

**FINANCIAL STATEMENTS,  
REQUIRED SUPPLEMENTARY INFORMATION,  
AND SUPPLEMENTARY INFORMATION**

**South Broward Hospital District  
d/b/a Memorial Healthcare System  
Years Ended April 30, 2018 and 2017  
With Report of Independent Auditors**

Ernst & Young LLP



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

Financial Statements, Required Supplementary Information,  
and Supplementary Information

Years Ended April 30, 2018 and 2017

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## Report of Independent Auditors

The Management and 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 and the aggregate remaining fund information of the South Broward Hospital District d/b/a Memorial Healthcare System (the System) as of and for the years ended April 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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.

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



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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the South Broward Hospital District d/b/a Memorial Healthcare System as of April 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 6 – 17 and the Schedule of Changes in the System's Net Pension Liability and Related Ratios, Schedule of System Contributions – Last 10 Fiscal Years, and Schedule of Investment Returns on pages 83 – 88 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 which 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.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The combining detail information on pages 89 – 94 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining detail information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and



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reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we also have issued our report dated July 18, 2018 on our consideration of the 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 solely 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 effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

*Ernst & Young LLP*

July 18, 2018

## Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and the Board of Commissioners  
South Broward Hospital District  
d/b/a Memorial Healthcare System

We have audited, 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, the financial statements of the business-type activities and aggregate remaining fund information of South Broward Hospital District d/b/a Memorial Healthcare System (the System) as of and for the year ended April 30, 2018, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated July 18, 2018.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

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

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



July 18, 2018

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

**Management's Discussion and Analysis**

April 30, 2018

**Required Financial Statements**

The South Broward Hospital District d/b/a Memorial Healthcare System (the System) operates Memorial Regional Hospital and 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; Memorial Hospital Pembroke, located in Pembroke Pines, Florida; Memorial Hospital West, located in Pembroke Pines, Florida; and Memorial Hospital Miramar, located in Miramar, Florida. The System also operates the 24/7 Care Center and Memorial Manor Nursing Home, both located in Pembroke Pines, Florida. Other components of the System include the Memorial Home Health Services; Memorial Outpatient Pharmacy Services; Memorial Health Network; Memorial Neuroscience Institute; Memorial Rehabilitation Institute; multiple primary care and school health centers located throughout south Broward County; an Urgent Care Center; the Memorial Cancer Institute, with locations on the campus of Memorial Regional Hospital and the campus of Memorial Hospital West, including a partnership with Moffitt Cancer Center; the Memorial Cardiac and Vascular Institute, with locations on the campus of Memorial Regional Hospital and the campus of Memorial Hospital West; a Graduate Medical Education program on the campus of Memorial Hospital West and the Memorial Adult Day Care Center, located within the Memorial Outpatient Center – Hallandale. At April 30, 2018, the System operates a total of 1,938 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 two different funds to account for its activities: an enterprise fund, which combines the business-type activities of the operating fund of the System, and a pension trust fund, which reports information about the plan fiduciary net position and changes in plan fiduciary net position of the System's employees' pension plan. The pension trust fund does not issue separate financial statements; however, it is included as the aggregate remaining fund information of the System.

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 statement of net position includes all of the System's assets, deferred outflows of resources, liabilities and deferred inflows of resources and provides information about the nature

## **Required Financial Statements (continued)**

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.

All of the current year's revenue and expenses are accounted for in the statement of revenues, expenses, and changes in fund net position. This statement communicates the performance of the System's operations over the past year. This statement also provides the basis for computing rate of return, evaluating the capital structure of the System, and assessing the liquidity and financial flexibility of the System.

The final required statement is the statement of cash flows. The primary purpose of this statement is to provide information about the System's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operating, non-capital financing, capital and related financing, and investing 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 net position, 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, 2018 and 2017, and for the years then ended, for the System's business-type activities are derived from the audited financial statements of the System. The data should be read in conjunction with the financial statements, related notes, and supplementary information contained therein.

**Summary of Financial Information (continued)**

*As of and for the Years Ended April 30, 2018 and 2017*

**Condensed Statements of Net Position**

	<b>April 30</b>		<b>Dollar Increase (Decrease)</b>	<b>Percentage Increase (Decrease)</b>
	<b>2018</b>	<b>2017</b>		
<i>(In Thousands)</i>				
Other non-capital assets	<b>\$ 2,516,401</b>	\$ 2,478,303	\$ 38,098	1.5%
Capital assets, net	<b>859,401</b>	801,174	58,227	7.3
Total assets	<b>3,375,802</b>	3,279,477	96,325	2.9
Deferred outflows of resources	<b>109,558</b>	125,158	(15,600)	(12.5)
Total current liabilities	<b>367,552</b>	330,971	36,581	11.1
Long-term debt, net of current portion	<b>752,751</b>	765,559	(12,808)	(1.7)
Total liabilities	<b>1,387,434</b>	1,386,458	976	0.1
Deferred inflows of resources	<b>16,423</b>	1,310	15,113	1,153.7
Unrestricted net position	<b>1,775,241</b>	1,742,388	32,853	1.9
Net investment in capital assets	<b>277,856</b>	207,262	70,594	34.1
Restricted net position	<b>28,406</b>	67,217	(38,811)	(57.7)

## Summary of Financial Information (continued)

	Summary of Revenues, Expenses and Changes in Fund Net Position			
	Year Ended April 30 2018	2017	Dollar Increase (Decrease)	Percentage Increase (Decrease)
<i>(In Thousands)</i>				
Operating revenue:				
Net patient service revenue	\$ 1,893,089	\$ 1,853,614	\$ 39,475	2.1%
Disproportionate share distributions	39,286	33,697	5,589	16.6
Other revenue	82,559	50,280	32,279	64.2
Total operating revenue	<b>2,014,934</b>	1,937,591	77,343	4.0
Operating expenses:				
Salaries and wages	955,765	902,337	53,428	5.9
Employee benefits	179,928	175,135	4,793	2.7
Professional fees	45,306	37,621	7,685	20.4
Supplies	384,040	336,623	47,417	14.1
Purchased services	119,635	113,702	5,933	5.2
Facilities	79,540	73,882	5,658	7.7
Depreciation and amortization	90,213	86,306	3,907	4.5
Other	81,781	74,624	7,157	9.6
Total operating expenses	<b>1,936,208</b>	1,800,230	135,978	7.6
Operating income	<b>78,726</b>	137,361	(58,635)	(42.7)
Nonoperating losses, net (including depreciation of \$2,427 and \$2,284 in 2018 and 2017, respectively)	<b>(16,528)</b>	(5,334)	(11,194)	209.9
Income before capital contributions and grants	<b>62,198</b>	132,027	(69,829)	(52.9)
Capital contributions and grants	<b>2,438</b>	2,111	327	15.5
Increase in net position	<b>64,636</b>	134,138	(69,502)	(51.8)
Net position at the beginning of the year	<b>2,016,867</b>	1,882,729	134,138	7.1
Net position at the end of the year	<b>\$ 2,081,503</b>	\$ 2,016,867	\$ 64,636	3.2%

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

For fiscal year 2018, the System's total operating revenue increased by 4.0%, while operating expenses increased by 7.6%, resulting in operating income decreasing by 42.7% from the prior year of \$137.4 million to approximately \$78.7 million. The System's excess of revenues and net nonoperating losses over expenses decreased from \$132.0 million for the fiscal year ended April 30, 2017, to \$62.2 million for the fiscal year ended April 30, 2018.

Net patient service revenue increased by 2.1% from \$1.854 billion for fiscal year ended April 30, 2017, to \$1.893 billion for the fiscal year ended April 30, 2018. Total admissions for the fiscal years ended April 30, 2017 and 2018, which include both inpatient admissions, as well as observation admissions, were 128,659 and 125,526, respectively, while the acuity of patients as measured by case-mix index increased from 1.46 to 1.50 for the fiscal years ended April 30, 2017 and 2018, respectively. Total surgical volume increased from 41,852 cases to 42,655 cases, or 1.9%, hospital outpatient visits increased from 511,635 to 523,816, or 2.4 %, and emergency visits remained relatively flat from 482,389 to 482,402 for these periods.

Other operating revenue increased, as the System recognized \$50.3 million and \$82.6 million for the years ended April 30, 2017 and 2018, respectively. The increase is primarily attributable to an increase in outpatient pharmacy revenue and the timing of shared savings distributions. Disproportionate share (DSH) distributions increased as a result of state legislature changes to the allocation methodology, offset by federal Medicaid reductions in low income pool (LIP) distributions. DSH and LIP payments were \$33.7 million and \$39.3 million for the years ended April 30, 2017 and 2018, respectively.

Total expenses increased from \$1.800 billion for the fiscal year ended April 30, 2017, to \$1.936 billion for the fiscal year ended April 30, 2018, or 7.6%, as a result of the System's increased volumes, while investing in many strategic initiatives. The increase in salaries and wages, as well as employee benefits, is primarily attributable to the additional staffing needed due to growth in patient volumes and net patient service revenue, as well as the continued growth of the System's employed physician model. The increase in professional fees is due to a new partnership with Moffitt Cancer Center. The increase in supplies expense is directly correlated to the increase in patient volumes, specifically outpatient pharmacy volumes, as well as increasing drug and supply costs due to inflation. The increase in purchased services is due to increased patient and surgical volumes, as well as management services. Facilities expenses increased when compared to the prior year due to routine repairs and maintenance of clinical equipment, as well as routine facility maintenance. Depreciation and amortization increased when compared to the prior year due to the completion of significant capital projects primarily at Memorial Regional Hospital and Memorial Hospital West. Other operating expenses increased due to the timing of shared savings distributions and an increase of professional liability expense, partially offset by a reduction in offsite-parking expense.

## **Management's Discussion of Financial Performance (continued)**

Nonoperating losses, net, increased from a \$5.3 million loss for the fiscal year ended April 30, 2017, to a \$16.5 million loss for the fiscal year ended April 30, 2018, or by \$11.2 million. The System's conservative investment policy, which is further described in Note 5, was impacted unfavorably by interest rates as these investments are held entirely in fixed income securities. This resulted in a \$26.9 million unrealized loss in fiscal year 2018 as compared to a \$15.6 million unrealized loss in fiscal year 2017, a change of \$11.4 million.

The System's Board of Commissioners adopted a millage rate of 0.1496, which is less than the prior year millage rate of 0.1615. In fiscal years 2017 and 2018, the System used the gross tax proceeds solely to offset the cost of the county's Medicaid match, community redevelopment assessment and tax collector fees. No tax dollars were used for the operations of the System's facilities.

Income available for debt service was \$274.3 million and \$216.2 million for the fiscal years ended April 30, 2017 and 2018, respectively. The long-term debt service coverage ratio was 6.30 and 4.96 for the fiscal years ended April 30, 2017 and 2018, 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. During its fiscal year ended April 30, 2018, a ten-percent allocation to global low volatility and defensive equity strategies was approved by the Board. The System is in the process of implementing these allocations. Cash, cash equivalents, and investments, excluding restricted assets, increased from \$1.835 billion at April 30, 2017, to \$1.902 billion at April 30, 2018. Cash, cash equivalents, and investments, including restricted assets, increased from \$2.127 billion at April 30, 2017, to \$2.156 billion at April 30, 2018, as a result of net operating cash flow and a decrease in capital expenditures. Net patient accounts receivable decreased from \$241.2 million at April 30, 2017, to \$231.6 million at April 30, 2018, due to increased volumes with a continued focus on patient collections. Additions to capital assets decreased from \$162.7 million in fiscal year 2017 to \$153.8 million in fiscal year 2018, largely due to the completed construction of a parking garage at Memorial Regional Hospital and a bed tower at Memorial Hospital West. The estimated cost to complete all construction projects in process at April 30, 2018, is \$114.1 million. Refer to Note 6 and Note 8 for further discussion of capital asset and long-term debt activity, respectively.

During the second quarter of the fiscal year, the System's operating performance was impacted by Hurricane Irma. When a hurricane warning is issued, the System pre-positions food, water, fuel, medical supplies and a second shift of personnel, including their family members at its hospitals. During the storm, public safety and first responders are fed at the hospitals. As such, it is customary in these instances for salaries and wages expense, supplies expense and other operating expenses to increase in the fiscal quarters when named storms impact South Florida. Additionally, volumes

## **Management's Discussion of Financial Performance (continued)**

and revenue are also negatively impacted as non-emergent and elective procedures are postponed or cancelled. Furthermore, all facilities were impacted by a storm-related mass casualty incident at a non-affiliated nursing home adjacent to the Memorial Regional Hospital campus.

### **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. Beginning in fiscal year 2015, the System used the gross tax proceeds solely to pay the county's Medicaid match, community redevelopment assessments and the tax collectors' fee.

The financial strength of the System minimizes the tax burden in south Broward County. In both fiscal years 2017 and 2018, net tax revenues accounted for 0.0% of total net revenues. In September 2017, the System's Board of Commissioners voted to reduce the tax millage rate from 0.1615 mills to 0.1496 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.

