



FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY INFORMATION

South Broward Hospital District
d/b/a Memorial Healthcare System
Years Ended April 30, 2012 and 2011
With Report of Independent Certified Public Accountants

Ernst & Young LLP

 **ERNST & YOUNG**

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

Financial Statements and Required Supplementary Information

Years Ended April 30, 2012 and 2011

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Report of Independent Certified Public Accountants

The Board of Commissioners
South Broward Hospital District
d/b/a Memorial Healthcare System

We have audited the accompanying financial statements of the business-type activities, the discretely presented component units, and the pension trust fund of the South Broward Hospital District d/b/a Memorial Healthcare System (the System), as of and for the years ended April 30, 2012 and 2011, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Joe DiMaggio Children's Hospital Foundation, Inc. and the Memorial Foundation, Inc. (collectively, the Foundations), discretely presented component units of the System, which represent 100% of the assets and public support and revenues, of the discretely presented component units. Those financial statements as of and for the years ended April 30, 2012 and 2011, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundations, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundations as of and for the years ended April 30, 2012 and 2011, were not audited in accordance with *Government Auditing Standards*. We were not engaged to perform an audit of the System's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component units, and the pension trust fund of the System as of April 30, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2012, on our consideration of South Broward Hospital District d/b/a Memorial Healthcare System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States require that management's discussion and analysis on pages 4 through 14 and the required pension disclosure supplementary information on pages 64 through 66 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, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The details of combination on pages 67 through 69 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

July 20, 2012

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

Management's Discussion and Analysis

April 30, 2012

Required Financial Statements

The South Broward Hospital District d/b/a Memorial Healthcare System (the System), operates Memorial Regional Hospital and the Joe DiMaggio Children's Hospital at Memorial Regional Hospital, both located in Hollywood, Florida; Memorial Regional Hospital South (a campus of Memorial Regional Hospital) located in Hollywood, Florida, approximately one mile south of Memorial Regional Hospital; Memorial Hospital Pembroke, located in Pembroke Pines, Florida, approximately six miles west of Memorial Regional Hospital; Memorial Hospital West, located in Pembroke Pines, Florida, approximately ten miles west of Memorial Regional Hospital; and Memorial Hospital Miramar, located in Miramar, Florida, approximately 15 miles west of Memorial Regional Hospital. The System also operates the Urgent Care Center and Memorial Manor Nursing Home, both located in Pembroke Pines, Florida, approximately eight miles west of Memorial Regional Hospital. Other components of the Memorial Healthcare System include the Memorial Outpatient Center – Hallandale, located in Hallandale, Florida, approximately five miles east of Memorial Regional Hospital; the Memorial Home Health Services; multiple primary care and school health centers located throughout south Broward County; the Memorial Cancer Institute, with locations on the campus of Memorial Regional Hospital and the campus of Memorial Hospital West; and the Memorial Adult Day Care Center, which provides activities, meals, and select health-related services for its elderly participants, located within the Memorial Outpatient Center – Hallandale. At April 30, 2012, the System operates a total of 1,900 licensed hospital beds and 120 licensed nursing home beds.

The Memorial Hospital Pembroke facility is leased from Hospital Realty, LLC. The initial ten-year lease of the facility expired June 30, 2005. The System entered into a second ten-year term beginning July 1, 2005, which was extended to 2025 in May 2007.

The System utilizes three different funds to account for its activities: an enterprise fund, which combines the activities of the operating fund of the System; a special revenue fund, which reports information about the net assets and changes in net assets of two foundations, which support the operations of the System; and a pension trust fund, which reports information about the net assets and changes in net assets of the System's employees' pension plan.

Complete financial statements for the two foundations which comprise the special revenue fund can be obtained from the Memorial Foundation, Inc. and Joe DiMaggio Children's Hospital Foundation, Inc. at 3501 Johnson Street, Hollywood, Florida 33021.

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

Management's Discussion and Analysis (continued)

Required Financial Statements (continued)

The pension trust fund does not issue separate financial statements.

The financial statements of the System's enterprise fund report information about the System's business-type activities using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Balance Sheets include all of the System's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the System's creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. These statements also provide the basis for computing rate of return, evaluating the capital structure of the System, and assessing the liquidity and financial flexibility of the System.

All of the current and prior year's revenue and expenses are accounted for in the Statements of Revenue and Expenses and Changes in Net Assets. These statements communicate the performance of the System's operations over the past two years.

The final required statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the System's cash receipts and cash payments during the reporting periods. These statements report cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operating, investing, noncapital financing, and capital and related financing activities.

Summary of Financial Information

The financial statements consist of two parts: a) management's discussion and analysis and b) the audited financial statements. The audited financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are intended to describe the results of operations, the changes in the net assets, the sources, and uses of cash and cash equivalents and the capital structure of the System. The following selected financial data as of April 30, 2012, 2011, and 2010, and for the three years then ended, for the System's enterprise fund are derived from the audited financial statements of the System. The data should be read in conjunction with the financial statements, related notes, and other financial information contained herein.

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

Management's Discussion and Analysis (continued)

Summary of Financial Information (continued)

As of and for the Years Ended April 30, 2012 and 2011

Condensed Balance Sheets – System (in thousands of dollars)

	April 30		Dollar	Percentage
	2012	2011	Increase/ (Decrease)	Increase/ (Decrease)
Cash, cash equivalents, and investments	\$ 936,678	\$ 967,500	\$ (30,822)	(3.2)%
Patient accounts receivable, net	203,230	163,174	40,056	24.5
Total current assets	1,228,913	1,180,757	48,156	4.1
Capital assets, net	838,985	808,436	30,549	3.8
Total assets	2,242,344	2,162,965	79,379	3.7
Total current liabilities	240,460	252,249	(11,789)	(4.7)
Long-term debt, net of current portion	538,828	545,685	(6,857)	(1.3)
Total liabilities	878,533	909,281	(30,748)	(3.4)
Unrestricted net assets	1,028,456	959,331	69,125	7.2
Net assets invested in capital assets, net of related debt	279,683	240,063	39,620	16.5
Restricted net assets	55,672	54,290	1,382	2.5

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

Management's Discussion and Analysis (continued)

Summary of Financial Information (continued)

Summary of Revenue and Expenses and Changes in Net Assets – System (in thousands of dollars)

	Years Ended April 30		Dollar	Percentage
	2012	2011	Increase/ (Decrease)	Increase/ (Decrease)
Revenue:				
Net patient service revenue	\$ 1,395,949	\$ 1,395,919	\$ 30	0.0%
Other revenue	90,430	62,292	28,138	45.2
Total revenue	1,486,379	1,458,211	28,168	1.9
Expenses:				
Salaries and wages	680,725	663,423	17,302	2.6
Employee benefits	131,427	130,309	1,118	0.9
Professional fees	41,979	32,985	8,994	27.3
Supplies	250,733	253,954	(3,221)	(1.3)
Purchased services	90,872	87,238	3,634	4.2
Facilities	65,251	63,920	1,331	2.1
Depreciation and amortization	101,712	89,193	12,519	14.0
Other	48,027	60,762	(12,735)	(21.0)
Total expenses	1,410,726	1,381,784	28,942	2.1
Income from operations	75,653	76,427	(774)	(1.0)
Nonoperating gains, net (including depreciation of \$2,641 and \$2,852 in 2012 and 2011, respectively)	31,692	38,374	(6,682)	(17.4)
Excess of revenue and net nonoperating gains over expenses	107,345	114,801	(7,456)	(6.5)
Contributions and grants	2,782	5,777	(2,995)	(51.8)
Increase in net assets	110,127	120,578	(10,451)	(8.7)
Net assets at the beginning of the year	1,253,684	1,133,106	120,578	10.6
Net assets at the end of the year	\$ 1,363,811	\$ 1,253,684	\$ 110,127	8.8%

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

Management's Discussion and Analysis (continued)

Management's Discussion of Financial Performance

The challenges facing the Memorial Healthcare System are consistent with the overall industry. Pressures from payors, heavy infrastructure spending, shifting demographics and patients migrating from inpatient to outpatient settings all contributed to these challenges. The System, however, was able to maintain relative consistent financial performance despite the overall environment. The results from operations experienced for the 2012 fiscal year were only 1% lower than the prior year, despite an increase in unfunded care provided. The strong operating results are due to management's ongoing efforts to manage costs as activity fluctuates. For fiscal year 2012, total revenue increased 1.9% while operating expenses increased by 2.1%, resulting in income from operations decreasing by 1.0% from the prior year of \$76.4 million to approximately \$75.7 million. Memorial Regional Hospital's income from operations decreased by approximately \$9 million, mainly the result of opening the free-standing Joe DiMaggio Children's Hospital in mid 2011. Strong Memorial Cancer Institute volumes helped drive Memorial Hospital West's income from operations higher by approximately \$5 million over the prior year. Memorial Hospital Miramar also increased its income from operations by 9.3%, the result of stronger outpatient volumes and lower expenses. Other operating revenue increased primary due to Disproportionate Share and Low Income Pool income.

Net nonoperating gains decreased from the prior year due to higher interest costs and lower property tax revenues which were partially offset by higher investment income. The Joe DiMaggio Children's Hospital opened in mid 2011 and as a result, interest previously capitalized into the project is now expensed. The System lowered its millage rate to alleviate the burden on the District's taxpayers – charging only enough to cover the cost of providing primary care to District residents. Net tax revenues decreased by 40.0% from approximately \$28.8 million in 2011 to \$17.3 million in 2012. At the same time, uncompensated care increased 7% from approximately \$899 million to \$962 million. Lastly, the system's conservative investment policy and a shift in interest rates produced investment income that was 16.5% higher than the prior year. Included in net investment gains, the System recorded an \$11.0 million unrealized gain on its investment portfolio in fiscal year 2012 versus a \$10.9 million unrealized loss in fiscal year 2011.

Total revenue and net nonoperating gains of the System rose from \$1.497 billion to \$1.518 billion for the fiscal years ended April 30, 2011 and 2012, respectively. Total expenses rose from \$1.382 billion to \$1.411 billion for the same periods. The corresponding excess of

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

Management's Discussion and Analysis (continued)

Management's Discussion of Financial Performance (continued)

revenues and net nonoperating gains over expenses decreased from \$114.8 million to \$107.3 million for the fiscal years ended April 30, 2011 and 2012, respectively, resulting in a net margin of 7.9% and 7.2% for the fiscal years ended April 30, 2011 and 2012, respectively. Income available for debt service was \$251.7 million and \$233.9 million for the fiscal years ended April 30, 2011 and 2012, respectively.

The investment policy of the System is consistent with Section 218.415 of the Florida Statutes, which is designed to ensure the prudent management of financial assets. Other than for certain investments of the pension trust fund, the System does not invest in equity securities. Cash, cash equivalents, and investments, excluding assets whose use is limited, decreased from \$967.5 million to \$936.7 million at April 30, 2011 and 2012, respectively. Cash, cash equivalents, and investments, including assets whose use is limited, remained essentially constant at approximately \$1.1 billion, at April 30, 2012 and 2011. Net patient accounts receivable increased from \$163.2 million at April 30, 2011, to \$203.2 million at April 30, 2012, partially due to delays in billings and collections associated with the implementation of the new revenue cycle information system. The System continues to expand and improve its facilities. Additions to capital assets were \$160.8 million and \$136.6 million for the fiscal years ended April 30, 2011 and 2012, respectively. The decrease in capital spending reflecting the completion of the children's hospital in mid 2011 partially offset with increased information technology investment and a bed expansion at Memorial Hospital West. There was no long-term debt issued in fiscal 2012. The estimated cost to complete all construction programs in process at April 30, 2012, is \$22.0 million. The System anticipates financing these programs through a combination of currently available cash, cash equivalents, investments, and future cash flows from operations. Refer to footnotes five and seven for further discussion of capital asset and long-term debt activity, respectively.

Combined inpatient admissions and observation patients were 110,267 and 107,491 for the years ended April 30, 2011 and 2012, respectively. Hospital based outpatient visits were 513,457 for the year ended April 30, 2011, and 529,036 for the year ended April 30, 2012. The modest decrease in admissions is due to efforts by payors to reduce inpatient admissions and shift to observation status. The increase in outpatient visits is due to management's efforts to increase volumes for outpatient areas.

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

Management's Discussion and Analysis (continued)

Management's Discussion of Financial Performance (continued)

The System pursues qualification of indigent patients for available Medicaid and other reimbursement programs. The System has also established effective protocols that enable early identification of denials and short pays from managed care organizations. As a result, the denial rates for managed care claims as a percentage of managed care claims was 1.8% for fiscal year 2011 and 1.9% for fiscal year 2012.

In fiscal year 2012, the System used the net tax proceeds solely to offset the cost of uncompensated care in its primary care operations.

