

NORTH BROWARD HOSPITAL DISTRICT

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

June 30, 2017

(With Report of Independent Auditors' Thereon)

NORTH BROWARD HOSPITAL DISTRICT

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
North Broward Hospital District

Report on the Financial Statements

We have audited the accompanying financial statements of the North Broward Hospital District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Broward Hospital District as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 21 (d) to the financial statements, the District failed to comply with the terms of the Corporate Integrity Agreement and the impact of this noncompliance could have a material impact on the results of operations of the District. As discussed in Note 22 to the financial statements, multiple operational issues encountered during the year pose a significant business risk to the District. Our opinion is not modified with respect to these matters.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 10, and the schedule of changes in net pension liability and related ratios – defined benefit pension plan, the schedule of employer contributions – defined benefit pension plan, and the schedule of plan funding progress – other postemployment benefits on pages 59 to 61, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining information on pages 62 to 64 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Warren Averett, LLC

Birmingham, Alabama
October 25, 2017

NORTH BROWARD HOSPITAL DISTRICT

Management's Discussion and Analysis (Unaudited)

June 30, 2017

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, 2017 and for the fiscal year then ended. Please read this analysis in conjunction with the financial statements, which follow this section.

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

Overview of the Financial Statements

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

Required Financial Statements

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

All of the revenue and expenses for fiscal year 2017 are accounted for in the statement of revenues, expenses, and changes in net position. The statement measures the annual financial performance of the District's operations and can be used to determine whether the District has recovered all of its costs through its net patient service revenue, ad valorem taxes, and other sources of revenue.

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

Financial Analysis of the North Broward Hospital District

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

NORTH BROWARD HOSPITAL DISTRICT

Management's Discussion and Analysis (Unaudited)

June 30, 2017

A comparative summary of the District's statements of net position at June 30, 2017 and 2016, is presented below:

	2017	2016
	(In thousands of dollars)	
Assets:		
Current assets	\$ 682,144	687,663
Asset whose use is limited, net of amount for current obligations	56,699	47,964
Investments	146,197	132,764
Capital assets, net	557,080	519,202
Other assets	37,464	36,293
Total assets	\$ 1,479,584	1,423,886
Deferred outflows of resources:		
Accumulated decrease in fair value of hedging derivatives	\$ 20,942	36,063
Deferred amount on debt refundings	9,380	12,403
Pension	20,671	27,491
Total deferred outflows of resources	\$ 50,993	75,957
Liabilities:		
Current liabilities	\$ 223,334	200,235
Long-term debt	210,475	222,525
Other liabilities	158,887	191,360
Total liabilities	\$ 592,696	614,120
Deferred inflows of resources:		
Pension	\$ 23,821	5,187
Total deferred inflows of resources	\$ 23,821	5,187
Net position:		
Net investment in capital assets	\$ 331,852	284,312
Restricted for donor restrictions	32,234	30,768
Restricted by counter party under interest rate swap agreements	25,060	16,550
Unrestricted	524,914	548,906
Total net position	\$ 914,060	880,536

The net position of the District totaled \$914.1 million and \$880.5 million as of June 30, 2017 and 2016, respectively. The increase in net position of \$33.6 million in fiscal year 2017 was due to multiple factors, included among them increased admissions and patient days. Outpatient volumes continued to decline from the prior year. Gain on investments of \$56.1 million increased the overall positive performance in earnings related to the provision of patient care, including an increase in ad valorem tax revenue from \$136.7 million in fiscal year 2016 to \$137.9 million in fiscal year 2017.

NORTH BROWARD HOSPITAL DISTRICT

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Budgetary Highlights

Overall, the District performed ahead of budget by \$27.1 million, in fiscal year 2017. Operationally, the District performed below budget by approximately \$14.7 million. Factors affecting these results include a decrease in net operating revenue of \$24.2 million and a decrease in total operating expenses compared to budget by \$10.4 million. Net patient revenue was under budget by \$14.0 million, retail pharmacy, capitation revenue and managed care bonus program were in excess of budget by \$4.7 million, and investment income (net) earnings exceeded budget by \$44.0 million. While gross patient revenue exceeded budget by \$170.0 million, or 4.24%, bad debt and charity care write offs exceeded budget by \$4.2 million, or 1.0%, an indication of shifting payor mix. Patient days were over budget by 3.5% and admissions were over budget by 1.1%. Outpatient volumes were under budget by 12.8%, due to a reduction in primary care clinic visits, emergency room visits, medical center visits, ancillary visits, as well as a reduction in the physician office visits. The District monitors salaries and benefits as a percentage of net operating revenue. Benefits were below budget by \$14.4 million or 9.6%, while full time equivalents (FTEs) were under budget by 34 or 0.4%. Supplies exceeded budget by 4.6% due mainly to an overall increase in the use of medical & surgical supplies, general supplies and the escalating costs of drugs. The District also continued its strategy of employing physicians across numerous selected specialties, as well as internal medicine. In fiscal 2015, Broward Health Medical Center (BHMC) received designation as a statutory teaching hospital by the State of Florida Agency for Health Care Administration. During fiscal year 2017, the District recorded a \$12.6 million liability related to Disproportionate Share Hospital (DSH) payments received for fiscal year 2012-2013. The result was a decrease from budget of the DSH program of \$13.5 million.

Capital Assets and Debt Administration

As of June 30, 2017, and 2016, the District had capital assets of \$557.1 million and \$519.2 million, respectively, an increase of \$37.9 million from 2016 to 2017. The changes are a result of purchases of capital assets, net of disposals in the ordinary course of business, depreciation, and amortization expense.

During fiscal year 2017, Broward Health North (BHN) spent an additional \$10.6 million of the approved \$78.45 million project to construct a new emergency department and \$4.3 million on state-of-the art operating rooms. BHN also spent \$4.2 million on a new central energy plant, \$1.6 million on a building façade, and \$3.9 million in renovations and furnishings. BHN invested \$2.6 million on a new CT scanner and \$2.0 million on medical and surgical equipment during fiscal year 2017. Broward Health Medical Center (BHMC) spent \$14.5 million on the improvements and expansion of its Children's Hospital Project. BHMC spent \$1.3 million on kitchen renovations, \$2.5 in general renovations and furnishings, \$740 thousand on a Pediatric Pharmacy expansion, and \$574 thousand in repairing the South Garage. BHMC spent \$6.4 million on medical and surgical equipment, including \$620 thousand on drill equipment. Broward Health invested \$1.6 million in a Virtualization Clinical Station, \$782 thousand in Archive Expansion, and \$5.2 million in systems and software upgrades for the organization. Additionally, the District spent \$2.1 million on the Corporate Office relocation. Broward Health Imperial Point (BHIP) invested \$750 thousand in a Cath Lab, \$2.9 million in renovations and furnishings, and \$1.7 million on medical equipment and surgical equipment. Broward Health Coral Springs (BHCS) spent \$13.7 million of the \$64.8 million approved expansion of BHCS. The renovation will include an increased number of surgical beds, construction of private post-partum rooms, and relocation of the neonatal intensive care unit. Upgrades will also be made to the campus's central energy plant. Additionally, BHCS spent \$1 million

NORTH BROWARD HOSPITAL DISTRICT

Management’s Discussion and Analysis (Unaudited)

June 30, 2017

on two nuclear cameras, \$1.1 million on Siemens X-ray equipment, \$488 thousand on new ventilators, and \$1.6 million in additional medical equipment and surgical equipment.

During fiscal year 2016, BHN spent an additional \$32.8 million of the approved \$77.4 million project to construct a new emergency department and state-of-the art operating rooms, a new central energy plant, and building façade. The central energy plant and operating room suites became operational in October 2016, and the emergency department opened in December. BHN also spent \$1.4 million on medical and surgical equipment during fiscal year 2016. BHMC spent an additional \$13.0 million on the improvements and expansion of its Children’s Hospital Project and \$4.4 million on medical and surgical equipment. Broward Health invested \$3.3 million in systems and software for the ACO Services, Inc. (ACO). Of the approved \$1.5 million budget to resolve major structural deficiencies in the Children’s Diagnostic and Treatment Center (CDTC) parking garage and electrical deficiencies in the building, the District spent \$497 thousand during fiscal year 2016. Additionally, the District spent \$490 thousand on the Corporate Office relocation and \$331 thousand for chiller replacement at the Information Services building. BHIP invested \$2.4 million in renovations and furnishings, \$1.6 million for a DaVinci XI System and \$2.0 million on medical equipment and surgical equipment. BHCS invested \$1.7 million for a new CT Scanner, \$2.5 million of the \$64.8 million approved expansion of BHCS. The renovation will include an increased number of surgical beds, construction of private post-partum rooms and relocation of the neonatal intensive care unit. Upgrades will also be made to the campus’s central energy plant. Additionally, BHCS invested \$3.8 million in medical equipment and surgical equipment.

Capital assets at June 30, 2017 and 2016, are as follows:

	2017	2016
	(In thousands of dollars)	
Land and land improvements	\$ 51,351	\$ 51,092
Buildings and building improvements	725,627	660,195
Equipment	584,826	559,429
	1,361,804	1,270,716
Less accumulated depreciation	(879,843)	(843,294)
	481,961	427,422
Construction-in-progress	75,119	91,780
	\$ 557,080	\$ 519,202

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

NORTH BROWARD HOSPITAL DISTRICT

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Revenues, Expenses, and Changes in Net Position

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

The following table presents the District's condensed statements of revenues, expenses, and changes in net position for fiscal years 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	(In thousands of dollars)	
Operating revenues	\$ 1,025,279	1,014,598
Operating expenses	<u>1,174,463</u>	<u>1,166,658</u>
Operating loss	(149,184)	(152,060)
Unrestricted property tax revenue	137,938	136,663
Other nonoperating revenue, net	44,578	2,181
Capital contributions	<u>192</u>	<u>320</u>
Increase (decrease) in net position	33,524	(12,896)
Net position:		
Beginning of year	<u>880,536</u>	<u>893,432</u>
End of year	<u>\$ 914,060</u>	<u>880,536</u>

Management's Discussion of Recent Financial Performance

Overview – Fiscal Year 2017 as Compared to Fiscal Year 2016

In fiscal year 2017, the District experienced a increase in net position of \$33.5 million, as compared to a decrease in net position of \$12.9 million in the prior year. Management continued its focus on expense control and improvement in revenue cycle management.

Inpatient volumes, as measured by admissions, increased over the prior-year admissions by 2.5%, and patient days increased by 2.5% from prior-year. A growth in admissions occurred in Managed Care PSN, Medicaid Managed Care, and Managed Care Medicare, while there was a decline in admissions in all other compensated payors. Compensated admissions experienced an increase of 1.4%, or 751 cases, with associated days increasing by 2.61%, or 7,309 patient days. Self-pay and charity cases increased by 778 admissions, or 9.01%. Within this total, charity cases increased by three admissions, and self-pay cases increased by 775 admissions. The District continues to direct resources, including intake coordinators, case managers, and a medical director to manage service utilization.

NORTH BROWARD HOSPITAL DISTRICT

Management's Discussion and Analysis (Unaudited)

June 30, 2017

Patient Volumes

Medicare inpatient volume, as measured by admissions, decreased by 2.61%, or 313 cases. There was an offsetting increase in the Medicare HMO cases, which increased by 648 cases, or 6.69%. There was a 4.0% decrease in the Medicare case mix index from year to year, measured by the Medicare Severity Diagnostic Related Groups (MS-DRGs).

Medicaid admissions decreased over the prior year by 731 cases, or 12.4%. Associated patient days decreased by 4.04%, or 1,505 days. The District continues its efforts of the Medicaid Eligibility Unit, the Medical Options for Patient Eligibility Department, and the Department of Children's and Families (DCF), working to process applications in a more timely fashion and providing additional access for patients to apply for Medicaid or the new health exchange.