	<b>Year Ended April 30</b>	
	<b>2018</b>	<b>2017</b>
Medicare	<b>17.5%</b>	17.5%
Medicaid	<b>4.1</b>	4.6
Managed care	<b>64.4</b>	64.2
Other	<b>14.0</b>	13.7
Total	<b>100.0%</b>	100.0%

## **Summary of Financial Information**

*As of and for the Years Ended April 30, 2017 and 2016*

### **Condensed Statements of Net Position**

	<b>April 30</b>		<b>Dollar Increase (Decrease)</b>	<b>Percentage Increase (Decrease)</b>
	<b>2017</b>	<b>2016</b>		
<i>(In Thousands)</i>				
Other non-capital assets	\$ 2,478,303	\$ 2,242,651	\$ 235,652	10.5%
Capital assets, net	801,174	731,030	70,144	9.6
Total assets	3,279,477	2,973,681	305,796	10.3
Deferred outflows of resources	125,158	62,011	63,147	101.8
Total current liabilities	330,971	315,870	15,101	4.8
Long-term debt, net of current portion	765,559	602,664	162,895	27.0
Total liabilities	1,386,458	1,152,963	233,495	20.3
Deferred inflows of resources	1,310	–	1,310	100.0
Unrestricted net position	1,742,388	1,682,418	59,970	3.6
Net investment in capital assets	207,262	128,103	79,159	61.8
Restricted net position	67,217	72,208	(4,991)	(6.9)

## Summary of Financial Information (continued)

	Summary of Revenues, Expenses and Changes in Fund Net Position			
	Year Ended April 30 2017	2016	Dollar Increase (Decrease)	Percentage Increase (Decrease)
<i>(In Thousands)</i>				
Operating revenue:				
Net patient service revenue	\$ 1,853,614	\$ 1,806,556	\$ 47,058	2.6%
Disproportionate share distributions	33,697	46,997	(13,300)	(28.3)
Other revenue	50,280	43,521	6,759	15.5
Total operating revenue	<b>1,937,591</b>	1,897,074	40,517	2.1
Operating expenses:				
Salaries and wages	902,337	842,174	60,163	7.1
Employee benefits	175,135	157,932	17,203	10.9
Professional fees	37,621	44,321	(6,700)	(15.1)
Supplies	336,623	305,412	31,211	10.2
Purchased services	113,702	108,536	5,166	4.8
Facilities	73,882	72,653	1,229	1.7
Depreciation and amortization	86,306	101,225	(14,919)	(14.7)
Other	74,624	69,293	5,331	7.7
Total operating expenses	<b>1,800,230</b>	1,701,546	98,684	5.8
Operating income	<b>137,361</b>	195,528	(58,167)	(29.7)
Nonoperating losses, net (including depreciation of \$2,284 and \$2,125 in 2017 and 2016, respectively)	<b>(5,334)</b>	(7,503)	2,169	(28.9)
Income before capital contributions and grants	<b>132,027</b>	188,025	(55,998)	(29.8)
Capital contributions and grants	<b>2,111</b>	709	1,402	197.7
Increase in net position	<b>134,138</b>	188,734	(54,596)	(28.9)
Net position at the beginning of the year	<b>1,882,729</b>	1,812,044	70,685	3.9
Net impact of GASB Statements No. 68 and No. 71 implementation	—	(118,049)	(118,049)	(100.0)
Net position as restated, beginning of the year	<b>1,882,729</b>	1,693,995	188,734	11.1
Net position at the end of the year	<b>\$ 2,016,867</b>	\$ 1,882,729	\$ 134,138	7.1%

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

For fiscal year 2017, the System's total operating revenue increased by 2.1%, while operating expenses increased by 5.8%, resulting in operating income decreasing by 29.7% from the prior year of \$195.5 million to approximately \$137.4 million. The System's excess of revenues and net nonoperating losses over expenses decreased from \$188.0 million for the fiscal year ended April 30, 2016, to \$132.0 million for the fiscal year ended April 30, 2017.

Net patient service revenue increased by 2.6% from \$1.807 billion for fiscal year ended April 30, 2016, to \$1.854 billion for the fiscal year ended April 30, 2017. Total admissions for the fiscal years ended April 30, 2016 and 2017, which include both inpatient admissions, as well as observation admissions, were 126,961 and 128,659, respectively, while the acuity of patients as measured by case-mix index increased from 1.45 to 1.46 for the fiscal years ended April 30, 2016 and 2017, respectively. Total surgical volume increased from 40,748 cases to 41,852 cases, or 2.7%, hospital outpatient visits increased from 494,505 to 511,635, or 3.5%, and emergency visits increased from 479,778 to 482,389, or 0.5%, for these periods.

Other operating revenue increased, as the System recognized \$43.5 million and \$50.3 million for the years ended April 30, 2016 and 2017, respectively. The increase is primarily attributable to an increase in meaningful use incentive payment revenue, outpatient pharmacy revenue and shared savings distributions. DSH distributions decreased as a result of state reallocations to rates which are reflected in net patient service revenue and offset the DSH decrease. DSH payments were \$47.0 million and \$33.7 million for the years ended April 30, 2016 and 2017, respectively.

Total expenses increased from \$1.702 billion for the fiscal year ended April 30, 2016, to \$1.800 billion for the fiscal year ended April 30, 2017, or 5.8%, as a result of the System's increased volumes, while investing in many strategic initiatives. The increase in salaries and wages, as well as employee benefits, is primarily attributable to the additional staffing needed due to growth in patient volumes and net patient service revenue, as well as the continued growth of the System's employed physician model. The decrease in professional fees is due to favorably renegotiated contracts with outside vendors. The increase in supplies expense is directly correlated to the increase in patient volume, as well as increasing drug and supply costs due to inflation. The moderate increase in purchased services is due to increased patient and surgical volumes. Facilities expenses remained materially consistent when compared to the prior year due to routine repairs and maintenance of clinical equipment, as well as routine facility maintenance, and depreciation and amortization decreased when compared to the prior year due to winding down depreciation

## **Management's Discussion of Financial Performance (continued)**

expense of certain large information technology equipment, partially offset by new capital equipment purchased. Other operating expenses moderately increased due to an increased Florida Agency for Health Care Administration assessment, which is driven by patient revenues, offset by a decrease in professional liability expenses, due to favorable claims activity.

Nonoperating losses, net, decreased from a \$7.5 million loss for the fiscal year ended April 30, 2016, to a \$5.3 million loss for the fiscal year ended April 30, 2017, or by \$2.2 million. The System's conservative investment policy, which is further described in Note 5, was impacted unfavorably by interest rates as these investments are held entirely in fixed income securities. This resulted in a \$15.6 million unrealized loss in fiscal year 2017 as compared to a \$5.8 million unrealized gain in fiscal year 2016, a change of \$21.4 million.

The System's Board of Commissioners adopted a millage rate of 0.1615, which is less than the prior year millage rate of 0.1737. In fiscal years 2016 and 2017, the System used the gross tax proceeds solely to offset the cost of the county's Medicaid match and tax collector fees. No tax dollars were used for the operations of the System's facilities.

Income available for debt service was \$320.8 million and \$274.3 million for the fiscal years ended April 30, 2016 and 2017, respectively. The long-term debt service coverage ratio was 6.58 and 6.30 for the fiscal years ended April 30, 2016 and 2017, 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 restricted assets, increased from \$1.747 billion at April 30, 2016, to \$1.835 billion at April 30, 2017. Cash, cash equivalents, and investments, including restricted assets, increased from \$1.894 billion at April 30, 2016, to \$2.127 billion at April 30, 2017, as a result of excess of revenues and net nonoperating losses over expenses and a decrease in capital expenditures. Net patient accounts receivable increased from \$240.3 million at April 30, 2016, to \$241.2 million at April 30, 2017, due to increased volumes with a continued focus on patient collections. Additions to capital assets increased from \$85.8 million in fiscal year 2016 to \$162.7 million in fiscal year 2017, largely due to the construction of a parking garage at Memorial Regional Hospital and a bed tower at Memorial Hospital West. The estimated cost to complete all construction projects in process at April 30, 2017, is \$190.9 million. Refer to Note 6 and Note 8 for further discussion of capital asset and long-term debt activity, respectively.

## **Management's Discussion of Financial Performance (continued)**

### **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. Beginning in fiscal year 2015, the System used the gross tax proceeds solely to pay the county's Medicaid match community redevelopment assessments and the tax collectors' fee.

The financial strength of the System minimizes the tax burden in south Broward County. In both fiscal years 2016 and 2017, net tax revenues accounted for 0.0% of total net revenues. In September 2016, the System's Board of Commissioners voted to reduce the tax millage rate from 0.1615 mills to 0.1615 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.

	<b>Year Ended April 30</b>	
	<b>2017</b>	<b>2016</b>
Medicare	<b>17.5%</b>	17.1%
Medicaid	<b>4.6</b>	5.2
Managed care	<b>64.2</b>	63.4
Other	<b>13.7</b>	14.3
Total	<b>100.0%</b>	100.0%

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

**Statements of Net Position – System  
(*In Thousands*)**

	<b>April 30</b>	
	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 526,318	\$ 424,558
Investments	1,375,980	1,410,330
Designated investments for capital improvements	2,462	461
Designated investments for employee disability	18,078	18,034
Patient accounts receivable, net of estimated uncollectibles of \$437,747 and \$465,210 at April 30, 2018 and 2017, respectively	231,627	241,175
Ad valorem taxes receivable	114	110
Inventories	37,700	33,919
Other current assets	61,886	50,637
Total current assets	<u>2,254,165</u>	2,179,224
<b>Noncurrent assets</b>		
Investments under self-insurance trust agreements	45,739	49,387
Restricted assets, net of current portion:		
Under indenture agreements	178,406	181,872
Under indenture – project funds	–	35,346
Total restricted assets	<u>178,406</u>	217,218
Capital assets, net	859,401	801,174
Other assets	38,091	32,474
Total assets	<u>\$ 3,375,802</u>	\$ 3,279,477
<b>Deferred outflows of resources</b>		
Unrealized pension contributions	\$ 38,343	\$ 37,295
Unrealized pension losses	31,426	42,758
Changes in pension assumptions	17,392	21,434
Loss on defeasance, net	22,397	23,671
Total deferred outflows of resources	<u>\$ 109,558</u>	\$ 125,158

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

**Statements of Net Position – System (continued)**  
*(In Thousands)*

	<b>April 30</b>	
	<b>2018</b>	<b>2017</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 102,063	\$ 86,155
Accrued compensation and payroll taxes	163,555	149,115
Estimated third-party payor settlements	42,874	35,656
Current installments of long-term debt	11,060	10,285
Current portion of capital lease obligations	743	1,596
Current portion of estimated claims liability	18,045	15,111
Other current liabilities	29,212	33,053
Total current liabilities	<u>367,552</u>	330,971
Long-term portion of estimated claims liability	25,896	21,977
Net pension liability	194,714	219,139
Other noncurrent liabilities	46,512	48,049
Long-term portion of capital lease obligations	9	763
Long-term debt	<u>752,751</u>	765,559
Total liabilities	<u><u>\$ 1,387,434</u></u>	\$ 1,386,458
<b>Deferred inflows of resources</b>		
Unrealized pension gains	\$ 14,635	\$ –
Changes in pension experience	1,788	1,310
Total deferred inflows of resources	<u><u>\$ 16,423</u></u>	\$ 1,310
<b>Net position</b>		
Net investment in capital assets	\$ 277,856	\$ 207,262
Restricted:		
For debt service	28,406	67,217
Unrestricted	<u>1,775,241</u>	1,742,388
Total net position	<u><u>\$ 2,081,503</u></u>	\$ 2,016,867

*See accompanying notes.*

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

**Statements of Revenues, Expenses, and Changes in Fund Net Position – System  
(*In Thousands*)**

	<b>Year Ended April 30</b>	
	<b>2018</b>	<b>2017</b>
Operating revenue:		
Net patient service revenue	\$ 1,893,089	\$ 1,853,614
Disproportionate share distributions	39,286	33,697
Other operating revenues	<u>82,559</u>	50,280
Total operating revenue	<b>2,014,934</b>	1,937,591
Operating expenses:		
Salaries and wages	955,765	902,337
Employee benefits	179,928	175,135
Professional fees	45,306	37,621
Supplies	384,040	336,623
Purchased services	119,635	113,702
Facilities	79,540	73,882
Depreciation and amortization	90,213	86,306
Other	<u>81,781</u>	74,624
Total operating expenses	<b>1,936,208</b>	1,800,230
Operating income	<b>78,726</b>	137,361
Nonoperating losses, net (including depreciation of \$2,430 and \$2,284 for the years ended April 30, 2018 and 2017, respectively)	<b>(16,528)</b>	(5,334)
Income before capital contributions and grants	<b>62,198</b>	132,027
Capital contributions and grants	<b>2,438</b>	2,111
Increase in net position	<b>64,636</b>	134,138
Net position at the beginning of the year	<b>2,016,867</b>	1,882,729
Net position at the end of the year	<b>\$ 2,081,503</b>	\$ 2,016,867

*See accompanying notes.*

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

**Statements of Cash Flows – System  
(*In Thousands*)**

	<b>Year Ended April 30</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>		
Receipts from third-party payors and patients	\$ 1,909,855	\$ 1,853,728
Payments to vendors	(707,593)	(632,706)
Other receipts	113,185	91,035
Payments to employees	(1,086,812)	(1,032,762)
Claims and self-insurance payments	(35,107)	(38,721)
Net cash provided by operating activities	<u>193,528</u>	<u>240,574</u>
<b>Noncapital financing activities</b>		
Contribution and grant receipts	2,439	2,111
Contribution payments	–	200
Ad valorem tax receipts	7,750	7,695
Net cash provided by noncapital financing activities	<u>10,189</u>	<u>10,006</u>
<b>Capital and related financing activities</b>		
Acquisition and construction of capital assets	(149,948)	(160,871)
Principal payments on long-term debt	(12,033)	(296,120)
Principal payments and additions under capital lease obligation	(1,607)	(2,330)
Gross proceeds from issuance of long-term debt	–	450,055
Interest payments on long-term debt	(30,156)	(33,223)
Net cash used in capital and related financing activities	<u>(193,744)</u>	<u>(42,489)</u>
<b>Investing activities</b>		
Proceeds from sales, maturities, or repayment of investments	1,810,680	2,002,604
Cost of investments acquired	(1,739,380)	(2,195,536)
Investment income received	17,022	26,879
Change in funding balance trustee accounts, including 2016A bond proceeds	3,465	(162,689)
Net cash provided by (used in) investing activities	<u>91,787</u>	<u>(328,742)</u>
Net change in cash and cash equivalents	101,760	(120,651)
Cash and cash equivalents at beginning of year	424,558	545,209
Cash and cash equivalents at end of year	<u>\$ 526,318</u>	<u>\$ 424,558</u>