As of and for the Years Ended April 30, 2011 and 2010

Condensed Balance Sheets – System (in Thousands of Dollars)

	April 30		Dollar	Percentage
	2011	2010	Increase/ (Decrease)	Increase/ (Decrease)
Cash, cash equivalents, and investments	\$ 967,500	\$ 938,340	\$ 29,160	3.1%
Patient accounts receivable, net	163,174	119,869	43,305	36.1
Total current assets	1,180,757	1,100,798	79,959	7.3
Capital assets, net	808,436	738,459	69,977	9.5
Total assets	2,162,965	2,026,967	135,998	6.7
Total current liabilities	252,249	225,830	26,419	11.7
Long-term debt, net of current portion	545,685	552,243	(6,558)	(1.2)
Total liabilities	909,281	893,861	15,420	1.7
Unrestricted net assets	959,331	902,769	56,562	6.3
Net assets invested in capital assets, net of related debt	240,063	161,357	78,706	48.8
Restricted net assets	54,290	68,980	(14,690)	(21.3)

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

Management's Discussion and Analysis (continued)

Management's Discussion of Financial Performance (continued)

Summary of Revenue and Expenses and Changes in Net Assets – System (in thousands of dollars)

	Years Ended April 30		Dollar	Percentage
	2011	2010	Increase/ (Decrease)	Increase/ (Decrease)
Revenue:				
Net patient service revenue	\$ 1,395,919	\$ 1,280,488	\$ 115,431	9.0%
Other revenue	62,292	75,543	(13,251)	(17.5)
Total revenue	1,458,211	1,356,031	102,180	7.5
Expenses:				
Salaries and wages	663,423	623,510	39,913	6.4
Employee benefits	130,309	126,721	3,588	2.8
Professional fees	32,985	32,697	288	0.9
Supplies	253,954	240,608	13,346	5.5
Purchased services	87,238	81,520	5,718	7.0
Facilities	63,920	57,384	6,536	11.4
Depreciation and amortization	89,193	81,232	7,961	9.8
Other	60,762	50,365	10,397	20.6
Total expenses	1,381,784	1,294,037	87,747	6.8
Income from operations	76,427	61,994	14,433	23.2
Nonoperating gains, net (including depreciation of \$2,852 and \$3,215 in 2011 and 2010, respectively)	38,374	55,544	(17,170)	(30.9)
Excess of revenue and net nonoperating gains over expenses	114,801	117,538	(2,737)	(2.3)
Contributions and grants	5,777	4,564	1,213	26.6
Increase in net assets	120,578	122,102	(1,524)	(1.2)
Net assets at the beginning of the year	1,133,106	1,011,004	122,102	12.1
Net assets at the end of the year	\$ 1,253,684	\$ 1,133,106	\$ 120,578	10.6%

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

Management's Discussion and Analysis (continued)

Management's Discussion of Financial Performance (continued)

The demographic and economic challenges faced in the System's primary service area in the last few years have not abated. The System, however, was able to demonstrate modest improvement in its income from operations. The stronger results from operations experienced for the 2011 fiscal year, plus a modest increase in contributions and grants, were offset with lower net nonoperating gains during the current year compared to the prior year. The strong operating results are due to management's ongoing efforts to increase volume and manage costs. For fiscal year 2011, total revenue increased 7.5% while operating expenses increased by only 6.8%, resulting in income from operations improving 23.2% over the prior year from \$62.0 million to approximately \$76.4 million. Memorial Regional Hospital increased its income from operations by over \$21 million, partly the result of strong Memorial Cancer Institute volumes and an increase in cardiac surgeries. Memorial Hospital Miramar also increased its income from operations by 35%, the result of stronger volumes in nearly all areas. The System also recognized in fiscal year 2011 accelerated depreciation of approximately \$7.6 million associated with a reduction in future service utility of a clinical information system that is being phased out in favor of a new clinical information system.

Net nonoperating gains decreased from the prior year due to higher interest costs, a decline in property tax revenues, and lower investment income. In order to help fund the construction of the System's Joe DiMaggio Children's Hospital and capitalize on the favorable interest rate environment, the System issued revenue bonds in 2009, thereby increasing net interest costs. In addition, the property tax base in Broward County continued to shrink in 2011. Tax revenues decreased by 26.1% while uncompensated care decreased by only 0.6% in fiscal year 2011. Lastly, the system's conservative investment policy, coupled with the changes in the interest rate environment, produced investment income that was 13.1% lower than the prior year. The System recorded a \$10.9 million unrealized loss on its investment portfolio in fiscal year 2011 versus a \$3.3 million unrealized gain in fiscal year 2010.

Total revenue and net nonoperating gains of the System rose from \$1.412 billion to \$1.497 billion for the fiscal years ended April 30, 2010 and 2011, respectively. Total expenses rose from \$1.294 billion to \$1.382 billion for the same periods. The corresponding excess of revenues and net nonoperating gains over expenses decreased from \$117.5 million to \$114.8 million for the fiscal years ended April 30, 2010 and 2011, respectively, resulting in a net margin of 8.7% and 7.9% for the fiscal years ended April 30, 2010 and 2011, respectively. Income available for debt service was \$224.9 million and \$251.7 million for the fiscal years ended April 30, 2010 and 2011, respectively.

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

Management's Discussion and Analysis (continued)

Management's Discussion of Financial Performance (continued)

The investment policy of the System is consistent with Section 218.415 of the Florida Statutes, which is designed to ensure the prudent management of financial assets. Other than for certain investments of the pension trust fund, the System does not invest in equity securities. Cash, cash equivalents, and investments, excluding assets whose use is limited, rose from \$938.3 million to \$967.5 million at April 30, 2010 and 2011, respectively. Cash, cash equivalents, and investments, including assets whose use is limited, remained constant at \$1.1 billion, at April 30, 2011 and 2010. Net patient accounts receivable increased from \$119.9 million at April 30, 2010, to \$163.2 million at April 30, 2011, partially due to the 9% increase in net patient service revenue and delays in billings associated with some new requirements from certain managed care plans. The System continues to expand and improve its facilities. Additions to capital assets were \$102.1 million and \$160.8 million for the fiscal years ended April 30, 2010 and 2011, respectively. The System is currently engaged in expansion programs at its facilities.

Inpatient and outpatient admissions were 106,673 and 110,267 for the years ended April 30, 2010 and 2011, respectively. Hospital based outpatient visits were 512,726 for the year ended April 30, 2010, and 513,457 for the year ended April 30, 2011. The modest increases are due to management's efforts to grow its hospital based volumes for both inpatient and outpatient areas.

The System pursues qualification of indigent patients for available Medicaid and other reimbursement programs. The System has also established effective protocols that enable early identification of denials and short pays from managed care organizations. As a result, the denial rates for managed care claims as a percentage of managed care claims was 1.8% for both fiscal years 2010 and 2011.

Taxes and Uncompensated Care

The Board of Commissioners of the System is authorized to levy a tax annually upon real and personal taxable property located within the boundaries of the System at a millage rate not to exceed 2.5 mills. The taxes collected pursuant to this levy can be used for the purposes and needs of the System such as operations, debt service, and construction. Such ad valorem taxes cannot be pledged directly or indirectly to pay revenue bonds; however, there is no prohibition on the use of such taxes once collected. In fiscal year 2011, the System used the net tax proceeds solely to offset the cost of uncompensated care in its primary care, nursing home, and home health operations.

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

Management’s Discussion and Analysis (continued)

Management’s Discussion of Financial Performance (continued)

The financial strength of the System minimizes the tax burden in south Broward County. In fiscal years 2010, 2011, and 2012, net tax revenues accounted for approximately 2.8%, 1.9%, and 1.1%, respectively, of total net revenues and nonoperating gains. In September 2011, the System’s Board of Commissioners voted to reduce the tax millage rate to 0.7500 mills.

The System’s financial strength enables the System to absorb the financial burden of providing an increasing level of uncompensated care and also enables the System to develop and support state-of-the-art facilities.

Source of Patient Charges

A substantial amount of the gross charges of the System are provided to patients insured by third-party payors. The table below lists the approximate percentages of gross charges by payor for the fiscal years ended April 30.

	Percentage of Gross Charges		
	Years Ended April 30		
	2012	2011	2010
Medicare	19.5%	19.5%	18.9%
Medicaid	14.2	14.1	12.3
Managed care	48.2	49.6	50.6
Other	18.1	16.8	18.2
Total	100.0%	100.0%	100.0%

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

Balance Sheets – System

	April 30	
	2012	2011
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 107,583	\$ 168,927
Investments	829,095	798,573
Patient accounts receivable, net of estimated uncollectibles of \$439,363 and \$341,579 at April 30, 2012 and 2011, respectively	203,230	163,174
Ad valorem taxes receivable	893	1,325
Inventories	25,080	25,179
Other current assets	63,032	23,579
Total current assets	<u>1,228,913</u>	<u>1,180,757</u>
Assets whose use is limited:		
By Board for capital improvements	87,977	88,240
By Board for employee disability	17,100	16,888
Under self-insurance trust agreements	53,778	52,366
Externally restricted by donors	1,895	1,924
Total assets whose use is limited	<u>160,750</u>	<u>159,418</u>
Capital assets, net	838,985	808,436
Deferred charges, net	7,040	7,510
Other assets	6,656	6,844
Total assets	<u>\$ 2,242,344</u>	<u>\$ 2,162,965</u>

	April 30	
	2012	2011
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 112,934	\$ 132,319
Accrued compensation and payroll taxes	90,646	82,146
Estimated third-party payor settlements	10,961	14,566
Current portion of long-term debt	7,585	7,285
Current portion of capital lease obligations	1,765	1,785
Current portion of estimated claims liability	6,344	7,249
Other current liabilities	10,225	6,899
Total current liabilities	<u>240,460</u>	252,249
Long-term portion of estimated claims liability	30,841	39,838
Other noncurrent liabilities	67,711	69,051
Long-term portion of capital lease obligations	693	2,458
Long-term debt	538,828	545,685
Total liabilities	<u>878,533</u>	909,281
Net assets:		
Invested in capital assets, net of related debt	279,683	240,063
Restricted:		
For debt service	—	—
By donors	1,895	1,924
Under self-insurance trust agreements	53,777	52,366
Unrestricted	1,028,456	959,331
Total net assets	<u>1,363,811</u>	1,253,684
Total liabilities and net assets	<u>\$ 2,242,344</u>	<u>\$ 2,162,965</u>

See accompanying notes.

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

Statements of Revenue and Expenses and
Changes in Net Assets – System

	Years Ended April 30	
	2012	2011
	<i>(In Thousands)</i>	
Revenue:		
Net patient service revenue	\$ 1,395,949	\$ 1,395,919
Other revenue	90,430	62,292
Total revenue	<u>1,486,379</u>	<u>1,458,211</u>
Expenses:		
Salaries and wages	680,725	663,423
Employee benefits	131,427	130,309
Professional fees	41,979	32,985
Supplies	250,733	253,954
Purchased services	90,872	87,238
Facilities	65,251	63,920
Depreciation and amortization	101,712	89,193
Other	48,027	60,762
Total expenses	<u>1,410,726</u>	<u>1,381,784</u>
Income from operations	75,653	76,427
Nonoperating gains, net (including depreciation of \$2,641 in 2012 and \$2,852 in 2011)	<u>31,692</u>	<u>38,374</u>
Excess of revenue and net nonoperating gains over expenses	107,345	114,801
Contributions and grants	2,782	5,777
Increase in net assets	<u>110,127</u>	<u>120,578</u>
Net assets at the beginning of the year	1,253,684	1,133,106
Net assets at the end of the year	<u><u>\$ 1,363,811</u></u>	<u><u>\$ 1,253,684</u></u>

See accompanying notes.

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

Statements of Cash Flows – System

	Years Ended April 30	
	2012	2011
	<i>(In Thousands)</i>	
Operating activities		
Receipts from third-party payors and patients	\$ 1,352,288	\$ 1,350,505
Payments to vendors	(517,183)	(482,120)
Other receipts	51,006	59,726
Payments to employees	(760,717)	(740,149)
Claims and self-insurance payments	(49,343)	(48,843)
Net cash provided by operating activities	<u>76,051</u>	<u>139,119</u>
Noncapital financing activities		
Contributions and grants	2,782	5,777
Ad valorem tax receipts, net	17,683	28,419
Net cash provided by noncapital financing activities	<u>20,465</u>	<u>34,196</u>
Capital and related financing activities		
Acquisition and construction of capital assets, net	(132,822)	(160,754)
Principal payments on long-term debt	(7,284)	(7,007)
Principal payments on capital lease obligations	(1,785)	(1,722)
Debt issuance costs	–	–
Net proceeds from issuance of long-term debt	–	–
Interest payments on long-term debt	(30,735)	(31,199)
Net cash used in capital and related financing activities	<u>(172,626)</u>	<u>(200,682)</u>
Investing activities		
Proceeds from sales, maturities, or repayment of investments	47,060	61,449
Cost of investments acquired	(67,831)	(84,361)
Investment and other income received	35,537	53,402
Net cash provided by investing activities	<u>14,766</u>	<u>30,490</u>
Net change in cash and cash equivalents	(61,344)	3,123
Cash and cash equivalents at beginning of year	168,927	165,804
Cash and cash equivalents at end of year	<u>\$ 107,583</u>	<u>\$ 168,927</u>

Continued on next page.