During the 2005 Florida Legislative session, measures were approved that have resulted in significant changes to the Medicaid program (Medicaid Reform). This five-year plan will result in all Medicaid beneficiaries being enrolled in a managed care plan, whether it be with an HMO plan or a plan offered by a Provider Sponsored Network of hospitals and physicians (PSN). Other features of the plan will include certain member benefits for participation in health improvement programs, as well as portable premiums that can be transferred for participation in employer-based plans. The District, along with several other local health care systems, has operated a PSN since 2000. Broward County became a pilot site for Medicaid Reform beginning in September 2006, in which the PSN participates. A series of initiatives are underway to recruit membership and to optimize the utilization of care to this membership. There was an increase of 376 enrollees for fiscal year 2017, resulting in an increase of 239 admissions and an increase of 3,973 patient days over fiscal year 2016.

Managed care, including commercial payors, the District's largest payor category, increased by 1,795 admissions, or 5.26%, in fiscal year 2017. Associated patient days increased by 6.98%, or by 12,086. Other Medicaid managed care increased by 236 admissions. Effective January 1, 2014, the Affordable Care Act required individuals to purchase health insurance. Based upon income determinations, some individuals can qualify for a federal subsidy to offset the cost of the annual premium. There are six insurance company options available to individuals in Broward County, and the District participates with four of the companies.

Outpatient volumes decreased 3.2% in fiscal year 2017 over fiscal year 2016. Total outpatient medical center visits decreased by 8,719 visits. Total emergency department visits decreased by 8,406. Compensated emergency room visits declined by 2,599 visits, and uncompensated emergency room visits decreased by 5,807 visits compared to fiscal year 2016. Physician office visits decreased by 5,522 visits, and primary care clinic, as well as Children's Diagnostic Center visits, decreased by 4,036 and 5,319 visits, respectively.

Operating Revenues

Net patient revenue has increased from \$941.8 million in fiscal year 2016 to \$950.9 million in fiscal year 2017.

Medicare net revenue decreased by \$.05 million, or 0.3%. Medicaid net revenue increased over the prior fiscal year by \$3.1 million, or 6.0%. Increased volumes in the PSN and Medicaid managed care patient

NORTH BROWARD HOSPITAL DISTRICT

Management's Discussion and Analysis (Unaudited)

June 30, 2017

days resulted in an increase in net revenue of \$16.7 million, or 16.8%. Additional revenue received from the LIP and DSH programs totaled \$20.5 million, a decrease from the prior fiscal year of \$8.9 million. Managed care net revenue has experienced an increase of \$36.2 million, or 6.0%, from fiscal year 2016, 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 \$2.6 million, from \$414.1 million in fiscal year 2016, to \$416.7 million in fiscal year 2017, or an increase of 0.6%. During fiscal year 2017, charity care decreased by \$2.1 million, or 1.4%, from the prior fiscal year. During fiscal year 2017, the District has continued its focus on qualifying the uninsured for state reimbursement through focused programs of timely Medicaid application processing and continued partnering with the DCF to expedite the decisions on patient qualification for Medicaid. The reduction in charity care is due in large part to the availability of health insurance through the Affordable Care Act. With the new health exchanges, there are requirements for co-pays and deductibles, which have increased the provision for uncollectible accounts.

Operating Expenses

Operating expenses increased by \$7.8 million, or 0.7%, from \$1,166.7 million in fiscal year 2016 to \$1,174.5 million in fiscal year 2017. The increase is largely due to increases in supplies, purchased services, and depreciation. Salaries and benefits decrease equals 0.6%, decreasing from \$624.9 million in fiscal year 2016 to \$621.1 million in fiscal year 2017. The annual merit increase provided in fiscal year 2017 was approximately 2.8%. Benefits decreased by 13.1% in fiscal year 2017 from \$128.1 million in fiscal year 2016 to \$113.3 million in fiscal year 2017. The decrease in benefits of 13.1% is mostly due to a decrease in health insurance costs and pension expenses. FTEs per adjusted occupied bed increased from 4.74 in fiscal year 2016 to 4.84 in fiscal year 2017. Salaries and employee benefits as a percentage of net patient service revenues were 65.3% and 66.4% fiscal years 2017 and 2016, respectively. These ratios indicate that expenses were consistent with patient volume.

Supplies expense represents the next largest expense category for the District. During fiscal year 2017, supplies expense increased by \$12.9 million, or 5.7%, from \$227.2 million in fiscal year 2016 to \$240.1 million in fiscal year 2017. Increases were realized in various supply categories, including drugs, supplies general, and medical surgical supplies. Supplies expense as a percent to net patient service revenue was 25.2% in fiscal year 2017, while it was 24.1% in fiscal year 2016. The majority of the increase is related medical/surgical supplies and drugs.

Insurance expense increased by \$0.9 million, or 9.9%, from \$9.1 million in fiscal year 2016 to \$10.0 million in fiscal year 2017. The increase is mostly in claims liability insurance.

Outside services, maintenance contracts, and outside litigation have decreased by \$8.4 million, or 14.2%, from \$59.2 million in 2016 to \$50.8 million in fiscal year 2017. This decrease is primarily related to a decrease in outside services. Data processing and software fees have increased by \$2.8 million, or 9.9%, from \$28.2 million in 2016 to \$31.0 million in 2017.

Ad Valorem Tax Revenue

For fiscal years 2017 and 2016, ad valorem tax revenues totaled \$137.9 million and \$136.7 million, respectively. As described in Note 16 to the financial statements, the District annually levies and collects

NORTH BROWARD HOSPITAL DISTRICT

Management's Discussion and Analysis (Unaudited)

June 30, 2017

ad valorem taxes for the general support of its operations, as approved by the Board. The tax rates set by the Board for fiscal years 2017 and 2016 were 1.3462 mills and 1.4425 mills, respectively. In July 2016, taxable property values within the District's geopolitical boundaries increased from \$104.3 billion to \$112.7 billion, or 8.1%. In July 2017, the Broward County property appraiser released to the District the taxable property valuations for 2017/2018. These values increased to \$123.0 billion, an increase of 9.1%.

Interest Expense

Interest expense in fiscal year 2017 was \$9.2 million, as compared to \$8.7 million in fiscal year 2016, an increase of \$0.5 million, or 5.7%.

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 2.8% over the prior fiscal year. In addition, capital expenditures have been carefully reviewed in an effort to reduce the outflow of funds, excluding the large ongoing projects.

With increases in market performance in the District's investment portfolio, there was an increase in unrestricted cash and investments from \$563.3 million to \$575.1 million at June 30, 2016 and 2017, respectively, with a corresponding increase in days' cash on hand from 183.2 to 185.7, respectively. Cash to debt has increased from 240.0% as of June 30, 2016 to 258.5% as of June 30, 2017. Average days' net revenue in accounts receivable has decreased from 46.8 days in fiscal year 2016 to 46.4 days in fiscal year 2017. Patient cash collections have exceeded prior fiscal year collections by \$25.8 million or 2.8%.

Credit Ratings

The District has received underlying credit ratings of Baa2 and BBB+ from Moody's Investors Service and Standard & Poor's, respectively. Both Moody's and Standard & Poor's assigned an outlook of "Negative." This rating by Moody's was affirmed in April 2017.

In July 2017, Standard and Poor's Ratings Services revised its 'AAA/A-1+' ratings and 'A-' underlying ratings (SPURs) to AA-/A-1+ and to BBB+ on the North Broward Hospital District, Fla.'s Series 2005A, 2007 and 2008A Variable-Rate Demand Hospital Revenue Bonds. The outlook is "Negative".

Request for Information

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

BASIC FINANCIAL STATEMENTS

NORTH BROWARD HOSPITAL DISTRICT

Statement of Net Position

June 30, 2017

(In thousands of dollars)

Assets

Current assets:	
Cash and cash equivalents	\$ 64,212
Cash and investments externally restricted by donors	18,414
Short-term investments	364,662
Assets whose use is limited required for current liabilities – Investments	5,424
Due from patients and others, net of allowance for uncollectibles of \$231,184	160,108
Inventories	31,273
Estimated third-party payor settlements	5,188
Other current assets	32,863
Total current assets	682,144
Assets whose use is limited – Cash and investments:	
Amounts designated for self-insurance	37,063
Amounts held by counter party under interest rate swap agreements	25,060
	62,123
Less amount required to meet current obligations	(5,424)
Assets whose use is limited, net	56,699
Investments	146,197
Capital assets, net	557,080
Net pension asset	1,397
Other assets	36,067
Total noncurrent assets	740,741
Total assets	\$ 1,479,584

Deferred Outflows of Resources

Accumulated decrease in fair value of hedging derivatives	\$ 20,942
Loss on debt refundings	9,380
Deferred pension amounts	20,671
Total deferred outflows of resources	\$ 50,993

Liabilities

Current liabilities:	
Current maturities of revenue bonds payable	\$ 12,050
Accounts payable and accrued expenses	103,703
Accrued salaries, benefits, and payroll taxes	26,158
Accrued personal leave	36,962
Current portion of lease obligations	103
Estimated third-party payor settlements	36,719
Current portion of self-insurance program liability	5,424
Interest payable	2,215
Total current liabilities	223,334
Revenue bonds, net of current maturities	210,475
Lease obligations, net of current portion	344
Self-insurance program liability, net of current portion	26,055
Other postemployment benefit program liability	99,910
Derivative instruments	32,578
Total liabilities	\$ 592,696

Deferred Inflows of Resources

Deferred pension amounts	\$ 23,821
Total deferred inflows of resources	\$ 23,821

Net Position

Net investment in capital assets	\$ 331,852
Restricted for donor restrictions	32,234
Restricted by counter party under interest rate swap agreements	25,060
Unrestricted	524,914
Total net position	\$ 914,060

See accompanying notes to financial statements.

NORTH BROWARD HOSPITAL DISTRICT

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2017

(In thousands of dollars)

Operating revenues:	
Net patient service revenue (net of provision for uncollectible accounts of \$416,687)	\$ 950,917
Other operating revenue	74,362
Total operating revenues	<u>1,025,279</u>
Operating expenses:	
Salaries	507,804
Employee benefits	113,332
Professional fees	59,785
Purchased services and temporary labor	20,772
Outside services	35,414
Supplies	240,095
Insurance	10,005
Utilities	18,456
Repairs and maintenance	18,600
State assessments	12,914
Depreciation and amortization	53,501
Other	83,785
Total operating expenses	<u>1,174,463</u>
Operating loss	<u>(149,184)</u>
Nonoperating revenues (expenses):	
Ad valorem tax revenue	137,938
Investment income, net	56,051
Interest expense	(9,201)
Other	(2,272)
Total nonoperating revenues	<u>182,516</u>
Gain before capital contributions	33,332
Capital contributions	<u>192</u>
Increase in net position	33,524
Net position:	
Beginning of year	<u>880,536</u>
End of year	<u>\$ 914,060</u>

See accompanying notes to financial statements.

NORTH BROWARD HOSPITAL DISTRICT

Statement of Cash Flows

Year ended June 30, 2017

(In thousands of dollars)

Cash flows from operating activities:	
Receipts from third-party payors and patients	\$ 966,441
Payments to employees	(612,792)
Payments to suppliers and contractors	(399,173)
Other receipts and payments, net	<u>(8,615)</u>
Net cash used in operating activities	<u>(54,139)</u>
Cash flows from noncapital financing activities:	
Medicaid county funding	(7,954)
Ad valorem property taxes, net	138,203
Net contributions receipts	4,255
Other	<u>53</u>
Net cash provided by noncapital financing activities	<u>134,557</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(90,077)
Proceeds from disposal of capital assets	61
Payments of interest on revenue bonds, swaps, and lease facilities	(10,807)
Principal paid on revenue bonds, swaps, and lease facilities	(11,723)
Capital contributions	<u>192</u>
Net cash used in capital and related financing activities	<u>(112,354)</u>
Cash flows from investing activities:	
Contributions to equity investment	(116)
Interest and dividends on investments and assets whose use is limited	6,845
Purchases of investments	(223,403)
Proceeds from the sale and maturity of investments	<u>279,367</u>
Net cash provided by investing activities	<u>62,693</u>
Net increase in cash and cash equivalents	30,757
Cash and cash equivalents:	
Beginning of year, as restated (1)	<u>74,135</u>
End of year	<u>\$ 104,892</u>

(1) Consists of prior year ending cash and cash equivalents balance of \$43,538 plus \$30,597 reclassified for statement of cash flows presentation purposes similar to the items presented on the top of the next page.

