128	2,565
Payments to escrow for defeasance of bonds and interest	<u>(85,528)</u>	<u>(128,592)</u>
Net cash used in capital and related financing activities	<u>(81,960)</u>	<u>(70,339)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and dividends on investments	8,198	11,429
Purchases of investments	(452,104)	(343,506)
Proceeds from the sale and maturity of investments	<u>340,580</u>	<u>272,489</u>
Net cash used in investing activities	<u>(103,326)</u>	<u>(59,588)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(73,425)	(29,907)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>145,739</u>	<u>175,646</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 72,314</u>	<u>\$ 145,739</u>

(Continued)

NORTH BROWARD HOSPITAL DISTRICT

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (In thousands)

	2009	2008
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Loss from operations	\$ (123,690)	\$ (119,969)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation and amortization	46,174	40,508
Provision for uncollectible accounts	357,189	344,184
Other	2	45
Changes in assets and liabilities:		
Due from patients and others	(360,065)	(349,398)
Estimated third-party payor settlements receivable	548	350
Inventories	(1,717)	(2,262)
Other current assets	(32,503)	(2,075)
Other assets	1,861	(2,887)
Accounts payable and accrued expenses	24,486	10,715
Accrued salaries and payroll taxes	(5,232)	383
Accrued personal leave	2,183	982
Estimated third-party payor settlements payable	536	(4,604)
Early retirement incentive program liability	(1,261)	(1,483)
Other postemployment benefit program liability	6,418	6,478
Other long-term liabilities	(6)	(6)
Minority interest	237	275
Interest payable	(1,982)	(577)
Self-insurance program liability	283	(4,783)
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (86,539)</u>	<u>\$ (84,124)</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
Capital lease obligations	<u>\$ 3,753</u>	<u>\$ 4,915</u>
Property and equipment acquired through accounts payable	<u>\$ 7,208</u>	<u>\$ 2,181</u>
Property and equipment acquired through donation	<u>\$ 2,819</u>	<u>\$ 2,352</u>
Interest capitalized on construction in progress	<u>\$ 1,296</u>	<u>\$ -</u>

See notes to consolidated basic financial statements.

(Concluded)

NORTH BROWARD HOSPITAL DISTRICT

NOTES TO CONSOLIDATED BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

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

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

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

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

Weston Regional Health Park, an all-inclusive outpatient facility, provides physician services, urgent care, radiology, and laboratory services. The Surgery Center of Weston, LLC (Weston LLC), an ambulatory surgery center, has been established as a limited liability corporation. As of June 30, 2009 and 2008, the District held an ownership interest of approximately 19% each year, with the remaining 81% owned by physicians. The District maintains majority voting rights on the Board of Directors of Weston LLC and therefore, has continued to control and consolidate Weston LLC in the accompanying consolidated basic financial statements. A minority interest related to the Weston LLC at June 30, 2009 and 2008, of \$0.6 million and \$0.4 million, respectively, has been recorded in the accompanying consolidated statements of net assets.

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation — Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has elected to apply all applicable GASB pronouncements as well as the Financial Accounting Standards Board (FASB) statements which do not conflict and were issued on or before November 30, 1989. The District does not apply FASB statements and interpretations issued after that date.

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

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

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

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

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

Net Patient Service Revenue — Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. The District presents its provision for uncollectible accounts as a direct reduction of 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 health care facilities participate in the federal Medicare program (Medicare). Approximately 21% of the District's gross patient service revenue in both 2009 and 2008 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. As of October 1, 2007, Medicare moved from a diagnostic related grouping (DRG) based inpatient reimbursement system to a Medicare Severity Diagnostic Related Grouping (MS-DRG) based reimbursement system. MS-DRG increases the number of DRGs from 538 to 745. MS-DRGs include major comorbidities and complications (major CCs), CCs, and non-CCs to better define the severity of the patients that are treated.

Inpatient non-acute services, outpatient services, and defined capital costs related to Medicare beneficiaries are reimbursed based upon a prospective reimbursement methodology. The health care facilities are paid for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the health care facilities and audits by the Medicare fiscal intermediary. The health care facilities' classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review. As of June 30, 2009, the Medicare cost reports were final settled by the health care facilities' Medicare fiscal intermediary through June 30, 2007, for all facilities except for BGMC, which is final settled through June 30, 2006.

During fiscal year 2008, Medicare continued its demonstration project to review the coding of claims from health care facilities. The demonstration was carried out by Recovery Audit Contractors (RACs), hired by the Center for Medicare and Medicaid Services (CMS) to conduct the audits. During fiscal year 2008, the District paid and settled approximately \$6.4 million of overpayments identified through the RAC process. During fiscal year 2008, as a result of the RAC audit settlements, the District recorded a \$5 million decrease to Medicare net patient service revenues, which was principally related to a change in estimate on the valuation of outstanding RAC settlements. The demonstration project ended March 31, 2008. CMS has indicated that it will implement the RAC permanent program gradually and is required by statute to fully implement the program by January 2010. As of June 30, 2009, the RAC permanent program has not been initiated at the District, and no estimated liability for RAC settlements has been recorded to the consolidated financial statements.

Additionally, the District settled certain outstanding appeals related to prior-year cost reports during fiscal years 2009 and 2008. The impact of these settlements for fiscal years 2009 and 2008, principally related to disproportionate share payments and reimbursable bad debts, was an increase to net patient service revenues of \$.4 million and \$5.1 million, respectively.

Medicaid — Approximately 11% and 10% of the District's gross patient service revenue for 2009 and 2008, respectively, was derived under the Medicaid program. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based upon a cost reimbursement methodology subject to

certain ceilings. The health care facilities are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the health care facilities and audits by the Medicaid fiscal intermediary. The Medicaid cost reports for NBMC and IPMC have been audited by the Medicaid fiscal intermediary through June 30, 2006, for CSMC through June 30, 2005, and for BGMC through June 30, 2004. In addition to the tentative payments received by the District for the provision of health care services to Medicaid beneficiaries, the State of Florida provides a disproportionate share payment adjustment to reflect the additional costs associated with treating the Medicaid population in the District's service area. During 2009 and 2008, the District recognized approximately \$41.9 million and \$45.1 million, respectively, related to the disproportionate share hospital payments from the State of Florida and these amounts are reflected in net patient service revenues in the accompanying consolidated statements of revenue, expenses, and changes in net assets.

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

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

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

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

Investments are carried at fair value except for investments in debt securities with maturities less than one year at the time of purchase. These investments are reported at amortized cost, which approximates fair value. The District classifies those investments in debt securities which mature within one year from the balance sheet date as short-term investments in the accompanying consolidated statements of net assets. The District also classifies its investments in equity securities as short-term investments as management's intent with regard to such securities is to sell them in the near term. Interest, dividends, and gains and losses on such debt and equity investments, both realized and unrealized, are included in nonoperating revenue when earned.

The estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. Alternative investments held by the District and the District's pension plan (see Note 8) include private equity, real estate investment trusts, and hedge funds. The estimated fair value of the private equity, real estate investment trusts, and hedge funds is based on valuations provided by the respective partnerships, trusts, or funds. The District reviews and evaluates the values provided by the partnerships, trusts, or funds and agrees with the valuation methods and assumptions used in determining the fair value of the private equity, real estate investment trusts, and hedge fund investments. As of June 30, 2009, these equity investments in private equity, real estate investment trusts, and hedge funds make up approximately 1.1%, 3.0%, and 3.2%, respectively, of total investments in the accompanying consolidated statements of net assets. As of June 30, 2008, these equity investments in private equity, real estate investment trusts, and hedge funds

make up approximately 0.7%, 4.8%, and 4.2%, respectively, of total investments in the accompanying consolidated statements of net assets. Because private equity, real estate investment trusts, and hedge funds are not readily marketable, their estimated value is subject to uncertainty and therefore, may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the statement of revenue, expenses, and changes in net assets in the period such fluctuations occur.