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

**Statements of Cash Flows – System (continued)**  
*(In Thousands)*

	<b>Year Ended April 30</b>	
	<b>2018</b>	<b>2017</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 78,726	\$ 137,361
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	90,214	86,306
Provision for doubtful accounts	503,972	511,963
Loss on disposal of capital assets	904	3,356
Changes in operating assets and liabilities:		
Patient accounts receivable	(494,424)	(512,866)
Other current assets and inventories	(16,306)	5,449
Other assets	(5,617)	(3,578)
Accounts payable and accrued expenses	6,638	(2,533)
Accrued compensation and payroll taxes	14,440	7,980
Estimated third-party payor settlements	7,218	1,017
Other current liabilities	(3,841)	1,378
Other liabilities	(25,962)	59,579
Net pension liability and related deferred outflows and inflows	30,713	(52,243)
Estimated claims liability	6,853	(2,595)
Net cash provided by operating activities	<b>\$ 193,528</b>	<b>\$ 240,574</b>

*See accompanying notes.*

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

**Statements of Fiduciary Net Position – Pension Trust Fund**  
*(In Thousands)*

	<b>April 30</b>	
	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Investments:		
SEC-registered money market funds	\$ 11,557	\$ 10,157
Equities	84,342	80,066
U.S. government and agency obligations	111,405	106,871
Corporate debt	63,344	36,134
Commercial mortgage securities	4,789	9,140
Collateralized mortgage obligations	13,403	1,491
Asset-backed securities	1,801	5,794
Municipal bonds	7,954	7,309
Pacific life floating rate income fund	26,346	–
Vanguard total stock market exchange traded fund	66,049	59,402
iShares S&P 500 exchange traded fund	29,719	28,813
International investments:		
Equities	70,116	73,323
Dodge & Cox Global Stock Fund	110,416	101,541
Vanguard Global Minimum Volatility Fund	25,531	–
U.S. and global bonds in a commingled fund	–	40,482
Total investments	<b>626,772</b>	<b>560,523</b>
Receivables:		
Due from broker for investment sold	<b>494</b>	<b>1,151</b>
Total receivables	<b>494</b>	<b>1,151</b>
Total assets	<b>627,266</b>	<b>561,674</b>
<b>Liabilities and net position restricted for pensions</b>		
Total liabilities	<b>–</b>	<b>–</b>
Net position restricted for pensions	<b>\$ 627,266</b>	<b>\$ 561,674</b>

*See accompanying notes.*

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

Statements of Changes in Fiduciary Net Position – Pension Trust Fund  
*(In Thousands)*

	<b>Year Ended April 30</b>	
	<b>2018</b>	<b>2017</b>
<b>Additions</b>		
Contributions:		
Employer pension contributions	\$ 38,343	\$ 37,295
Investment income:		
Net appreciation in fair value of investments	37,034	39,467
Interest and dividends	12,713	15,428
Less investment expense	(1,461)	(1,715)
Net investment income	<u>48,286</u>	<u>53,180</u>
Total additions	<b>86,629</b>	<b>90,475</b>
 Deductions:		
Benefit payments	20,812	18,572
Administrative expenses	225	261
Total deductions	<u>21,037</u>	<u>18,833</u>
Net increase in net position	<b>65,592</b>	<b>71,642</b>
 Net position restricted for pensions:		
Beginning of year	<b>561,674</b>	490,032
End of year	<u>\$ 627,266</u>	<u>\$ 561,674</u>

*See accompanying notes.*

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

**Notes to Financial Statements**

April 30, 2018

**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 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; Memorial Hospital Pembroke, located in Pembroke Pines, Florida; Memorial Hospital West, located in Pembroke Pines, Florida; and Memorial Hospital Miramar, located in Miramar, Florida. The System also operates the 24/7 Care Center and Memorial Manor Nursing Home, both located in Pembroke Pines, Florida. Other components of the System include the Memorial Home Health Services; Memorial Outpatient Pharmacy Services; Memorial Health Network; Memorial Neuroscience Institute; Memorial Rehabilitation Institute; multiple primary care and school health centers located throughout south Broward County; an Urgent Care Center; the Memorial Cancer Institute, with locations on the campus of Memorial Regional Hospital and the campus of Memorial Hospital West, including a partnership with Moffitt Cancer Center; the Memorial Cardiac and Vascular Institute, with locations on the campus of Memorial Regional Hospital and the campus of Memorial Hospital West; a Graduate Medical Education program on the campus of Memorial Hospital West and the Memorial Adult Day Care Center, located within the Memorial Outpatient Center – Hallandale. At April 30, 2018, the System operates a total of 1,938 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, deferred outflows, liabilities, deferred inflows, net position, revenue, and expenses, as appropriate.

The System is accounted for in an enterprise fund that consists of unrestricted net position, restricted net position, and net investment in capital assets. The enterprise fund is used to account for the System's ongoing business-type 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 pension trust fund is a fiduciary fund used to account for the assets held in trust 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). Wells Fargo Bank, N.A. and TransAmerica Retirement Solutions, LLC hold the Plan's assets in custody accounts on behalf of the trust.

**Basis of Accounting**

The System utilizes the accrual basis of accounting, whereby revenues are recognized as they are earned and expenses are recognized when the related obligation is incurred.

**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 restricted assets, to be cash equivalents.

**Investments**

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

*Fair Value of Investments*

As of May 1, 2016, the System was required to adopt GASB Statement No. 72, *Fair Value Measurement and Application*. The System categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1*: Unadjusted quoted prices for identical investments in active markets;
- *Level 2*: Observable inputs other than quoted market prices; and,
- *Level 3*: Unobservable inputs.

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 Assets**

Restricted assets include resources restricted to a specific period or purpose.

Descriptions of the various funds are as follows:

*Under indenture agreements* – represents the principal and interest amount due for debt service payment on the 2009, 2015, 2016, 2016A and 2017 outstanding bonds.

*Under indenture project funds* – restricted for construction additions and improvements on the 2015 outstanding bond.

**Investments Under Self-insurance Trust Agreements**

These represent the assets invested to fund the workers' compensation, professional liability, and health and dental self-insurance.

**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.

**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 7 to 40 years and for equipment range from 3 to 10 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 that 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 \$1,500 or greater.

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

Notes to Financial Statements (continued)

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

**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.

**Income Taxes**

The System is exempt from income taxes as it is a political subdivision of the State of Florida (the State). It also has dual status as a tax-exempt entity under Internal Revenue Code Section 501(a) as an entity described in Section 501(c)(3).

As a result of the recent federal income tax reform enacted into law under the Tax Cuts and Jobs Act of 2017, certain provisions will impact tax-exempt organizations, including revisions to taxes on unrelated business activities, excise taxes on compensation of certain employees, and various other provisions. The regulations necessary to implement the law are expected to be promulgated throughout 2018 and the ultimate outcome of these regulations and the impact to the System cannot be determined presently. The System will continue to review and assess the impact of the legislation to the financial statements, but does not expect that the impact will be material.

**Statements of Revenues, Expenses, and Changes in Fund Net Position**

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.

**Charity Care**

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

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

Notes to Financial Statements (continued)

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

**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.

**Disproportionate Share Distributions**

The Agency for Health Care Administration (AHCA) distributes LIP and DSH payments to the System based in part on the System's indigent care service level. The System's policy is to recognize these distributions as revenue when amounts are due and collection is reasonably assured. The receipt of any additional distributions is contingent upon the continued support by the State Legislature.

**Pensions**

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

**New Accounting Pronouncements**

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

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

Notes to Financial Statements (continued)

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

*Amendment of GASB Statement No. 14.* The requirements of GASB Statement No. 80 are effective for reporting periods beginning after June 15, 2016. The adoption of this statement does not have a material impact on the financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities* (GASB Statement No. 84), which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on: (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The system has not elected to implement this statement early; the system is still evaluating the potential impacts of this statement.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* (GASB Statement No. 86), which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. 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 2017, the GASB issued Statement No. 87, *Leases* (GASB Statement No. 87), which provides guidance for lease contracts for nonfinancial assets – including vehicles, heavy equipment, and buildings – but excludes nonexchange transactions, including donated assets, and leases of intangible assets (such as patents and software licenses). The lease definition now focuses on a contract that conveys control of the right to use another entity's non-financial asset, which is referred to in the new Statement as the underlying asset. Under Statement 87, a lessee government is required to recognize: (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. A lessor government is required to recognize: (1) a lease receivable

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

Notes to Financial Statements (continued)

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

and (2) a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements. The requirements of the statement are effective for reporting periods beginning after December 15, 2019, with earlier application encouraged. The System has not elected to implement this statement early. The System is still evaluating the potential impacts of this statement.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB Statement No. 88), which provides guidance to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. GASB Statement No. 88 requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of the statement are effective for reporting periods beginning after June 15, 2018, with earlier 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 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB Statement No. 89) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The requirements of the Statement are effective for reporting periods beginning after December 15, 2019, with earlier application encouraged and should be applied prospectively. The System has not elected to implement this statement early; however, the System is still evaluating the potential impacts of this statement.

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 statement of revenues, expenses, and changes in fund net position. The following information measures the level of uncompensated care provided during the years ended April 30, 2018 and 2017 (in thousands).

	<b>2018</b>	<b>2017</b>
Uncompensated care, based on established rates	\$ <b>860,559</b>	\$ 859,408
Percentage of uncompensated care patients to all patients served based upon total charges	<b>7.4%</b>	8.0%

For the years ended April 30, 2018 and 2017, uncompensated care includes approximately \$356,587,000 and \$347,445,000 of charges forgone for services provided under the System's charity care policy, respectively. Using the System's average ratio of cost to charges, the cost of charity care provided was approximately \$59,329,000 and \$58,473,000 for the years ended April 30, 2018 and 2017.

## **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.

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

**Notes to Financial Statements (continued)**

**3. Net Patient Service Revenue (continued)**

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 2015 for all facilities. Audit fieldwork has been completed for 2016, and final settlement amounts have been determined based on audit adjustments received. Medicare program beneficiaries accounted for approximately 17.5% of the System's gross patient charges in both fiscal years 2018 and 2017.

Inpatient and outpatient services rendered to Medicaid program beneficiaries were reimbursed under a cost-based prospective payment formula through June 30, 2013. Effective July 1, 2017, Medicaid outpatient services are reimbursed utilizing the 3M Enhanced Ambulatory Patient Group methodology. The System's Medicaid cost reports have been audited by the Medicaid Administrative Contractor through 2010 for all facilities.

Florida obtained a waiver from the Centers for Medicare and Medicaid Services to allow enrollment of nearly all Medicaid eligible individuals in managed care plans, such as health maintenance organizations (HMOs) and Provider Sponsored Networks in order to implement a statewide Medicaid Managed Medical Assistance program. This program has resulted in a substantial shift out of fee-for-service Medicaid utilization into managed care utilization. Medicaid program beneficiaries accounted for approximately 4.1% and 4.6% of the System's gross patient charges in fiscal years 2018 and 2017, respectively.

There were no material differences between original estimates and subsequent revisions, including final settlements, in fiscal years 2018 and 2017.

**Insurance and Other**

The System has entered into payment agreements with certain commercial insurance carriers, HMOs, 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 gross patient charges and the contractually established rates, for the above programs, is accounted for as contractual adjustments. The System's gross patient charges, charity care write-offs, provision for doubtful accounts, and contractual adjustments for the years ended April 30, 2018 and 2017 are as follows (in thousands):

	<b>2018</b>	<b>2017</b>
Gross patient charges	<b>\$ 11,637,300</b>	\$ 10,696,857
Charity care	(356,587)	(347,445)
Provision for doubtful accounts	(503,972)	(511,963)
Contractual adjustments	(8,883,652)	(7,983,835)
Net patient service revenue	<b>\$ 1,893,089</b>	\$ 1,853,614

**4. Other Funding Sources**

The System receives funding from various components of the State Medicaid program, including the LIP and Medicaid rate enhancements. The State's LIP distributes funding to the System in support of programs that provide coverage for uninsured and underinsured patients. The LIP is a federal matching program that provides the State with the opportunity to receive additional distributions based upon a fixed annual pool of approximately \$1.5 billion distributed by the State based on a measure of charity care compared to commercially insured business.

Total revenue recognized by the System from LIP and DSH funding was approximately \$39,286,000 and \$33,697,000 for the years ended April 30, 2018 and 2017, respectively and is reported as disproportionate share distributions in the accompanying statements of revenues, expenses, and changes in fund net position.