NORTH BROWARD HOSPITAL DISTRICT

Statement of Cash Flows (Continued)

Years ended June 30, 2017

(In thousands of dollars)

Reconciliation of cash and cash equivalents to statement of net position:	
Cash and cash equivalents	\$ 64,212
Cash and cash equivalents included in cash and investments externally restricted by donors	9,276
Cash and cash equivalents included in assets whose use is limited - Cash and investments	
Amounts designated for self-insurance	6,344
Amounts held by counter party under interest rate swap agreements	25,060
Total cash and cash equivalents	\$ <u>104,892</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (149,184)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	53,501
Provision for uncollectible accounts	416,687
Other	2,599
Changes in assets and liabilities:	
Due from patients and others	(418,821)
Inventories	(2,916)
Other assets	4,053
Accounts payable and accrued expenses	13,102
Accrued salaries, benefits, and payroll taxes	(990)
Accrued personal leave	2,299
Estimated third-party payor settlements	17,658
Self-insurance program liability	837
Net pension asset/liability and related deferred outflows and inflows	(1,954)
Other postemployment benefit program liability	8,990
Net cash used in operating activities	\$ <u>(54,139)</u>
Supplemental noncash investing, capital, and financing activities:	
Property and equipment acquired through accounts payable	\$ 3,241
Property and equipment acquired through donation	1,311
Change in remarketing accruals	18
Interest capitalized on construction in progress	3,460
Change in fair value of investments	30,033
Change in fair value of interest rate swaps	15,120

See accompanying notes to financial statements.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2017

(1) Organization and Description of Business

Reporting Entity

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

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

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

Hospital Division

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

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

Community Health Services Division

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

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

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2017

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

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

Physician Services Division

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

Insurance Management Division

The District's Insurance Management Division is operated through Total Claims Administration, Inc. (TCA), which provides claims administration and other third-party administrative services to the District's employee health insurance plan. TCA also provides the District with a vehicle to participate in the insurance management business primarily through the creation of Best Choice Plus. Beginning in June 1994, the District, d/b/a Best Choice Plus, entered into contractual relationships with physician and ancillary providers for the purpose of integrating the healthcare services of all providers along the care continuum. TCA is considered a component unit of the District because the Board appoints the voting majority of the board of directors of TCA and the District has the ability to impose its will on TCA. TCA is presented as a blended component unit of the District because it provides services exclusively to the District.

Other

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

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

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2017

Joint Venture

The District is an equal partner of the South Florida Community Care Network (SFCCN), a managed care network governed by an agreement between two governmental entities: the District and the South Broward Hospital District. SFCCN administers various programs, including the Title XXI – Children Medical Services Network, Title XIX – Children Medical Services Medicaid Network, and the “PSN” operating under Florida’s Medicaid Reform program. The PSN is a network of hospitals, physicians, and other ancillary care providers developed to provide integrated, managed care services to a population of Medicaid covered enrollees in Broward County. Activity from SFCCN is accounted for as an investment and is included in other assets.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

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

(b) Cash and Cash Equivalents

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

(c) Investments

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

Investments are reported at fair value except for investments in debt securities with maturities less than one year at the time of purchase, which are reported at amortized cost. The District classifies investments in debt and equity securities in the accompanying statement of net position based on maturities (for debt securities) and based on management’s reasonable expectation with regard to these securities. Securities that are not available to be used for current operations are classified as noncurrent. Interest, dividends, and gains and losses on such debt and equity investments, both realized and unrealized, are included in nonoperating revenues when earned.

As of June 30, 2017, these equity investments in private equity, real estate investments, and hedge funds make up approximately 4.1%, 6.3%, and 2.9%, respectively, of total cash and cash equivalents and investments in the accompanying statement of net position. Because private equity, real estate investments, and hedge funds are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material. Unrealized gains or losses on investments

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2017

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

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

These assets are reported at fair value and include cash, cash equivalents, and investments whose use is limited by time or action, including assets set aside by the Board for future payment of self-insurance liabilities and assets held by counter parties under interest rate swap agreements.

(e) Net Patient Accounts Receivable

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

(f) Inventories

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

(g) Other Current Assets

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

(h) Capital Assets

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

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

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

Expenditures that materially increase values, change capacities, or extend useful lives are capitalized, as are interest costs, during the period of construction. Expenditures for repairs and maintenance are charged to operating expenses when incurred. For those qualifying assets acquired with tax-exempt borrowings, the District capitalizes interest cost from the date of the borrowing until the assets are ready for their intended use. Any interest earned on related interest-bearing investments acquired with

NORTH BROWARD HOSPITAL DISTRICT

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proceeds of the related tax-exempt borrowings is recorded as an offset to interest costs capitalized. Interest costs of approximately \$24.2 million has been capitalized as of June 30, 2017, of which approximately \$13.8 million has been amortized on the same basis as depreciation. Gains and losses on dispositions are recorded in the year of disposal.

(i) Impairment

Capital assets are reviewed for impairment in accordance with the methodology prescribed in Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Asset impairment, as defined by this standard, is a significant, unexpected decline in the service utility of a capital asset and is not a function of the recoverability of the carrying amount of the asset. Service utility is the usable capacity of the asset that was expected to be used at the time of acquisition and is not related to the level of actual utilization, but the capacity for utilization. Indicators that the service utility of an asset has significantly declined include: (a) evidence of physical damage; (b) changes in legal or environmental circumstances; (c) technological development or evidence of obsolescence; (d) a change in the manner or expected duration of use of the asset; and (e) construction stoppage. The District has determined that no capital asset impairment exists at June 30, 2017.

(j) Deferred Outflows and Inflows of Resources

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

(k) Accrued Personal Leave

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

(l) Pensions

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

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2017

(m) Net Position

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

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

(n) Classifications of Revenues and Expenses

The District’s statement of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services, the District’s principal activity. Nonexchange revenues, including property taxes, certain grants, and donations, are reported as nonoperating revenues. Grants and donations received for the purpose of acquiring or constructing capital assets are recorded below nonoperating revenues as capital contributions. Operating expenses are all expenses incurred to provide healthcare services, excluding financing costs.

(o) Net Patient Service Revenue

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

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

Medicare

The District’s healthcare facilities participate in the federal Medicare program (Medicare). Approximately 18% of the District’s gross patient service revenue was derived from services to Medicare beneficiaries. Inpatient acute care services rendered to Medicare beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

NORTH BROWARD HOSPITAL DISTRICT

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Inpatient nonacute services, outpatient services, and defined capital costs related to Medicare beneficiaries are reimbursed based upon a prospective reimbursement methodology. The health care facilities' classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review. As of June 30, 2017, the Medicare cost reports were final audited, pending final settlement, by the health care facilities' Medicare fiscal intermediary through June 30, 2015 for all facilities, except BHMC, which was through June 30, 2014. In fiscal year 2017, the District did not record any material adjustments to net patient service revenue related to prior year Medicare settlements.

During 2010, the Center for Medicare and Medicaid Services implemented the Recovery Audit Contractors (RAC) to all states, including Florida, which was part of the initial demonstration project. RAC reviews medical records and claims from health care facilities to ensure compliance with billing and coding guidelines. In November 2013, CMS suspended the medical necessity RAC reviews. The District has no outstanding liability for this type of review. Beginning in 2017, the Center for Medicare and Medicaid Services will conduct reviews on DRG and outpatient services. Any overpayments will be recouped from subsequent payments to the hospitals.

Medicaid

Approximately 7% of the District's gross patient service revenue was derived under the Medicaid program for fiscal year 2017. Inpatient and outpatient services rendered to Medicaid program beneficiaries were paid based upon a cost reimbursement methodology subject to certain ceilings until June 30, 2013. Effective July 1, 2013, inpatient Medicaid claims are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The health care facilities are reimbursed for outpatient services at a tentative rate, with final settlement determined after submission of annual cost reports by the health care facilities and audits by the Medicaid fiscal intermediary. The Medicaid cost report has been audited by the Medicaid fiscal intermediary through June 30, 2012, for BHMC, BHN, BHIP, and BHCS. In addition to the prospectively determined rates per discharge and tentative payments received by the District for the provision of health care services to Medicaid beneficiaries, the State of Florida provides a disproportionate share payment adjustment to reflect the additional costs associated with treating the Medicaid population in the District's service area. During fiscal year 2017, the District recognized approximately \$6.9 million related to the disproportionate share of hospital payments from the State of Florida, and this amount is reflected in net patient service revenues in the accompanying statement of revenue, expenses, and changes in net position. In fiscal year 2017, the District recorded \$12.6 million as a reduction to net patient service revenue for Medicaid settlements relating to prior years.

Other Third-Party Payors

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

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

NORTH BROWARD HOSPITAL DISTRICT

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(p) Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue (Note 14).

(q) Ad Valorem Tax Revenue

Property taxes are levied by Broward County on the District's behalf annually. Amounts levied are based on assessed property values as of the preceding year. The District collects the ad valorem taxes for the general support of its operations, as approved by the Board. Property taxes are recognized under the accrual method of accounting, wherein the tax levy is recognized as unearned revenue at the date of assessment, less a reserve for estimated discounts (Note 16), and amortized into income over the respective year.

(r) Restricted Donations

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

(s) Grant Funding

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

(t) Risk Management

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

(u) Use of Estimates

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

NORTH BROWARD HOSPITAL DISTRICT

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

(v) ***Income Taxes***

The District is not subject to income tax.

(w) ***Subsequent Events***

The District has evaluated the impact of subsequent events through October 25, 2017, the date on which the financial statements were issued.

(x) ***New Accounting Pronouncements***

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

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

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Specifically, this statement requires that a governmental entity that has legal obligations to perform future asset retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this statement. GASB No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. This statement requires the measurement

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

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of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. GASB Statement No. 83 is effective for reporting periods beginning after June 15, 2018. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In March 2017, the GASB issued GASB Statement No. 85, *Omnibus*. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. This statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish debt as those requirements for when new debt is issued to provide for the refunding. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. This statement also specifies the treatment of any remaining bond insurance costs on any extinguished debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements for this statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The District has not elected to

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

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implement this statement early; however, management is still evaluating the impact of this statement in the year of adoption.

(3) Cash, Cash Equivalents, and Investments

The composition and credit ratings of the District's cash and cash equivalents, investments, and assets whose use is limited as of June 30, 2017, is as follows:

	Fair value	Investment Maturities			
		Less than 1 year	1-5 years	6-10 years	More than 10 years
U.S. government securities	\$ 41,058	\$ 7,665	19,460	6,847	7,086
U.S. government agency securities	2,026	150	1,331	—	545
Corporate bonds	96,279	22,701	58,826	7,872	6,880
Mortgage-backed securities	25,839	—	2,505	726	22,608
International government securities	348	—	348	—	—
	165,550	\$ 30,516	82,470	15,445	37,119
Common stock	258,310				
Mutual funds	38,833				
Private equity	27,172				
Hedge funds	18,956				
Real estate	41,434				
Other investments	463				
Money markets	43,400				
Bank deposits	61,490				
	\$ 655,608				

	Fair value	Ratings					
		AAA	AA	A	BBB	<BBB	Not rated
U.S. government securities	\$ 41,058	41,058	—	—	—	—	—
U.S. government agency securities	2,026	1,331	—	545	—	—	150
Corporate bonds	96,279	7,044	11,171	45,993	26,509	1,842	3,720
Mortgage-backed securities	25,839	5,843	—	17	—	1,156	18,823
International government securities	348	—	348	—	—	—	—
	\$ 165,550	55,276	11,519	46,555	26,509	2,998	22,693

Investment Risk Factors

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

NORTH BROWARD HOSPITAL DISTRICT

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a) Credit Risk

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

b) Concentration of Credit Risk

Investments in any one issuer that represent 5% or more of the District's investment portfolio are required to be disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. As of June 30, 2017, the District did not have any investments that equaled or exceeded this threshold. The investment policy includes an overall asset deployment policy which sets allowable ranges per asset class. Liquid asset allocation may include up to: Domestic Equity (30% – 35%), International Equity (10% – 15%), Private Equity (0% – 5%), Real Estate (0% – 5%), Hedge Funds (0%-5%) and Fixed Income (40% – 55%). The invested assets may include up to: Domestic Equity (35% – 45%), International Equity (10%-20%), Emerging Markets Equity (0%-10%), Private Equity (5% – 10%), Real Estate (5% – 15%), Hedge Funds (2.5% – 7.5%) and Fixed Income (10% – 20%) and High Yield (0% - 7%).

c) Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Refer to the distribution of the District's investment in fixed-income securities by maturity as of June 30, 2017, in the preceding investment composition table.

d) Foreign Currency Risk

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

e) Custodial Credit Risk

Investments

As of June 30, 2017, the District's investments were not exposed to custodial credit risk since the full amount of investments were insured or registered in the District's name.