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

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

Property and Equipment — Property and equipment are stated at cost, or if donated, at fair market value on the date of donation, less accumulated depreciation. Depreciation is computed on the straight-line method using estimated useful lives ranging from 3 to 40 years. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized, as are interest costs, during the period of construction. Expenditures for repairs and maintenance are charged to operating expenses when incurred. For those qualifying assets acquired with tax-exempt borrowings, the District capitalizes interest cost from the date of the borrowing until the assets are ready for their intended use. Any interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowings is recorded as an offset to interest costs capitalized. Capitalized interest cost is amortized on the same basis as depreciation. Gains and losses on dispositions are recorded in the year of disposal.

Long-Lived Assets — The District evaluates long-lived assets regularly for impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of assets. An impairment charge is recorded on those assets for which the estimated fair value is below its carrying amount. Impairment charges are recorded as either operating expenses, a special item, or an extraordinary item, depending on the facts and circumstances of the impairment. No impairment charges to long-lived assets were recorded for the fiscal years ended June 30, 2009 and 2008.

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

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

Grant Funding — The District receives grants from federal and state funding agencies. Grant revenues received before the eligibility requirements are met are reported as deferred revenue by the District. Grant revenues and other contributions received for the purpose of acquiring or constructing capital

assets are reported as capital contributions (grant and other), below nonoperating gains and losses, by the District.

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

Derivatives — In July and October 2005, and August 2007, in connection with the issuance of the 2005A, 2005B (amended to 2008A), and 2007 Bond Series, respectively, as described in Note 5, the District entered into three separate floating to fixed interest rate swap agreements. Under the terms of these agreements, the District pays fixed rates of interest in return for variable rates of interest based upon London InterBank Offered Rate (LIBOR) or the Securities Industry Financial Markets Association (SIFMA) Municipal Swap Index.

The District follows the disclosure provisions of GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets* (GASB TB 2003-1) related to its derivative transactions. GASB TB 2003-1 requires certain disclosures regarding the objective of the derivative, significant terms, fair value at the reporting date, and risks.

New Accounting Pronouncements — In November 2006, the GASB issued GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49). GASB 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. The District has adopted the requirements of GASB 49 as of July 1, 2008. The District has evaluated the impact of GASB 49 on the consolidated statements of net assets, consolidated statements of revenues, expenses, and changes in net assets, and consolidated statements of cash flows, and has determined that no liability exists as of June 30, 2009.

In May 2007, the GASB issued GASB Statement No. 50, *Pension Disclosures — an amendment of GASB Statements No. 25 and No. 27* (GASB 50). GASB 50 establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. The District has adopted the provisions of GASB 50 as of July 1, 2007 (see Note 8).

In June 2008, the GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). GASB 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of GASB 53 are effective for financial statement periods beginning after June 15, 2009, the District's 2010 fiscal year. GASB 53 will require the District to recognize approximately a \$23 million liability on the statement of net assets to reflect the fair value of their interest rate swaps. As of June 30, 2009, the District entered into three floating to fixed interest rate swaps agreements to reduce the market risk associated with the changes in interest rates related to the District's revenue bonds. Management has determined two of the interest rate swaps qualify for hedge accounting as they are highly effective in offsetting changes to expected future cash flows on interest payments. Management is currently evaluating the effectiveness of the third interest swap, and if determined to be ineffective the gain or loss on the swap will be reflected in the statement of revenue, expenses and change in net assets.

In February 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). GASB 54 establishes accounting and financial reporting standards for all governments that report governmental funds by establishing criteria for

classifying fund balances into specifically defined classifications and clarifying definitions for governmental fund types. GASB 54 is effective for financial statement periods beginning after June 15, 2010, or fiscal year 2011 for the District. The District does not expect the adoption of GASB 54 to have an impact on its consolidated statement of net assets, consolidated statements of revenues, expenses, and changes in net assets, and consolidated statements of cash flows.

In March 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 55). GASB 55 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with generally accepted accounting principles. GASB 55 became effective March 2009. The adoption of GASB 55 did not have a material effect on the District's consolidated statement of net assets, consolidated statements of revenues, expenses, and changes in net assets, and consolidated statements of cash flows.

In March 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB 56). GASB 56 establishes accounting and financial reporting standards for related party transactions, subsequent events, and going concern considerations, and applies to all state and local governments. GASB 56 became effective March 2009. The adoption of GASB 56 did not have a material effect on the District's consolidated statement of net assets, consolidated statements of revenues, expenses, and changes in net assets, and consolidated statements of cash flows.

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

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The composition of the District's cash and cash equivalents, investments, and assets whose use is limited as of June 30, 2009, is as follows (in thousands):

	Original Cost	Market Value	Investment Maturities			
			One year or Less	1-5 Years	6-10 Years	More Than 10 Years
Repurchase agreements	\$ 15,118	\$ 15,125	\$ 15,125	\$ -	\$ -	\$ -
U.S. government securities	37,022	37,009	25,765	3,326	-	7,918
U.S. government agency securities	24,503	24,503	21,232	2,594	-	677
Corporate bonds	118,787	116,609	77,515	12,342	4,556	22,196
Other investments	<u>858</u>	<u>888</u>	<u>-</u>	<u>888</u>	<u>-</u>	<u>-</u>
Subtotals	196,288	194,134	<u>\$ 139,637</u>	<u>\$ 19,150</u>	<u>\$ 4,556</u>	<u>\$ 30,791</u>
Common stocks	200,460	152,053				
Equity investments:						
Private equity	4,318	4,053				
Real estate	16,425	11,188				
Hedge funds	13,993	11,943				
Money markets	55,697	55,678				
Bank deposits	<u>8,930</u>	<u>8,930</u>				
Cash and investments	<u>\$ 496,111</u>	<u>\$ 437,979</u>				

The composition of the District's cash and cash equivalents, investments, and assets whose use is limited as of June 30, 2008, is as follows (in thousands):

	Original Cost	Market Value	Investment Maturities			
			One year or Less	1-5 Years	6-10 Years	More Than 10 Years
Repurchase agreements	\$ 5,275	\$ 5,275	\$ 5,275	\$ -	\$ -	\$ -
U.S. government securities	13,056	12,965	-	2,614	-	10,351
U.S. government agency securities	29,054	29,305	20,594	7,223	665	823
Corporate bonds	47,533	46,929	4,310	7,352	11,506	23,761
Other investments	<u>793</u>	<u>781</u>	<u>-</u>	<u>298</u>	<u>-</u>	<u>483</u>
Subtotals	95,711	95,255	<u>\$ 30,179</u>	<u>\$ 17,487</u>	<u>\$ 12,171</u>	<u>\$ 35,418</u>
Common stocks	204,011	198,685				
Equity investments:						
Private equity	2,301	2,173				
Real estate	16,000	16,083				
Hedge funds	13,993	14,125				
Money markets	8,384	8,409				
Bank deposits	<u>139,638</u>	<u>139,638</u>				
Cash and investments	<u>\$ 480,038</u>	<u>\$ 474,368</u>				

GASB Statement No. 40, *Deposit and Investment Risk Disclosures — an amendment of GASB Statement No. 3*, requires disclosures related to investment and deposit risks, including risks related to credit risk, consisting of custodial credit risk and concentrations of credit risk, interest rate risk, and foreign currency risk.