**5. Cash, Cash Equivalents, and Investments**

The book value of the System's unrestricted bank accounts is approximately \$105,647,000 and \$172,322,000 at April 30, 2018 and 2017, respectively. These bank accounts are insured by a combination of federal depository insurance and a collateral pool pledged to the State Treasurer by financial institutions, which comply with the requirements of Florida Statutes and have been designated as qualified public deposits by the State Treasurer.

South Broward Hospital District  
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Notes to Financial Statements (continued)

**5. Cash, Cash Equivalents, and Investments (continued)**

The current portion of restricted assets of approximately \$8,845,000 and \$6,902,000 at April 30, 2018 and 2017, respectively, is included in other current assets in the accompanying statement of net position.

**Cash Equivalents and Investments**

At April 30, 2018 and 2017, the System's cash equivalents and investments, including restricted assets, are as follows (in thousands):

	<b>Fair Value</b>	
	<b>2018</b>	<b>2017</b>
Unrestricted cash equivalents	\$ 420,671	\$ 252,236
Unrestricted investments	1,375,980	1,410,330
Designated investments	20,540	18,495
Assets whose use is limited:		
Investments under self-insurance trust agreements	54,584	56,289
Restricted assets:		
Under bond indentures	178,406	217,218
	<b>\$ 2,050,181</b>	<b>\$ 1,954,568</b>

**Fair Value Measurements**

As of May 1, 2016, the System was required to adopt GASB No. 72. The System categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the inputs used in valuation and gives the highest priority to unadjusted quoted prices in active markets and requires that observable inputs be used in the valuation when available. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuations are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, to unobservable inputs.

Level 1: Valuations based on unadjusted quoted prices for identical instruments in active markets that the System has the ability to access.

South Broward Hospital District  
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Notes to Financial Statements (continued)

**5. Cash, Cash Equivalents, and Investments (continued)**

Level 2: Valuations based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments that are not active; and model-driven valuations in which all significant inputs are observable.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

In instances where inputs used to measure fair value fall into different levels, fair value measurement in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these measurements requires judgement and considers factors specific to each investment. The tables below show the fair value leveling of the System's cash equivalents and investments as of April 30, 2018 and 2017.

	<b>2018</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash equivalents and SEC-registered money market funds	\$ 33,006	\$ 39,525	\$ —	\$ 72,531
U.S. Treasuries	609,799	40,366	—	650,165
U.S. agencies	203,915	178,660	—	382,575
U.S. agency mortgage bonds	—	287,957	—	287,957
Asset-backed securities	20,765	125,353	—	146,118
Commercial paper	—	96,883	—	96,883
Corporate debt	51,819	238,349	—	290,168
Municipal securities	—	67,394	—	67,394
Supranational bonds	—	1,303	—	1,303
Equity mutual fund	—	55,087	—	55,087
	<b>\$ 919,304</b>	<b>\$ 1,130,877</b>	<b>\$ —</b>	<b>\$ 2,050,181</b>

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

Notes to Financial Statements (continued)

**5. Cash, Cash Equivalents, and Investments (continued)**

	<b>2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash equivalents and SEC-registered money market funds	\$ 53,804	\$ 33,635	\$ —	\$ 87,439
U.S. Treasuries	570,150	30,039	—	600,189
U.S. agencies	201,348	188,308	—	389,656
U.S. agency mortgage bonds	—	277,891	—	277,891
Asset-backed securities	19,219	125,200	—	144,419
Commercial paper	4,996	85,310	—	90,306
Corporate debt	55,956	241,006	—	296,962
Municipal securities	—	67,706	—	67,706
Supranational bonds	—	—	—	—
Equity mutual fund	—	—	—	—
	<b>\$ 905,473</b>	<b>\$ 1,049,095</b>	<b>\$ —</b>	<b>\$ 1,954,568</b>

The System's investment policy identifies investment objectives and strategic allocation targets for these objectives. During its fiscal year ended April 30, 2018, a 10% allocation to global low volatility and defensive equity strategies was approved by the Board. The System is in the process of implementing these allocations.

**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 fixed income investment portfolio into pools with identified asset allocation percentages that attempt to match its liquidity requirements. Investments of bond reserves, construction funds, and other indenture-restricted funds have maturities set in accordance with the relevant documents.

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

Notes to Financial Statements (continued)

**5. Cash, Cash Equivalents, and Investments (continued)**

At April 30, 2018, the System had the following investments with the respective effective durations with fair value in thousands and effective duration in years.

	<b>2018</b>	
	<b>Fair Value</b>	<b>Effective Duration</b>
Cash equivalents and SEC-registered money market funds	\$ 72,531	N/A
U.S. Treasuries	650,165	0.50
U.S. agencies	382,574	0.42
U.S. agency mortgage bonds	287,957	0.46
Asset-backed securities	146,118	0.07
Commercial paper	96,883	0.00
Corporate debt	290,169	0.37
Municipal securities	67,394	0.10
Supranational bonds	1,303	0.00
Equity mutual fund	55,087	N/A
	<hr/> <u>\$ 2,050,181</u>	<hr/> <u>1.92</u>

**Credit Risk**

The System's investment policy authorizes the following instruments for investment in money market and fixed income securities: (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 following manner: Moody's Investor Services (Moody's); Standard & Poor's (S&P); A1+ or A1; Fitch, F1+ or F1 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 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 three highest

South Broward Hospital District  
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Notes to Financial Statements (continued)

**5. Cash, Cash Equivalents, and Investments (continued)**

classifications of at least two nationally recognized debt rating agencies or be secured by a letter of credit provided by a commercial bank rated as described above; notwithstanding each investment manager will maintain an average portfolio credit quality of AA, (8) repurchase agreements and reverse repurchase agreements entered into with a member bank of the Federal Reserve System or a primary dealer in U.S. 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 Exchange Commission (SEC)-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 of 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 as described in the relevant Indentures; (4) registered money market funds rated in the two highest rating categories by S&P and Moody's; (5) commercial paper rated Prime-1 by Moody's and A-1 or better by S&P; (6) municipal securities rated in the two highest rating categories by S&P and Moody's; (7) repurchase agreements; (8) investment agreements, including Guaranteed Investment Certificates acceptable to any credit facility provider, forward purchase agreements, and reserve fund put agreements; and (9) 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  
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Notes to Financial Statements (continued)

**5. Cash, Cash Equivalents, and Investments (continued)**

At April 30, 2018, the System's investment securities have the following credit ratings as shown below (in thousands):

	<b>2018</b>	<b>Credit</b>
	<b>Fair Value</b>	<b>Rating*</b>
Cash equivalents and SEC-registered money market funds	\$ 72,531	AAA
U.S. Treasuries	650,165	AA+
U.S. agency discount notes	56,225	AA+
U.S. agencies	326,349	AA+
U.S. agency mortgage bonds	287,564	AA+
U.S. agency mortgage bonds	393	AA
Asset-backed securities	136,081	AAA
Asset-backed securities	9,074	AA+
Asset-backed securities	963	A
Commercial paper	96,883	A-1
Corporate debt	8,237	AAA
Corporate debt	9,277	AA+
Corporate debt	10,567	AA
Corporate debt	35,926	AA-
Corporate debt	48,129	A+
Corporate debt	88,168	A
Corporate debt	72,325	A-
Corporate debt	17,312	BBB+
Corporate debt	228	BBB
Municipal securities	32,133	AAA
Municipal securities	19,781	AA+
Municipal securities	11,012	AA
Municipal securities	4,468	AA-
Supranational bonds	1,303	AAA
Equity mutual fund	55,087	Not rated
	<b><u>\$ 2,050,181</u></b>	

\*S&P's ratings or comparable

South Broward Hospital District  
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Notes to Financial Statements (continued)

**5. Cash, Cash Equivalents, and Investments (continued)**

**Concentration of Credit Risk**

The System's investment policy has established asset allocation and issuer limitations on the following money market and fixed 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, maximum maturity of 180 days from date of purchase, 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 the total of the lesser of 15% of the financial institution's capital or net worth or \$20 million and maximum maturity of one year. The financial institution must be a Qualified Public Depository.

*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 the 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 ten years.

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

Notes to Financial Statements (continued)

**5. Cash, Cash Equivalents, and Investments (continued)**

*Repurchase/reverse repurchase agreements.* Maximum term of six months and subject to Public Securities Association 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.

*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 ten 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.

At April 30, 2018, investments in any one issuer representing 5% or more of the System's total investments are as follows: \$236,737,317 (11.5%) invested in issues of the Federal National Mortgage Association and \$155,841,300 (7.6%) invested in issues of the Federal Home Loan Mortgage Corporation. The System's investment policy does not have an issuer limitation for U.S. Treasury securities.

**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 are 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, 2018 and 2017, 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.

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

**Notes to Financial Statements (continued)**

**6. Capital Assets**

A summary of the activity in the capital assets and the related accumulated depreciation accounts is as follows (in thousands):

	<b>Balance at May 1, 2017</b>	<b>Additions</b>	<b>Transfers</b>	<b>Deletions</b>	<b>Balance at April 30, 2018</b>
Land improvements	\$ 26,509	\$ 5	\$ 3,248	\$ –	\$ 29,762
Buildings and improvements	1,129,346	2,606	112,673	(4,417)	1,240,208
Equipment	658,420	16,866	34,516	(21,864)	687,938
Depreciable assets	1,814,275	19,477	150,437	(26,281)	1,957,908
Accumulated depreciation	(1,147,792)	(92,654)		23,522	(1,216,924)
Net depreciable assets	666,483	(73,177)	150,437	(2,759)	740,984
Land	38,648	1,551	–	–	40,199
Construction in progress	96,043	132,822	(150,437)	(210)	78,218
Capital assets, net	<u>\$ 801,174</u>	<u>\$ 61,196</u>	<u>\$ –</u>	<u>\$ (2,969)</u>	<u>\$ 859,401</u>

The System is currently engaged in expansion projects at its facilities. The estimated cost to complete all construction projects in process at April 30, 2018, is approximately \$114.1 million.

**7. 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 certain risks internally and set aside assets for possible claim settlements. Commercial insurance is procured to cover its property, commissioners and officers, accidents, and vehicles.

The System, as a subdivision of the State, has sovereign immunity in tort actions. Therefore, in accordance with Chapter 768.28 of the Florida Statutes, for claims with occurrence dates subsequent to October 1, 2011, the System is not liable to pay a claim or judgment by any one person that exceeds the sum of \$200,000 or any claim or judgment, or portions thereof that 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)

## **7. Self-Insurance (continued)**

Chapter 768.28 of the Florida Statutes 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 State Legislature. In addition, the System has \$18 million in excess insurance coverage, with a \$2 million self-insured retention, to cover any damages rendered against it as a result of the passage of a claims bill.

The System's management estimates and accrues for the cost of unreported claims based on historical data and actuarial projections. The estimated claims liability has been discounted based on an interest rate of 1.25% for professional liability and 1.25% for workman's compensation at both April 30, 2018 and 2017. 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 losses, net, in the statement of revenues, expenses, and changes in fund net position and are retained as part of the fund. A rollforward of the System's claims liability for self-insurance claims is as follows (in thousands):

<b>Year Ended April 30</b>	<b>Liability at Beginning of Year</b>	<b>New Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>Liability at End of Year</b>	<b>Estimated Amount Due Within One Year</b>
2016	\$ 38,264	\$ 43,210	\$ (41,791)	\$ 39,683	\$ 15,157
2017	39,683	36,126	(38,721)	37,088	15,111
2018	<b>37,088</b>	<b>41,960</b>	<b>(35,107)</b>	<b>43,941</b>	<b>18,045</b>

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

**Notes to Financial Statements (continued)**

**8. Long-Term Debt**

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

	<b>2018</b>	<b>2017</b>
Series 2017 Hospital Revenue and Refunding Revenue Bonds – \$101,420 authorized and issued: Serial Bonds, interest rates of 3.25% to 5.00%, maturing in amounts ranging from \$3,835 to \$15,305 through May 1, 2032	\$ <b>101,420</b>	\$ 101,420
Unamortized premium, net	<b>101,420</b>	101,420
Unamortized bond underwriter discount, net	<b>11,959</b>	12,814
	<b>(431)</b>	(461)
	<b>112,948</b>	113,773
Series 2016A Hospital Revenue and Refunding Revenue Bonds – \$160,620 authorized and issued: Serial Bonds, interest rates of 3.375% to 4.00%, maturing in amounts ranging from \$11,235 to \$20,435 through May 1, 2040		
3.50% Term Bond due May 1, 2039	<b>11,235</b>	11,235
4.00% Term Bond due May 1, 2044	<b>38,825</b>	38,825
	<b>110,560</b>	110,560
	<b>160,620</b>	160,620
Unamortized premium, net	<b>2,277</b>	2,365
Unamortized bond underwriter discount, net	<b>(796)</b>	(827)
	<b>162,101</b>	162,158
Series 2016 Hospital Revenue and Refunding Revenue Bonds – \$173,040 authorized and issued: Serial Bonds, interest rates of 2.75% to 5.00%, maturing in amounts ranging from \$2,135 to \$24,070 through May 1, 2037		
Unamortized premium, net	<b>169,525</b>	173,040
Unamortized bond underwriter discount, net	<b>169,525</b>	173,040
	<b>12,326</b>	12,942
	<b>(1,029)</b>	(1,081)
	<b>180,822</b>	184,901

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

**Notes to Financial Statements (continued)**

**8. Long-Term Debt (continued)**

	<b>2018</b>	<b>2017</b>
Series 2015 Hospital Revenue and Refunding Revenue Bonds – \$154,905 authorized and issued: Serial Bonds, interest rates of 3.00% to 5.00%, maturing in amounts ranging from \$3,955 to \$7,915 through May 1, 2037	\$ <b>119,045</b>	\$ 125,415
4.00% Term Bond due May 1, 2040	<b>9,560</b>	9,560
4.00% Term Bond due May 1, 2045	<b>18,735</b>	18,735
	<b>147,340</b>	153,710
Unamortized premium, net	<b>9,739</b>	10,098
Unamortized bond underwriter discount, net	<b>(1,539)</b>	(1,596)
	<b>155,540</b>	162,212
Series 2009 Hospital Revenue Bonds – \$150,000 authorized and issued:		
6.978% Term Bond due May 1, 2039	–	–
7.278% Term Bond due May 1, 2044	–	–
Advance refunded on crossover basis due May 1, 2019	<b>150,000</b>	150,000
	<b>150,000</b>	150,000
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%.	<b>2,400</b>	2,800
Total debt	<b>763,811</b>	775,844
Less current portion	<b>(11,060)</b>	(10,285)
Long-term portion	<b>\$ 752,751</b>	\$ 765,559

During 2018 and 2017, interest cost of approximately \$1,811,000 and \$1,350,000, respectively was capitalized. During 2018 and 2017, interest earned on invested Revenue Certificates and bond proceeds was \$11,000 and \$1,000 and is netted against capitalized interest. Capitalized interest is included in capital assets.