NORTH BROWARD HOSPITAL DISTRICT

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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. At June 30, 2017, the District's deposits were entirely covered by federal depository insurance or by collateral pledged with the State Treasurer pursuant to Chapter 280, *Florida Statutes*.

(4) Fair Value Measurements

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

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

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in an active market with daily pricing that a government can access at the measurement date. At June 30, 2017, the type of investments included in Level 1 consists of money market accounts, bank deposits, and debt and equity securities.

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

Level 3 – Inputs are unobservable for an asset or liability. Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of discounted cash flow models or similar techniques. At June 30, 2017, Level 3 securities include private equity funds in limited partnerships and investments in real estate.

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

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

NORTH BROWARD HOSPITAL DISTRICT

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

Private Equity Funds: This type of investment includes investment in private equity limited partnerships that invest in a diversified portfolio of private companies. The District participates in these partnerships as a limited partner. These investments can never be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is expected that the majority of the underlying assets of the funds would be liquidated over five to eight years. However, as of June 30, 2017, it is probable that all of the investments in this type will be sold at an amount different from the net asset value (NAV) per share (or its equivalent) of the Plan's ownership interest in the partners' capital. Therefore, the fair values of the investment in this type have been determined by the general partners using the recent observable transaction information for similar investments, valuation multiples of revenues and/or EBITDA, and nonbinding bids received from potential buyers of investments.

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

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

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The following table presents financial instruments that are measured at fair value on a recurring basis as of June 30, 2017:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments by fair value level:				
Money Markets	\$ 43,400	\$ 43,400	-	-
Bank Deposits	61,490	61,490	-	-
Debt Securities				
U.S. government securities	41,058	41,058	-	-
U.S. government agency securities	2,026	2,026	-	-
Corporate bonds	96,279	96,279	-	-
Mortgage-backed securities	25,839	25,839	-	-
International government securities	348	348	-	-
Total Debt Securities	<u>165,550</u>	<u>165,550</u>	-	-
Equity Securities				
Common stock	258,310	258,310	-	-
Mutual funds	38,833	38,833	-	-
Other investments	463	463	-	-
Total Equity Securities	<u>297,606</u>	<u>297,606</u>	-	-
Private Equity	27,172	-	-	27,172
Real Estate	41,434	-	-	41,434
Total investments by fair value level	<u>636,652</u>	<u>568,046</u>	-	<u>68,606</u>
Investments measured at net asset value (NAV):				
Hedge Funds	<u>18,956</u>			
Total investments measured at fair value	<u>\$ 655,608</u>			
Liabilities:				
Interest Rate Swaps (see Note 9 related to how fair value is determined)	<u>\$ 32,578</u>	<u>-</u>	<u>32,578</u>	<u>-</u>

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

The hedge funds that the District invests in include various limits on the redemption frequency of those investments, as well as redemption notice periods. The limits on redemption frequency generally range from being non-redeemable to a redemption frequency that is daily, monthly, quarterly, semi-annually, or annually. The redemption notice periods generally range from daily to notice periods of 5, 15, 30, 60, 75, or 90 days. The private equity funds that the District invests in include unfunded commitments as of June 30, 2017, totaling approximately \$13.9 million.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2017

(5) Capital Assets

A summary of changes in capital assets during fiscal year 2017, is as follows:

	Balance at June 30, 2016	Additions	Deletions/ Transfers	Balance at June 30, 2017
Capital assets not being depreciated:				
Land	\$ 43,080	—	—	43,080
Construction-in-progress	91,780	—	(16,661)	75,119
Total capital assets not being depreciated	<u>134,860</u>	<u>—</u>	<u>(16,661)</u>	<u>118,199</u>
Capital assets being depreciated:				
Buildings and improvements	660,195	65,423	9	725,627
Land improvements	8,012	260	(1)	8,271
Equipment	558,355	43,936	(18,189)	584,102
Equipment under capital lease	1,074	1	(351)	724
Total capital assets being depreciated	<u>1,227,636</u>	<u>109,620</u>	<u>(18,532)</u>	<u>1,318,724</u>
Accumulated depreciation:				
Buildings and improvements	400,456	19,398	(11)	419,843
Land improvements	6,498	195	—	6,693
Equipment	435,866	33,806	(16,673)	452,999
Equipment under capital lease	474	103	(269)	308
Total accumulated depreciation	<u>843,294</u>	<u>53,502</u>	<u>(16,953)</u>	<u>879,843</u>
Total	<u>\$ 519,202</u>	<u>56,118</u>	<u>(18,240)</u>	<u>557,080</u>

The estimated cost-to-complete of construction-in-progress at June 30, 2017, totaled approximately \$104 million.

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Notes to the Financial Statements

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(6) Long-Term Obligations

Changes in long-term liabilities for the year ended June 30, 2017, was as follows:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>	<u>Amount due in one year</u>
Revenue bonds	\$ 234,125	—	(11,600)	222,525	12,050
Lease obligations	570	—	(123)	447	103
Derivative instruments	48,660	—	(16,082)	32,578	—
Net pension liability (asset)	26,010	40,109	(67,516)	(1,397)	—
Self-insurance program	30,643	6,636	(5,800)	31,479	5,424
Other postemployment benefit program	90,921	17,654	(8,665)	99,910	—
	<u>\$ 430,929</u>	<u>64,399</u>	<u>(109,786)</u>	<u>385,542</u>	<u>17,577</u>

(7) Revenue Bonds

a) Refunding Revenue Bonds, Series 2005A (the 2005A Bonds)

In July 2005, the District issued \$71.5 million of 2005A Bonds, which are variable rate demand bonds remarketed weekly. The interest rate at June 30, 2017 was .9%. The net proceeds of the 2005A Bonds (after payment of \$2.5 million in bond issuance costs, including underwriting, legal and accounting, and insurance fees) were principally used to fund an escrow account in the amount of \$68.9 million for the advance refunding of \$66.3 million of Refunding and Improvement Revenue Bonds, Series 1997 (the 1997 Bonds), which were called in January 2008, and \$2.7 million to cover scheduled interest payments on the 1997 Bonds. Based upon long-term historical patterns, at the time of issuance of the 2005A Bonds, the variable interest paid on these bonds was expected to correlate very closely to the rate received on the related floating to fixed interest rate swap agreement (Note 9). The result of issuance of the 2005A Bonds and the related interest rate swap was expected to be a synthetic fixed rate of interest on the 2005A Bonds of approximately 3.345%. Both the 2005A Bonds and the related interest rate swap are insured through financial guarantee insurance policies with financial services institutions. During 2011, the District entered into an extension for the letter of credit related to the 2005A Bonds.

The difference between the reacquisition price and the net carrying amount of the old debt of approximately \$4.6 million is being deferred and amortized as a component of interest expense over the remaining scheduled life of the old debt of 19 years with the unamortized portion reported as a deferred outflow of resources. As of June 30, 2017, the unamortized portion is approximately \$1.6 million.

b) Refunding Revenue Bonds, Series 2007 (the 2007 Bonds)

In November 2007, the District issued \$131.2 million of 2007 Bonds, which are variable rate demand bonds remarketed weekly. The interest rate at June 30, 2017 was .9%. The net proceeds of the 2007 Bonds (after payment of \$2.6 million in bond issuance costs, including underwriting, legal and accounting, and insurance fees) were principally used to fund an escrow account in the amount of \$128.6 million for the advance refunding of \$106.1 million of 1997 Bonds, \$25.1 million of 2001 Bonds, and \$2.3 million to cover scheduled interest payments on the 1997 Bonds and 2001 Bonds.

NORTH BROWARD HOSPITAL DISTRICT

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The net proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1997 Bonds and 2001 Bonds. As a result, the advance refunded 1997 Bonds and 2001 Bonds were considered to be defeased in substance, and the liability for those bonds has been removed from the accompanying statement of net position. Some of these escrowed funds were used to pay the 1997 Bonds that were refinanced with this transaction. Based upon long-term historical patterns, at the time of issuance of the 2007 Bonds, the variable interest on these bonds was expected to correlate very closely to the rate received on the related floating to fixed interest rate swap agreement (Note 9). The result of issuance of the 2007 Bonds and the related interest rate swap was expected to be a synthetic fixed rate of interest on the 2007 Bonds of approximately 4.159%. Both the 2007 Bonds and the related interest rate swap are insured through financial guarantee insurance policies with financial services institutions. During 2011, the District entered into an extension for the letter of credit related to the 2007 Bonds.

The original difference between the reacquisition price and the net carrying amount of the old debt of approximately \$5.9 million is being deferred and amortized as a component of interest expense over the remaining scheduled life of the old debt of 19 years, with the unamortized portion reported as a deferred outflow of resources. As of June 30, 2017, the unamortized portion is approximately \$2.1 million.

On September 18, 2017, the 2007 Bonds were refinanced with a note payable from a financial institution. The note payable matures on July 1, 2018 and accrues interest at a variable rate of 1.91 percent.

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

In July 2008, the District issued \$85.5 million of 2008A Bonds for the purpose of refunding the outstanding 2005B Bonds. The interest rate at June 30, 2017 was .91%. The 2008A Bonds are collateralized by a letter of credit through August 16, 2020. The 2008A Bonds are variable-rate demand bonds, which are remarketed weekly. The proceeds of the 2008A Bonds were used for the sole purpose of extinguishing the 2005B Bonds. The 2008A Bonds are not insured. As part of this transaction, the District modified the floating to fixed interest rate swap that had been put in place at the time that the 2005B Bond transaction was completed. The fixed rate payable by the District on this swap transaction changed from 4.084% to 4.154%. The counterparty payment rate to the District on this swap continues to be the weekly SIFMA rate. The result of the combination of these transactions is expected to be a synthetic fixed rate of interest on the 2008A Bonds of approximately 4.154%.

The District determined that the modified interest rate swap was a hybrid instrument under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, at the time the 2005B Bond transaction was completed. At the time of pricing the modified interest rate swap in July 2008, the fixed rate on the swap was off-market such that the District deferred the repayment of the liability on the original interest rate swap. As such, the interest rate swap comprises a derivative instrument, an at-the-market swap, and a companion instrument, a borrowing represented by the deferred repayment of \$4.4 million in July 2008. In connection with the Novation Agreement (Note 9), the portion of the interest rate swap that was determined to be a borrowing was modified, and the carrying value of such at June 30, 2017, was \$8.4 million, which is being amortized over the remaining scheduled life of the old debt of 17 years.