Credit Risk — State of Florida Statutes Section 218.415 provides for each unit of local government or political subdivision to adopt investment policies that are commensurate with the nature and size of public funds within their custody. These policies must include consideration for safety of capital, liquidity of funds, diversification of investments, investment income, maturity requirements, and performance measurement. The District has a Board-approved policy for the investment of funds. In accordance with this policy, the District invests in the following types of investments: common stocks rated in the top three rating categories issued by nationally recognized statistical rating organizations; Securities and Exchange Commission registered money market funds, the Local Government Surplus Funds Trust Fund administered by the state treasurer of the State of Florida; U.S. government securities; bankers' acceptances; interest-bearing time deposits or savings accounts in financial institutions located in the State of Florida and organized under federal or state laws provided said financial institutions are qualified public depositories as defined under Florida Statute; corporate interest-bearing notes, bonds, or debentures, and repurchase agreements. In accordance with GASB Statement No. 40, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Concentration of Credit Risk — Investments in any one issuer that represent 5% or more of an entity’s investment portfolio are required to be disclosed under GASB Statement No. 40. 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.

The District places a limit on private equity investments in any one company of no more than 5% of its investment portfolio and/or 5% of the District’s total outstanding net assets. As of June 30, 2009 and 2008, the District did not have any such investments that equaled or exceeded this threshold. See Note 2 for discussion of valuation risks associated with the District’s investments in private equity, real estate, and hedge funds.

Custodial Credit Risk — As of June 30, 2009 and 2008, all of the District’s investments in repurchase agreements, totaling \$15.1 and \$7.0 million, are held in the name of the District. No custodial credit risk exists for the District.

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.

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

The effective yield on the District’s investments as of June 30, 2009 and 2008, was approximately (17.8)% and (0.1)%, respectively.

Investment loss — net for the years ended June 30, 2009 and 2008, is as follows (in thousands):

	2009	2008
Interest income	\$ 10,505	\$ 11,762
Realized losses	(21,094)	(5,171)
Change in unrealized losses	<u>(52,373)</u>	<u>(8,304)</u>
Investment loss — net	<u>\$ (62,962)</u>	<u>\$ (1,713)</u>

4. PROPERTY AND EQUIPMENT — NET

Property and equipment — net, as of June 30, 2009 and 2008, is as follows (in thousands):

	2009	2008	Estimated Useful Lives (in Years)
Land and land improvements	\$ 45,501	\$ 45,304	5–25
Buildings and building improvements	515,964	503,600	5–40
Equipment	443,479	410,907	5–20
Equipment held under capital lease	<u>11,462</u>	<u>7,720</u>	3–15
	1,016,406	967,531	
Less accumulated depreciation and amortization	<u>(626,319)</u>	<u>(584,823)</u>	
	390,087	382,708	
Construction in progress	<u>34,034</u>	<u>18,054</u>	
Property and equipment — net	<u>\$ 424,121</u>	<u>\$ 400,762</u>	

A summary of changes in gross capital assets during 2009 and 2008 is as follows (in thousands):

	Beginning Balance 2009	Additions	Deletions	Transfers	Ending Balance 2009
Land and land improvements	\$ 45,304	\$ 144	\$ (1)	\$ 54	\$ 45,501
Buildings and building improvements	503,600	7,501	(17)	4,880	515,964
Equipment	410,907	32,956	(6,019)	5,635	443,479
Equipment held under capital lease	7,720	3,753	(11)	-	11,462
Construction in progress	<u>18,054</u>	<u>28,670</u>	<u>(2,121)</u>	<u>(10,569)</u>	<u>34,034</u>
Total	<u>\$985,585</u>	<u>\$73,024</u>	<u>\$ (8,169)</u>	<u>\$ -</u>	<u>\$1,050,440</u>
	Beginning Balance 2008	Additions	Deletions	Transfers	Ending Balance 2008
Land and land improvements	\$ 45,137	\$ 146	\$ -	\$ 21	\$ 45,304
Buildings and building improvements	462,084	12,107	(13)	29,422	503,600
Equipment	394,896	26,726	(6,958)	(3,757)	410,907
Equipment held under capital lease	16,015	4,926	-	(13,221)	7,720
Construction in progress	<u>20,970</u>	<u>9,549</u>	<u>-</u>	<u>(12,465)</u>	<u>18,054</u>
Total	<u>\$939,102</u>	<u>\$53,454</u>	<u>\$ (6,971)</u>	<u>\$ -</u>	<u>\$ 985,585</u>

Interest costs expensed during fiscal years 2009 and 2008 were \$14.1 million and \$17.5 million, respectively. Depreciation and amortization expense for the years ended June 30, 2009 and 2008, amounted to \$46.2 million and \$40.5 million, respectively. Amortization expense on equipment held under capital leases as of June 30, 2009 and 2008, totaled \$2.2 million and \$1.4 million, respectively. Accumulated amortization on equipment held under capital leases as of June 30, 2009 and 2008, totaled \$17.3 million and \$15.1 million, respectively. The estimated cost-to-complete of construction in progress for 2009 and 2008 totaled \$77.7 million and \$70.2 million, respectively.

5. REVENUE BONDS

Refunding Revenue Bonds, Series 2005A (the “2005A Bonds”) - In July 2005, the District issued \$71.5 million of 2005A Bonds. The 2005A Bonds are variable-rate demand bonds and are remarketed weekly. The net proceeds of the 2005A Bonds (after payment of \$2.5 million in bond issuance costs, including underwriting, legal and accounting, and insurance fees) were 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”) and \$2.7 million to cover scheduled interest payments on the 1997 Bonds. The refunded 1997 Bonds carried fixed interest rates ranging from 5.125% to 5.75%. The net proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the advance refunded 1997 Bonds. As a result, the advance refunded 1997 Bonds were considered to be defeased in substance and the liability for those bonds has been removed from the accompanying consolidated statements of net assets. These escrowed funds were used in January of 2008 to call the referenced 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 (see Note 6). The result of issuance of the 2005A Bonds and the related interest rate swap was expected to be a synthetic fixed rate of interest on the 2005A Bonds of approximately 3.345%. Both the 2005A Bonds and the related interest rate swap are insured through financial guarantee insurance policies with financial services institutions. During fiscal year 2008, due to various matters resulting from the subprime lending crisis in the United States, the District entered into letter of credit related to the 2005A Bonds, which is described later in Note 5.

In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, 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 lesser of the remaining scheduled life of the old or new debt (19 years). The unamortized value of the deferred amount is reported as a reduction of long-term debt. As of June 30, 2009 and 2008, the unamortized portion is \$3.7 million and \$3.9 million, respectively. The District advance refunded the 1997 Bonds to obtain an economic gain (difference between the present values of the debt service payments of the 1997 and 2005A Bonds) of \$2.3 million.