The Revenue Bonds are secured by gross patient charges and certain pledge funds and have been issued as parity debt under the Master Trust Indenture (the Master Indenture) dated as of September 1, 2003.

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

Notes to Financial Statements (continued)

**8. Long-Term Debt (continued)**

The Master Indenture provides that the System becomes part of an obligated group. 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 patient charges of the obligated group 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.

On October 28, 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 will be eligible, subject to certain conditions, to receive cash subsidy payments from the U.S. Department of the Treasury equal to 35% of the interest payable on the Series 2009 Bonds. As more fully described below, the Series 2009 Bonds were advance refunded with the Series 2016A Hospital Revenue Refunding Bonds (Series 2016A Bonds) utilizing a cross-over structure in order to preserve the cash subsidy payments from the U.S. Department of the Treasury through the May 1, 2019 call date.

On April 14, 2015, Series 2015 Bonds were issued in the amount of \$154,905,000 to provide funds to: (1) refund and redeem a portion of the Series 2006 Bonds; (2) acquire, construct, renovate, and equip certain of its health care facilities, including reimbursement of certain moneys advanced prior to issuance; and (3) pay certain costs of issuance. The Series 2015 Bonds were issued as fixed rate bonds and are callable on or after May 1, 2025, at par, without premium.

The System completed the advance refunding of a portion of its Series 2006 Bonds as a part of the Series 2015 Bonds to reduce its total debt service payments. On a matched-maturity basis, the cash flow savings, not including the funds held in related bond debt service accounts, was approximately \$8,169,000.

The computations performed in accordance with GASB Codification Section D20, *Debt Extinguishments and Troubled Debt Restructuring*, for the refunding of the Series 2006 Bonds resulted in a loss on defeasance of approximately \$5,975,000. At April 30, 2018 and 2017, the unamortized value of the deferred amount was approximately \$5,160,000 and \$5,432,000,

South Broward Hospital District  
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Notes to Financial Statements (continued)

**8. Long-Term Debt (continued)**

respectively, which is included in loss on defeasance, net in the accompanying statements of net position. The deferred amount is being charged to operations through the year 2037 using a straight-line interest amortization method.

On June 29, 2016, Series 2016 Bonds were issued in the amount of \$173,040,000 to provide funds to: (1) refund and redeem the remaining Series 2006 Bonds; (2) advance refund all of the Series 2008 Bonds and (3) pay certain costs of issuance. The Series 2016 Bonds were issued as fixed rate bonds and are callable on or after May 1, 2026, at par, without premium.

The System completed the refunding of the remaining outstanding Series 2006 Bonds and the advance refunding of the Series 2008 Bonds with the Series 2016 Bonds to reduce its total debt service payments. On a matched-maturity basis, the present value of the cash flow savings was approximately \$29,725,000.

The computations performed in accordance with GASB Statement No. 65 for the refunding of the Series 2006 and advance refunding of the 2008 Bonds resulted in a loss on defeasance of approximately \$15,936,000. At April 30, 2018 and 2017, the unamortized value of the deferred amount was approximately \$14,403,000 and \$15,203,000, respectively, which is included in loss on defeasance, net in the accompanying statements of net position. The deferred amount is being charged to operations through the year 2036 using a straight-line interest amortization method.

On November 10, 2016, the Series 2016A Bonds were issued in the amount of \$160,620,000 to advance refund, on a cross-over basis, all of the Series 2009 Bonds and to pay certain costs of issuance. The cross-over structure was used in order to preserve the cash subsidy payments from the U.S. Department of the Treasury through the May 1, 2019 call date. The Series 2009 Bonds will remain outstanding until May 1, 2019. The Series 2009 Escrow Fund, shown as a Restricted Asset on the statements of net position, is funded to pay interest on the Series 2016A Bonds through May 1, 2019 and redeem all of the \$150,000,000 Series 2009 Bonds on May 1, 2019. The System completed the cross-over refunding of the Series 2009 to reduce its total debt service payments. On a matched-maturity basis, the net present value cash flow savings was approximately \$10,512,000.

On March 8, 2017, the Series 2017 Bonds were issued in the amount of \$101,420,000 to provide funds to refund and redeem the Series 2007 Bonds and to pay certain costs of issuance. The Series 2017 Bonds were issued as fixed rate bonds and are callable on or after May 1, 2027, at par, without

South Broward Hospital District  
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Notes to Financial Statements (continued)

**8. Long-Term Debt (continued)**

premium. The System completed the refunding of its Series 2007 Bonds to reduce its total debt service payments. On a matched-maturity basis, the net present value cash flow savings, not including the funds held in related bond debt service accounts, was approximately \$15,145,000.

The computations performed in accordance with GASB Statement No. 65 for the refunding of the Series 2007 Bonds resulted in a loss on defeasance of approximately \$3,070,000. At April 30, 2018 and 2017, the unamortized value of the deferred amount was approximately \$2,834,000 and \$3,037,000, respectively, which is included in loss on defeasance, net in the accompanying statements of net position. The deferred amount is being charged to operations through the year 2032 using a straight-line interest amortization method.

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

Years ending April 30:	<b>Principal</b>	<b>Interest Payments</b>	<b>Total Debt Service</b>
2019	\$ 11,060	\$ 30,411	\$ 41,471*
2020	161,170	26,230	187,400*
2021	11,665	22,025	33,690
2022	12,185	21,429	33,614
2023	11,860	20,828	32,688
2024–2028	84,755	93,598	178,353
2029–2033	120,450	69,948	190,398
2034–2038	140,480	45,680	186,160
2039–2043	119,190	23,775	142,965
2044–2049	58,490	2,604	61,094
	<b>\$ 731,305</b>	<b>\$ 356,528</b>	<b>\$ 1,087,833</b>

\* Includes Series 2009 Bond principal, which was fully refunded by the Series 2016A Bonds as described previously in this note and related Series 2009 Bond interest. Proceeds from refunding are held in an irrevocable escrow located within Restricted Assets – Under Indenture Agreements on the Statement of Net Position.

South Broward Hospital District  
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Notes to Financial Statements (continued)

**8. Long-Term Debt (continued)**

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

	<b>Year Ended April 30</b>	
	<b>2018</b>	<b>2017</b>
Balance at beginning of year	\$ 775,844	\$ 612,314
Issuance of long-term debt, including premiums and/or discounts	—	460,832
Principal payments on long-term debt	(10,285)	(296,120)
Amortization of premiums or discounts	(1,748)	(1,182)
Balance at end of year	<u>\$ 763,811</u>	<u>\$ 775,844</u>

**9. Employer Pension Disclosures**

**Plan Description**

The System administers the Retirement Plan for Employees of the South Broward Hospital District. The Plan is a single employer, noncontributory defined benefit pension plan covering substantially all full-time regular employees that were hired on or before October 31, 2011. Effective November 1, 2011, the Plan was closed to new hires and rehires. The Plan does not issue a stand-alone financial report; however, it is reported as a pension trust fund in the financial statements of the System. The Board of Commissioners of the South Broward Hospital District (the Board) has the authority to establish and amend the benefit provisions of the Plan. The Board consists of seven members who are appointed by the Governor of Florida.

**Benefits Provided**

Retirement benefits are based on employees' years and completed months of continuous service from date of employment to date of termination and average compensation during the highest consecutive 60-month period in the last 120 months preceding termination or retirement. Employees become eligible for normal retirement based on the attainment of a specified age ranging from 55 to 65 years and years of credited service ranging from 5 to 30 years. Early and late retirement options are available subject to certain conditions.

South Broward Hospital District  
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Notes to Financial Statements (continued)

## **9. Employer Pension Disclosures (continued)**

Effective May 1, 2014, the Plan was amended to: (1) permit lump-sum distributions to participants when the actuarial equivalent present value of the retirement benefit is not greater than \$50,000 and the participant has not begun receiving a monthly retirement benefit; (2) permit the Plan to distribute to the participant (if elected) or into an eligible retirement plan (if the participant does not make an election) the actuarial equivalent present value of a participant's benefit when it exceeds \$1,000 but does not exceed \$5,000; and (3) distribute the actuarial equivalent present value of a participant's benefit that is \$1,000 or less as soon as administratively practical following the participant's date of termination.

### **Funding Policy**

The Plan's funding policy provides for actuarially determined amounts, which, together with investment earnings, are sufficient to fund the Plan. There are no employee contributions. The Plan's funding policy provides for actuarially determined periodic contributions that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The portion of the actuarially determined contribution for normal cost is determined using the projected unit credit actuarial funding method with proration based on service. The actuary uses the level dollar method to amortize the unfunded liability over the average future working lifetime of active participants which is 10 years as of May 1, 2016. The same amortization method is used for experience gains or losses, changes in benefits, or changes in actuarial assumptions. The actuarial value of assets uses a five-year smoothing for investment gains and losses. The annual required contributions to the Plan during the fiscal years ended April 30, 2018 and 2017 of \$38,342,636 and \$37,294,768 were made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of May 1, 2017 and 2016, respectively. During the fiscal years ended April 30, 2018 and 2017, contributions as a percentage of covered payroll was 10.4% and 9.63%, respectively.

Listed below is information regarding plan membership or employees covered by the benefit terms:

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

Notes to Financial Statements (continued)

**9. Employer Pension Disclosures (continued)**

Participant data as of April 30, 2018 and 2017 is as follows:

	<b>2018</b>	<b>2017</b>
Active plan members or employees	<b>4,946</b>	5,405
Inactive plan members or employees or beneficiaries currently receiving benefits	<b>1,845</b>	1,693
Inactive plan members or employees entitled to but not yet receiving benefits	<b>3,275</b>	3,124
Total	<b>10,066</b>	10,222

**Net Pension Liability**

The net pension liability of the System reported, as of April 30, 2018 and 2017, was measured as of April 30, 2017 and 2016, respectively. The total pension liability reported by the System as of April 30, 2018 and 2017 is based on the liability determined using May 1, 2016 and 2015 census data and a May 1, 2016 and 2015 valuation date using update procedures to roll forward to the measurement date of April 30, 2017 and 2016, respectively.

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

Notes to Financial Statements (continued)

**9. Employer Pension Disclosures (continued)**

The following schedule presents the change in net pension liability reporting for the System for the fiscal years ended April 30, 2018 and 2017 (in thousands):

	<b>2018</b>	<b>2017</b>
<b>Total pension liability</b>		
Service cost	\$ 17,460	\$ 17,579
Interest	48,950	45,777
Differences between expected and actual experience	(926)	(1,572)
Changes in assumptions	305	25,721
Benefit payments	<u>(18,572)</u>	<u>(16,302)</u>
Net change in total pension liability	47,217	71,203
Total pension liability – beginning	709,171	637,968
Total pension liability – ending (a)	<u>\$ 756,388</u>	<u>\$ 709,171</u>
<b>Plan fiduciary net position</b>		
Contributions – employer	\$ 37,295	\$ 37,649
Net investment income (loss)	53,180	(9,762)
Benefit payments	<u>(18,572)</u>	<u>(16,302)</u>
Administrative expense	<u>(261)</u>	<u>(236)</u>
Net change in plan fiduciary net position	71,642	11,349
Plan fiduciary net position – beginning	490,032	478,683
Plan fiduciary net position – ending (b)	<u>\$ 561,674</u>	<u>\$ 490,032</u>
Plan's net pension liability – ending (a) – (b)	<u>\$ 194,714</u>	<u>\$ 219,139</u>

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources**

The System recorded \$43.4 million and \$44.9 million in pension expense for the fiscal years ended April 30, 2018 and 2017, respectively, which is included in employee benefits in the accompanying statements of revenues, expenses, and changes in fund net position.