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

Statements of Cash Flows – System (continued)

	Years Ended April 30	
	2012	2011
	<i>(In Thousands)</i>	
Reconciliation of excess of revenue and net nonoperating gains over expenses to net cash provided by operating activities		
Excess of revenue and net nonoperating gains over expenses	\$ 107,345	\$ 114,801
Adjustments to reconcile excess of revenue and net nonoperating gains over expenses to net cash provided by operating activities:		
Depreciation and amortization, including depreciation reported in nonoperating gains	104,353	92,045
Interest expense, net of subsidy	25,670	24,798
Provision for doubtful accounts	412,687	330,361
Loss on disposal of capital assets	495	2,616
Ad valorem tax revenue and unrestricted investment income, net	(60,003)	(66,024)
Increase in:		
Patient accounts receivable	(452,743)	(373,666)
Other current assets and inventories	(39,475)	(8,626)
Other assets	188	(631)
Deferred charges		–
Increase (decrease) in:		
Accounts payable and accrued expenses	(19,445)	21,172
Accrued compensation and payroll taxes	8,500	9,785
Estimated third-party payor settlements	(3,605)	(2,109)
Other current liabilities	3,668	(2,381)
Other liabilities	(1,340)	2,063
Estimated claims liability	(10,244)	(5,085)
Net cash provided by operating activities	\$ 76,051	\$ 139,119

See accompanying notes.

Joe DiMaggio Children's Hospital Foundation, Inc.

Statements of Financial Position

	April 30	
	2012	2011
	<i>(In Thousands)</i>	
Assets		
Cash and cash equivalents	\$ 110	\$ 42
Investments, at market value, cost \$25,905 in 2012 and \$22,232 in 2011	26,870	23,306
Unconditional promises to give, net Due from affiliated organization	3,226	3,316
Plant and equipment, at cost, net of \$63 in 2012 and \$58 in 2011 accumulated depreciation	9	14
Other assets	46	36
Total assets	\$ 30,261	\$ 26,714
Liabilities		
Accounts payable	\$ 21	\$ 40
Annuities payable	409	401
Due to Memorial Healthcare System	884	759
Total liabilities	1,314	1,200
Net assets:		
Unrestricted	4,384	5,478
Temporarily restricted	20,787	16,554
Permanently restricted	3,776	3,482
Total net assets	28,947	25,514
Total liabilities and net assets	\$ 30,261	\$ 26,714

See accompanying notes.

Joe DiMaggio Children's Hospital Foundation, Inc.

Statements of Activities

For the Years Ended April 30, 2012 and 2011
(In Thousands)

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support:								
Contributions	\$ 957	\$ 3,356	\$ 294	\$ 4,607	\$ 590	\$ 1,558	\$ 475	\$ 2,623
Special events	–	2,264	–	2,264	–	2,049	–	2,049
Other support	400	–	–	400	400	–	–	400
Interest and investment income	410	–	–	410	438	–	49	487
Realized gains (losses)								
on investments	337	–	–	337	(538)	–	134	(404)
Unrealized gains (losses) on investments	(176)	–	–	(176)	2,082	–	33	2,115
Net assets released from restrictions:								
Satisfaction of program restrictions	1,387	(1,387)	–	–	5,895	(5,679)	(216)	–
Total revenue and other support	3,315	4,233	294	7,842	8,867	(2,072)	475	7,270
Expenses:								
Funding benefitting Memorial Healthcare System	1,832	–	–	1,832	5,220	–	–	5,220
Management and general	480	–	–	480	442	–	–	442
Fund raising	1,088	–	–	1,088	995	–	–	995
Bad debt expense	1,009	–	–	1,009	1,603	–	–	1,603
Total expenses	4,409	–	–	4,409	8,260	–	–	8,260
Changes in net assets	(1,094)	4,233	294	3,433	607	(2,072)	475	(990)
Net assets – beginning of year	5,478	16,554	3,482	25,514	4,871	18,626	3,007	26,504
Net assets – end of year	\$ 4,384	\$ 20,787	\$ 3,776	\$ 28,947	\$ 5,478	\$ 16,554	\$ 3,482	\$ 25,514

See accompanying notes.

Memorial Foundation, Inc.

Statements of Financial Position

	April 30	
	2012	2011
	<i>(In Thousands)</i>	
Assets		
Cash and cash equivalents	\$ 136	\$ 102
Investments, at market value, cost \$7,923 in 2012 and \$7,356 in 2011	8,234	7,715
Unconditional promises to give, net	287	220
Plant and equipment, at cost, net of \$60 in 2012 and \$57 in 2011 accumulated depreciation	5	8
Other assets	19	9
Total assets	<u>\$ 8,681</u>	<u>\$ 8,054</u>
Liabilities		
Accounts payable	\$ 9	\$ 12
Annuities payable	22	22
Due to Memorial Healthcare System	545	316
Total liabilities	<u>576</u>	<u>350</u>
Net assets:		
Unrestricted	689	744
Temporarily restricted	6,973	6,530
Permanently restricted	443	430
Total net assets	<u>8,105</u>	<u>7,704</u>
Total liabilities and net assets	<u>\$ 8,681</u>	<u>\$ 8,054</u>

See accompanying notes.

Memorial Foundation, Inc.

Statements of Activities

For the Years Ended April 30, 2012 and 2011
(In Thousands)

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support:								
Contributions	\$ 140	\$ 1,225	\$ 13	\$ 1,378	\$ 218	\$ 1,124	\$ 26	\$1,368
Other support	400	–	–	400	400	–	–	400
Interest and investment income	123	–	–	123	150	–	9	159
Realized gains on investments	91	–	–	91	51	–	–	51
Unrealized gains (losses) on investments	(49)	–	–	(49)	519	–	–	519
Net assets released from restrictions:								
Satisfaction of program restrictions	782	(782)	–	–	843	(834)	(9)	–
Total revenue and other support	<u>1,487</u>	<u>443</u>	<u>13</u>	<u>1,943</u>	<u>2,181</u>	<u>290</u>	<u>26</u>	<u>2,497</u>
Expenses:								
Funding benefitting Memorial Healthcare System	805	–	–	805	725	–	–	725
Management and general	376	–	–	376	371	–	–	371
Fund raising	328	–	–	328	323	–	–	323
Bad debt expense	33	–	–	33	7	–	–	7
Total expenses	<u>1,542</u>	<u>–</u>	<u>–</u>	<u>1,542</u>	<u>1,426</u>	<u>–</u>	<u>–</u>	<u>1,426</u>
Changes in net assets	(55)	443	13	401	755	290	26	1,071
Net assets – beginning of year	744	6,530	430	7,704	(11)	6,240	404	6,633
Net assets – end of year	<u>\$ 689</u>	<u>\$ 6,973</u>	<u>\$ 443</u>	<u>\$ 8,105</u>	<u>\$ 744</u>	<u>\$ 6,530</u>	<u>\$ 430</u>	<u>\$7,704</u>

See accompanying notes.

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

Balance Sheets – Pension Trust Fund

	April 30	
	2012	2011
	<i>(In Thousands)</i>	
Assets		
Assets whose use is limited:		
Externally restricted under pension plan agreement	<u>\$ 320,584</u>	<u>\$ 298,025</u>
	<u>\$ 320,584</u>	<u>\$ 298,025</u>
Liabilities and restricted net assets		
Net assets held in trust for pension benefits	<u>\$ 320,584</u>	<u>\$ 298,025</u>
	<u>\$ 320,584</u>	<u>\$ 298,025</u>

See accompanying notes.

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

Statements of Changes in Plan Net Assets –
Pension Trust Fund

	Years Ended April 30	
	2012	2011
	<i>(In Thousands)</i>	
Net assets reserved for employees' pension benefits:		
Balance at beginning of year	\$ 298,025	\$ 248,766
Additions:		
Pension contributions	29,899	28,924
Net realized and unrealized gains on pension trust fund investments	2,494	28,439
	<u>32,393</u>	<u>57,363</u>
Deductions:		
Pension benefit payments	8,194	7,258
Administrative expenses	1,640	846
	<u>9,834</u>	<u>8,104</u>
Net increase in net assets held in trust for pension benefits	22,559	49,259
Balance at end of year	<u>\$ 320,584</u>	<u>\$ 298,025</u>

See accompanying notes.

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

Notes to Financial Statements

April 30, 2012

1. Organization and Summary of Significant Accounting Policies

Organization

The South Broward Hospital District d/b/a Memorial Healthcare System (the System), operates Memorial Regional Hospital and the Joe DiMaggio Children's Hospital at Memorial Regional Hospital, both located in Hollywood, Florida; Memorial Regional Hospital South (a campus of Memorial Regional Hospital) located in Hollywood, Florida, approximately one mile south of Memorial Regional Hospital; Memorial Hospital Pembroke, located in Pembroke Pines, Florida, approximately six miles west of Memorial Regional Hospital; Memorial Hospital West, located in Pembroke Pines, Florida, approximately ten miles west of Memorial Regional Hospital; and Memorial Hospital Miramar, located in Miramar, Florida, approximately fifteen miles west of Memorial Regional Hospital. The System also operates the Urgent Care Center and Memorial Manor Nursing Home, both located in Pembroke Pines, Florida, approximately eight miles west of Memorial Regional Hospital. Other components of the Memorial Healthcare System include the Memorial Outpatient Center – Hallandale, located in Hallandale, Florida, approximately five miles east of Memorial Regional Hospital; the Memorial Home Health Services; multiple primary care and school health centers located throughout south Broward County; the Memorial Cancer Institute, with locations on the campus of Memorial Regional Hospital and on the campus of Memorial Hospital West; and the Memorial Adult Day Care Center, which provides activities, meals, and select health-related services for its elderly participants, located within the Memorial Outpatient Center – Hallandale. At April 30, 2012, the System operates a total of 1,900 licensed hospital beds and 120 licensed nursing home beds.

Basis of Presentation

The accounts of the System are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenue, and expenses, as appropriate.

The System is accounted for in an enterprise fund which consists of unrestricted net assets, restricted net assets, and net assets invested in capital assets, net of related debt. The enterprise fund is used to account for the System's ongoing activities. Significant intercompany accounts and transactions have been eliminated in the combination of these funds.

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

Notes to Financial Statements (continued)

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

The Memorial Foundation, Inc. and the Joe DiMaggio Children's Hospital Foundation, Inc. (the Foundations) are legally separate, tax-exempt component units of the System governed by separate independent boards of directors. The Foundations act primarily as fund-raising organizations to supplement the resources that are available to the System in support of its programs. The Foundations' boards are self-perpetuating and consist of community members. Although the System does not control the timing or amount of receipts from the Foundations, the majority of resources or income thereon that the Foundations hold and invest are restricted to the activities of the System by the donors. Because these restricted resources held by the Foundations can only be used by, or for the benefit of, the System, the Foundations are considered component units of the System and are discretely presented in the System's financial statements.

During the years ended April 30, 2012 and 2011, the Foundations distributed approximately \$1,844,000 and \$11,301,000, respectively, to the System for both restricted and unrestricted purposes.

The pension trust fund is a fiduciary fund used to account for the assets held in trust by Wells Fargo Bank, N.A. for the benefit of the employees of the System who participate in the Retirement Plan for Employees of the South Broward Hospital District (the Plan).

The financial statements of the pension trust fund use the full accrual basis of accounting whereby employer contributions to the Plan are recognized when due, and benefits are recognized when due and payable in accordance with the terms of the Plan.

Proprietary Fund Accounting

The System utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis (revenues as they are earned and expenses when the related obligation is incurred).

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

Notes to Financial Statements (continued)

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

Charity Care

The System provides care, without charge, to patients who meet certain financial criteria based upon the Federal Income Poverty Guidelines. Because the System does not pursue collection of amounts due from patients who meet the System's criteria for charity care, such amounts are not reported as revenue.

Cash and Cash Equivalents

The System considers all highly liquid investments with a maturity of three months or less when purchased, except those classified as assets whose use is limited or those included in the System's investment program, to be cash equivalents.

Investments

The System records its investments in accordance with Governmental Accounting Standards Board (GASB) Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures*, which amended GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Purchase Agreements*.

All investments have been recorded at fair value based on quoted market prices in the financial statements.

Inventories

Inventories, consisting primarily of medical, surgical, and other supplies, are stated at the lower of cost (principally determined by the first-in, first-out method) or market.

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

Notes to Financial Statements (continued)

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

Assets Whose Use is Limited

Assets whose use is limited includes assets set aside by the Board for future capital improvements and anticipated future payments under the System's employee disability policy, over which the Board retains control and may at its discretion subsequently use for other purposes. Assets whose use is limited also includes assets held by trustees, self-insurance trust arrangements, as well as restricted resources limited by donors to a specific period or purpose.