Refunding Revenue Bonds, Series 2005B (the “2005B Bonds”) - In October 2005, the District issued \$86.3 million of 2005B Bonds. The 2005B Bonds were variable rate demand bonds and were remarketed weekly. The net proceeds of the 2005B Bonds (after payment of \$3.4 million in bond issuance costs, including underwriting, legal and accounting, and insurance fees) were used to fund an escrow account in the amount of \$82.9 million for the advance refunding of \$75.0 million of Improvement Revenue Bonds, Series 2001 (the “2001 Bonds”) and \$7.9 million to cover scheduled interest payments on the 2001 Bonds through the January 15, 2011, call date. The refunded 2001 Bonds carried fixed interest rates ranging from 6.0% to 6.1% and are callable on January 15, 2011. The net proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the advance refunded 2001 Bonds. As a result, the advance refunded 2001 Bonds are considered to be defeased in substance, and the liability for those bonds has been removed from the

accompanying consolidated statements of net assets. Based upon long-term historical patterns, at the time of issuance of the 2005B Bonds, the variable interest paid on these bonds was expected to correlate very closely to the rate received on the related interest rate swap agreement (see Note 6). The result of issuance of the 2005B Bonds and the related floating to fixed interest rate swap was expected to be a synthetic fixed rate of interest on the 2005B Bonds of approximately 4.084%. Both the 2005B Bonds and the related interest rate swap were insured.

In accordance with GASB Statement No. 23, the difference between the reacquisition price and the net carrying amount of the old debt of approximately \$8.6 million is being deferred and amortized as a component of interest expense over the lesser of the remaining scheduled life of the old or new debt (23 years). The unamortized value of the deferred amount is reported as a reduction of long-term debt. As of June 30, 2009 and 2008, the unamortized portion is \$7.3 million and \$7.7 million, respectively. The District advance refunded the 2001 Bonds to obtain an economic gain (difference between the present values of the debt service payments of the 2001 and 2005B Bonds) of \$7.4 million.

Refunding Revenue Bonds, Series 2007 (the “2007 Bonds”) - In November 2007, the District issued \$131.2 million of 2007 Bonds. The 2007 Bonds are variable rate demand bonds that are remarketed weekly. The net proceeds of the 2007 Bonds (after payment of \$2.6 million in bond issuance costs, including underwriting, legal and accounting, and insurance fees) were used to fund an escrow account in the amount of \$128.6 million for the advance refunding of \$106.1 million of 1997 Bonds, and \$25.1 million of 2001 Bonds, and \$2.3 million to cover scheduled interest payments on the 1997 and 2001 Bonds. The refunded 1997 Bonds carried interest rates ranging from 5.125% to 5.75%. The refunded 2001 Bonds carried interest rates ranging from 5.0% to 6.0%. The net proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the advance refunded 1997 and 2001 Bonds. As a result, the advance refunded 1997 Bonds and 2001 Bonds were considered to be defeased in substance and the liability for those bonds has been removed from the accompanying consolidated statements of net assets. Some of these escrowed funds were used to pay the 1997 Bonds that were re-financed with this transaction. Based upon long-term historical patterns, at the time of issuance of the 2007 Bonds, the variable interest on these bonds was expected to correlate very closely to the rate received on the related floating to fixed interest rate swap agreement (see Note 6). The result of issuance of the 2007 Bonds and the related interest rate swap was expected to be a synthetic fixed rate of interest on the 2007 Bonds of approximately 4.159%. Both the 2007 Bonds and the related interest rate swap are insured through financial guarantee insurance policies with financial services institutions. During fiscal year 2008, due to various matters resulting from the subprime lending crisis in the U.S., the District entered into a letter of credit related to the 2007 Bonds, which is described later in Note 5.

In accordance with GASB Statement No. 23, the difference between the reacquisition price and the net carrying amount of the old debt of approximately \$5.9 million is being deferred and amortized as a component of interest expense over the lesser of the remaining scheduled life of the old debt (19 years). The unamortized value of the deferred amount is reported as a reduction of long-term debt. As of June 30, 2009, the unamortized portion is \$5.4 million. Additionally, the unamortized portion related to the 1997 Bonds is \$0.8 million. The District advance refunded the 1997 and 2001 Bonds to obtain an economic gain (difference between the present values of the debt service payments of the 1997 and 2001 Bonds) of \$7.5 million.

Refunding Revenue Bonds, Series 2008A (the “2008A Bonds”) - On July 16, 2008, the District issued \$85.5 million of 2008A Bonds for the purpose of refunding the \$85.5 million in outstanding 2005B Bonds. The 2008A Bonds will initially bear interest at weekly interest rates not to exceed 12.0%. The 2008A Bonds are secured by a letter of credit through July 15, 2011. The 2008A Bonds are variable-rate demand bonds and are remarketed weekly. The proceeds of the 2008A Bonds were used for the sole

purpose of extinguishing the 2005B Bonds. Issuance costs including legal, accounting and underwriting of approximately \$0.5 million that were associated with this transaction were paid from other operating funds. 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%.

In accordance with GASB Statement No. 23, the difference between the reacquisition price and the net carrying amount of the old debt of approximately \$3.0 million is being deferred and amortized as a component of interest expense over the lesser of the remaining scheduled life of the old or new debt (23 years). The unamortized value of the deferred amount is reported as a reduction of long-term debt. As of June 30, 2009, the unamortized portion is \$2.9 million. The District advance refunded the 2005B Bonds and no economic gain was realized.

Irrevocable Direct Pay Letters of Credit (“LOC”) - On June 4, 2008, two separate LOC’s, one securing the 2005A Bonds and the other securing the 2007 Bonds, were issued for the benefit of the registered bondholders to secure 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. Costs incurred to close the letters of credit were \$1.1 million and were amortized over the original one-year term of the agreement. Each of the letters of credit had original expiration dates of June 4, 2009, but were amended and renewed for an additional three years by the bank to June 4, 2012. Simultaneous with the issuance of these letters of credit in fiscal year 2008, the respective standby bond purchase agreements previously in place for the 2005A and 2007 Bonds were terminated. As described previously, the 2008A Bonds are secured by a letter of credit through July 15, 2011.

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

The Indenture for the District’s 2005A, 2007, and 2008A 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, 2009 and 2008.

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.

Maturities of the 2005A, 2007, and 2008A Bonds, respectively, over the next five years and in five-year increments thereafter are as follows (in thousands):

Years Ending June 30	Series 2005A	Series 2007	Series 2008A	Total
2010	\$ 2,655	\$ 4,680	\$ 275	\$ 7,610
2011	2,745	4,890	-	7,635
2012	2,845	5,100	400	8,345
2013	2,950	5,320	400	8,670
2014	3,055	5,565	425	9,045
2015–2019	17,025	31,645	2,400	51,070
2020–2024	20,315	39,205	3,000	62,520
2025–2029	14,035	24,190	40,550	78,775
2030–2032	-	-	37,775	37,775
	<u>65,625</u>	<u>120,595</u>	<u>85,225</u>	<u>271,445</u>
Less current portion	(2,655)	(4,680)	(275)	(7,610)
Less loss on defeasance	<u>(3,723)</u>	<u>(6,201)</u>	<u>(10,212)</u>	<u>(20,136)</u>
Total	<u>\$59,247</u>	<u>\$109,714</u>	<u>\$74,738</u>	<u>\$243,699</u>

A summary of changes in revenue bonds during 2009 and 2008 is as follows (in thousands):

	2009	2008
Beginning balance	\$ 260,113	\$ 264,497
Add new bonds — par value	85,500	131,155
Add amortization of discount and defeasance losses	1,525	2,960
Less defeased bonds into escrow	(85,500)	(123,995)
Less payments	(7,320)	(8,800)
Less defeasance loss — new bonds	<u>(3,009)</u>	<u>(5,704)</u>
Ending balance	<u>\$ 251,309</u>	<u>\$ 260,113</u>

6. INTEREST RATE SWAPS

Derivative Transactions — In July and October 2005 and August 2007, in connection with the issuance of the 2005A, 2005B, and 2007 Bond Series described in Note 5, the District entered into three separate floating to fixed interest rate swap agreements. The swap agreement related to the 2005B Bonds was subsequently amended to relate to the 2008A Bonds and is described in more detail below. Under the terms of these agreements the District pays fixed rates of interest in return for variable rates of interest based upon LIBOR and the Bond Market Association/SIFMA Municipal Swap Index.