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

**Notes to Financial Statements (continued)**

**9. Employer Pension Disclosures (continued)**

The following schedule presents information about the pension-related deferred outflows of resources and deferred inflows of resources at April 30 (in thousands):

	<b>Deferred Outflows of Resources</b>	
	<b>2018</b>	<b>2017</b>
Net difference between projected and actual changes in population	\$ -	\$ -
Employer's contribution to the plan subsequent to the measurement date of the net pension liability	<b>38,343</b>	37,295
Changes in assumptions	<b>31,426</b>	21,434
Net difference between projected and actual earnings on pension plan investments	<b>17,392</b>	42,758
Total deferred outflows of resources	<b>\$ 87,161</b>	\$ 101,487

	<b>Deferred Inflows of Resources</b>	
	<b>2018</b>	<b>2017</b>
Net difference between projected and actual changes in population	\$ 1,788	\$ 1,310
Net difference between projected and actual earnings on pension plan investments	<b>14,635</b>	-
Total deferred inflows of resources	<b>\$ 16,423</b>	\$ 1,310

The following schedule presents the future amortization of pension-related deferred outflows of resources and deferred inflows of resources, excluding the balance attributable to the employer's contribution to the Plan in the current fiscal year and subsequent to the net pension liability measurement date. The difference between projected and actual earnings on pension investment is recorded in pension expense over a five-year period. The difference between the change in assumptions relating to the discount rate of 7.0% from 7.5% is recorded in pension expense over a six-year period. The difference between expected and actual experience is recorded in pension expense over a six-year period.

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

Notes to Financial Statements (continued)

**9. Employer Pension Disclosures (continued)**

The employer's contribution to the Plan reported by the System in the fiscal years ended April 30, 2018 and 2017 will be reported as a reduction in the net pension liability in the next fiscal year. Other amounts reported as deferred outflows of resources related to the Plan will be recognized in pension expense for the fiscal years ending April 30 as follows (in thousands):

	Deferred Outflows – Change in Assumptions	Deferred Outflows – Changes in Investments	Deferred Inflows – Changes in Experience	Deferred Inflows – Change in Investments
2019	\$ 11,332	\$ 4,348	\$ 447	\$ 3,659
2020	11,332	4,348	447	3,659
2021	8,762	4,348	447	3,659
2022	–	4,348	447	3,658
Total	\$ 31,426	\$ 17,392	\$ 1,788	\$ 14,635

**Actuarial Methods and Assumptions**

The System recognizes annual Pension expense and Net pension liability in accordance with GASB Statements No. 68 and No. 71 based on information obtained from the annual actuarial report.

Annual actuarial amounts for reporting are calculated using the entry age normal cost method for April 30, 2018 and 2017.

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

Notes to Financial Statements (continued)

**9. Employer Pension Disclosures (continued)**

System actuarial methods and assumptions as of measurement date of April 30, 2017 are as follows:

The assumptions used to measure the total pension liability of the System as of the measurement date of April 30, 2017 based on an actuarial valuation date of May 1, 2016 rolled forward to April 30, 2017, using update procedures, include a discount rate of 7.0% per year, an inflation assumption of 2.5% per year and age-graded select and ultimate salary increases based on actual plan experience starting at 4.5%, grading down to 3.0% based on age for 2016, starting at 5.5%, grading down to 4.0% based on age for 2021 and later. Mortality rates were based on the RP-2014 Employee/Annuitant Mortality tables for males and females with the Scale MP-2014 backed out to 2006 and projected forward from 2006 generationally using Scale BB (male).

Significant assumptions used in the May 1, 2016 valuation, with a measurement date of April 30, 2017, for the system used for financial reporting for the fiscal year ended April 2018, under GASB Statements No. 67 and No. 68 were based on the results of various actuarial experience studies performed over the last five years.

Valuation date	May 1, 2016; liabilities were projected from May 1, 2016 to April 30, 2017
Actuarial cost method	Entry age normal actuarial cost method for the total pension liability under GASB Statements No. 67 and No. 68.
Asset valuation method	Fair market value for fiduciary net position used to determine net pension liability under GASB Statements No. 67 and No. 68.
Long-term expected rate of return	7.0%
Mortality rates	Mortality rates were based on the RP-2014 Employee and Annuitant Mortality tables for males and females with the Scale MP-2014 backed out to 2006 and projected forward from 2006 generationally using Scale BB (male).

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

Notes to Financial Statements (continued)

**9. Employer Pension Disclosures (continued)**

Projected salary increases\*      Age-based rates based on plan experience starting with the rates below and increasing 0.25% per year until 2020, where they remain constant thereafter. All increases in rates through 2020 are reflected in the May 1, 2016 valuation.

<b>Attained Age</b>	<b>Percentage Increase</b>
Less than 35	4.50%
35–39	4.25
40–44	4.00
45–49	3.75
50–54	3.50
55–59	3.25
60 or older	3.00

Cost of living adjustments      Not applicable

\*Includes inflation at 2.5%

System actuarial methods and assumptions as of measurement date of April 30, 2016 are as follows:

The assumptions used to measure the total pension liability of the System as of the measurement date of April 30, 2016 based on an actuarial valuation date of May 1, 2015 rolled forward to April 30, 2016, using update procedures, include a discount rate of 7.0% per year, an inflation assumption of 2.5% per year and age-graded select and ultimate salary increases based on actual plan experience starting at 4.25% to 2.75% based on age for 2015, increasing to 5.5% to 4.0% based on age for 2020 and later. Mortality rates were based on the RP-2014 Employee and Annuitant Mortality tables for males and females with the Scale MP-2014 backed out to 2006 and projected forward from 2006 generationally using Scale BB (male).

South Broward Hospital District  
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Notes to Financial Statements (continued)

**9. Employer Pension Disclosures (continued)**

Significant assumptions used in the May 1, 2015 valuation date, with a measurement date of April 30, 2016 for the System used for financial reporting for the fiscal year ended April 30, 2017 under GASB Statements No. 67 and No. 68 were based on the results of various actuarial experience studies performed over the last five years.

Valuation date	May 1, 2015; liabilities were projected from May 1, 2015 to April 30, 2016
Actuarial cost method	Entry age normal actuarial cost method for the total pension liability under GASB Statements No. 67 and No. 68.
Asset valuation method	Fair market value for fiduciary net position used to determine net pension liability under GASB Statements No. 67 and No. 68.
Long-term expected rate of return	7.0%
Mortality rates	Mortality rates were based on the RP-2014 Employee and Annuitant Mortality tables for males and females with the Scale MP-2014 backed out to 2006 and projected forward from 2006 generationally using Scale BB (male).

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

Notes to Financial Statements (continued)

**9. Employer Pension Disclosures (continued)**

Projected salary increases\*      Age-based rates based on plan experience starting with the rates below and increasing 0.25% per year until 2020, where they remain constant thereafter. All increases in rates through 2020 are reflected in the May 1, 2014 valuation.

<u>Attained Age</u>	<u>Percentage Increase</u>
Less than 35	4.25%
35–39	4.00
40–44	3.75
45–49	3.50
50–54	3.25
55–59	3.00
60 or older	2.75

Cost of living adjustments      Not applicable

\*Includes inflation at 2.5%

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

Notes to Financial Statements (continued)

## **9. Employer Pension Disclosures (continued)**

### **Investment Policy**

The Board adopted an investment policy for the Plan that adheres to the investment guidelines and permissible investments outlined in Florida Statutes, Title XIV, Chapters 215.44 and 215.47. The investment policy has target percentages for certain asset classes and permits variances of +/- 5% as an allowable range. The Board and its Finance Committee uses an independent registered financial advisor to assist in monitoring investment activities, investment policy formulation and investment manager selection. The following was the Board's adopted target percentage allocation policy as of April 30, 2017 and 2016:

Asset Class	2017	2016
	Target Allocation	
Domestic equity	<b>15.0%</b>	-%
Global equity:		
Value	<b>12.5</b>	27.5
Growth	<b>27.5</b>	27.5
Fixed income:		
U.S. fixed income – core	<b>25.0</b>	25.0
Global bonds – U.S. dollar	<b>5.0</b>	5.0
Global bonds – non-U.S. dollar	<b>5.0</b>	5.0
Alternative investments:		
Long/short equity hedge funds	–	10.0
Defensive equity strategy	<b>10.0</b>	–
Total plan	<b>100.0%</b>	100.0%

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

- *Domestic Equity:* The following list of investments may be purchased in the Domestic equity portfolio: common and preferred stock; securities convertible into common stock, including 144a stock limited to 10% of the portfolio; warrants; American Depository Receipts; no-load mutual funds, bank, trust or insurance company pooled funds, cash and cash equivalents; exchange traded funds and initial public offerings. Large and small

South Broward Hospital District  
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Notes to Financial Statements (continued)

**9. Employer Pension Disclosures (continued)**

capitalization companies and defensive or enhanced indexing strategies utilizing domestic large cap equity index funds in combination with futures and swaps are included as domestic equities.

- *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 ACWI Index). The exceptions 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 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.
- *Fixed income:* The following list of investments may be purchased in the fixed-income portfolios: U.S. Treasury obligations, Treasury inflation protected bonds, government agencies and government sponsored agency debentures and mortgage pass-through; mortgage-backed To-Be-Announced (TBA) 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; 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; and U.S. dollar global bonds and non-U.S. dollar global bonds, limited to 5% each (10% total) 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.

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

Notes to Financial Statements (continued)

**9. Employer Pension Disclosures (continued)**

- *Alternative investments – long/short equity hedge fund:* A hedge fund refers to an investment or strategy that is not a long-only portfolio of traditional equity. The Plan will generally invest in strategies that have at least yearly liquidity and reasonable levels of transparency. The Plan liquidated its investment in the long/short equity hedge fund during the fiscal year ended April 30, 2017.
- *Alternative investments – commingled funds:* The Plan invests in U.S. and global bonds through a commingled fund that is considered an alternative investment vehicle under Chapter 215.44, Florida Statutes. The Plan considers this investment to be a component of its fixed income allocation. The Plan liquidated the global bond commingled fund in Fiscal 2018.

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position used to compute the System's net pension liability as of April 30, 2018 and 2017 is available in the separately issued financial statements of the System for the years ended April 30, 2017 and 2016, which include the pension trust fund at <http://www.mhs.net/pdf/Fiscal-Year-2017-audited-financial-statements-May-April-30.pdf>.

**Expected Rate of Return**

The projected long-term real rate of return on pension plan investments valued at April 30, 2017 and 2016 was determined using a model of current capital market simulations. It is designed to simulate a wide range of plausible scenarios of future capital market performance over a 20-year time period. It reflects the capital market conditions prevailing at the start date of the simulation. The long-term rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

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

**Notes to Financial Statements (continued)**

**9. Employer Pension Disclosures (continued)**

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the largest asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of April 30 2017 and 2016, (see discussion of the Plan's investment policy) are summarized in the following table:

<b>Asset Class</b>	<b>2017</b>		<b>2016</b>	
	<b>Target Percent</b>	<b>Long-Term Expected Rate of Return</b>	<b>Target Percent</b>	<b>Long-Term Expected Rate of Return</b>
U.S. stocks	<b>30.0%</b>	<b>7.3%</b>	27.5%	7.2%
BarCap aggregate bonds	<b>25.0</b>	<b>3.7</b>	17.5	3.6
Large cap stocks	<b>20.0</b>	<b>7.3</b>	7.5	7.2
International stocks	<b>10.0</b>	<b>7.3</b>	22.5	7.3
Emerging market stocks	<b>5.0</b>	<b>7.8</b>	5.0	7.8
Hedge fund of funds	<b>5.0</b>	<b>5.7</b>	5.0	5.6
High-yield bonds	<b>5.0</b>	<b>4.9</b>	5.0	4.9
Long high quality bonds	—	<b>0.0</b>	5.0	4.2
International bonds	—	<b>2.4</b>	2.5	2.7
Private equity	—	<b>0.0</b>	2.5	8.3
Total Plan	<b>100.0%</b>		<b>100.0%</b>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.0%, valued as of April 30, 2017 and 2016. The projection of cash flows used to determine the discount rate assumed that employer contributions are made at 100% of the annual actuarial determined value and that future contributions will be made in the same manner. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan participants. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The Florida Statutes require the System to make an actuarially-determined contribution

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

Notes to Financial Statements (continued)

**9. Employer Pension Disclosures (continued)**

to the Plan each year. Thus, as long as the System continues to fund the Plan based on the contributions, the Plan will remain adequately funded. Actuaries perform a valuation on census data and asset information every year as of May 1st. The annual valuation includes a contribution amount that the System funds each year. An alternative method applies for the System due to the Florida Statutes, requiring that the System fund an actuarially determined dollar amount of contribution each year. As long as the System remains financially able to make the contributions each year, there will not likely be a point in time where the fund runs out of money and cannot make the benefit payments.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the sensitivity of the net pension liability calculation to a 1.0% increase and a 1.0% decrease in the discount rate used to measure the total pension liability as of April 30, 2017 and 2016, as reported by the System as of April 30, 2018 and 2017, respectively (in thousands):

	<b>April 30, 2018</b>		
	<b>Current</b>		
	<b>1% Decrease</b> <b>(6.0%)</b>	<b>Discount Rate</b> <b>(7.0%)</b>	<b>1% Increase</b> <b>(8.0%)</b>
Net pension liability	\$ 304,700	\$ 194,714	\$ 103,961
<hr/>			
	<b>April 30, 2017</b>		
	<b>Current</b>		
	<b>1% Decrease</b> <b>(6.0%)</b>	<b>Discount Rate</b> <b>(7.0%)</b>	<b>1% Increase</b> <b>(8.0%)</b>
Net pension liability	\$ 324,430	\$ 219,139	\$ 132,681

South Broward Hospital District  
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Notes to Financial Statements (continued)

**10. Pension Plan Disclosures**

The net pension liability of the Plan as of April 30, 2018 to be reported by the System as of April 30, 2019 was measured as of April 30, 2018. The total pension liability of the Plan as of April 30, 2018 is based on the liability determined using May 1, 2017 census data and a May 1, 2017 valuation date using update procedures to roll forward to the measurement date of April 30, 2018.