Capital Assets

Capital assets, including improvements to existing facilities, are recorded at cost, except for donated items, which are recorded at fair value at the date of the contribution. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for buildings and improvements range from 20 to 40 years and for equipment range from three to ten years. Leasehold improvements are amortized on a straight-line basis over the shorter of the term of the respective lease or the life of the related asset. Routine maintenance and repairs which do not extend the life of the assets are charged to expense as incurred, and major renovations or improvements are capitalized. The System capitalizes all assets with an initial cost of \$1,000 or greater.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of those assets. Deferred financing costs are amortized over the period the obligation is outstanding using the effective interest method.

Income Taxes

The System is exempt from income tax as it is a political subdivision of the State of Florida.

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

Notes to Financial Statements (continued)

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

Restricted Net Assets

Restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose or whose use has been limited under self-insurance trust fund arrangements.

Gifts of cash and other assets are reported at fair value as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, restricted funds are transferred to unrestricted net assets. In cases in which the restrictions for such expenditures are met in the same period the resources are received, the receipts are recorded in unrestricted net assets. Transfers used for current operations are included in the Statements of Revenue and Expenses and Changes in Net Assets – System as a reduction of the related expense. The System first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Statements of Revenue and Expenses and Changes in Net Assets – System

For purposes of presentation, transactions determined to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral, incidental, or transactions not considered to be central to the provision of health care services are reported as nonoperating gains and losses and include investment income, interest expense, and ad valorem tax revenue.

Net Patient Service Revenue

Net patient service revenue is reported at net realizable amounts due from patients, third-party payors, and others for services rendered.

Settlements with certain third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

Notes to Financial Statements (continued)

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounting for Pensions by State and Local Governmental Employers

The System conforms to the requirements of GASB Statement No. 27 (Statement No. 27), *Accounting for Pensions by State and Local Governmental Employers*. Pursuant to Statement No. 27, certain employers that participate in defined benefit pension plans are required to measure and disclose an amount for annual pension cost on the accrual basis of accounting.

Accounting Standards

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the System has elected not to apply the provisions of pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 unless specifically adopted in a GASB pronouncement.

The Foundations are private nonprofit organizations that report under FASB standards, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations' financial information in the System's financial reporting entity for these differences.

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

Notes to Financial Statements (continued)

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

New Accounting Pronouncements

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

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. That Statement amends Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Statement 63 is effective for financial statements for periods beginning after December 15, 2011, with early application encouraged. The System has not elected to implement this statement early, however, the adoption of this statement is not expected to have a material impact on the financial statements.

In June 2011, the GASB also issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. That Statement clarifies the accounting treatment for certain hedging transactions. Statement 64 is effective for financial statements for periods beginning after June 15, 2011, with early application encouraged. The System has not elected to implement this statement early, however, the adoption of this statement is not expected to have a material impact on the financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. That Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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

Notes to Financial Statements (continued)

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

Statement 65 is effective for financial statements for periods beginning after December 15, 2012, with early application encouraged. The System has not elected to implement this statement early, and has not evaluated whether it will have a material impact on the financial statements.

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

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Among other provisions, Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This Statement calls for immediate recognition of more pension expense than is currently required. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. The System has not elected to implement these statements early, however, the System is currently evaluating the impact of these statements on the financial statements when implemented.

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

Notes to Financial Statements (continued)

2. Uncompensated Care

The System maintains records to identify and monitor the level of uncompensated care it provides. These records include the amount of charges forgone for services provided under the System’s charity care policy, as well as a provision for uncollectible accounts included in the accompanying Statements of Revenue and Expenses and Changes in Net Assets – System. The following information measures the level of uncompensated care provided during the years ended April 30, 2012 and 2011 (in thousands).

	2012	2011
Uncompensated care, based on established rates	\$ 961,694	\$ 898,568
Percentage of uncompensated care patients to all patients served based upon total charges	13.6%	13.3%

For the years ended April 30, 2012 and 2011, uncompensated care includes \$549,007,000 and \$568,207,000, respectively, of charges forgone for services provided under the System’s charity care policy. Using the System’s average ratio of cost to charges, the cost of charity care provided was approximately \$112,062,000 and \$118,342,000 for the years ended April 30, 2012 and 2011, respectively.

3. Net Patient Service Revenue

The System has contractual agreements with third-party payors (Medicare, Medicaid, and commercial insurance payors) that provide for prospective reimbursement at contractually established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare and Medicaid

Most of the System’s Medicare patients are covered under the Medicare Prospective Payment System, which establishes predetermined rates for diagnosis–related groups, resource utilization groups, home health resource groups, case mix groups, and inpatient psychiatric per diems.

Reimbursement for certain services subject to special reimbursement formulas under the Medicare program is subject to audit and settlement by a Medicare Administrative Contractor. Such audits and final settlements have been completed for all years through 2007 for Memorial

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

Notes to Financial Statements (continued)

3. Net Patient Service Revenue (continued)

Hospital West and Memorial Hospital Pembroke, and through 2006 for Memorial Regional Hospital and Memorial Hospital Miramar. Medicare program beneficiaries accounted for approximately 20% of the System's gross charges in both fiscal years 2012 and 2011.

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost-based prospective payment formula. The System's Medicaid cost reports have been audited by the Medicaid Administrative Contractor through 2007 for Memorial Hospital West, and Memorial Hospital Pembroke, and through 2006 for Memorial Regional Hospital and Memorial Hospital Miramar. Medicaid program beneficiaries accounted for approximately 14% of the System's gross charges in fiscal years 2012 and 2011.

As a result of the filing of the cost reports and the settlement of cost reports for prior years, the System increased reimbursement recorded in prior years by approximately \$11,297,000 in 2012 and increased reimbursement recorded in prior years by approximately \$9,203,000 in 2011. During March 2012, the Centers for Medicare & Medicaid Services ("CMS") issued new Supplemental Security Income ("SSI") ratios used for calculating Medicare Disproportionate Share Hospital ("DSH") reimbursement for federal fiscal years ending September 30, 2006 through September 30, 2009. As a result, DSH reimbursement for all applicable periods was recalculated. The cumulative impact of this retroactive adjustment was an increase in Medicare revenues of approximately \$5,047,000 and is included in the increased reimbursement recorded in 2012.

Insurance and Other

The System has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payments to the System under these agreements includes prospectively determined rates per discharge, allowances from established charges, and prospectively determined daily rates.

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

Notes to Financial Statements (continued)

3. Net Patient Service Revenue (continued)

The difference between customary charges and the contractually established rates, for the above programs, is accounted for as a contractual adjustment. The System's customary charges, charity care write-offs, provision for doubtful accounts and contractual adjustments for the years ended April 30 are as follows (in thousands):

	2012	2011
Gross patient charges	\$ 7,050,026	\$ 6,767,244
Charity care	(549,007)	(568,207)
Provision for doubtful accounts	(412,687)	(330,361)
Contractual adjustments	(4,692,383)	(4,472,757)
Net patient service revenue	<u>\$ 1,395,949</u>	<u>\$ 1,395,919</u>

4. Cash, Cash Equivalents, and Investments – Enterprise Fund

The book value of the System's unrestricted bank accounts is \$30,751,000 and \$19,184,000 at April 30, 2012 and 2011, respectively. The book value of the System's bank accounts restricted by donors, included in assets whose use is limited, is \$1,895,000 and \$1,924,000 at April 30, 2012 and 2011, respectively. These bank accounts are insured by a combination of federal depository insurance and a collateral pool pledged to the State Treasurer of Florida by financial institutions, which comply with the requirements of Florida Statutes and have been designated as qualified public depositories by the State Treasurer.

Investments and Cash Equivalents

At April 30, 2012 and 2011, respectively, the System's investments, including those included in cash and cash equivalents, are as follows (in thousands):

	Fair Value	
	2012	2011
Unrestricted cash equivalents	\$ 81,218	\$ 88,954
Unrestricted investments	824,709	859,362
Assets whose use is limited:		
By Board	105,077	105,128
By others	53,778	52,366
	<u>\$ 1,064,782</u>	<u>\$ 1,105,810</u>

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

Notes to Financial Statements (continued)

4. Cash, Cash Equivalents, and Investments – Enterprise Fund (continued)

Interest Rate Risk

To the extent possible, the System attempts to match investment maturities with known cash needs and anticipated cash flow requirements. The System’s investment policy segments its investment portfolio into pools with identified asset allocation percentages that attempt to match its liquidity requirements.

At April 30, 2012 and 2011, respectively, the System had the following investments with the respective effective durations. (Fair value in thousands and effective durations in years.)

	2012		2011	
	Fair Value	Effective Duration	Fair Value	Effective Duration
Cash and SEC registered money market funds	\$ 55,052	N/A	\$ 5,291	N/A
U.S. Treasuries	143,663	0.54	199,291	0.52
U.S. Agencies	326,294	0.66	380,038	0.66
U.S. Agency mortgage bonds	183,613	0.43	125,817	0.30
Asset-backed securities	82,640	0.00	76,550	0.10
Commercial paper	17,193	0.00	54,717	0.01
Corporate debt	197,441	0.40	205,034	0.38
Municipal securities	58,886	0.13	57,465	0.12
Foreign bonds	-	-	1,607	0.00
	\$ 1,064,782	2.16	\$ 1,105,810	2.09

Credit Risk

The System has adopted an investment policy that authorizes the following instruments for investment by the System: (1) the trust fund known as the Local Government Surplus Funds Trust Fund as created by Florida Statutes; (2) bankers’ acceptances; (3) commercial paper of prime quality rated by at least two nationally recognized debt rating agencies in the highest letter and numerical ratings of each agency or secured by a letter of credit provided by a commercial bank that carries a credit rating in one of the two highest ratings; (4) interest-bearing time

South Broward Hospital District
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Notes to Financial Statements (continued)

4. Cash, Cash Equivalents, and Investments – Enterprise Fund (continued)

deposits or savings accounts at institutions that are Qualified Public Depositories; (5) negotiable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the United States Government; (6) obligations of Federal Agencies and Instrumentalities; (7) interest-bearing notes, bonds, debentures, and other such evidence of indebtedness with a fixed maturity of any domestic listed corporation within the United States that when purchased carry ratings in one of the two highest classifications of at least two nationally recognized debt rating agencies or be secured by a letter of credit provided by a commercial bank that carries a credit rating in one of the two highest ratings; (8) repurchase agreements and reverse repurchase agreements entered into with a member bank of the Federal Reserve System or a primary dealer in United States Government Securities provided such repurchase agreements and reverse repurchase agreements are fully collateralized by the types of securities disclosed in sections (5) and (6) above; (9) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and (10) municipal bond investments that carry ratings in one of the top two classifications of at least two nationally recognized rating agencies or secured by bond insurance or a letter or credit by a commercial bank in one of the top two classifications.

The System's bond indentures stipulate permitted "Eligible Investments" for related bond funds. To the extent permitted by law, the System must invest bond funds in (1) U.S. Treasury obligations; (2) certain direct or guaranteed obligations of Federal Agencies; (3) certificates of deposit; (4) registered money market funds rated in the two highest rating categories by Standard & Poor's (S&P) and Moody's Investors Service (Moody's); (5) commercial paper rated Prime-1 by Moody's and A-1 or better by S&P; municipal securities rated in the two highest rating categories by S&P and Moody's; (6) repurchase agreements; (7) investment agreements, including GICs acceptable to any credit facility provider; and (8) Federal funds and bankers' acceptances from banks rated Prime-1 or A3 by Moody's and A-1 or A by S&P.

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

Notes to Financial Statements (continued)

4. Cash, Cash Equivalents, and Investments – Enterprise Fund (continued)

At April 30, 2012 and 2011, respectively, the System’s investment securities have the following credit ratings as shown below (in thousands):

	2012		2011	
	Fair Value	Credit Rating*	Fair Value	Credit Rating*
Cash and SEC registered money market funds	\$ 55,052	AAA	\$ 5,291	AAA
U.S. Treasuries	143,663	TSY	199,291	TSY
U.S. Agency discount notes	16,198	A-1+	80,706	A-1+
U.S. Agencies	-	-	279,366	AAA
U.S. Agencies	310,096	AA+	19,966	AA+
U.S. Agency mortgage bonds	1,591	AAA	125,817	AAA
U.S. Agency mortgage bonds	182,022	AA+	-	-
Asset-backed securities	69,152	AAA	68,841	AAA
Asset-backed securities	12,976	AA+	3,637	AA+
Asset-backed securities	512	AA-	1,626	AA-
Asset-backed securities	-	-	688	AA
Asset-backed securities	-	-	1,758	A+
Commercial paper	6,797	A-1+	18,721	A-1+
Commercial paper	10,396	A-1	35,996	A-1
Corporate debt	37,084	AAA	97,925	AAA
Corporate debt	78,365	AA+	25,023	AA+
Corporate debt	17,560	AA	27,682	AA
Corporate debt	25,291	AA-	28,852	AA-
Corporate debt	23,093	A+	12,729	A+
Corporate debt	16,048	A	12,823	A
Municipal securities	11,775	AAA	25,077	AAA
Municipal securities	19,243	AA+	9,120	AA+
Municipal securities	17,492	AA	15,773	AA
Municipal securities	5,129	AA-	5,301	AA-
Municipal securities	4,997	A+	-	-
Municipal securities	-	-	477	A
Municipal securities	190	BBB	199	BBB
Municipal securities	60	Not Rated	1,518	Not Rated
Foreign bonds	-		802	AAA
Foreign bonds	-		805	AA-
	<u>\$ 1,064,782</u>		<u>\$ 1,105,810</u>	

*Standard & Poor’s ratings or comparable

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

Notes to Financial Statements (continued)

4. Cash, Cash Equivalents, and Investments – Enterprise Fund (continued)

Concentration of Credit Risk

The System's investment policy has established asset allocation and issuer limitations on the following investments, which are designated to reduce concentration of credit risk of the System's investments.