The District follows the disclosure provisions of GASB TB 2003-1 related to its derivative transactions. GASB TB 2003-1 requires certain disclosures regarding the objective of the derivative, significant terms, fair value at the reporting date, and risks.

In July 2005, the District entered into a floating to fixed interest rate swap with an initial notional amount of \$71.5 million. This swap was entered into in conjunction with the refinancing of

\$66.3 million of the District's 1997 Bonds that carried fixed interest rates ranging from 5.125% to 5.750%. Under the terms of the swap, the District pays to the counterparty a fixed rate of interest equal to 3.345% of the remaining notional amount. The District in return receives a variable rate of interest that equals 62.4% of USD-LIBOR-BBA plus 0.29%. See Transaction 1 in the following table.

In October 2005, the District entered into a floating to fixed interest rate swap with an initial notional amount of \$86.3 million. This swap was entered into in conjunction with the 2005B Bonds refinancing of \$75.0 million of the District's 2001 Bonds that carried fixed interest rates of 6.0% to 6.1%. Under the terms of the swap, the District pays to the counterparty a fixed rate of interest equal to 4.084% of the remaining notional amount. The District in turn receives a variable rate of interest that equals the USD-SIFMA Municipal Swap Index through January 14, 2011, and the USD-SIFMA Municipal Swap Index minus 0.05% thereafter. In connection with the issuance of the 2008A Bonds, the District amended the 2005B floating to fixed interest rate swap agreement to relate the swap to the 2008A Bonds. The notional amount of the swap equals \$85.5 million. The District will pay a fixed rate of interest on the swap of 4.154% and will receive a floating rate of interest equal to the USD-SIFMA Municipal Swap Index. See Transaction 3 in the following table.

In August 2007, the District entered into a floating to fixed interest rate swap with an initial notional amount of \$131.2 million. This swap was entered into in connection with the subsequent issuance of \$131.2 million of the District's 2007 Bonds. Under the terms of the swap, the District pays to the counterparty a fixed rate of interest equal to 4.159% of the remaining notional amount. The District in turn receives a variable rate of interest that equals the weekly SIFMA Index. See Transaction 2 in the following table.

The tables and other information below furnish the significant terms and features for each of these transactions (in thousands):

Transaction Number	1	2	3
Corresponding bond series	2005A	2007	2008A
Swap type	Floating to Fixed	Floating to Fixed	Floating to Fixed
Notional amount	\$71,465	\$131,155	\$ 85,500
Current notional amount	\$65,625	\$120,595	\$ 85,225
Advance cash payment to District	-	-	-
Effective date	July 28, 2005	November 15, 2007	July 16, 2008
Termination date	January 15, 2027	January 15, 2027	January 15, 2031
Final bond maturity	January 15, 2027	January 15, 2027	January 15, 2031
District pays	3.35 %	4.16 %	4.15 %
Fair value as of June 30, 2009	\$ (4,720)	\$ (11,533)	\$ (7,071)
Payments made by District for year ended June 30, 2009	\$ 2,281	\$ 5,202	\$ 4,134
District receives	62.4% of USD-LIBOR- BBA and 0.29%	Variable Rate equal to the SIFMA Municipal Swap	Variable Rate equal to the SIFMA Municipal Swap
Payments received by District for year ended June 30, 2009	\$ 1,309	\$ 2,698	\$ 1,306

Posting of Collateral — In the event the credit ratings of the District that are provided by Moody's Investor Services Inc. (Moody's) or Standard and Poor's Ratings Group (S&P) fall below a level of A3 or A-, respectively, and the fair value of the swap is a negative value of \$5 million or more, then collateral must be posted. The District is in compliance with these combined thresholds as of June 30, 2009 and 2008, and no collateral was required to be posted by the District.

Credit Risk — The District has sought to limit its counterparty risk by contracting only with highly rated entities. As of June 30, 2009, the counterparties were rated Aa2/A3 by Moody’s, AA/A+ by Fitch, and AA/A by S&P.

Termination Risk — The transactions use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy.

7. LEASE OBLIGATION

In July 2005, the District entered into a five-year \$25 million amended master lease facility (the “Amended Lease Facility”) with Citicorp for the purpose of leasing multiple pieces of medical equipment. Under the Amended Lease Facility, the District purchases the medical equipment from outside vendors, places the assets into service, and subsequently enters into a sale-leaseback with Citicorp, with no profit recorded on the sale. During fiscal year 2006, the District utilized the Amended Lease Facility to enter into a \$2.8 million capital lease with Citicorp. Principal and interest payments made on the capital lease during fiscal year 2009 and 2008 totaled \$0.6 million and \$0.1 million each year. The balance outstanding under the Amended Lease Facility at June 30, 2009 and 2008, totaled \$0.9 million and \$1.4 million, respectively. The obligation is secured by the equipment.

During fiscal year 2008, the District entered into a five-year \$2.0 million Master Lease Purchase Agreement with Siemens for the purchase of a Positron Emission Tomography/Computed Tomography 16-slice scanner to be operated at BGMC. The total principal and interest paid in 2009 were \$0.3 million and \$0.1 million, respectively, and in 2008 were not significant.

During fiscal years 2009 and 2008, respectively, the District entered into a five-year \$3.0 million and \$2.1 million installment payment agreement with Cisco Systems Capital Corporation for the purchase of information technology equipment and software. The total principal and interest paid in 2009 were \$0.9 million and \$0.2 million, and in 2008 were not significant.

During fiscal year 2009, the District entered into a three-year \$1.6 million installment payment agreement with De Lage Landen Financial, for the purchase of a da Vinci Robotic Surgery System (da Vinci), to be operated at IPMC. The total principal and interest paid in 2009 were \$0.2 million and \$0.1 million, respectively.

Principal and interest payments due on capital leases are as follows (in thousands):

Years Ending June 30	Principal	Interest
2010	\$ 2,427	\$ 327
2011	2,186	210
2012	1,636	114
2013	1,542	34
2014	<u>108</u>	<u>1</u>
Total	<u>\$ 7,899</u>	<u>\$ 686</u>

8. PENSION PLAN

The District maintains a single-employer, noncontributory defined benefit (cash balance) pension plan (the “Plan”) covering substantially all full-time or part-time eligible District employees. Accordingly,

the amounts disclosed herein relate to the Plan as a whole. Separate financial statements for the Plan have not been issued. The Plan is not subject to the requirements of the Employee Retirement Income Security Act of 1974 (ERISA), and the assets and liabilities of the Plan are not recorded in the consolidated basic financial statements in accordance with governmental accounting standards.

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

Effective January 1, 1997, employees are eligible for Plan participation after completing one year of credited service and the attainment of age 21. Benefits are vested after five years of credited service. Accrued monthly pension benefits as of December 1, 1996, were converted to lump-sum cash balances, and the Plan guarantees a minimum annuity based on the benefits accrued as of December 31, 1996. Benefits upon retirement are based upon a District contribution of 5% of the participant's covered earnings for each year of credited service and an annual interest credit of 2.18% on the employees' account balance. 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.