The components of the net pension liability of the Plan as of April 30, 2018 and 2017 were as follows (in thousands):

	<b>2018</b>	<b>2017</b>
<b>Net pension liability</b>		
Total pension liability	\$ 805,585	\$ 756,388
Plan fiduciary net position	(627,266)	(561,674)
Net pension liability	<u>\$ 178,319</u>	<u>\$ 194,714</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77.9%</u>	<u>74.3%</u>

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

Notes to Financial Statements (continued)

**10. Pension Plan Disclosures (continued)**

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the sensitivity of the net pension liability calculation to a 1.0% increase and a 1.0% decrease in the discount rate used to measure the total pension liability as of April 30, 2018 and 2017 (in thousands):

	<u>April 30, 2018</u>		
	Current		
	<b>1% Decrease</b> <b>(6.0%)</b>	<b>Discount Rate</b> <b>(7.0%)</b>	<b>1% Increase</b> <b>(8.0%)</b>
Net pension liability	\$ 292,205	\$ 178,319	\$ 84,046
<u>April 30, 2017</u>			
	Current		
	<b>1% Decrease</b> <b>(6.0%)</b>	<b>Discount Rate</b> <b>(7.0%)</b>	<b>1% Increase</b> <b>(8.0%)</b>
	\$ 304,700	\$ 194,714	\$ 103,961

**Actuarial Methods and Assumptions**

Annual actuarial amounts for reporting are calculated using the entry age normal cost method.

The assumptions used to measure the total pension liability of the Plan as of the measurement date of April 30, 2018 based on an actuarial valuation date of May 1, 2017 rolled forward to April 30, 2018, using update procedures, include a discount rate of 7.0% per year, an inflation assumption of 2.5% per year and age-graded select and ultimate salary increases based on actual plan experience starting at 4.75% to 3.25% based on age for 2016, increasing to 5.5% to 4.0% based on age for 2021 and later. Mortality rates were based on the RP-2014 Employee/Annuitant Mortality tables for males and females with the Scale MP-2014 backed out to 2006 and projected forward from 2006 generationally using Scale BB (male).

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

Notes to Financial Statements (continued)

**10. Pension Plan Disclosures (continued)**

Significant assumptions used in the May 1, 2017 valuation, with a measurement date of April 30, 2018 under GASB Statement No. 67 were based on the results of various actuarial experience studies performed over the last five years.

Valuation date	May 1, 2017; liabilities were projected from May 1, 2017 to April 30, 2018
Actuarial cost method	Entry age normal actuarial cost method for the total pension liability under GASB Statements No. 67 and No. 68.
Asset valuation method	Fair market value for fiduciary net position used to determine net pension liability under GASB Statements No. 67 and No. 68.
Long-term expected rate of return	7.0%
Mortality rates	Mortality rates were based on the RP-2014 Employee and Annuitant Mortality tables for males and females with the Scale MP-2014 backed out to 2006 and projected forward from 2006 generationally using Scale BB (male).
Projected salary increases*	Age-based rates based on plan experience starting with the rates below and increasing 0.25% per year until 2020, where they remain constant thereafter. All increases in rates through 2020 are reflected in the May 1, 2017 valuation.

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

Notes to Financial Statements (continued)

**10. Pension Plan Disclosures (continued)**

<u>Attained Age</u>	<u>Percentage Increase</u>
Less than 35	4.75%
35–39	4.50
40–44	4.25
45–49	4.00
50–54	3.75
55–59	3.50
60 or older	3.25
Cost of living adjustments	Not applicable

\*Includes inflation at 2.5%

**Termination and Retirement Rates**

As part of the demographic assumption studies performed every three to five years, to ensure that assumptions are still appropriate for the population, a study of termination and retirement rates was performed. The results of this study were not significant to the Plan valuations.

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

Notes to Financial Statements (continued)

## **10. Pension Plan Disclosures (continued)**

### **Investment Policy**

The Board adopted an investment policy for the Plan that adheres to the investment guidelines and permissible investments outlined in Florida Statutes, Title XIV, Chapters 215.44 and 215.47. The investment policy has target percentages for certain asset classes and permits variances of +/- 5% as an allowable range. The Board and its Finance Committee use an independent registered financial advisor to assist in monitoring investment activities, investment policy formulation and investment manager selection. The following was the Board's adopted target percentage allocation policy as of April 30, 2018:

<b>Asset Class</b>	<b>Target Allocation</b>
Domestic equity:	
All capitalizations	30.0%
Defensive Equity Strategy	10.0
Global equity:	
Value	10.0
Growth	10.0
Emerging markets	5.0
Low volatility	5.0
Fixed income:	
U.S. fixed income – core	20.0
U.S. high yield	5.0
Senior secured bank loans	5.0
Global bonds – U.S. dollar	–
Global bonds – non-U.S. dollar	–
Total plan	<u>100.0%</u>

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

Notes to Financial Statements (continued)

**10. Pension Plan Disclosures (continued)**

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

*Domestic Equity:* The following list of investments may be purchased in the Domestic equity portfolio: common and preferred stock; securities convertible into common stock including 144a stock limited to 10% of the portfolio; warrants; American Depository Receipts; no-load mutual funds, bank, trust or insurance company pooled funds; cash and cash equivalents, exchange traded funds and initial public offerings. Large and small capitalization companies and defensive or enhanced indexing strategies utilizing domestic large cap equity index funds in combination with futures and swaps are included as domestic equities.

- *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 ACWI Index). The exceptions 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 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.
- *Fixed income:* The following list of investments may be purchased in the fixed-income portfolios: U.S. Treasury obligations, Treasury inflation protected bonds, government agencies and government sponsored agency debentures and mortgage pass-through; mortgage-backed To-Be-Announced (TBA) 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;

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

Notes to Financial Statements (continued)

**10. Pension Plan Disclosures (continued)**

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; and U.S. dollar global bonds and non-U.S. dollar global bonds, limited to 5% each (10% total) 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. During the fiscal year ended April 30, 2018, the Board approved investments in U.S. high yield bonds and senior secured bank loans. The allocation to U.S. high yield bonds is approved under the Florida statutory provision 215.47(6) that permits investments deemed appropriate by the Board up to a 5% allocation. The allocation to senior secured bank loans was funded with the purchase of a listed mutual fund.

- *Alternative investments – commingled funds:* The Plan invests in U.S. and global bonds through a commingled fund that is considered an alternative investment vehicle under Chapter 215.44, Florida Statutes. The Plan considers this investment to be a component of its fixed income allocation. The Plan liquidated its investment in the global bond commingled fund during the fiscal year ended April 30, 2018.

The following are the key controls which the Finance Committee and Board utilize to mitigate investment risk:

**Interest rate risk:** The investment policy limits holdings in the Plan based on investment type, credit rating, maturity and duration and entrusts external investment managers to execute transactions on a discretionary basis in accordance with the parameters described in the investment policy.

**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, 2018 and 2017, the Plan's investment portfolio was held by a single third-party custodian.

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

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

Notes to Financial Statements (continued)

**10. Pension Plan Disclosures (continued)**

**Foreign currency risk:** 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 bonds and equities.

**Rate of Return**

For the fiscal years ended April 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.5%. The money-weighted rate of return is used to express investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Discount Rate**

The discount rate used to measure the total pension liability as of April 30, 2018 and 2017 of the Plan was 7.0%. The projection of cash flows used to determine the discount rate and assumed that employer contributions are made at 100% of the annual actuarial determined value and that future contributions will be made in the same manner. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan participants. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The Florida Statutes require the System to make an actuarially-determined contribution to the Plan each year. Thus, as long as the System continues to fund the Plan based on the contributions, the Plan will remain adequately funded. The valuation includes the annual contribution amount that the System funds each year. An alternative method applies for the System due to the Florida Statutes, requiring that the System fund an actuarially determined dollar amount of contribution each year. As long as the System remains financially able to make the contributions each year, there will never be a point in time where the fund runs out of money and cannot make the benefit payments.

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

Notes to Financial Statements (continued)

## **10. Pension Plan Disclosures (continued)**

### **Expected Rate of Return**

The projected long-term real rate of return on pension plan investments valued at April 30, 2018 and 2017 was determined using a model of current capital market simulations. It is designed to simulate a wide range of plausible scenarios of future capital market performance over a 20-year time period. It reflects the capital market conditions prevailing at the start date of the simulation. The long-term rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the largest asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	2018	
	Target Percent	Long-Term Expected Rate of Return
U.S. stocks	30.0%	7.3%
BarCap aggregate bonds	20.0	3.9
Large cap stocks	—	7.3
International stocks	20.0	7.3
Emerging market stocks	5.0	7.8
Hedge fund of funds	10.0	5.8
High-yield bonds	5.0	5.0
Long high quality bonds	—	N/A
International bonds	—	N/A
Global low volatility equity	5.0	N/A
Senior secured bank loans	5.0	N/A
Private equity	—	N/A
Total Plan	<u>100.0%</u>	

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

Notes to Financial Statements (continued)

**10. Pension Plan Disclosures (continued)**

**Fair Value Measurements – Pension Plan Assets**

As of May 1, 2016, the System was required to adopt GASB No. 72, *Fair Value Measurement and Application*, including with respect to the investments held by the pension plan.

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the inputs used in valuation and gives the highest priority to unadjusted quoted prices in active markets and requires that observable inputs be used in the valuation when available. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuations are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, to unobservable inputs.

Level 1: Valuations based on unadjusted quoted prices for identical instruments in active markets that the System has the ability to access.

Level 2: Valuations based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments that are not active, and model-driven valuations in which all significant inputs are observable.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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

**Notes to Financial Statements (continued)**

**10. Pension Plan Disclosures (continued)**

In instances where inputs used to measure fair value fall into different levels, fair value measurements in their entirety are categorized based on the lowest level of input that is significant to the valuation. The System's assessment of the significance of particular inputs to these measurements requires judgment and considers factors specific to each investment. The tables below show the fair value leveling of the Plan's investments as of April 30 (in thousands):

	2018			
	Level 1	Level 2	Level 3	Total
<b>Investments</b>				
Domestic investments:				
SEC-registered money market funds	\$ 11,557	\$ —	\$ —	\$ 11,557
Equities	84,342	—	—	84,342
U.S. equity exchange traded funds	95,768	—	—	95,860
U.S. treasuries	36,619	38,624	—	75,243
U.S. agencies	—	684	—	684
U.S. agency mortgage bonds	—	35,478	—	35,478
Corporate debt	23,952	39,392	—	63,344
Commercial mortgage securities	—	4,789	—	4,789
Asset-backed securities	—	1,801	—	1,801
Collateralized mortgage obligations	—	13,403	—	13,403
Municipal bonds	—	7,954	—	7,954
Pacific Life Floating Rate Income Fund	26,346	—	—	26,346
International investments:				
Equities	70,116	—	—	70,116
Dodge & Cox Global Stock Fund	110,416	—	—	110,416
Vanguard Global Minimum Volatility Fund	25,531	—	—	25,531
Other	—	—	494	402
	<b>\$ 484,647</b>	<b>\$ 142,125</b>	<b>\$ 494</b>	<b>\$ 627,266</b>

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

**Notes to Financial Statements (continued)**

**10. Pension Plan Disclosures (continued)**

	2017			
	Level 1	Level 2	Level 3	Total
<b>Investments</b>				
Domestic investments:				
SEC-registered money market funds	\$ 10,157	\$ —	\$ —	\$ 10,157
Equities	80,066	—	—	80,066
U.S. equity exchange traded funds	88,215	—	—	88,215
U.S. treasuries	68,887	—	—	68,887
U.S. agencies	—	1,179	—	1,179
U.S. agency mortgage bonds	—	36,805	—	36,805
Corporate debt	—	36,134	—	36,134
Commercial mortgage securities	—	9,140	—	9,140
Asset-backed securities	—	5,794	—	5,794
Collateralized mortgage obligations	—	1,491	—	1,491
Municipal bonds	—	7,309	—	7,309
International investments:				
Equities	73,323	—	—	73,323
Dodge & Cox Global Stock Fund	101,541	—	—	101,541
Alternative investments:				
U.S. and global bonds in a commingled fund	—	40,482	—	40,482
Other	—	—	1,151	1,151
	<u>\$ 422,189</u>	<u>\$ 138,334</u>	<u>\$ 1,151</u>	<u>\$ 561,674</u>

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

**Notes to Financial Statements (continued)**

**10. Pension Plan Disclosures (continued)**

**Interest Rate Risk**

At April 30, 2018, the Plan had the following investments with the respective effective durations. (Fair value is in thousands and effective duration is in years).