Local Government Surplus Funds Trust Fund. A maximum of 50% of the portfolio.

Bankers' acceptances. A maximum of 20% of the investment portfolio. Further limitations include original maturity of 210 days or less and no more than 5% in a single issuer.

Commercial paper. Maximum of 30% of the portfolio. Further limitations include maximum maturity of 270 days from date of purchase and no more than 5% in a single issuer.

Interest-bearing time deposits. A maximum of 30% of the portfolio further subject to total the lesser of 15% of the financial institution's capital or net worth or \$20 million and maximum maturity of one (1) year.

Government securities. A maximum of 100% of the portfolio and minimum of 50% will be invested in government securities that include direct obligations of the U.S. Treasury, obligations guaranteed by the U.S. Government, bonds, notes, debentures, and callable debt instruments issued or guaranteed by U.S. Agencies. Further limitations include a 25% maximum limitation on adjustable interest rate and collateralized mortgage obligations and a 30-year maximum term.

Corporate debt. A maximum of 30% of the portfolio. Further limitations include no more than 10% in AAA-rated asset-backed securities, single industry concentration of 15%, no more than 5% to a single issuer and maximum maturity of ten years. The maximum amount of corporate investments (total of commercial paper and corporate debt) will not exceed 50% of the investment portfolio. The maximum maturity of any corporate issue will not exceed 10 years.

Repurchase/reverse repurchase agreements. Maximum term six months and subject to Public Securities Association (PSA) documentation requirements. A maximum of 50% of the portfolio may be in repurchase agreements.

SEC registered money market funds. A maximum of 50% of the portfolio.

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

Notes to Financial Statements (continued)

4. Cash, Cash Equivalents, and Investments – Enterprise Fund (continued)

Municipal securities. A maximum of 30% of the portfolio. Further limitations include no more than 5% in any one issuer and a maximum maturity of 10 years.

The System’s bond indentures stipulate permitted “Eligible Investments” for related bond funds. Asset allocation and issuer limitations are not stipulated in the related bond documents.

The following table shows the composition of the System’s investments at April 30, 2012 and 2011, respectively (in thousands):

	2012		2011	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
Cash and SEC registered money market funds	\$ 55,052	5%	\$ 5,291	1%
US Treasuries	143,663	13	199,291	18
US Agencies	326,294	31	380,038	34
US Agency mortgage bonds	183,613	17	125,817	11
Asset-backed securities	82,640	8	76,550	7
Commercial paper	17,193	2	54,717	5
Corporate debt	197,441	19	205,034	19
Municipal securities	58,886	5	57,465	5
Foreign bonds	–	–	1,607	–
	\$ 1,064,782	100%	\$ 1,105,810	100%

At April 30, 2012, investments in any one issuer representing 5% or more of the System’s total investments are as follows: \$213,947,000 (20%) invested in issues of the Federal National Mortgage Association; \$120,452,000 (11%) invested in issues of the Federal Home Loan Mortgage Corporation; \$65,983,000 (6%) invested in issues of the Government National Mortgage Corporation; and \$65,517,000 (6%) invested in the Federal Home Loan Bank. The System’s investment policy does not have an issuer limitation for U.S. Treasury securities.

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

Notes to Financial Statements (continued)

4. Cash, Cash Equivalents, and Investments – Enterprise Fund (continued)

Custodial Credit Risk

Pursuant to Florida Statute 218.415, securities, with the exception of certificates of deposit, are held with a third-party custodian; and all securities purchased by, and all collateral obtained by the System is properly designated as an asset of the System. The securities are held in an account separate and apart from the assets of the financial institution. At April 30, 2012 and 2011, the System's investment securities were held by U.S. Bank, a third-party custodian as required by the System's investment policy.

The System's bond indentures stipulate that all bond and trustee held funds be maintained in separate accounts with a bond trustee. U.S. Bank is the trustee for all the System's outstanding bonds and revenue certificate indebtedness. All bond and trustee held investments are held in accounts separate and apart from the assets of the financial institution.

5. Capital Assets

A summary of the activity in the capital assets and the related accumulated depreciation accounts for the years ended April 30, 2012 and 2011, is as follows (in thousands):

	Balance at May 1, 2011	Additions	Transfers	Deletions	Balance at April 30, 2012
Land improvements	\$ 15,273	\$ –	\$ 11,119	\$ –	\$ 26,392
Buildings and improvements	857,975	4,535	160,592	(23)	1,023,079
Equipment	389,699	9,454	101,088	(12,259)	487,982
Depreciable assets	1,262,947	13,989	272,799	(12,282)	1,537,453
Accumulated depreciation	(665,676)	(104,277)	–	11,740	(758,213)
Net depreciable assets	597,271	(90,288)	272,799	(542)	779,240
Land	34,404	–	179	(1,144)	33,439
Construction in progress	176,761	122,653	(272,978)	(130)	26,306
Capital assets, net	\$ 808,436	\$ 32,365	\$ –	\$ (1,816)	\$ 838,985

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

Notes to Financial Statements (continued)

5. Capital Assets (continued)

	Balance at May 1, 2010	Additions	Transfers	Deletions	Balance at April 30, 2011
Land improvements	\$ 15,270	\$ 3	\$ -	\$ -	\$ 15,273
Buildings and improvements	861,777	525	22,399	(26,726)	857,975
Equipment	382,953	18,494	-	(11,748)	389,699
Depreciable assets	1,260,000	19,022	22,399	(38,474)	1,262,947
Accumulated depreciation	(632,114)	(91,914)	21,619	36,733	(665,676)
Net depreciable assets	627,886	(72,892)	44,018	(1,741)	597,271
Land	33,992	412	-	-	34,404
Construction in progress	76,581	145,073	(44,018)	(875)	176,761
Capital assets, net	<u>\$ 738,459</u>	<u>\$ 72,593</u>	<u>\$ -</u>	<u>\$ (2,616)</u>	<u>\$ 808,436</u>

The System is currently engaged in expansion programs at its facilities. The estimated cost to complete all construction programs in process at April 30, 2012, is \$22,035,000.

6. Self-Insurance

The System is exposed to various risks of loss related to professional liability, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and certain employee health plan costs; and natural disasters. The System believes it is more economical to manage its risks internally and set aside assets for claim settlement. Commercial insurance is carried on property, directors and officers, accidents, and vehicles. The System's commercial property insurance program excludes windstorm coverage.

The System, as a subdivision of the State of Florida, has sovereign immunity in tort actions. Therefore, in accordance with Chapter 768.28 of the Florida Statutes, for claims with occurrence dates subsequent to September 30, 1981, the System is not liable to pay a claim or judgment by any one person which exceeds the sum of \$200,000 or any claim or judgments, or portions thereof, which when totaled with all other claims or judgments paid by the State or its agencies or subdivisions arising out of the same incident or occurrence exceeds the sum of \$300,000.

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

Notes to Financial Statements (continued)

6. Self-Insurance (continued)

Chapter 768.28 also provides that judgments may be claimed or rendered in excess of these limits; however, these amounts must be reported to, and approved by, the Florida Legislature. In addition, the System has insurance covering 50% of any claims bill between \$5 million and \$10 million and 100% for of any claims bill between \$10 million and \$20 million, with a total aggregate coverage of \$20 million.

The System's management estimates and accrues for the cost of unreported claims based on historical data and actuarial projections. Accrued claims have been discounted based on an interest rate of 1.5% for 2012 and 2011. The System has established a trust fund for the purpose of setting aside assets to fund future self-insurance losses. The trust assets can only be used for payment of losses and administrative expenses. Earnings on investments in the self-insurance trust are reported as nonoperating gains in the Statements of Revenue and Expenses and Changes in Net Assets – System and are retained as part of the fund. A roll-forward of the System's claims liability for self-insurance claims is as follows (in thousands):

Year Ended April 30	Liability at Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Liability at End of Fiscal Year	Estimated Amount Due Within One Year
2011	\$ 51,903	\$ 44,027	\$ (48,843)	\$ 47,087	\$ 7,249
2012	\$ 47,087	\$ 39,441	\$ (49,343)	\$ 37,185	\$ 6,344

7. Long-Term Debt

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

	2012	2011
Series 2009 Hospital Revenue Bonds – \$150,000 authorized and issued:		
6.978% Term Bond due May 1, 2039	\$ 40,000	\$ 40,000
7.278% Term Bond due May 1, 2044	110,000	110,000
	<u>150,000</u>	<u>150,000</u>
Series 2008 Hospital Refunding Revenue Bonds – \$156,575 authorized and issued:		
Serial Bonds, interest rates of 4.00% to 5.25% maturing amounts ranging from \$1,400 to \$4,000 through May 1, 2017	8,625	10,310
5.25% Term Bond due May 1, 2022	8,180	8,180
5.00% Term Bond due May 1, 2028	30,270	30,270
5.00% Term Bond due May 1, 2036	102,885	102,885
	<u>149,960</u>	<u>151,645</u>
Unamortized loss on defeasance, net	(4,496)	(4,777)
Unamortized discount, net	(2,122)	(2,211)
	<u>143,342</u>	<u>144,657</u>

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

Notes to Financial Statements (continued)

7. Long-Term Debt (continued)

	2012	2011
Series 2007 Hospital Refunding Revenue Bonds – \$112,745 authorized and issued:		
Serial Bonds, interest rate of 4.75% maturing amounts ranging from \$4,695 to \$6,595 through May 1, 2024	\$ 16,200	\$ 16,200
4.75% Term Bond due May 1, 2028	34,215	34,215
4.75% Term Bond due May 1, 2032	62,330	62,330
	112,745	112,745
Unamortized loss on defeasance, net	(5,729)	(6,018)
Unamortized premium, net	2,598	2,729
	109,614	109,456
Series 2006 Hospital Revenue and Refunding Revenue Bonds – \$120,000 authorized and issued:		
Serial Bonds, interest rates of 4.00% to 5.00% maturing amounts ranging from \$930 to \$8,735 through May 1, 2023.	50,150	50,150
4.375% Term Bond due May 1, 2025	7,440	7,440
4.50% Term Bond due May 1, 2030	20,865	20,865
5.00% Term Bond due May 1, 2035	27,595	27,595
4.50% Term Bond due May 1, 2037	13,950	13,950
	120,000	120,000
Unamortized loss on defeasance, net	(3,011)	(3,381)
Unamortized premium, net	2,104	2,188
	119,093	118,807
Series 2003 A Refunding Revenue Bonds – \$39,945 and Series 2003 B Revenue Bonds – \$5,065 authorized and issued:		
Serial Bonds, interest rates of 2.75% to 5.25% maturing in amounts ranging from \$380 to \$4,155, through May 1, 2015	7,040	11,440
Unamortized premium, net	400	545
Unamortized loss on defeasance, net	(176)	(235)
	7,264	11,750
Series 2001 Revenue Certificate – \$10,000 authorized and issued: Payable in annual installments of \$400 commencing May 1, 2002, through and including May 1, 2016, and a balloon payment of \$4,000 due on November 1, 2016. Interest is payable semiannually based on the following formula [(one month LIBOR + 0.55%)/ 1.5037]. The LIBOR Rate at April 30, 2012 was 0.241%.	5,600	6,000
Series 2000 Revenue Certificate – \$10,000 authorized and issued: Payable in annual installments ranging from approximately \$206 to \$400 commencing May 1, 2002, through and including May 1, 2015, and a balloon payment of approximately \$6,300 due on November 1, 2015. The interest rate is fixed at 5.155%.	7,100	7,500
Series 1998 Revenue Certificate – \$10,000 authorized and issued: Payable in annual installments of \$400 through and including May 1, 2017, and a balloon payment of \$2,400 due May 1, 2018. The interest rate is fixed at 4.374%.	4,400	4,800
	546,413	552,970
Less current portion	(7,585)	(7,285)
	\$ 538,828	\$ 545,685

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

Notes to Financial Statements (continued)

7. Long-Term Debt (continued)

During 2012 and 2011, interest cost of \$2,499,000 and \$3,753,000, respectively, was capitalized. During 2012 and 2011, interest earned on invested Revenue Certificates and bond proceeds was \$1,000 and \$9,000, respectively, and is netted against capitalized interest. Net capitalized interest is included in capital assets.