Contribution Requirements and Contributions Made — The annual required contribution (ARC) for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method with frozen initial supplemental present value, normal cost, and supplemental present value. The Plan's funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. All contributions to the Plan are made by the employer and are intended to fund both the actuarially determined costs, as well as the Plan's operating costs. The District's practice is to make annual required contributions to the Plan at or near the maximum funding levels as actuarially determined. Annual required contributions to the Plan for the years ended June 30, 2009 and 2008, totaled \$17.3 million and \$15.3 million, respectively, which equaled the normal cost as computed through the actuarial valuation dates as of June 30, 2009 and 2008, respectively. The contributions represent approximately 6.2% and 5.8% of current covered payroll for the years ended June 30, 2009 and 2008, respectively. Maximum actuarial contributions are based upon the funding levels that would be required of an ERISA plan. Total pension expense for the years ended June 30, 2009 and 2008, totaled \$12.7 million and \$14.2 million, respectively. As of June 30, 2009 and 2008, the District has accrued a net pension obligation of \$0.4 million and \$2.8 million, respectively, related to its unfunded portion of required contributions to the Plan for the years ended June 30, 2009 and 2008. Such 2009 and 2008 unfunded contributions have been made to the Plan subsequent to year-end. Pension expense is allocated to the District facilities based on budgeted full-time equivalents.

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

Covered payroll for the calculation of the 2009 actuarial information	<u>\$ 280,724</u>
Covered payroll as a percentage of total payroll of \$433,054	<u>65 %</u>
Participant data as of July 1, 2008 (date of most recent valuation):	
Active	5,784
Retired	1,517
Terminated vested	<u>1,461</u>
Total	<u>8,762</u>

The more significant actuarial assumptions utilized in the most recent actuarial valuation (July 1, 2008) for computing the annual required contributions for the Plan are as follows:

Assumed rate of return on investments	8.5% per annum including inflation, compounded annually. In addition it is assumed that the annual investment return on Plan assets will exceed the periodic adjustment to member cash balance accounts by 1.75%.
Mortality basis	RP-2000 Combined Mortality Table (2008 IRS Version)
Amortization method	Level percent closed
Remaining amortization period	30 years
Asset valuation method	Market value
Termination	Graduated rates from 20-60 are as follows:

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

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

* Retirement eligible — see table below

Salary increases 4.5% during the current year

Retirement age Graduated rates from ages 55 to 77+ are as follows:

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

Funding Status and Progress — The District’s AAL as of July 1, 2008 and 2007, was \$276.5 million and \$264.2 million, respectively. The actuarial value of the Plan assets available to pay these benefits at June 30, 2009 and 2008, totaled \$236.8 million and \$243.4 million, respectively, leaving a deficit as compared to the AAL of \$39.6 million and \$20.8 million at June 30, 2008 and 2007, respectively. The AAL and the actuarial value of Plan net assets for the current year are based upon the July 1, 2008, actuarial valuation projected forward to June 30, 2009. The schedules of Plan funding progress, presented as required supplementary information (RSI) following the notes to the consolidated basic financial statements, present multiyear trend information about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the AAL for benefits.

The funded status of the Plan as of July 1, 2008, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll (b-a)/(c)
July 1, 2008	<u>\$ 236,813,323</u>	<u>\$ 276,451,861</u>	<u>\$ 39,638,538</u>	<u>85.7 %</u>	<u>\$ 280,724,210</u>	<u>14.1 %</u>

The present value of accumulated plan benefits is computed to measure the funds required as of the valuation date to provide in full the benefits earned to date by all Plan participants. As of July 1, 2008 and 2007, the value of the accumulated Plan benefits totaled \$262.3 million and \$253.5 million, respectively.

Trend Information — This information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. The trend information for the last three years as of July 1, 2008, 2007, and 2006, is as follows:

	2008	2007	2006
Net assets available for benefits as a percentage of the AAL	85.7 %	92.1 %	87.5 %
Unfunded actuarial accrued liability as a percentage of covered payroll	14.1	7.9	11.6
Minimum employer contributions as a percentage of covered payroll	2.2	3.4	4.6

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

A summary of annual pension cost and the change in the net pension obligation as of July 1, 2008, 2007, and 2006, is as follows (in thousands):

	2008	2007	2006
Annual required contribution	\$ 17,278	\$ 15,352	\$ 15,769
Interest on net pension obligation	(99)	28	22
Adjustment to annual required contribution	<u>163</u>	<u>(36)</u>	<u>(27)</u>
Annual pension cost	17,342	15,344	15,764
Contributions made with interest	<u>(15,803)</u>	<u>(16,833)</u>	<u>(15,697)</u>
Increase (decrease) in net pension obligation	1,539	(1,489)	67
Net pension (asset) obligation — beginning of year	<u>(1,161)</u>	<u>328</u>	<u>261</u>
Net pension obligation (asset) — end of year	<u>\$ 378</u>	<u>\$ (1,161)</u>	<u>\$ 328</u>
Percentage of Annual Pension Cost Contributed	91.1%	109.7%	99.6%

A summary of Plan assets as of June 30, 2009 and 2008, and of the changes in Plan assets for the years ended June 30, 2009 and 2008, is as follows (in thousands):

Statement of Plan Net Assets	2009	2008
Cash and short-term investments	\$ 4,251	\$ 5,431
Investments at fair value:		
Government obligations	21,151	23,459
Domestic corporate bonds	20,169	24,165
Domestic corporate stocks	106,089	153,511
Private Equity	4,062	1,885
Real Estate	11,889	17,099
Hedge funds	9,725	11,502
Total investments	<u>173,085</u>	<u>231,621</u>
Net assets held in trust for pension benefits	<u>\$ 177,336</u>	<u>\$ 237,052</u>
 Statement of Changes in Plan Net Assets	 2009	 2008
Beginning investment value of account	<u>\$ 237,052</u>	<u>\$ 243,549</u>
Receipts:		
Employer contributions	18,840	16,269
Interest and dividends	4,338	5,168
Total receipts	<u>23,178</u>	<u>21,437</u>
Disbursements:		
Annuity payments and benefits paid from fund	21,798	20,063
Realized and unrealized losses — net	59,517	6,325
Fees	1,579	1,546
Total disbursements	<u>82,894</u>	<u>27,934</u>
Ending investment value of account	<u>\$ 177,336</u>	<u>\$ 237,052</u>

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

The District's total payroll for the years ended June 30, 2009 and 2008, was \$433.1 million and \$419.7 million, respectively. The total covered payroll for eligible employees during the same periods is not determinable. For the years ended June 30, 2009 and 2008, the District's contribution was \$5.7 million and \$5.5 million, respectively, representing 1.3% of total payroll in each of the years. The employees' contribution for the years ended June 30, 2009 and 2008, was \$22.2 million and \$22.8 million, respectively, representing 5.1% and 5.4%, respectively, of total payroll.

See Note 2 for discussion of valuation risks and description of how the fair value associated with the Plan's investments in private equity, real estate, and hedge funds is determined. As of June 30, 2009, these equity investments in private equity, real estate, and hedge funds make up approximately 2.3%, 6.9%, and 5.6%, respectively, of total investments in the Plan. As of June 30, 2008, these equity investments in private equity, real estate, and hedge funds make up approximately 0.8%, 7.4%, and 5.0%, respectively, of total investments in the Plan.