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The difference between the reacquisition price and the net carrying amount of the old debt of approximately \$11.6 million is being deferred and amortized as a component of interest expense over the remaining scheduled life of the old debt of 23 years, with the unamortized value of the deferred amount reported as a deferred outflow of resources. As of June 30, 2017, the unamortized portion is approximately \$5.7 million. The District advance refunded the 2005B Bonds, and no economic gain was realized.

d) Revenue Bond, Series 2010 (the 2010 Bonds)

In December 2010, the District issued a Bank Qualified Bond for \$30.0 million for the purpose of reimbursing the District for expenses incurred relating to the planning, construction, and expansion of hospital facilities. The 2010 Bonds bear interest at a variable rate equal to 65% of the daily LIBOR plus 105 basis points, which resets on the first business day of each month. The interest rate at June 30, 2017, was 1.22%. Associated issuance costs, including legal, financial advisor, and trustee, of approximately \$0.1 million that were associated with this transaction were paid from other operating funds. The 2010 Bonds are not collateralized and are not insured. The 2010 Bonds carry a 20-year amortization schedule. Interest is due and payable semiannually, commencing on July 15, 2011, through January 15, 2031, at which point in time, all unpaid principal and interest shall be due and payable. The 2010 Bonds are subject to optional earlier prepayment by the District and to mandatory tender by the bank to the District on the mandatory tender date of January 15, 2021. At the written request of the District, at least 180 days prior to the mandatory tender date then in effect, the mandatory tender date may be extended in the sole discretion of the bank.

e) Irrevocable Direct Pay Letters of Credit (LOC)

In 2008, the District entered into two separate LOCs, one collateralizing the 2005A Bonds and the other collateralizing the 2007 Bonds, for the benefit of the registered bondholders to collateralize the payment of the principal and interest on the 2005A and 2007 Bonds and the payment of the purchase price of the Bonds tendered for purchase and not remarketed. In January 2011, the LOCs supporting the 2005A Bonds and the 2007 Bonds were extended to January 19, 2016, and January 19, 2015, respectively. On September 29, 2014, the District entered into an agreement, on substantially the same terms, to extend the maturity date of the LOC supporting the 2007 Bonds from January 19, 2015, to September 29, 2017. On September 18, 2017, the 2007 Bonds were refinanced with a note (See Note 7b). On December 16, 2015, the District entered into an agreement, on substantially the same terms, to extend the maturity date of the LOC supporting the 2005A Bonds from January 19, 2016, to December 16, 2020. The 2008A Bonds are collateralized by a letter of credit through August 16, 2020.

The District is required to maintain a standby bond purchase agreement, alternative liquidity facility, or alternative letter of credit at all times for the outstanding bonds. If the LOC is not extended or replaced, the Indenture requires the trustee to purchase all outstanding bonds before the final expiration date of the LOC, and the LOC bank will become the holder of all outstanding 2005A and 2008A Bonds. The bonds will remain outstanding under the Indenture, and the District is required to convert the bonds to another interest rate mode or obtain a new liquidity facility. During the time the bank would own the outstanding bonds, the LOC requires payment of a higher interest rate and requires that the bonds be redeemed in equal quarterly principal payments over five years, with principal payments commencing on the 15th day of January, April, July, or October following the first anniversary from the bank's date of purchase.

NORTH BROWARD HOSPITAL DISTRICT

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The Indenture for the District's 2005A, 2007, 2008A, and 2010 Bonds, and the LOCs, include covenants that require the District to maintain specified financial ratios, levels of working capital and equity, and other qualitative covenants. The District was in compliance with these covenants as of June 30, 2016.

Maturities of the 2005A, 2007, 2008A, and 2010 Bonds, including corresponding interest due, over the next five years and in five-year increments thereafter are as follows:

Year Ending June 30, 2017	Series 2005A		Series 2007		Series 2008A		Series 2010		Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Debt Service	Debt Service
2018	\$ 3,525	1,335	6,590	3,071	500	3,410	1,435	272	12,050	8,088
2019	3,650	1,215	6,885	2,792	525	3,389	1,450	254	12,510	7,650
2020	3,780	1,091	7,190	2,500	550	3,367	1,470	236	12,990	7,194
2021	3,915	963	7,500	2,195	575	3,343	1,485	218	13,475	6,719
2022	4,060	829	7,825	1,876	600	3,319	1,505	199	13,990	6,223
2023-2027	22,595	1,975	40,880	4,239	7,125	16,048	7,820	708	78,420	22,970
2028-2032	-	-	-	-	72,475	6,182	6,615	208	79,090	6,390
	<u>\$ 41,525</u>	<u>7,408</u>	<u>76,870</u>	<u>16,673</u>	<u>82,350</u>	<u>39,058</u>	<u>21,780</u>	<u>2,095</u>	<u>222,525</u>	<u>65,234</u>

(8) Lease Obligation

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

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

	<u>Principal</u>	<u>Interest</u>
	(In thousands of dollars)	
Years ending June 30:		
2018	103	21
2019	108	15
2020	114	10
2021	119	3
2022	3	—
Total due	<u>447</u>	<u>49</u>
Amount due within one year	<u>(103)</u>	
Amount due, excluding due within one year	<u>\$ 344</u>	

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

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(9) Interest Rate Swaps

On June 30, 2017, the District had the following derivative instruments outstanding:

Item	Type	Objective	Notional amount	Effective date	Maturity date	Terms	Fair Value
(In thousands of dollars)							
2005A	Receive variable interest rate swap	Hedge of changes in cash flows on the 2005A Bonds	\$ 41,525	09/12/2013	01/15/2027	Pay fixed rate of 3.345%. Receive 62.4% of one month LIBOR plus 29 basis points	\$ (3,767)
2007	Receive variable interest rate swap	Hedge of changes in cash flows on the 2007 Bonds	76,870	11/15/2007	01/15/2027	Pay fixed rate of 4.159%. Receive SIFMA Municipal Swap Index Rate	(9,705)
2008A PNC Bank	Receive variable interest rate swap	Hedge of changes in cash flows on 35% of 2008A Bonds	28,822	09/12/2013	01/15/2031	Pay fixed rate of 4.154%. Receive SIFMA Municipal Swap Index Rate	(6,746)
2008A Wells Fargo Bank	Receive variable interest rate swap	Hedge of changes in cash flows on 65% of 2008A Bonds	53,528	09/12/2013	01/15/2031	Pay fixed rate of 4.154%. Receive SIFMA Municipal Swap Index Rate	(12,360)
							<u>\$ (32,578)</u>

At June 30, 2017, the 2005A, 2007, and 2008A interest rate swaps qualified for hedge accounting under GASB Statement No. 53 and, as a result, approximately \$20.9 million related to the fair value of the interest rate swaps was recorded as a liability related to the hedging instruments and a corresponding deferred outflow of resources in the accompanying statement of net position. An increase in the fair value of the interest rate swaps in fiscal year 2017 of approximately \$15.1 million is reported in the statement of net position as a liability and a deferred outflow of resources.

Approximately \$8.4 million related to the fair value of the 2008A derivative instrument is recorded as a liability at June 30, 2017 per a novation agreement (See Note 7c). Additionally, \$3.2 million related to the fair value of the 2005A derivative instrument is recorded as a liability at June 30, 2017.

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

a) Credit Risk

The District has sought to limit its counterparty risk by contracting only with highly rated entities. As of June 30, 2017, the credit ratings for PNC Bank, the counterparty of the 2005A interest rate swap agreement and 35% of the 2008A swap agreement, were A2, A, and A+ from Moody's, Standard & Poor's, and Fitch rating agencies, respectively. The credit ratings for Wells Fargo, the counterparty of the 2007 interest rate swap agreement and 65% of the 2008A swap agreement, were Aa2, AA-, and AA from Moody's, Standard & Poor's, and Fitch rating agencies, respectively. Each of the

NORTH BROWARD HOSPITAL DISTRICT

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

b) *Interest Rate Risk*

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

c) *Basis Risk*

The District is exposed to basis risk on its interest swap agreements because the variable-rate payments received by the District on these hedging derivative instruments are based on a rate or index other than the interest rates that the District pays on its hedged variable rate debt, which is remarketed every seven days. As of June 30, 2017, the weighted variable interest rate on the District's hedged variable rate debt is 0.9041%, while the SIFMA swap index is 0.87%, and 62.4% of one month LIBOR plus 29 basis points is 1.0537%.

d) *Termination Risk*

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

e) *Commitments*

The 2005A and 2008A interest rate swap agreements require collateral to be posted if the fair value of the interest rate swap is negative. The collateral amount required to be posted, if any, depends on the District's unenhanced credit rating as determined by Standard & Poor's and Moody's Investor Service. As of June 30, 2017, the fair value of the 2005A and 2008A interest rate swaps met the negative value threshold limit, and the District was required to post collateral with PNC and Wells Fargo in the amount of \$11.7 million and \$13.4 million, respectively. The collateral is included within assets whose use is limited in the statement of net position.

As of June 30, 2017, the District was not required to post collateral on the 2007 interest rate swap agreement.

(10) *Defined-Benefit Pension Plan*

a) *Plan Description*

The District maintains a single-employer, noncontributory defined-benefit (cash balance) pension plan (the Plan) covering substantially all full-time or part-time eligible District employees. Accordingly, the amounts disclosed herein relate to the Plan as a whole. The Plan is not subject to the requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and does not issue a stand-alone financial report.

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

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

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

Number of employees covered:	
Active employees	6,259
Inactive employees currently receiving benefits	1,440
Inactive employees entitled to but not yet receiving benefits	<u>1,663</u>
Total membership	<u><u>9,362</u></u>

b) Contributions

The annual contribution for the current year was determined by management and the Board. While the District's independent actuary annually determines a range for the annual contributions, the District is not required to contribute an amount equal to the total funding contribution. The Plan's funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. All contributions to the Plan are made by the employer and are intended to fund both the actuarially determined costs, as well as the Plan's operating costs. The District's practice is to make sufficient annual contributions in accordance with the actuarial funding requirements of the Florida Statutes. The contributions to the Plan for fiscal year 2017 totaled \$17.0 million, which equaled the normal cost as computed through the actuarial valuation date as of June 30, 2017. The contributions represent approximately 4.65% of current covered payroll for fiscal year 2017. Maximum actuarial contributions are based upon the funding levels that would be required of an ERISA plan.

c) Net Pension Liability (Asset)

The District's net pension liability (asset) was measured as of June 30, 2017, based upon rolling forward the results of the actuarial valuation as of July 1, 2016.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2017

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

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

For active members, inactive members, and retirees, the RP-2000 Combined Healthy Mortality tables for employees, healthy annuitants, and disabled annuitants with generational projection per Scale BB are used.