The Revenue Bonds are secured by gross revenues and certain pledge funds and have been issued as Parity Debt under the Trust Indenture.

On September 12, 2003, the System executed and delivered the Master Trust Indenture dated as of September 1, 2003 (Master Indenture). Upon execution and delivery of the Master Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture and the Fifth Supplemental Indenture, respectively, and together with certain amended and unamended portions of the Trust Indenture became what is referred to in the Master Indenture as the Bond Indentures for the respective series of revenue bonds which were issued thereunder. After the execution and delivery of the Master Indenture, the System, pursuant to the Master Indenture issued Obligations to the Trustee under the Trust Indenture, as Bond Trustee for each of the series of revenue bonds issued thereunder and to each of the Revenue Certificate Holders to evidence their security under the Master Indenture. The Master Indenture provides that the System becomes part of an obligated group. Currently, the System is the only member of the obligated group. The Obligations issued under the Master Indenture are payable solely from and are secured by a pledge of and a lien on the Gross Revenues of the obligated group (currently the System) and any future member of the obligated group and certain Accounts created under the Master Indenture, provided, however, the lien and pledge of the Accounts under the Master Indenture does not extend to Obligations issued for the benefit of the Revenue Certificate Holders.

The Series 2003A Refunding Revenue Bonds (described below) were issued to provide funds, to currently refund the Series 1993 Refunding and Revenue Bonds, and the Series 2003B Revenue Bonds were issued, to provide funds, together with other available funds, to pay the costs of acquisition, construction, and equipping of certain improvements to the hospital facilities, including the reimbursement of certain funds advanced by the System. The computations performed in accordance with GASB Statement No. 23 for the current refunding of the 1993 Refunding and Revenue Bonds resulted in a loss on defeasance of \$1,559,000 and is reported in the accompanying financial statements as a deduction from long-term debt. At April 30, 2012,

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

Notes to Financial Statements (continued)

7. Long-Term Debt (continued)

the unamortized value of the deferred amount is approximately \$176,000. The deferred amount is being charged to operations through the year 2015 using an effective interest amortization method. The Series 2003A Refunding Revenue Bonds and the Series 2003B Revenue Bonds maturing after May 1, 2013 are callable at par and in such proportion within maturities as may be directed by the System.

The Series 2004 Hospital Revenue Bonds were issued in two series, Series 2004A and Series 2004B, in equal \$60 million series. The Series 2004 Bonds were issued to (1) acquire, construct, and equip Memorial Hospital Miramar and certain other improvements for the System and its existing hospital facilities, including reimbursement to the System for moneys advanced from its internal funds for a portion of such costs, (2) refund all of the 1997 and 1999 Revenue Certificates and (3) to pay certain costs of issuance. The Series 2004 Bonds were refunded with the issuance of the bank loan in March 2008.

The Series 2006 Hospital and Hospital Revenue Refunding Bonds were issued in the amount of \$120 million. The Series 2006 Bonds were issued to (1) reimburse the System for prior capital expenditures for the acquisition, construction, and equipping of certain facilities and routine equipment purchased by the System; (2) to currently refund all the Series 1996 Revenue Refunding Bonds; and (3) to pay certain costs of issuance. The Series 2006 Bonds were issued as fixed rate bonds and are callable after May 2, 2016, at par, without premium.

The System completed the current refunding of its Series 1996 Hospital Refunding Revenue Bonds as a part of the Series 2006 Hospital Refunding Revenue Bonds to reduce its total debt service payments and to extend the maturity of the debt. On a matched-maturity basis, the cash flow savings not including the funds held in related bond debt service accounts was approximately \$7,056,000. The economic gain (the difference between the present values of the old and new debt service payments taken together with the return of certain bond fund monies) of the current refunding on a matched-maturity basis was approximately \$2,652,000.

The computations performed in accordance with GASB Statement No. 23 for the current refunding of the Series 1996 Revenue Refunding Bonds resulted in a loss on defeasance of approximately \$5,246,000 and is reported in the accompanying financial statements as a deduction from long-term debt. At April 30, 2012, the unamortized value of the deferred amount is approximately \$3,011,000. The deferred amount is being charged to operations through the year 2021 using an effective interest amortization method.

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

Notes to Financial Statements (continued)

7. Long-Term Debt (continued)

The Series 2007 Hospital Refunding Revenue Bonds were issued in the amount of \$112.7 million. The Series 2007 Bonds were issued to (1) advance refund all the outstanding Series 2002 Revenue Bonds; (2) to pay an Issuer settlement amount to the provider of a rate lock agreement dated February 8, 2007; and (3) to pay certain costs of issuance. The Series 2007 bonds were issued as fixed rate bonds and are callable after May 1, 2017, at par, without premium.

The System completed the advance refunding of its Series 2002 Revenue Bonds in conjunction with a rate lock agreement dated February 8, 2007, to reduce future debt service. On a match-maturity basis, the cash flow savings not including the funds held in related bond debt service accounts was approximately \$8,113,000. The advance refunding reduced the annual gross debt service of the System by approximately an average of \$1,520,000 over the life of the Series 2007 bonds. The net proceeds of the Series 2007 Bonds of approximately \$113.1 million plus other available funds of approximately \$15.8 million were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2002 Revenue Bonds through May 1, 2012, at which time the remaining Series 2002 Revenue Bonds will be called for redemption at a redemption price of 101% of the principal amount. As a result, the \$120 million in remaining Series 2002 Revenue Bonds are considered defeased and the liability for those bonds has been removed from the April 30, 2012 and 2011, Balance Sheets.

The computations performed in accordance with GASB Statement No. 23 for the advance refunding of the Series 2002 Hospital Revenue Bonds resulted in a loss on defeasance of approximately \$7,197,000 and is reported in the accompanying financial statements as a deduction from long-term debt. At April 30, 2012, the unamortized value of the deferred amount is approximately \$5,729,000. The deferred amount is being charged to operations through the year 2032 using an effective interest amortization method.

On May 27, 2008, the Series 2008 Hospital Refunding Revenue Bonds (Series 2008 Bonds) were issued in the amount of \$156,575,000 to (1) pay prior to maturity the principal of and accrued interest on the Bank of America Loan Agreement, and (2) pay certain costs of issuance. On March 1, 2008, the System entered into a loan agreement with Bank of America, National Association and executed a promissory note as of March 24, 2008 to evidence debt incurred under the Bank of America Loan Agreement which debt was incurred for the purpose of refunding its (i) Series 2003C, Refunding Revenue Bonds, (ii) Series 2004A, Hospital Revenue

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

Notes to Financial Statements (continued)

7. Long-Term Debt (continued)

Bonds, and (iii) Series 2004B, Hospital Revenue Bonds. These prior bonds were issued as auction rate certificates all of which experienced failed auctions during the 2008 fiscal year. The intent of the loan agreement was to temporarily refund the bonds until more permanent financing could be completed. The Series 2008 bonds were issued as fixed rate bonds and are callable after May 1, 2018, at par, without premium.

On October 28, 2009, Hospital Revenue Bonds, Taxable Series 2009 (Series 2009 Bonds) were issued in the amount of \$150,000,000 to provide funds to (1) acquire, construct, renovate, and equip certain of its health care facilities, including reimbursement of certain moneys advanced prior to issuance, and (2) pay certain costs of issuance. The Series 2009 Bonds were issued as fixed rate bonds and are callable on or after May 1, 2019, at par, without premium. The 2009 Bonds are issued as Build America Bonds pursuant to the American Recovery and Reinvestment Act of 2009. The System receives cash subsidy payments from the United States Department of the Treasury equal to 35% of the interest payable on the 2009 Bonds.

The fair value of the System's long-term debt, based primarily on quoted market prices, was \$584,878,000 and \$549,087,000 at April 30, 2012 and 2011, respectively.

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

	Principal Payments	Estimated Interest Payments	Estimated Total Debt Service
Years Ending April 30:			
2013	\$ 7,585	\$ 26,530	\$ 34,115
2014	7,880	26,165	34,045
2015	3,365	25,810	29,175
2016	10,355	25,528	35,883
2017	12,800	25,198	37,998
2018–2022	50,355	118,994	169,349
2023–2027	78,895	104,862	183,757
2028–2032	114,455	82,042	196,497
2033–2037	130,620	51,168	181,788
2038–2044	140,536	27,748	168,284
	<u>\$ 556,846</u>	<u>\$ 514,045</u>	<u>\$ 1,070,891</u>

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

Notes to Financial Statements (continued)

7. Long-Term Debt (continued)

For purposes of determining estimated future interest payments for the System's variable interest rate debt, estimated future interest payments were calculated using the rates in effect at April 30, 2012.

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

	Years Ended April 30	
	2012	2011
Balance at beginning of year	\$ 552,970	\$ 559,250
Principal payments on long-term debt	(7,285)	(7,007)
Amortization of premiums, discounts, and loss on defeasance, net	728	727
Balance at end of year	\$ 546,413	\$ 552,970

8. Capital Lease Obligations

Capital lease obligations payable at April 30, 2012 and 2011, amounted to \$2,458,000 and \$4,243,000, respectively. These obligations, which are collateralized by equipment, have annual installments ranging from \$101,000 to \$1,614,000 including interest at 3.73% and mature through 2013.

Future minimum capital lease payments due under these obligations as of April 30, 2012, are as follows (in thousands):

	Total
Years Ending April 30:	
2013	\$ 1,825
2014	701
Total minimum lease payments	2,526
Less amount representing interest	(68)
Present value of minimum lease payments	\$ 2,458

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

Notes to Financial Statements (continued)

8. Capital Lease Obligations (continued)

The equipment acquired under the capital leases has an aggregate cost of \$8,326,000 and accumulated amortization of \$5,772,192 at April 30, 2012 and \$3,913,000 at April 30, 2011. Amortization expense is included with depreciation expense in the accompanying financial statements.

9. Pension Plan

The System administers a single employer, noncontributory defined benefit pension plan covering substantially all full-time regular employees. The Plan does not issue a stand-alone financial report.

Employees are eligible for the Plan after completing one year of service and the attainment of age 21. Benefits are 100% vested after five years of service. Normal retirement age under the Plan is the earlier of age 65 with five years of service, age 62 with 20 years of service, or age 55 with 30 years of service. Normal retirement age is age 65 with 5 years of service for the following employee groups: (1) New employees hired on or after May 1, 2010 and prior to November 1, 2011; or (2) Non-vested terminated employees rehired on or after May 1, 2010 and prior to November 1, 2011. The annual retirement benefit amount is based upon years of service and the participants' average earnings during the highest consecutive five-year period in the ten years preceding retirement or termination. The Board has the authority to establish and amend the benefit provisions of the Plan. Contributions by the System are actuarially determined amounts, which, together with investment earnings, are sufficient to fund the Plan. The actuarial assumptions used to determine the System's contributions to the Plan are subject to review by the State of Florida Division of Retirement and the System is required under Part VII of Chapter 112 of the Florida Statutes to fund the Plan in accordance with these actuarial assumptions. There are no employee contributions.

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

Notes to Financial Statements (continued)

9. Pension Plan (continued)

Listed below is information regarding payroll and participant data used in the calculation of current year actuarial information:

Covered payroll for the calculation of 2011/2012 actuarial information	<u>\$ 440,348,815</u>
Number of participants as of May 1, 2011:	
Active	7,312
Retired	1,133
Terminated vested	<u>2,114</u>
Total	<u><u>10,559</u></u>

The Plan funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The contribution rate for normal cost is determined using the projected unit credit actuarial funding method with proration based on service. The level percentage of payroll method is used to amortize the unfunded liability over a weighted average of 18 years for changes in benefits or actuarial assumptions and five-year smoothing for actuarial gains and losses. The significant actuarial assumptions used to compute the annual required contribution include a 7.5% rate of return on investments and an age-related salary increase scale (from 6.00% below age 35 to 4.50% for age 60 and older). The rate of return on investments and the projected salary increase rate include projected inflation of 2.5%.

The annual required contributions to the Plan for 2011/2012 were made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of May 1, 2011. The System's annual pension cost for the years ended April 30, 2012, 2011, and 2010 was approximately \$29,899,000, \$28,924,000, and \$28,260,000, respectively. The actuarial value of the Plan assets at April 30, 2012, 2011, and 2010 was \$335,264,000, \$306,235,000, and \$276,000,000, respectively. The System's contributions to the Plan during the years ended April 30, 2012, 2011, and 2010 were equal to or in excess of 100% of annual pension cost for all three years. As of April 30, 2012, 2011, and 2010, the System's net pension obligation was zero.