9. 2001 EARLY RETIREMENT INCENTIVE PROGRAM

In September 2000, the District extended an offer of an early retirement benefit program to qualifying employees (the "2001 Early Retirement Incentive Program"). A total of 518 employees accepted this offer during the election period of October 1, 2000 through November 30, 2000. For employees who accepted the offer, the District offered special termination benefits, which included adding five years of additional vesting credit to their years of service and one additional week of pay for each year worked in excess of five years. Certain employees who have attained certain age and tenure requirements receive health insurance. The District recorded a charge during fiscal 2001 totaling \$26.9 million. Such charge was actuarially determined, and the related liability is being amortized over the average projected remaining life of the participating employees, which was estimated to be 30 years. As of June 30, 2009, the District has a liability recorded pertaining to the 2001 Early Retirement Incentive Program totaling \$19.2 million, and \$6.1 million from a similar program offered during fiscal years 1990 and 1991, respectively. As of June 30, 2008, the District has a liability recorded pertaining to the 2001 Early Retirement Incentive Program totaling \$20.0 million and \$6.5 million from a similar program offered during fiscal years 1990 and 1991, respectively.

10. OTHER POSTEMPLOYMENT BENEFITS

In addition to providing pension benefits, the District provides certain health care and life insurance benefits for approximately 1,188 eligible retired employees, which include those at the health care facilities. Many of the District's employees may become eligible for those benefits if they reach retirement age while working for the District.

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). GASB 45 addresses how state and local governments should account for and report their costs and obligations related to postemployment health care and other nonpension benefits (collectively referred to as "other postemployment benefits" or OPEB). GASB 45 requires state and local governmental employers to account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they become due. The provisions of GASB 45 may be applied prospectively and do not require governments to fund their OPEB plans. The actuarially determined cost for providing benefits to retirees and current employees during fiscal year 2009 and 2008 was \$13.5 million and \$13.1 million, respectively. This includes \$7.2 million and \$6.6 million of actual payments (contributions) during 2009

and 2008, respectively, and \$6.3 million and \$6.5 million of additional expense, respectively, recorded on the accrual basis.

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

Funding Policy — GASB 45 does not require funding of the OPEB expense. The ARC is based on projected pay-as-you-go financing requirements, with an additional amount required to be recognized and accumulated as the net OPEB obligation. For fiscal years 2009 and 2008, respectively, the District contributed \$7.2 million and \$6.6 million, respectively, to the plan. Retiree contributions for 2009 and 2008, respectively, were \$2.3 million and \$2.2 million according to the following table:

Rule of 80	Single	Employee +1
Medical Pre-65	\$ 78.66	\$ 163.48
Medical Post-65	59.00	122.61
Dental	5.97	12.38
Other Retirees		
Medical Pre-65	393.31	817.42
Medical Post-65	294.98	613.08
Dental	21.74	45.08

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 parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation as of June 30, 2009 and 2008, are as follows (in thousands):

	2009	2008
Annual required contribution	\$ 13,432	\$ 13,076
Interest on net OPEB obligation	611	384
Adjustment to annual required contribution	<u>(388)</u>	<u>(329)</u>
Annual OPEB cost	13,655	13,131
Contributions made	<u>7,237</u>	<u>6,652</u>
Increase in net OPEB obligation	6,418	6,479
Net OPEB obligation — beginning of year	<u>17,462</u>	<u>10,983</u>
Net OPEB obligation — end of year	<u>\$ 23,880</u>	<u>\$ 17,462</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and 2008 was as follows (dollar amounts in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 13,655	53.0 %	\$ 23,880
June 30, 2008	13,131	50.7	17,462

Funded Status and Funding Progress — As discussed above, GASB 45 does not require, and the District has not funded, the AAL. As of June 30, 2008 and 2007, respectively, the unfunded actuarial accrued liability (UAAL) for benefits was \$211.4 million and \$201.7 million, respectively. The covered payroll (annual payroll of active employees covered by the plan) was \$351.9 million and \$336.7 million, respectively, and the ratio of the UAAL to the covered payroll was 60.1% and 59.9%, respectively.

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

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

In the June 30, 2008 and 2007, actuarial valuations, the projected unit credit method was used. The actuarial assumptions included a 3.5% discount rate in each of the years, representing an estimate of the discount rate for an unfunded plan. The UAAL is being amortized as a level percentage of projected payroll with a 30-year amortization period.

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

Discount rate	3.5% per year
Salary increases	Salaries are assumed to increase at 4.5% per year.
Retiree contribution increases	Retiree contributions are assumed to increase at the same rates as incurred claims.

Health Care Cost Trend Rates — The trend rates of incurred claims represent the rate of increase in employer claims payments:

Years	Medical Annual Rates of Increase	Dental Annual Rates of Increase
2007	9.00 %	6.00 %
2008	8.00	5.00
2009	7.50	5.00
2010	7.00	5.00
2011	6.50	5.00
2012	6.00	5.00
2013	5.50	5.00
2014+	5.25	5.00

11. CHARITY CARE

The District maintains records to identify and monitor the level of charity care it provides. These records include the amount of charity patients' hospital charges foregone for services and supplies furnished under its charity care policy. The level of charity care (charges foregone) provided during the years ended June 30, 2009 and 2008, based on established rates, was \$362.7 million and \$336.9 million, respectively. Charity care provided reflects inpatient services of \$203.2 million and \$205.3 million, respectively, and outpatient services of \$159.5 million and \$131.6 million, respectively, for the fiscal years ended June 30, 2009 and 2008.

12. NET PATIENT SERVICE REVENUE

Net patient service revenue for the years ended June 30, 2009 and 2008, consisted of the following (in thousands):

	2009	2008
Gross patient service revenue	<u>\$3,274,322</u>	<u>\$3,065,883</u>
Allowances:		
Medicare	582,554	535,054
Medicaid	296,472	256,615
HMO/PPO	1,114,178	1,050,366
Other	<u>126,068</u>	<u>123,572</u>
Total allowances	2,119,272	1,965,607
Provision for uncollectible amounts	<u>357,189</u>	<u>344,184</u>
Total deductions from patient service revenue	<u>2,476,461</u>	<u>2,309,791</u>
Net patient service revenue	<u>\$ 797,861</u>	<u>\$ 756,092</u>

13. UNRESTRICTED PROPERTY TAX REVENUE

The Board of the District is empowered and directed to annually levy upon all real and personal taxable property within the boundaries of the District a sufficient tax, not to exceed 2.5 mills, to accomplish the purposes of the District, as determined by the Board. For fiscal years 2009 and 2008, the levies were 1.70 mills and 1.62 mills, respectively. The total assessed value for which the fiscal 2009 and 2008 levies were based was approximately \$116.7 billion and \$124.0 billion, respectively, with total taxes levied at the District level aggregating \$191.8 million and \$192.6 million for the years ended June 30, 2009 and 2008, respectively. The Broward County Property Appraiser assesses and the Broward County Tax Collector collects all ad valorem taxes within Broward County (see Note 2).

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

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

14. CONCENTRATIONS OF CREDIT RISK

The District and its Medical Centers grant 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, 2009 and 2008, is detailed below. The District establishes reserves against these receivables based upon estimated collectibility and credit risk. Self-pay receivables are, by nature, high risk; and estimated collectibility is low. Therefore, the related net receivables represent a low percentage of the total mix of receivables in the table below.

	2009	2008
Medicare	12.9 %	14.9 %
Managed care	44.0	44.0
Medicaid	20.2	14.6
Commercial insurance	11.4	14.3
Self-pay and all other	<u>11.5</u>	<u>12.2</u>
Totals	<u>100.0 %</u>	<u>100.0 %</u>

15. SELF-INSURANCE

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

The District provides for losses in the self-insurance program based on limits set by sovereign immunity, except for the waiver of such immunity, to the extent of \$0.1 million per claimant or \$0.2 million per incident. In November 1995, the District purchased a commercial umbrella insurance policy for malpractice insurance claims. This policy became effective for incidents incurred on or after January 22, 1996. Under the terms of the policy, the District is insured for any individual incident in excess of a \$2.0 million claims bill up to a maximum annual aggregate limit of \$9.0 million by the insurer.