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

NORTH BROWARD HOSPITAL DISTRICT

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

The following is the Plan's adopted asset allocation policy and long-term expected rate of return as of June 30, 2017:

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate Of Return	Expected Standard Deviation of Annual Return
Core Fixed Income	15.00%	4.10%	5.00%
High Yield	3.50%	6.61%	11.00%
US Equity	40.00%	8.71%	18.00%
Developed Equity	15.00%	9.71%	21.00%
Emerging Markets Equity	4.00%	11.81%	25.00%
Private Equity	7.50%	12.91%	22.50%
Hedge Fund of Funds	5.00%	5.91%	5.80%
Real Estate	10.00%	7.21%	11.50%
Portfolio Annual Return: Arithmetic Mean			8.22%
Portfolio Annualized Return: 20 Year Geometric Mean			7.45%
Portfolio Standard Deviation			13.15%
Long-Term Expected Rate of Return			7.50%

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

NORTH BROWARD HOSPITAL DISTRICT

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

d) Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
	<u>(In thousands of dollars)</u>		
Balance as of June 30, 2016	\$ 339,093	314,299	24,794
Changes for the year:			
Service cost	11,114	—	11,114
Interest on total pension liability	25,255	—	25,255
Effect of economic/demographic gains or losses	(2,843)	—	(2,843)
Effect of assumptions changes or inputs	(4,654)	—	(4,654)
Benefit payments	(27,411)	(27,411)	—
Employer contributions	—	17,000	(17,000)
Net investment income	—	42,243	(42,243)
Administrative expenses	—	(2,273)	2,273
Balance as of June 30, 2017	\$ <u>340,554</u>	<u>343,858</u>	<u>(3,304)</u>

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
	<u>(In thousands of dollars)</u>		
Net pension liability	\$ 15,852	(3,304)	(20,417)

NORTH BROWARD HOSPITAL DISTRICT

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

The following tables present the composition and credit ratings of the defined-benefit pension plan’s cash and cash equivalents and investments as of June 30, 2017:

	Fair value	Investment maturities			
		Less than 1 year	1–5 years	6–10 years	More than 10 years
U.S. government securities	\$ 11,057	\$ —	1,627	4,730	4,700
U.S. government agency securities	323	—	—	—	323
Corporate bonds	23,872	2,594	10,677	5,070	5,531
Mortgage-backed securities	17,811	—	2,137	840	14,834
International government securities	250	—	250	—	—
	53,313	\$ 2,594	14,691	10,640	25,388
Common stock	192,291				
Mutual funds	23,597				
Private equity	16,859				
Hedge funds	15,435				
Real estate	32,085				
Money markets	10,278				
	\$ 343,858				

	Fair value	Ratings					
		AAA	AA	A	BBB	<BBB	Not rated
U.S. government securities	\$ 11,057	11,057	—	—	—	—	—
U.S. government agency securities	323	—	323	—	—	—	—
Corporate bonds	23,872	—	1,869	7,344	12,956	964	739
Mortgage-backed securities	17,811	3,974	—	14	32	333	13,458
International government securities	250	—	250	—	—	—	—
	\$ 53,313	15,031	2,442	7,358	12,988	1,297	14,197

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2017

The following table presents information about the fair value measurements of the Plan's fiduciary net position as of June 30, 2017.

	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets For Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Plan investments by fair value level:				
Money Markets	\$ 10,278	10,278	—	—
Debt Securities				
U.S. government securities	11,057	11,057	—	—
U.S. government agency securities	323	323	—	—
Corporate bonds	23,872	23,872	—	—
Mortgage-backed securities	17,811	17,811	—	—
International government securities	250	250	—	—
Total debt securities	<u>53,313</u>	<u>53,313</u>	<u>—</u>	<u>—</u>
Equity Securities				
Common stock	192,291	192,291	—	—
Mutual funds	23,597	23,597	—	—
Total Equity Securities	<u>215,888</u>	<u>215,888</u>	<u>—</u>	<u>—</u>
Private Equity	16,859	—	—	16,859
Real Estate	32,085	—	—	32,085
Total Plan investments by fair value level	<u>328,423</u>	<u>279,479</u>	<u>—</u>	<u>48,944</u>
Plan investments measured at net asset value (NAV):				
Hedge Funds	<u>15,435</u>			
Total investments measured at fair value	<u>\$ 343,858</u>			

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

Additional Disclosures for Fair Value Measurements of Plan Investments in Certain Entities that Calculate Net Asset Value per Share or its Equivalent: The hedge funds that the Plan invests in include various limits on the redemption frequency of those investments, as well as redemption notice periods. The limits on redemption frequency generally range from being non-redeemable to a redemption frequency that is daily, monthly, quarterly, semi-annually or annually. The redemption notice periods generally range from daily to notice periods of 5, 15, 30, 60, 75, or 90 days. The private equity funds that the Plan invests in include unfunded commitments as of June 30, 2017, totaling approximately \$9.1 million.

e) Pension Expense

The pension expense for the year ended June 30, 2017 is \$15.0 million.

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Notes to the Financial Statements

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f) Deferred Inflows/Outflows of Resources

A summary of deferred outflows and deferred inflows of resources as of June 30, 2017 is as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	(In thousands of dollars)	
Differences between expected and actual experience	\$ —	\$ (3,381)
Changes of assumptions	470	(4,760)
Net difference between projected and actual earnings	<u>19,132</u>	<u>(15,310)</u>
 Total	 <u>\$ 19,602</u>	 <u>\$ (23,451)</u>

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

Year ending June 30:	
2018	\$ (438)
2019	903
2020	(487)
2021	<u>(3,827)</u>
	 <u>\$ (3,849)</u>

(11) Defined-Contribution Plan

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

The District's total payroll for fiscal year 2017 was \$507.8 million. The total covered payroll for eligible employees during the same period is not determinable. For fiscal year June 30, 2017, the District's contribution was \$6.8 million, representing 1.3% of total payroll. The employees' contribution for fiscal year June 30, 2017 were \$25.7 million, representing 5.1% of total payroll.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

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(12) Florida Retirement System

The District has 17 employees that participate in the Florida Retirement System (FRS), a cost-sharing multiple employer defined-benefit plan administered by the State of Florida (the FRS Plan).

The following amounts have been recorded in the District's financial statements as of and for the year ended June 30, 2017, representing its proportionate share of the net pension liability and the related pension expense and deferred outflows/inflows of resources of the FRS Plan:

		2017
		(In thousands of dollars)
Net pension liability	\$	1,907
Deferred outflows of resources		1,069
Deferred inflows of resources		(370)
Pension expense		243

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

(13) Other Postemployment Benefits

In addition to providing pension benefits, the District provides certain healthcare and life insurance benefits for approximately 926 eligible retired employees, which include those at the healthcare facilities. Many of the District's employees may become eligible for those benefits if they reach retirement age while working for the District.

The GASB requires state and local governmental employers to account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. Annual OPEB costs are based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they become due. The actuarially determined cost for providing benefits to retirees and current employees during fiscal year June 30, 2017, was \$17.7 million. This includes \$8.7 million of actual payments (contributions) during fiscal year June 30, 2017.

a) Plan Description

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

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2017

b) Funding Policy

The Annual Required Contribution (ARC) is based on projected pay-as-you-go financing requirements, with an additional amount required to be recognized and accumulated as the net OPEB obligation. For fiscal year June 30, 2017, the District contributed \$8.7 million to the healthcare plan, which is net of retiree contributions. Retiree contributions for fiscal year 2017 were \$3.0 million according to the following table:

Best Choice Plus Medical	<u>Single</u>	<u>Employee + 1</u>
Rule of 80:		
Medical pre-65	\$ 120.77	276.08
Medical post-65	92.99	212.58
Retiree and Spouse one older and one younger than 65	N/A	245.52
Other retirees:		
Medical pre-65	\$ 603.83	1,254.90
Medical post-65	464.95	966.28
Retiree and Spouse one older and one younger than 65	N/A	1,116.02
Aetna EPO Medical		
Rule of 80:		
Medical pre-65	\$ 148.80	334.36
Medical post-65	114.58	257.45
Retiree and Spouse one older and one younger than 65	N/A	297.36
Other retirees:		
Medical pre-65	\$ 619.49	1,287.49
Medical post-65	477.01	991.34
Retiree and Spouse one older and one younger than 65	N/A	1,145.01
Aetna HDHP Medical		
Rule of 80:		
Medical pre-65	\$ 27.55	82.36
Medical post-65	21.21	63.39
Retiree and Spouse one older and one younger than 65	N/A	73.24
Other retirees:		
Medical pre-65	\$ 510.61	1,061.18
Medical post-65	393.17	817.09
Retiree and Spouse one older and one younger than 65	N/A	943.74

NORTH BROWARD HOSPITAL DISTRICT

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	<u>Single</u>	<u>Employee + 1</u>
Reliance Dental		
Rule of 80:		
Retiree	\$ 10.10	
Retiree and Spouse	N/A	20.98
Other retirees:		
Retiree	\$ 24.04	
Retiree and Spouse	N/A	49.96
Safeguard Dental		
Rule of 80:		
Retiree	\$ 7.78	
Retiree and Spouse	N/A	14.78
Other retirees:		
Retiree	\$ 18.53	
Retiree and Spouse	N/A	35.20

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

c) Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on its ARC, an amount actuarially determined in accordance with the GASB parameters. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The components of the District's annual OPEB cost for the year, the amount actually contributed to the healthcare plan, and changes in the District's net OPEB obligation as of June 30, 2017, are as follows:

	<u>2017</u>
	(In thousands of dollars)
Annual required contribution	\$ 16,955
Interest on net OPEB obligation	3,637
Adjustment to annual required contribution	<u>(2,938)</u>
Annual OPEB cost	17,654
Contributions made	<u>8,665</u>
Increase in net OPEB obligations	8,989
Net OPEB obligation	
Beginning of year	<u>90,921</u>
End of year	<u><u>\$ 99,910</u></u>

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The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the healthcare plan, and the net OPEB obligation for fiscal year 2017 and two prior fiscal years was as follows:

	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
	(In thousands of dollars)		
Fiscal years ended:			
June 30, 2017	\$ 17,654	49.1%	\$ 99,910
June 30, 2016	17,900	41.3%	90,921
June 30, 2015	17,268	42.8%	80,407

d) Funded Status and Funding Progress

As of June 30, 2017, the unfunded actuarial accrued liability (UAAL) for benefits was \$290.4 million. The covered payroll (annual payroll of active employees covered by the plan) was \$366.7 million, and the ratio of the UAAL to the covered payroll was 79.2%. In accordance with post-employment benefit guidance, actuarial valuations are completed on a biannual basis. The last valuation was completed as of July 1, 2016.

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

e) Actuarial Methods and Assumptions

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

In the July 1, 2016, actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% discount rate for 2017, representing an estimate of the discount rate for an unfunded plan. The UAAL is being amortized as a level percentage of projected payroll with a 30-year amortization period.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

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

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

Medical annual rates of increase:

Initial trend rate	4.80%
Ultimate trend rate	4.50%
Year that the rate reaches the ultimate trend rate	2080

Dental annual rates of increase:

Initial trend rate	5.73%
Ultimate trend rate	4.24%
Year that the rate reaches the ultimate trend rate	2072

(14) Charity Care

The District maintains records to identify and monitor the level of charity care it provides. These records include the amount of charity patients' hospital charges foregone for services and supplies furnished under its charity care policy. The level of charity care (charges foregone) provided during fiscal year 2017, based on established rates, was \$146 million. Charity care provided reflects inpatient services of \$72.5 million and outpatient services of \$73.5 million for fiscal year 2017. The estimated cost of charity care was \$36 million for fiscal year 2017. Charity care costs for inpatient services were \$18 million and for outpatient services were \$18 million for fiscal year 2017. The estimated costs were derived using a cost accounting system, which included indirect and direct costs.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2017

(15) Net Patient Service Revenue

Net patient service revenue for fiscal year 2017 consisted of the following:

	2017
	(In thousands of dollars)
Gross patient service revenue:	
Medicare	\$ 747,413
Medicaid	529,447
HMO/PPO	2,172,936
Indigent Write-Off	146,012
Other	581,313
	<u>4,177,121</u>
Allowances:	
Medicare	559,161
Medicaid	422,391
HMO/PPO	1,571,749
Indigent Write-Off	146,012
Other	110,204
	<u>2,809,517</u>
Total allowances	2,809,517
Provision for uncollectible amounts	<u>416,687</u>
	<u>3,226,204</u>
Total deductions from patient service revenue	3,226,204
Net patient service revenue	<u><u>\$ 950,917</u></u>

(16) Ad Valorem Tax Revenue

The Board of the District is empowered and directed to annually levy upon all real and personal taxable property within the boundaries of the District a sufficient tax, not to exceed \$2.5 million, to accomplish the purposes of the District, as determined by the Board. For fiscal year 2017, the levy was 1.3462 mills. The total assessed value for which fiscal year 2017 levies was based was approximately \$112.7 billion, with total taxes, net of associated fees, levied at the District level aggregating \$137.9 million for fiscal year 2017. The Broward County Property Appraiser assesses and the Broward County Tax Collector collects all ad valorem taxes within Broward County.

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

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

(17) Concentrations of Credit Risk

The District grants credit without collateral to its patients, most of whom are local residents and are covered under third-party payor agreements. The mix of receivables, net of contractual allowance reserves and provision for uncollectible accounts from patients and third-party payors at June 30, 2017, is detailed below. The District establishes reserves against these receivables based upon estimated collectability and credit risk. Self-pay receivables are, by nature, high risk, and estimated collectability is low. Therefore, the related net receivables represent a low percentage of the total mix of receivables in the table below.