On February 24, 2010, the System adopted an amendment to the Plan primarily affecting only those employees hired on or after May 1, 2010. The amendment included, among other changes, eliminating the non-reduced early retirement benefit at retirement ages less than 65 in favor of a reduced early retirement benefit for retirement earlier than age 65, and provides for a different benefit accrual rate.

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

Notes to Financial Statements (continued)

9. Pension Plan (continued)

On July 27, 2011, the System approved an amendment to freeze the plan from any new entrants effective November 1, 2011 and approved a defined contribution plan for all new hires starting on that date. The defined contribution plan calls for the System to contribute 2.5% of the salary (subject to Internal Revenue Service limitations) of eligible employees into a 401(a) plan with the employee directing their investment decisions.

At April 30, 2012 and 2011, the Plan had the following investments with the respective effective durations. Fair values are determined primarily using quoted market prices or absent such, by other customary pricing methods by the custodian. (Fair values are in thousands and effective durations are in years.)

Investments	2012		2011	
	Fair Value	Effective Duration	Fair Value	Effective Duration
Domestic investments:				
Equities	\$ 44,890	N/A	\$ 106,036	N/A
U.S. Government and agency obligations	71,463	2.22	56,506	2.25
Corporate debt	29,583	1.40	29,215	1.48
Commercial mortgage securities	4,393	0.11	4,262	0.15
Collateralized mortgage obligations	1,136	0.02	5,829	0.30
Asset-backed securities	6,391	0.05	6,951	0.09
Municipal bonds	7,010	0.52	4,853	0.44
SEC registered money market funds	37,262	N/A	27,376	N/A
Preferred securities	29	N/A	47	N/A
International investments:				
Equities	73,662	N/A	–	N/A
Dodge & Cox Global Stock Fund	44,126	N/A	–	N/A
JP Morgan EAFE Plus Fund	–	N/A	51,044	N/A
Other:				
Cash	18	N/A	5,137	N/A
Due from brokers	720	N/A	769	N/A
Advance contribution	(99)	N/A	–	
	\$ 320,584		\$ 298,025	

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

Notes to Financial Statements (continued)

9. Pension Plan (continued)

Credit Risk

The System amended the Plan’s investment policy in January 2011 to expand asset classes available for investment. Funding of these new asset classes was completed in May 2012.

The Plan has adopted an investment policy that adheres to the investment guidelines and permissible investments outlined in Florida Statutes, Title XIV, Chapters 215.44 and 215.47. The policy has Target Percentages for certain asset classes and permits variances of +/- 5% as an allowable range. At April 30, 2012 the authorized Asset Allocation and Target Percentages were:

Asset Class	Target Percent
Global Equity:	
Value	27.5%
Growth	27.5
	55%
US Fixed Income – Core	35
Alternative Investments – Hedge Funds	
Long/Short Equity	10.0
	10
Total Plan	100%

The Plan provides the following guidelines and restrictions for the asset classes currently authorized:

(1) *Global Equity (including dedicated Emerging Markets)*: The following list of investments may be purchased in a global equity portfolio: common and preferred stocks of issuers whose primary stock exchange listing, registration, or headquarters are located in the United States, or countries comprising the Morgan Stanley Capital International All Country World Index (MSCI ACQI Index). The exception to this are stocks in emerging markets, subject to certain limitations. Other permissible investments include: securities convertible into common stock, including offerings under Securities Act Rule 144, limited to 20% of the portfolio at market

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

Notes to Financial Statements (continued)

9. Pension Plan (continued)

value; warrants; ADRs listed on a major U.S. exchange; forward contracts for foreign currency to be used in defensive hedging only; World Equity Benchmarks (WEBs); Exchange Traded Funds; Initial Public Offerings (only after notification to the System's Finance Committee and its Investment Consultant; no-load mutual funds; bank, trust, or insurance company pooled funds; and cash or cash equivalents,

(2) *Fixed Income*: The following list of investments may be purchased in the core fixed-income portfolio: U.S. Treasury obligations, Treasury Inflation Protected Bonds, Government Agencies and Government Sponsored Agency debentures and mortgage pass-throughs; mortgage-backed To-Be-Announced (TBAs) notes; collateralized mortgage obligations, limited to 25% of the portfolio; non-agency issued mortgages originated in Florida per Statute 215.47(2)(b)(c)(d); commercial mortgage-backed securities; corporate bonds and other corporate obligations including equipment trust certificates; asset-backed securities; indexed notes, floaters, and other variable rate obligations; pooled accounts or other collective investment funds; certificates of deposit, bankers' acceptances, and commercial paper rated at least A-1 by S&P or P-1 by Moody's; mutual funds; municipal bonds; and complex tranches of collateralized mortgage obligations, asset-backed securities and commercial mortgage-backed securities (including interest only, principal only, super floaters, inverse floaters, and support bonds), limited to 10% of the portfolio at market value. Investments not listed above may be purchased only if the investment manager receives written approval from the System's Finance Committee.

(3) *Alternative Investments – Long/Short Equity Hedge Fund*: A Hedge Fund refers to any investment or interment strategy that is not a long-only portfolio of traditional equity. The Plan will generally invest in fund of fund vehicles that have at least yearly liquidity and reasonable levels of transparency.

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

Notes to Financial Statements (continued)

9. Pension Plan (continued)

At April 30, 2012 and 2011, the Plan's investment securities have the following credit ratings as shown below (in thousands):

	2012		2011	
	Fair Value	Credit Rating*	Fair Value	Credit Rating*
Investments				
Domestic investments:				
Equities	\$ 44,890	Not Rated	\$ 106,036	Not Rated
U.S. Treasuries	34,856	AA+	27,162	TSY
U.S. Agencies	1,594	AA+	2,172	AAA
U.S. Agencies	673	A	-	-
U.S. Agency mortgage bonds	34,340	AA+	27,172	AAA
Corporate debt	938	AA-	896	AA-
Corporate debt	551	AA	504	AA
Corporate debt	433	AA-	535	AA-
Corporate debt	738	A+	1,941	A+
Corporate debt	2,550	A	5,741	A
Corporate debt	9,623	A-	5,602	A-
Corporate debt	7,495	BBB+	4,974	BBB+
Corporate debt	4,532	BBB	4,857	BBB
Corporate debt	2,699	BBB-	3,919	BBB-
Corporate debt	-	-	222	BB+
Corporate debt	24	Not Rated	24	Not Rated
Commercial mortgage securities	4,206	AAA	4,110	AAA
Commercial mortgage securities	-	-	72	AA-
Commercial mortgage securities	187	Not Rated	80	Not Rated
Collateralized mortgage obligations	143	AAA	4,454	AAA
Collateralized mortgage obligations	-	-	111	A-
Collateralized mortgage obligations	330	CCC	678	CCC
Collateralized mortgage obligations	302	CC	277	CC
Collateralized mortgage obligations	146	D	1	D
Collateralized mortgage obligations	215	Not Rated	308	Not Rated
Asset-backed securities	4,132	AAA	5,204	AAA
Asset-backed securities	-	-	420	AA+
Asset-backed securities	157	BB+	-	-
Asset-backed securities	93	B	99	B
Asset-backed securities	293	CCC	384	CCC
Asset-backed securities	62	CC	-	-
Asset-backed securities	272	D	319	D
Asset-backed securities	1,382	Not Rated	525	Not Rated
Municipal bonds	586	AAA	-	-
Municipal bonds	182	AA+	146	AA+
Municipal bonds	248	AA	248	AA
Municipal bonds	2,095	AA-	1,699	AA-
Municipal bonds	2,770	A+	2,277	A+
Municipal bonds	752	A-	483	A-
Municipal bonds	377	Not Rated	-	-
SEC registered money market funds	37,262	AAA	27,376	AAA
Preferred securities	29	C	47	C
International investments:				
Equities	73,662	Not Rated	-	-
Dodge & Cox Global Stock Fund	44,126	Not Rated	-	-
JP Morgan EAFE Plus Fund	-	-	51,044	Not Rated
Other:				
Cash	18	-	5,137	-
Due from brokers	720	-	769	-
Advance contribution	(99)	-	-	-
	<u>\$ 320,584</u>		<u>\$ 298,025</u>	

*Standard & Poor's ratings

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

Notes to Financial Statements (continued)

9. Pension Plan (continued)

Concentration of Credit Risk

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

Global equity investments in any individual company may not represent more than 5% at cost and 8% at the market value. Investment in any individual company on a "Total Plan" basis shall not exceed 3%. The maximum exposure to emerging markets equity from global and dedicated emerging markets is 20% of total Plan assets.

No more than 10% of the bond portfolio at market value shall be invested in the securities of any one issuer, with the exception of the U.S. Government. No more than 3% of the portfolio may be invested in one bond, with the exception being securities issued or guaranteed by the U.S. Government. No more than 50% of the portfolio shall have exposure to non-government guaranteed agency obligations (at market value). Fixed-income securities should be rated BBB- (or its equivalent) or higher at time of purchase by a nationally recognized statistical rating agency. The minimum dollar-weighted average quality rating of the portfolio is "A." Asset backed securities, mortgage-backed securities, and collateralized mortgage obligations should be rated "AAA" (or its equivalent) at the time of purchase by a nationally recognized statistical rating agency. For split ratings, the higher rating will be used to determine compliance with these guidelines. If issues are downgraded to non-investment grade, the investment manager will determine the appropriate action based on the perceived risk and expected return of the position and will inform System Management and the investment consultant in writing of the action that was taken. The duration of the portfolio must be within +/- 10% of the indicated index. The maximum effective maturity of any single security should not exceed 40 years.

Investments in long/short equity hedge funds require the manager to use a prime broker relationship when shorting stocks. The Plan seeks investments that provide liquidity such that a significant withdrawal is available (>75% of the investment) at least once per year. Reasonable levels of transparency are expected in order to monitor underlying investments. Strategies that cause total leverage to exceed 2.5:1 and fund of funds managers that employ leverage at the fund of funds level shall be avoided. At no time will the Plan invest in a fund where the amount of dollars-at-risk exceeds the initial investment amount.

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

Notes to Financial Statements (continued)

9. Pension Plan (continued)

The following table shows the composition of the Plan's investments at April 30, 2012 and 2011 (in thousands):

	2012		2011	
	Fair Value	% of Portfolio	Fair Value	% of Portfolio
Investments				
Domestic investments:				
Equities	\$ 44,890	14%	\$ 106,036	36%
U.S. Government and agency obligations	71,463	23	56,506	19
Corporate debt	29,583	9	29,215	10
Commercial mortgage securities	4,393	1	4,262	1
Collateralized mortgage obligations	1,136	0	5,829	2
Asset-backed securities	6,391	2	6,951	2
Municipal bonds	7,010	2	4,853	2
SEC registered money market funds	37,262	12	27,376	9
Preferred securities	29	-	47	-
International investments:				
Equities	73,662	23	-	-
Dodge & Cox Global Plus Fund	44,126	14	-	-
JP Morgan EAFE Plus Fund	-	-	51,044	17
Other:				
Cash	18	-	5,137	2
Due from brokers	720	-	769	-
Advance contribution	(99)	-	-	-
	\$ 320,584	100%	\$ 298,025	100%

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

Notes to Financial Statements (continued)

9. Pension Plan (continued)

At April 30, 2012, there was no single investment representing 5% or more of the Plan's total investments.

Custodial Credit Risk

GASB 40 requires disclosure of deposits and investments exposed to custodial credit risk. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Plan would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of April 30, 2012, the Plan's investment portfolio was held by a single third-party custodian.

Foreign Currency Risk

GASB 40 requires disclosure of deposits or investments exposed to foreign currency risk which is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Plan's exposure to foreign currency derives from its positions in foreign currency denominated equities in its Global Equity portfolios. Global Equities have a Target Percentage of 55% of Plan Assets. The following table shows the Plan's exposure to foreign currencies as of April 30, 2012 (in thousands). There was no foreign currency exposure as of April 30, 2011.

	2012 Fair Value
Australian Dollar	\$ 4,426
British Sterling Pound	15,293
Canadian Dollar	3,370
Danish Kroner	2,094
EMU (Euro)	12,147
Hong Kong Dollar	6,201
Japanese Yen	11,588
Singapore Dollar	3,196
Swedish Krona	1,769
Swiss Franc	12,754
Thailand Bhat	814
Total Pension Investments Subject to Foreign Currency Risk	<u>\$ 73,652</u>

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

Notes to Financial Statements (continued)

10. Regulatory Matters

In May 1984, the Florida legislature enacted the Health Care Consumer Protection and Awareness Act (the Act). The Act empowered the State Health Care Board (HCB) to levy assessments on all hospitals in the state. In 1992, the Florida legislature transferred the authority to levy assessments to the Agency for Health Care Administration (AHCA). The amount of the assessment is 1.5% of adjusted inpatient operating revenue and 1.0% of adjusted outpatient operating revenue.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

11. Other Noncurrent Liabilities

Other noncurrent liabilities primarily consist of accrued disability expenses, AHCA and other assessments, and early retirement benefits.