The District established a current and noncurrent liability in the total amount of \$35.0 million and \$34.7 million at June 30, 2009 and 2008, respectively, to cover losses resulting from asserted and unasserted claims. The liability includes estimates of the ultimate costs of both reported claims and claims incurred but not reported. Costs of the self-insurance program charged to operations totaled \$4.8 million and \$3.1 million for the years ended June 30, 2009 and 2008, respectively. Management believes these reserves are adequate to cover losses from such claims after considering the limits provided by Florida Statutes as set forth above. Such amounts are included within insurance expenses in the consolidated statements of revenues, expense, and changes in net assets.

Changes in the District's self-insurance program claims liability during fiscal 2009 and 2008 were as follows (in thousands):

	2009	2008
Liability — July 1, 2008 and 2007	\$ 34,735	\$ 39,517
Current-year claims expense	4,789	3,093
Current-year claims payments	<u>(4,506)</u>	<u>(7,875)</u>
Liability — June 30, 2009 and 2008	<u>\$ 35,018</u>	<u>\$ 34,735</u>

16. RELATED PARTIES

In 1989, the State of Florida established and provided the initial capitalization for Broward House Inc., which operates a residential treatment and hospice facility for individuals afflicted with AIDS. The District holds five of 17 seats on the Board of Directors. The District rented beds from Broward House for its patients at a cost of \$0.7 million and \$0.8 million in fiscal years 2009 and 2008, respectively.

In November 1995, the District established a separate nonprofit entity, North Broward Hospital District Home Infusion Network, Inc. ("Infusion Network"). Infusion Network was established exclusively for the purpose of entering into a joint venture partnership with PHM of Broward Inc., which developed into the establishment of Broward Infusion Group Inc. (BIG). Infusion Network owns 50% of BIG. The District accounts for this investment using the equity method. As of June 30, 2009 and 2008, the District's investment in this venture was \$0.5 million and \$0.6 million, respectively.

In 2003, the District purchased a 15% interest in the Urological Center L.L.C. (the “LLC”), which provides both fixed site and mobile lithotripsy services with the remaining shares owned by qualifying physicians. The LLC commenced operations in June 2003. During 2009 and 2008, payments made to the LLC for services provided to the District were \$0.4 million and \$0.6 million, respectively. On August 22, 2008, the District sold its 15% interest in the LLC for \$0.2 million.

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

17. PUBLIC MEDICAL ASSISTANCE TRUST FUND

In 1984, the Agency for Healthcare Administration created a Public Medical Assistance Trust Fund to collect assessments from all hospitals in the State of Florida to fund enhancements to the Medicaid program. Hospitals in the State of Florida are required to deposit into the fund an amount equal to 1.5% of the hospital’s prior-year net inpatient revenue, and 1.0% of the hospital’s prior-year net outpatient revenue. The District accrues for these assessments in the fiscal year for which the assessments are made. At June 30, 2009 and 2008, approximately \$9.0 million and \$7.3 million, respectively, was recorded as operating expense in the accompanying consolidated statements of revenues, expenses, and changes in net assets.

18. COMMITMENTS AND CONTINGENCIES

Operating Leases — The District leases various equipment and facilities under operating lease arrangements. Total rental expense under operating leases, in 2009 and 2008, was \$11.9 million and \$10.0 million, respectively.

Future minimum lease payments under operating leases as of June 30, 2009, with initial or remaining lease terms in excess of one year, are as follows (in thousands):

Years Ending June 30	
2010	\$ 6,856
2011	4,503
2012	2,119
2013	1,672
2014	1,652
Thereafter	<u>5,323</u>
Total	<u>\$ 22,125</u>

Capital Call Commitments — The District has investments in real estate and private equity limited partnerships, which require the District to fund capital calls for additional investments when requested to do so by the general partners. The life spans of these partnerships are estimated to be 10 years. As of

June 30, 2009 and 2008, no capital calls were due; however, the District has future capital call commitments of \$12.2 million and \$7.7 million, respectively.

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

The District has been named as a defendant in a number of malpractice lawsuits. In the event that a claim exceeds its sovereign immunity level, the District may incur charges in excess of its established reserves that could have an adverse impact on the District’s net income and net cash flows in the period in which it is recorded or paid. In order for the District to incur liability in excess of its sovereign immunity level, a claims bill must be presented and sponsored by a Senator or Representative of the State of Florida, passed through Committee, and signed by the Governor of Florida according to Florida Statute 768.28. As of June 30, 2009, two malpractice claims have reached a trial verdict of approximately \$35.6 million, but no summary judgment has been issued. It is the opinion of management after consultation with legal counsel, that the ultimate outcome of this matter could result in exposure ranging from \$0.2 million to \$14.6 million, without consideration of any insurance recoveries.

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

19. SUBSEQUENT EVENTS

During fiscal year 2010, the District entered into a three-year \$1.9 million installment payment agreement with De Lage Landen Financial, for the purchase of a da Vinci, to be operated at CSMC.

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REQUIRED SUPPLEMENTARY INFORMATION

NORTH BROWARD HOSPITAL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF PLAN FUNDING PROGRESS (UNAUDITED) AS OF JULY 1, 2005 THROUGH JULY 1, 2008

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal ⁽¹⁾ (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
July 1, 2005	\$ 191,257,660	\$ 228,442,578	\$37,184,918	83.7 %	\$ 248,492,099	15.0 %
July 1, 2006	210,180,785	240,140,072	29,959,287	87.5	258,695,818	11.6
July 1, 2007	243,387,658	264,201,359	20,813,701	92.1	262,897,281	7.9
July 1, 2008	236,813,323	276,451,861	39,638,538	85.7	280,724,210	14.1

- (1) GASB 25 requires that six years be presented. However, in fiscal year 2008 the District adopted GASB 50, which changed the required disclosure information. Upon adoption, the District retroactively made the required disclosures for actuarial valuation date July 1, 2005. Disclosure information prior to this date is not available.

NORTH BROWARD HOSPITAL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
HISTORICAL SUMMARY OF ACTUAL AND REQUIRED
PENSION CONTRIBUTIONS (UNAUDITED)
FOR THE YEARS ENDED JULY 1, 2003 THROUGH JULY 1, 2008

(Fiscal) Plan Year	Employer Contributions	
	Annual Required Contribution	Percentage Contributed
July 1, 2003	\$ 12,781,788	99.6 %
July 1, 2004	13,024,556	98.3
July 1, 2005	15,485,420	100.0
July 1, 2006	15,742,370	100.0
July 1, 2007	15,315,826	100.0
July 1, 2008	17,440,775	86.3

NORTH BROWARD HOSPITAL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PLAN FUNDING PROGRESS UNDER
 GASB STATEMENT NO. 45 (UNAUDITED)
 AS OF JULY 1, 2006 (DATE OF ADOPTION) THROUGH JULY 1, 2008**

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL Projected Unit Credit (b)	UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
July 1, 2006	\$ -	\$ 236,130,159	\$ 236,130,159	- %	\$ 321,850,000	73.4 %
July 1, 2007	-	201,685,178	201,685,178	-	336,740,000	59.9
July 1, 2008	-	211,363,948	211,363,948	-	351,893,000	60.1