	<u>2017</u>
Medicare	9.7%
Managed care	63.4
Medicaid	9.5
Commercial insurance	8.8
Self-pay and all other	8.6
	<u>100.0%</u>

(18) Risk Management

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

Public Liability, Medical Malpractice, and Workers’ Compensation

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

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

NORTH BROWARD HOSPITAL DISTRICT

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for any individual incident in excess of \$2.0 million (self-insured retention) up to a maximum annual aggregate limit of \$20.0 million by the insurer.

The District established a current and noncurrent liability in the total amount of \$31.5 million at June 30, 2017 to cover losses resulting from asserted and unasserted claims. The liability includes estimates of the ultimate costs of both reported claims and claims incurred but not reported. Management believes these reserves are adequate to cover losses from such claims after considering the limits provided by Florida Statutes as set forth above. The current year claims expense is included within insurance expenses in the statement of revenues, expense, and changes in net position.

Changes in the District's self-insurance program claims liability during 2017 were as follows:

	<u>2017</u>
	(In thousands of dollars)
Liability at beginning of year	\$ 30,643
Current year claims expense	6,636
Current year claims payments	<u>(5,800)</u>
Liability at end of year	<u>\$ 31,479</u>

Medical Health Benefits

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

The estimated reserve for the District's health benefits as of June 30, 2017, for non-retirees is \$11.2 million and is included in accrued salaries, benefits and payroll taxes in the accompanying statement of net position. The District considered the need for a margin for adverse deviation from the best estimate of reserve based on the variability of claims and have included a 10% explicit margin. The liability includes estimates of the ultimate costs of both reported claims and claims incurred but not reported. Management believes these reserves are adequate to cover such claims.

Changes in the District's health plan liability during fiscal year 2017 were as follows:

	<u>2017</u>
	(In thousands of dollars)
Liability at beginning of year	\$ 14,019
Current year claims expense	78,440
Current year claims payments	<u>(81,218)</u>
Liability at end of year	<u>\$ 11,241</u>

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

NORTH BROWARD HOSPITAL DISTRICT

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

Since dental became fully insured as of January 1, 2012, and vision became fully insured as of January 1, 2014, there is no remaining material self-insured plan run-out reserve liability as of June 30, 2017.

(19) Related Parties

In 1989, the State of Florida established and provided the initial capitalization for Broward House, Inc., which operates a residential treatment facility for individuals afflicted with AIDS. The District holds four of 13 seats on the Board of Directors. The District rented beds from Broward House for its patients at a cost of \$0.7 million in fiscal year 2017. The District also utilized the Broward House's Homeless Outreach program at a cost of \$0.1 million in fiscal year 2017.

The District is an equal partner of the Community Care Plan (CCP), a managed care network governed by an agreement between two governmental entities: North Broward Hospital District (Broward Health) and South Broward Hospital District (MHS) which are CCP's Members. The Members operate two of the largest and diverse integrated health care systems in the state of Florida that consist of hospitals, clinics, physicians, ancillary services, nursing homes, and many programs to serve those with special medical and behavioral needs.

CCP utilizes one general fund and has three major lines of business. They are Statewide Managed Medical Assistance (MMA), Children's Medical Services Division (CMS), and various medical programs for the Members. The MMA is the only at-risk arrangement; the remaining lines of business are administrative services contracts. CCP allocates expenses to the various contracts using the direct method and shared service allocations.

CCP is designated by the State of Florida as a PSN and has also retained a Third-Party Administrator (TPA) license.

As of June 30, 2017, the District's investment in CCP was approximately \$15.4 million and is included in other assets. The District recorded equity in earnings of \$3.4 million. As of June 30, 2017, the District had a receivable balance from CCP of approximately \$6.8 million included in other assets.

Summarized financial information taken from the audited financial statements of CCP as of December 31, 2016 was as follows:

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2017

	<u>2016</u>
	(In thousands of dollars)
Assets	
Current assets	\$ 36,936
Capital assets, net	3,189
Other assets	<u>25,090</u>
Total assets	\$ <u><u>65,215</u></u>
Liabilities and Net Position	
Current liabilities	\$ 20,458
Long-term liabilities	<u>16,297</u>
Total liabilities	<u>36,755</u>
Net position	<u>28,460</u>
Total liabilities and net position	\$ <u><u>65,215</u></u>
	<u>2016</u>
	(In thousands of dollars)
Revenue	\$ 168,495
Expenses:	
Medical services expenses	128,533
General administrative expenses	<u>25,971</u>
Total expenses	<u>154,504</u>
Operating income	13,991
Other income	<u>96</u>
Increase in net position	14,087
Net position:	
Beginning of year	27,720
Distribution to Members	<u>(13,347)</u>
End of year	\$ <u><u>28,460</u></u>

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2017

(20) Public Medical Assistance Trust Fund

In 1984, the Agency for Healthcare Administration created a Public Medical Assistance Trust Fund to collect assessments from all hospitals in the state of Florida to fund enhancements to the Medicaid program. Hospitals in the state of Florida are required to deposit into the fund an amount equal to 1.5% of the hospital's prior year net inpatient revenue and 1.0% of the hospital's prior year net outpatient revenue. During fiscal year 2017, approximately \$12.0 million was recorded as an operating expense in the accompanying statement of revenues, expenses, and changes in net position.

(21) Commitments and Contingencies

a) Operating Leases

The District leases various equipment and facilities under operating lease arrangements. Total rental expense under operating leases in fiscal year 2017 was \$9.9 million and is included in other expenses in the accompanying statement of revenues, expenses, and changes in net position.

Future minimum lease payments under operating leases as of June 30, 2017, with initial or remaining lease terms in excess of one year are as follows (in thousands of dollars):

Years ending June 30:		
2018	\$	3,552
2019		994
2020		625
2021		425
2022		204
Thereafter		106
	\$	<u>5,906</u>

b) Litigation

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

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

c) Other Industry Risks

The healthcare industry is subject to numerous complex laws and regulations imposed by federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation by both the District with respect to implementation, as well as the

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2017

government with respect to retrospective review. In addition, at this time, regulatory actions are unknown and unasserted.

In the past few years, federal government activity has increased with respect to investigations and allegations concerning possible violations by healthcare providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. There have also been numerous lawsuits filed against nonprofit hospitals related to charity care. These lawsuits allege various hospital practices related to the uninsured, including, among other things, charging uninsured patients more than what insurers would pay for the same services, rapidly raising prices, and aggressive collection policies.

Management believes that the District is in compliance with current laws and regulations, including grant agreements. To the extent that issues with noncompliance are identified, the District's management takes the appropriate steps to correct such matters. Management of the District believes that the ultimate exposure from any such matters would not have a material effect on the financial statements of the District.

d) Corporate Integrity Agreement

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

In July 2017, the Independent Review Organization (IRO) issued a supplemental report to its year one report dated October 2016 related to the review of certain arrangements that failed to comply with the terms of the CIA. The IRO is expected to discuss their findings for year two of the CIA in October 2017. The District Board will conclude on the effectiveness of the compliance program after receipt of the findings from the CIA by the end of fourth quarter of the calendar year 2017. Therefore, as of October 25, 2017, the District Board has not concluded on the effectiveness of the compliance program for year two.

If the OIG determines that the District has failed to comply with its CIA obligations, it has the authority to impose contractually stipulated penalties, which could be material to the organization. The OIG provides notice if it finds a failure to comply, which includes notice of the OIG's exercise of its contractual right to demand payment of penalties. As of October 25, 2017, the OIG had not provided such notice to the District.

On December 7, 2016, the District's outside counsel, on behalf of the District, reported to the OIG that a former executive of the District, while serving as an executive of Broward Health North, engaged in conduct that constitutes a "probable violation" (as defined in the CIA) of the Anti-Kickback

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2017

Statute. The District is currently responding to additional information requested by the OIG related to the probable violation, including the impact to the Federal health care programs. In addition, the IRO issued an additional report in August 2017 with its findings related to this issue. The amount of any penalties cannot be determined at this time, but could be material to the organization.

(22) Significant Business Risk

The District has experienced decreases in their unrestricted net position in three consecutive years. The District receives a significant amount of reimbursements from Medicaid. The Florida State Legislature, the Centers for Medicare and Medicaid Services (CMS), and the Florida Medicaid Agency continually evaluate the terms of the Medicaid Program. If the terms of the Medicaid program change, the District cannot determine what impact this will have on future funding. The District also experienced a downgrade in credit rating during 2017. In addition, during, and subsequent to, the year ended June 30, 2017, the District experienced significant turnover in the Board of Commissioners and the executive management team and has not had a permanent CEO or CFO for over two years, however, subsequent to year-end a permanent CFO was hired. Further, as noted previously, the District failed to comply with certain requirements of the CIA discussed in Note 21d. These items individually and in the aggregate pose a significant business risk to the organization.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2017

(23) Condensed Financial Information – Component Units

The following tables represent the condensed financial information of the District's component units at June 30, 2017 (in thousands of dollars):

	Children's Diagnostic & Treatment Center	Broward Health Foundation	Total Claims Administration	Broward Health ACO	Total of Blended Component Units
Assets:					
Due from other components	\$ 229	4,311	—	—	4,540
Other current assets	8,371	10,719	4,882	3,990	27,962
Total current assets	8,600	15,030	4,882	3,990	32,502
Capital assets, net	1,436	4	3	3,911	5,354
Other assets	89	10,929	2,285	—	13,303
Total assets	10,125	25,963	7,170	7,901	51,159
Deferred outflows of resources	413	19	61	52	545
Liabilities:					
Due to other components	—	—	235	14,102	14,337
Other current liabilities	7,709	10,313	492	2,449	20,963
Total current liabilities	7,709	10,313	727	16,551	35,300
Other long-term liabilities	1,407	108	247	156	1,918
Total liabilities	9,116	10,421	974	16,707	37,218
Deferred inflows of resources	528	18	66	35	647
Net position:					
Net investment in capital assets	1,436	4	3	3,911	5,354
Restricted net position	4,809	25,651	—	—	30,460
Unrestricted net position	(5,351)	(10,112)	6,188	(12,700)	(21,975)
Total net position	\$ 894	15,543	6,191	(8,789)	13,839

NORTH BROWARD HOSPITAL DISTRICT

Notes to Financial Statements

June 30, 2017

	Children's Diagnostic & Treatment Center	Broward Health Foundation	Total Claims Administration	Broward Health ACO	Total of Blended Component Units
Operating revenues	\$ 17,329	—	3,295	1,590	22,214
Operating expenses	18,452	1,187	2,435	5,159	27,233
Operating (loss) income	(1,123)	(1,187)	860	(3,569)	(5,019)
Nonoperating revenues	634	1,027	204	—	1,865
Increase (decrease) in net position	(489)	(160)	1,064	(3,569)	(3,154)
Net position:					
Beginning of year	1,383	15,703	5,127	(5,220)	16,993
End of year	\$ 894	15,543	6,191	(8,789)	13,839
	Children's Diagnostic & Treatment Center	Broward Health Foundation	Total Claims Administration	Broward Health ACO	Total of Blended Component Units
Net cash provided (used) by:					
Operating activities	\$ (172)	—	900	3,645	4,373
Capital and related financing activities	(58)	—	—	(189)	(247)
Investing activities	—	—	100	—	100
Net increase (decrease) in cash and cash equivalents	\$ (230)	—	1,000	3,456	4,226
Cash and cash equivalents:					
Beginning of year	\$ 254	—	3,610	260	4,124
End of year	\$ 24	—	4,610	3,716	8,350

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

NORTH BROWARD HOSPITAL DISTRICT

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

June 30, 2015 Through June 30, 2017

(in thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability			
Service cost	\$ 11,114	10,603	9,775
Interest on total pension liability	25,255	24,568	25,875
Effect of economic/demographic gains or losses	(2,843)	(2,600)	—
Effect of assumption changes or inputs	(4,654)	965	(5,629)
Benefit payments	<u>(27,411)</u>	<u>(25,626)</u>	<u>(24,520)</u>
Net change in total pension liability	1,461	7,910	5,501
Total pension liability, beginning	<u>339,093</u>	<u>331,184</u>	<u>325,683</u>
Total pension liability, ending (a)	<u><u>\$ 340,554</u></u>	<u><u>339,094</u></u>	<u><u>331,184</u></u>
Fiduciary Net Position			
Employer contributions	\$ 17,000	15,200	17,600
Investment income net of investment expenses	42,243	(1,210)	15,583
Benefit payments	(27,411)	(25,626)	(24,520)
Administrative expenses	<u>(2,273)</u>	<u>(2,126)</u>	<u>(2,533)</u>
Net change in plan fiduciary net position	29,559	(13,762)	6,130
Fiduciary net position, beginning	<u>314,299</u>	<u>328,061</u>	<u>321,931</u>
Fiduciary net position, ending (b)	<u><u>\$ 343,858</u></u>	<u><u>314,299</u></u>	<u><u>328,061</u></u>
Net pension liability (asset), ending = (a) - (b)	<u><u>\$ (3,304)</u></u>	<u><u>24,795</u></u>	<u><u>3,123</u></u>
Fiduciary net position as a % of total pension liability	100.97%	92.69%	99.06%
Covered payroll	\$ 376,441	353,296	351,806
Net pension liability as a % of covered payroll	-0.88%	7.02%	0.89%

See accompanying independent auditors' report.