Activity related to other noncurrent liabilities is summarized as follows (in thousands):

	Years Ended April 30	
	2012	2011
Balance at beginning of year	\$ 69,051	\$ 66,988
AHCA assessments	18,219	17,411
Physician contracts	1,686	–
Disability expense	759	845
Medical equipment loan	–	4,158
Amortization of early retirement benefits	–	(238)
Humana deferred income	–	(877)
Payments	(22,004)	(19,236)
Balance at end of year	\$ 67,711	\$ 69,051

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

Notes to Financial Statements (continued)

12. Leases

Effective July 1, 1995, the System entered into a lease (the Lease) of Pembroke Pines Hospital from HCA Inc. and affiliates. During 2006, HCA Inc. sold the facility to Hospital Realty, LLC.

The System operates the facility under the name of Memorial Hospital Pembroke. The Lease is for a period of ten years with two successive optional ten-year terms. Either party may elect not to renew the Lease at the end of the first and second ten-year term. During fiscal year 2005, the System exercised its option to renew the Lease for the first of the two successive optional ten-year terms. In May 2007, the System and Hospital Realty, LLC renegotiated the lease and extended the lease term through June 30, 2025.

The Lease, as renegotiated, calls for base rent of \$4,300,000 annually through June 30, 2008. Thereafter, the base rent increased by the prior year's base rent multiplied by 101.5%.

The System has noncancelable operating lease commitments including the Memorial Hospital Pembroke lease, office space, medical equipment, data processing equipment, and system support services, the expense for which was approximately \$18,303,000 and \$20,982,000 for the years ended April 30, 2012 and 2011, respectively. At April 30, 2012, future minimum lease payments by year under the noncancelable operating leases are as follows (in thousands):

Years Ending April 30:	
2013	\$ 17,212
2014	13,943
2015	12,079
2016	9,811
2017	7,690
2018–2022	31,584
2023–2027	17,398

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

Notes to Financial Statements (continued)

13. Nonoperating Gains, Net

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

	Years Ended April 30	
	2012	2011
Ad valorem tax revenue, net	\$ 17,251	\$ 28,753
Investment income and other, net	40,111	34,419
Interest	(29,417)	(28,545)
Interest subsidy	3,747	3,747
	\$ 31,692	\$ 38,374

Ad valorem tax revenue is unrestricted as to use and is recorded on an accrual basis in the year that taxes are levied.

14. Net Assets

A summary of the activity in the net asset accounts for the years ended April 30, 2012 and 2011, is as follows (in thousands):

	Invested in Capital Assets, Net of Related Debt	Restricted for Debt Service	Restricted by Donors	Restricted Under Self- Insurance Trust Agreements	Unrestricted	Total Net Assets
Balance at May 1, 2011	\$ 240,063	\$ -	\$ 1,924	\$ 52,366	\$ 959,331	\$ 1,253,684
Excess of revenue and net nonoperating gains over expenses	-	-	-	-	107,345	107,345
Net increase in capital assets, net	30,550	-	-	-	-	-
Principal payments on long-term debt and capital leases	9,070	-	-	-	-	-
Net transfers to and from unrestricted	39,620	-	(30)	1,411	(41,001)	-
Contributions and grants	-	-	1	-	2,781	2,782
Balance at April 30, 2012	\$ 279,683	\$ -	\$ 1,895	\$ 53,777	\$ 1,028,456	\$ 1,363,811

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

Notes to Financial Statements (continued)

14. Net Assets (continued)

	Invested in Capital Assets, Net of Related Debt	Restricted for Debt Service	Restricted by Donors	Restricted Under Self- Insurance Trust Agreements	Unrestricted	Total Net Assets
Balance at May 1, 2010	\$ 161,357	\$ 10,081	\$ 7,829	\$ 51,070	\$ 902,769	\$ 1,133,106
Excess of revenue and net nonoperating gains over expenses	-	-	-	-	114,801	114,801
Net increase in capital assets, net	69,977	-	-	-	-	-
Principal payments on long-term debt and capital leases	8,729	-	-	-	-	-
Net transfers to and from unrestricted	78,706	(10,081)	(6,703)	1,296	(63,218)	-
Contributions and grants	-	-	798	-	4,979	5,777
Balance at April 30, 2011	<u>\$ 240,063</u>	<u>\$ -</u>	<u>\$ 1,924</u>	<u>\$ 52,366</u>	<u>\$ 959,331</u>	<u>\$ 1,253,684</u>

Required Supplementary Information

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

Schedule of Funding Progress (Unaudited)
(In Thousands)

Year Ended April 30	Actuarial Value of Assets	Actuarial Accrued Liability*	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll
2006	\$ 175,129	\$ 197,500	\$ 22,371	88.7%	\$ 251,197	8.9%
2007	203,113	225,047	21,934	90.3	296,396	7.4
2008	232,328	256,634	24,306	90.5	325,691	7.5
2009	216,838	312,744	95,906	69.3	360,160	26.6
2010	276,000	344,203	68,203	80.2	399,400	17.1
2011	306,235	384,397	78,162	79.7	421,333	18.6
2012	335,264	413,669	78,405	81.1	440,349	17.8

* The Actuarial Accrued Liability for each year ended April 30 is based on a beginning of the year (May 1) valuation projected forward to year-end (April 30).

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

Schedule of Employer Contributions (Unaudited)

Year Ended April 30	Annual Required Contribution*	Percentage Contributed
2006	\$ 14,191,000	100%
2007	17,095,000	100
2008	18,914,000	100
2009	23,615,000	100
2010	28,260,000	100
2011	28,924,000	100
2012	29,899,000	100

* Annual Required Contribution consists of Normal Cost plus amortization of Unfunded Actuarial Accrued Liability (Funding Excess) and expenses as of the end of the year (i.e., interest is incorporated).

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

Notes to Pension Disclosure Required Supplementary
Information (Unaudited)

The information presented in the schedules on pages 64 and 65 included as Pension Disclosure Required Supplementary Information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	May 1, 2011; Liabilities as of April 30, 2012	
Actuarial cost method	Projected Unit Credit Actuarial Cost Method	
Amortization method	Level percent of pay, closed	
Remaining amortization period	Various, ranging from one to 30 years depending on items being amortized – the weighted-average period is 18 years	
Asset valuation method	Five-year smoothing of market value	
Actuarial assumptions:		
Investment rate of return*	7.5%	
Projected salary increases*	Age-based rates based on plan experience	
	<u>Attained Age</u>	<u>Percentage Increase</u>
	Less than 35	6.00%
	35-39	5.75%
	40-44	5.50%
	45-49	5.25%
	50-54	5.00%
	55-59	4.75%
	60 or older	4.50%
Growth in covered payroll for amortization	5.0%	
Cost-of-living adjustments	Not applicable	

*Includes inflation at 2.5%.

Other Financial Information

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

Combining Balance Sheet – System

April 30, 2012
(In Thousands of Dollars)

	Memorial Regional Hospital and Affiliated Providers	Memorial Hospital West	Memorial Hospital Pembroke	Memorial Hospital Miramar	Other Non Hospital Operations, Eliminations	Combined
Assets						
Current assets:						
Cash and cash equivalents	\$ 50	\$ –	\$ –	\$ –	\$ 107,533	\$ 107,583
Investments	–	–	–	–	829,095	829,095
Patient accounts receivable, net	116,180	53,434	12,832	20,557	227	203,230
Ad valorem taxes receivable	–	–	–	–	893	893
Inventories	14,698	5,774	2,004	1,844	760	25,080
Other current assets	41,309	2,424	623	768	17,908	63,032
Total current assets	172,237	61,632	15,459	23,169	956,416	1,228,913
Assets whose use is limited:						
By Board for capital improvements	87,664	–	–	–	313	87,977
By Board for employee disability	–	–	–	–	17,100	17,100
Under self-insurance trust agreements	–	–	–	–	53,778	53,778
Externally restricted by donors	1,895	–	–	–	–	1,895
Total assets whose use is limited	89,559	–	–	–	71,191	160,750
Due from Memorial Healthcare System	–	417,917	–	–	(417,917)	–
Capital assets, net	379,073	174,622	23,049	107,595	154,646	838,985
Deferred charges, net	–	–	–	–	7,040	7,040
Other assets	197	2	118	54	6,285	6,656
Total assets	\$ 641,066	\$ 654,173	\$ 38,626	\$ 130,818	\$ 777,661	\$ 2,242,344

	Memorial Regional				Other Non Hospital	
	Hospital and Affiliated Providers	Memorial Hospital West	Memorial Hospital Pembroke	Memorial Hospital Miramar	Hospital Operations, Eliminations	Combined
Liabilities and net assets						
Current liabilities:						
Accounts payable and accrued expenses	\$ 40,528	\$ 12,270	\$ 10,877	\$ 4,871	\$ 44,388	\$ 112,934
Accrued compensation and payroll taxes	45,213	17,775	6,578	7,628	13,452	90,646
Estimated third-party payor settlements	2,691	2,542	986	4,966	(224)	10,961
Current portion of long-term debt	–	–	–	–	7,585	7,585
Current portion of capital lease obligations	153	33	6	16	1,557	1,765
Current portion of estimated claims liability	–	–	–	–	6,344	6,344
Other current liabilities	2,997	827	352	287	5,762	10,225
Total current liabilities	91,582	33,447	18,799	17,768	78,864	240,460
Due to Memorial Healthcare System	94,259	–	11,369	(5,265)	(100,363)	–
Long-term portion of estimated claims liability	–	–	–	–	30,841	30,841
Other noncurrent liabilities	34,073	14,235	4,300	4,795	10,308	67,711
Long-term portion of capital lease obligations	–	–	–	–	693	693
Long-term debt	–	–	–	–	538,828	538,828
Total liabilities	219,914	47,682	34,468	17,298	559,171	878,533
Net assets:						
Invested in capital assets, net of related debt	378,920	174,589	23,042	107,579	(404,447)	279,683
Restricted:						
For debt service						–
By donors	1,895	–	–	–	–	1,895
Under self-insurance trust agreements	–	–	–	–	53,777	53,777
Unrestricted	40,337	431,902	(18,884)	5,941	569,160	1,028,456
Total net assets	421,152	606,491	4,158	113,520	218,490	1,363,811
Total liabilities and net assets	\$ 641,066	\$ 654,173	\$ 38,626	\$ 130,818	\$ 777,661	\$2,242,344

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

Combining Statement of Revenue and
Expenses and Changes in Net Assets – System

Year Ended April 30, 2012
(In Thousands of Dollars)

	Memorial Regional						
	Hospital and Affiliated Providers	Memorial Hospital West	Memorial Hospital Pembroke	Memorial Hospital Miramar	Other Non Hospital Operations	Eliminations	Combined
Revenue:							
Net patient service revenue	\$ 726,920	\$ 398,540	\$ 105,170	\$ 155,429	\$ 9,890	\$ –	\$ 1,395,949
Other revenue	60,506	13,029	7,931	4,556	24,752	(20,344)	90,430
Total revenue	<u>787,426</u>	<u>411,569</u>	<u>113,101</u>	<u>159,985</u>	<u>34,642</u>	<u>(20,344)</u>	<u>1,486,379</u>
Expenses:							
Salaries and wages	390,824	159,255	56,030	60,953	15,087	(1,424)	680,725
Employee benefits	74,761	30,584	11,287	11,876	3,231	(312)	131,427
Professional fees	28,999	6,166	3,577	2,957	280	–	41,979
Supplies	144,778	66,571	17,239	19,850	2,405	(110)	250,733
Purchased services	45,025	24,320	10,971	8,887	2,899	(1,230)	90,872
Facilities	34,213	12,478	9,484	5,773	5,349	(2,046)	65,251
Depreciation and amortization	64,744	28,268	6,654	10,369	322	(8,645)	101,712
Other	21,503	11,371	3,686	4,329	8,008	(870)	48,027
Total expenses	<u>804,847</u>	<u>339,013</u>	<u>118,928</u>	<u>124,994</u>	<u>37,581</u>	<u>(14,637)</u>	<u>1,410,726</u>
Income (loss) from operations	(17,421)	72,556	(5,827)	34,991	(2,939)	(5,707)	75,653
Non-operating gains (losses), net	8,211	(5,277)	139	(5,141)	28,053	5,707	31,692
Excess (deficiency) of revenues and net non-operating gains over expenses	(9,210)	67,279	(5,688)	29,850	25,114	–	107,345
Contributions and grants	2,667	–	(272)	68	319	–	2,782
Increase (decrease) in net assets	(6,543)	67,279	(5,960)	29,918	25,433	–	110,127
Net assets at the beginning of the year	427,695	539,212	10,118	83,602	193,057	–	1,253,684
Net assets at the end of the year	<u>\$ 421,152</u>	<u>\$ 606,491</u>	<u>\$ 4,158</u>	<u>\$ 113,520</u>	<u>\$ 218,490</u>	<u>\$ –</u>	<u>\$ 1,363,811</u>

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