NORTH BROWARD HOSPITAL DISTRICT

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

July 1, 2007 Through June 30, 2017

(in thousands)

Fiscal Year Ending June 30	Actuarially Determined Contribution*	Actual Employer Contribution**	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2017	\$ 11,052	\$ 17,491	\$ (6,439)	\$ 376,441	4.65%
2016	11,834	15,656	(3,822)	353,296	4.43%
2015	14,957	18,126	(3,169)	351,806	5.15%
2014	15,688	18,169	(2,481)	336,524	5.40%
2013	17,205	20,204	(2,999)	345,555	5.85%
2012	17,120	19,587	(2,467)	335,101	5.85%
2011	14,042	19,658	(5,616)	315,874	6.22%
2010	11,932	19,605	(7,673)	307,858	6.37%
2009	6,191	17,253	(11,062)	280,724	6.15%
2008	9,063	16,834	(7,771)	262,897	6.40%

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

**Interest adjusted to plan year-end.

Notes to Schedule

Assumed rate of return on investments	7.50%
Mortality basis	RP-2000 Combined healthy mortality with generational projection per Scale BB
Amortization method	Level dollar layered
Existing amortization period	14 years
Asset valuation method	
Smoothing period	Three years
Corridor	90% to 110% of Market
Assumed inflation rate	2.50%
Salary increases	4.50%
Cost of living adjustments	None
Actuarial cost method	Entry age normal

See accompanying independent auditor's report.

NORTH BROWARD HOSPITAL DISTRICT

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

July 1, 2014 Through July 1, 2016

(in thousands)

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability projected unit credit	(b-a) Unfunded AAL (UAAL)	(a/b) Funded ratio	(c) Covered payroll	(b-a)/(c) UAAL as a percentage of covered payroll
July 1, 2016	\$ —	\$ 290,356	\$ 290,356	—	\$ 366,711	79.2
July 1, 2015	—	304,945	304,945	—	351,806	86.7
July 1, 2014	—	296,116	296,116	—	355,056	83.4

In accordance with post-retirement benefit guidance, actuarial valuations are completed on a biannual basis. The last valuation was completed as of July 1, 2016.

See accompanying independent auditors' report.

SUPPLEMENTAL COMBINING INFORMATION

NORTH BROWARD HOSPITAL DISTRICT

Combining Schedule of Net Position

June 30, 2017

(In thousands of dollars)

Assets	Broward Health Medical Center	Broward Health North	Broward Health Imperial Point	Broward Health Coral Springs	Foundation	Other Non Hospital Entities	Eliminations	Total
Current assets:								
Cash and cash equivalents	\$ 9	4	2	4	—	64,193	—	64,212
Cash and investments externally restricted by donors	392	127	32	124	7,828	9,911	—	18,414
Short-term investments	—	—	—	—	—	364,662	—	364,662
Assets whose use is limited required for current liabilities	2,796	1,251	536	424	—	417	—	5,424
Due from patients and other, net of allowance for uncollectibles	83,748	34,486	15,681	20,065	—	6,128	—	160,108
Inventories	13,795	9,293	2,864	4,513	—	808	—	31,273
Estimated third-party payor settlements	4,164	304	160	560	—	—	—	5,188
Other current assets	2,795	1,134	815	1,000	2,891	40,574	(16,346)	32,863
Total current assets	107,699	46,599	20,090	26,690	10,719	486,693	(16,346)	682,144
Assets whose use is limited - Cash and investments:								
Amounts designated for self-insurance	17,664	6,564	3,773	5,463	—	3,599	—	37,063
Amounts held by counterparty under interest rate swap agreements	22,068	913	509	347	—	1,223	—	25,060
Less amount required to meet current obligations	39,732	7,477	4,282	5,810	—	4,822	—	62,123
	(2,796)	(1,251)	(536)	(424)	—	(417)	—	(5,424)
Assets whose use is limited, net	36,936	6,226	3,746	5,386	—	4,405	—	56,699
Investments	—	—	—	—	—	146,197	—	146,197
Due from/(to) affiliates	580,782	103,105	70,850	168,006	4,311	(927,054)	—	—
Capital assets, net	211,107	119,891	51,732	68,162	4	106,184	—	557,080
Net pension asset	1,199	590	353	413	(2)	(1,156)	—	1,397
Other assets	651	289	160	112	10,929	23,926	—	36,067
Total assets	938,374	276,700	146,931	268,769	25,961	(160,805)	(16,346)	1,479,584
Deferred outflows of resources:								
Accumulated decrease in fair value of hedging derivatives	15,374	1,696	943	651	—	2,278	—	20,942
Loss on debt refundings	7,092	697	388	265	—	938	—	9,380
Deferred pension amounts	7,980	3,236	1,836	2,522	19	5,078	—	20,671
Total deferred outflows of resources	30,446	5,629	3,167	3,438	19	8,294	—	50,993

NORTH BROWARD HOSPITAL DISTRICT

Combining Schedule of Net Position (Continued)

June 30, 2017

(In thousands of dollars)

Liabilities	Broward Health Medical Center	Broward Health North	Broward Health Imperial Point	Broward Health Coral Springs	Foundation	Other Non-Hospital Entities	Eliminations	Total
Current liabilities:								
Current maturities of revenue bonds payable	\$ 4,780	1,779	1,527	1,577	—	2,387	—	12,050
Accounts payable and accrued expenses	34,220	20,747	10,547	14,016	10,250	30,269	(16,346)	103,703
Accrued salaries, benefits and payroll taxes	8,332	3,717	2,050	2,699	20	9,340	—	26,158
Accrued personal leave	13,149	6,074	3,497	4,018	43	10,181	—	36,962
Current portion of lease obligations	103	—	—	—	—	—	—	103
Estimated third-party payor settlements	26,990	2,984	1,780	4,965	—	—	—	36,719
Current portion of self-insurance program liability	2,796	1,251	536	424	—	417	—	5,424
Interest payable	1,033	301	240	237	—	404	—	2,215
Total current liabilities	91,403	36,853	20,177	27,936	10,313	52,998	(16,346)	223,334
Revenue bonds, net of current maturities	127,644	19,058	18,193	20,017	—	25,563	—	210,475
Lease obligations, net of current portion	344	—	—	—	—	—	—	344
Self-insurance program liability, net of current portion	10,890	3,884	2,583	3,324	33	5,341	—	26,055
Other postemployment benefit program liability	40,600	17,340	9,498	12,978	73	19,421	—	99,910
Derivative instruments	24,920	2,336	1,302	888	—	3,132	—	32,578
Total liabilities	295,801	79,471	51,753	65,143	10,419	106,455	(16,346)	592,696
Deferred inflows of resources:								
Deferred pension amounts	9,390	3,930	2,239	2,969	18	5,275	—	23,821
Total deferred inflows of resources	9,390	3,930	2,239	2,969	18	5,275	—	23,821
Net position:								
Net investment in capital assets	75,783	99,111	32,042	46,597	4	78,315	—	331,852
Restricted for donor restrictions	392	127	32	128	25,651	5,904	—	32,234
Restricted by counterparty under interest rate swap agreements	22,068	913	509	347	—	1,223	—	25,060
Unrestricted	565,386	98,777	63,523	157,023	(10,112)	(349,683)	—	524,914
Total net position	\$ 663,629	198,928	96,106	204,095	15,543	(264,241)	—	914,060

See accompanying independent auditors' report.

NORTH BROWARD HOSPITAL DISTRICT
Combining Schedule of Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2017
(In thousands of dollars)

	Broward Health Medical Center	Broward Health North	Broward Health Imperial Point	Broward Health Coral Springs	Foundation	Other Non-Hospital Entities	Eliminations	Total
Operating revenues:								
Net patient service revenue (net of provision for uncollectible accounts)	\$ 456,090	213,258	104,726	143,403	—	33,440	—	950,917
Other operating revenue	23,116	7,948	2,920	1,694	—	49,584	(10,900)	74,362
Total operating revenues	479,206	221,206	107,646	145,097	—	83,024	(10,900)	1,025,279
Operating expenses:								
Salaries	185,855	89,221	45,880	62,882	501	123,465	—	507,804
Employee benefits	41,209	19,755	10,391	12,583	86	30,518	(1,210)	113,332
Professional fees	5,894	1,809	3,887	4,856	—	49,300	(5,961)	59,785
Purchased services and temporary labor	9,087	5,885	1,897	2,918	—	985	—	20,772
Outside services	9,541	5,552	1,448	3,248	20	17,690	(2,085)	35,414
Supplies	116,718	65,691	22,529	29,540	14	5,603	—	240,095
Insurance	3,991	1,631	960	1,265	10	2,148	—	10,005
Utilities	6,254	2,860	1,896	1,847	4	5,595	—	18,456
Repairs and maintenance	5,856	3,479	2,107	2,368	—	4,790	—	18,600
State assessments	6,231	2,875	1,458	2,021	—	329	—	12,914
Depreciation and amortization	18,397	9,297	4,894	6,309	2	14,602	—	53,501
Other	76,141	37,684	22,489	28,220	550	(79,655)	(1,644)	83,785
Total operating expenses	485,174	245,739	119,836	158,057	1,187	175,370	(10,900)	1,174,463
Operating income/(loss)	(5,968)	(24,533)	(12,190)	(12,960)	(1,187)	(92,346)	—	(149,184)
Nonoperating revenues (expenses):								
Ad valorem tax revenue	42,526	23,059	9,683	13,303	—	49,367	—	137,938
Investment income, net	349	80	252	411	337	54,622	—	56,051
Interest expense	(7,022)	857	(866)	(405)	—	(1,765)	—	(9,201)
Other	(4,324)	(1,663)	(247)	(660)	690	3,932	—	(2,272)
Total nonoperating revenues	31,529	22,333	8,822	12,649	1,027	106,156	—	182,516
Income (loss) before capital contributions	25,561	(2,200)	(3,368)	(311)	(160)	13,810	—	33,332
Capital contributions	—	—	—	—	—	192	—	192
Increase (decrease) in net position	25,561	(2,200)	(3,368)	(311)	(160)	14,002	—	33,524
Net position:								
Beginning of year	638,068	201,128	99,474	204,406	15,703	(278,243)	—	880,536
End of year	\$ 663,629	198,928	96,106	204,095	15,543	(264,241)	—	914,060

See accompanying independent auditors' report.