<b>Investments</b>	<b>2018</b>	
	<b>Fair Value</b>	<b>Effective Duration</b>
Domestic investments:		
SEC-registered money market funds	\$ 11,557	–
Equities	84,342	N/A
U.S. equity exchange traded funds	95,768	N/A
U.S. treasuries	75,243	3.40
U.S. agencies	684	1.42
U.S. agency mortgage bonds	35,478	5.52
Corporate debt	63,344	5.28
Commercial mortgage securities	4,789	4.84
Collateralized mortgage obligations	13,403	4.42
Asset-backed securities	1,801	2.24
Municipal bonds	7,954	7.74
Pacific Life Floating Rate Income Fund	26,346	N/A
International investments:		
Equities	70,116	N/A
Dodge & Cox Global Stock Fund	110,416	N/A
Vanguard Global Minimum Volatility Fund	25,531	N/A
Other	494	N/A
	<hr/> <u>\$ 627,266</u>	

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

**Notes to Financial Statements (continued)**

**10. Pension Plan Disclosures (continued)**

At April 30, 2018, the Plan's investment securities have the following credit ratings as shown below (in thousands):

<b>Investments</b>	<b>2018</b>	
	<b>Fair Value</b>	<b>Credit Rating*</b>
Domestic investments:		
SEC-registered money market mutual funds	\$ 11,557	AAA
Equities	84,342	Not rated
U.S. equity exchange traded funds	95,768	Not rated
U.S. Treasuries	75,243	AA+
U.S. agencies	684	AA-
U.S. agency mortgage bonds	35,478	AA+
Corporate debt	1,582	AAA
Corporate debt	970	AA-
Corporate debt	1,100	A+
Corporate debt	3,669	A
Corporate debt	4,749	A-
Corporate debt	8,793	BBB+
Corporate debt	7,129	BBB
Corporate debt	17,483	BBB-
Corporate debt	8,845	BB+
Corporate debt	2,016	BB
Corporate debt	5,620	BB-
Corporate debt	1,386	B+
Corporate debt	2	Not rated
Commercial mortgage securities	4,436	AAA
Commercial mortgage securities	353	A+
Collateralized mortgage obligations	3,889	AAA
Collateralized mortgage obligations	8,953	AA+
Collateralized mortgage obligations	200	BBB+
Collateralized mortgage obligations	138	BBB
Collateralized mortgage obligations	213	BBB-
Collateralized mortgage obligations	10	Not rated
Asset-backed securities	1,801	AAA
Municipal bonds	315	AAA
Municipal bonds	2,512	AA

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

Notes to Financial Statements (continued)

**10. Pension Plan Disclosures (continued)**

	<b>2018</b>	
	<b>Fair Value</b>	<b>Credit Rating*</b>
<b>Investments (continued)</b>		
Domestic investments (continued):		
Municipal bonds	\$ 2,543	AA-
Municipal bonds	892	A+
Municipal bonds	372	A
Municipal bonds	541	A-
Municipal bonds	290	BBB+
Municipal bonds	489	BBB-
Pacific Life Floating Rate Income Fund	26,346	Not rated
International investments:		
Equities	70,116	Not rated
Dodge & Cox Global Stock Fund	110,416	Not rated
Vanguard Global Minimum Volatility Fund	25,531	Not rated
Other	494	Not rated
	<b><u>\$ 627,266</u></b>	

\*Standard & Poor's rating, or equivalent

**Custodial Risk**

GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, 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, 2018 and 2017, the Plan's investment portfolio was held by a single third-party custodian.

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

Notes to Financial Statements (continued)

**10. Pension Plan Disclosures (continued)**

**Foreign Currency Risk**

GASB Statement No. 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 bonds and equities. As of April 30, 2018 and 2017, global equities had a target percentage of 20% and 40% of the Plan's assets, respectively. Global bonds are limited to 10% of the Plan's assets with non-U.S. dollar global bonds further limited to 5% of the Plan's assets. The Plan liquidated its investment in a global bond fund during the fiscal year ending April 30, 2018. The following table shows the Plan's exposure to foreign currencies as of April 30, 2018 (in thousands):

	<b>2018</b>
Australian dollar	\$ 3,549
British sterling pound	7,752
Canadian dollar	1,533
Danish krone	2,863
EMU (euro)	17,536
Hong Kong dollar	13,331
Japanese yen	12,499
Swiss franc	11,053
Total pension investments subject to foreign currency risk	\$ 70,116

**11. Regulatory Matters**

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

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

Notes to Financial Statements (continued)

## **11. Regulatory Matters (continued)**

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.

## **12. Other Noncurrent Liabilities**

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

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

	<b>Year Ended April 30</b>	
	<b>2018</b>	<b>2017</b>
Balance at beginning of year	\$ <b>70,789</b>	\$ 75,144
AHCA assessments	<b>144</b>	382
Disability income	(1,365)	(725)
Physician guarantee (income) expense	(77)	72
Unearned rent liability	(239)	(4)
Long-term portion of estimated claims liability	<b>3,919</b>	(2,550)
Long-term portion of capital lease obligations	(754)	(1,530)
Balance at end of year	<b>\$ 72,417</b>	\$ 70,789

## **13. 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

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

Notes to Financial Statements (continued)

**13. Leases (continued)**

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 operating lease commitments, including the Memorial Hospital Pembroke lease, for office space, medical equipment, data processing equipment, and system support services, the expense for which was approximately \$18,744,000 and \$17,152,000 for the years ended April 30, 2018 and 2017, respectively. At April 30, 2017, future minimum lease payments by years under the noncancelable operating leases are as follows (in thousands):

Fiscal years ending April 30:

2019	\$ 20,289
2020	14,568
2021	13,102
2022	9,235
2023	8,347
2024–2028	19,964

**14. Nonoperating Gains (Losses), Net**

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

	<b>Year Ended April 30</b>	
	<b>2018</b>	<b>2017</b>
Investment income and other, net	\$ 38,574	\$ 39,540
Unrealized losses on investments	(26,925)	(15,558)
Interest	(31,671)	(33,007)
Interest subsidy	3,494	3,491
Contribution	—	200
	<b>\$ (16,528)</b>	<b>\$ (5,334)</b>

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

**Notes to Financial Statements (continued)**

**15. Net Position**

A summary of the activity in the net position accounts is as follows (in thousands):

	<b>Net Investment in Capital Assets</b>	<b>Restricted for Debt Service</b>	<b>Restricted by Donors</b>	<b>Unrestricted</b>	<b>Total Net Position</b>
Balance at April 30, 2016	\$ 128,103	\$ 72,208	\$ —	\$ 1,682,418	\$ 1,882,729
Excess of revenue and net nonoperating losses over expenses	—	—	—	132,027	132,027
Net increase (decrease) in capital assets, net	74,168	—	—	(74,168)	—
Net transfers to and from unrestricted	4,991	(4,991)	—	—	—
Capital contributions and grants	—	—	—	2,111	2,111
Balance at April 30, 2017	207,262	67,217	—	1,742,388	2,016,867
Excess of revenue and net nonoperating losses over expenses	—	—	—	<b>62,198</b>	<b>62,198</b>
Net increase (decrease) in capital assets, net	<b>70,594</b>	—	—	(70,594)	—
Net transfers to and from unrestricted	—	(38,811)	—	<b>38,811</b>	—
Capital contributions and grants	—	—	—	<b>2,438</b>	<b>2,438</b>
Balance at April 30, 2018	<b>\$ 277,856</b>	<b>\$ 28,406</b>	<b>\$ —</b>	<b>\$ 1,775,241</b>	<b>\$ 2,081,503</b>

# Required Supplementary Information

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

**Schedules of Required Supplementary Information**

**Schedule of Changes in the Plan's Net Pension Liability and Related Ratios  
(In Thousands)**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Total pension liability</b>				
Service cost	\$ 16,902	\$ 17,460	\$ 17,579	\$ 17,980
Interest	52,277	48,950	45,777	43,771
Differences between expected and actual experience	830	(926)	(1,572)	–
Changes in assumptions	–	305	25,721	–
Benefit payments	(20,812)	(18,572)	(16,302)	(14,800)
Net change in total pension liability	<b>49,197</b>	47,217	71,203	46,951
Total pension liability – beginning	<b>756,388</b>	709,171	637,968	591,017
Total pension liability – ending (a)	<b>\$ 805,585</b>	\$ 756,388	\$ 709,171	\$ 637,968
<b>Plan fiduciary net position</b>				
Contributions – employer	\$ 38,343	\$ 37,295	\$ 37,649	\$ 33,864
Net investment income	48,286	53,180	(9,762)	20,731
Benefit payments	(20,812)	(18,572)	(16,302)	(14,800)
Administrative expense	(225)	(261)	(236)	(216)
Net change in plan fiduciary net position	<b>65,592</b>	71,642	11,349	39,479
Plan fiduciary net position – beginning	<b>561,674</b>	490,032	478,683	439,204
Plan fiduciary net position – ending (b)	<b>\$ 627,266</b>	\$ 561,674	\$ 490,032	\$ 478,683
Plan's net pension liability – ending (a) – (b)	<b>\$ 178,319</b>	\$ 194,714	\$ 219,139	\$ 159,385
Plan fiduciary net position as a percentage of total pension liability	<b>77.9%</b>	74.3%	69.1%	75.0%
Covered payroll	\$ 369,605	\$ 387,420	\$ 405,279	\$ 430,332
Plan's net pension liability as a percentage of covered payroll	<b>48.3%</b>	50.3%	54.1%	37.0%

This schedule is presented for only those years for which information is available until a full 10 year trend is compiled.

The information above is reported in the System's financial statements one year in arrears.

The System implemented GASB 68 as of May 1, 2015.

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

**Schedules of Required Supplementary Information (continued)**

**Schedule of Changes in the Plan's Net Pension Liability and Related Ratios  
(continued)**

**Notes to Schedule**

Valuation date	Liability determined using May 1 census data and valuation date using update procedures to roll forward to the measurement date; census data and valuation date both one year prior to the measurement date and the Plan fiscal year end, reported by the System two years prior to its fiscal year end.
<i>Methods and assumptions used to determine accounting and financial reporting under GASB Statements No. 67 and No. 68.</i>	
Actuarial cost method	Entry age normal actuarial cost method for the total pension liability under GASB Statements No. 67 and No. 68.
Asset valuation method	Fair market value for fiduciary net position used to determine net pension liability under GASB Statements No. 67 and No. 68.
Long-term expected rate of return*	For the May 1, 2017 valuation, 7.0%; for the May 1, 2016 valuation, 7.0%; for the May 1, 2015 valuation, 7.0%; for the May 1, 2014 valuation, 7.5%
Mortality rates	Mortality rates were based on the RP-2014 Employee and Annuitant tables for males and females with the Scale MP-2014 backed out to 2006 and projected forward from 2006 generationally using Scale BB (male).
Projected salary increases*	For the May 1, 2017 valuation, an age-graded select and ultimate table of rates was used starting with 4.75% and grading down to 3.25% in 2017 and increasing .25% per year to 2020 when rates are 5.5% and grading down to 4.00%. For the May 1, 2016 valuation, an age-graded select and ultimate table of rates was used starting with 4.50% and grading down to 3.00% in 2016 and increasing .25% per year to 2020 when rates are 5.5% and grading down to 4.00%. For the May 1, 2015 valuation, an age-graded select and ultimate table of rates was used starting with 4.25% and grading down to 2.75% in 2015 and increasing 0.25% per year to 2020 when rates are 5.5% and grading down to 4.0%; for the May 1, 2014 valuation, an age-graded select and ultimate table of rates was used starting with 4.0% and grading down to 2.5% in 2014 and increasing 0.25% per year to 2022 when rates are 6.0% and grading down to 4.5%.

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

**Schedule of System Contributions – Last 10 Fiscal Years**  
*(In Thousands)*

**Notes to Schedule (continued)**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Actuarially determined contribution	\$ 38,343	\$ 37,295	\$ 37,649	\$ 33,764	\$ 34,988
Contributions in relation to the actuarially determined contribution	<b>38,343</b>	37,295	37,649	33,764	34,988
Contribution deficiency (excess)	—	—	—	—	—
Covered payroll	<b>\$ 369,605</b>	\$ 387,420	\$ 405,279	\$ 430,332	\$ 453,033
Contributions as a percentage of covered payroll	<b>10.4%</b>	9.63%	9.29%	7.85%	7.72%
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Actuarially determined contribution	\$ 33,031	\$ 29,899	\$ 28,924	\$ 28,260	\$ 23,615
Contributions in relation to the actuarially determined contribution	<b>33,031</b>	29,899	28,924	28,260	23,615
Contribution deficiency (excess)	—	—	—	—	—
Covered payroll	<b>\$ 464,209</b>	\$ 440,349	\$ 421,333	\$ 399,400	\$ 360,160
Contributions as a percentage of covered payroll	7.12%	6.79%	6.86%	7.08%	6.56%

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

**Schedule of System Contributions – Last 10 Fiscal Years (continued)**  
*(In Thousands)*

**Notes to Schedule**

Valuation date      Actuarially determined contributions are calculated as of the beginning of each fiscal year/plan year and interest-adjusted to the end of the year. 1/12 of this amount is paid by the System on a monthly basis.

*Methods and assumptions used to determine annual required contributions*

Actuarial cost method      Projected unit credit cost method

Amortization method      Starting with the May 1, 2012 valuation – Level dollar amount, closed; Prior to May 1, 2012 – Level percent of pay, closed

Remaining amortization period      10 – 12 years, the average future work life expectancy of the active participants in the year the amortization base is established. Prior to May 1, 2012, any new assumption or plan change was amortized over 30 years and experience change was amortized over 15 years.

Asset valuation method      Five-year smoothed market value

Inflation      2.50% starting with the May 1, 2010 valuation; 3.50% for May 1, 2008, and May 1, 2009 valuations

Salary increases      For the May 1, 2017 valuation, an age-graded select and ultimate table of rates was used starting with 4.75% and grading down to 3.25% in 2017 and increasing .25% per year to 2020 when rates are 5.5% and grading down to 4.00%. For the May 1, 2016 valuation, an age-graded select and ultimate table of rates was used starting with 4.5%, grading down to 3.0% in 2016 and increasing 0.25% per year until 2020 when rates are 5.5%, grading down to 4.0%; for the May 1, 2015 valuation, an age-graded select and ultimate table of rates was used starting with 4.25%, grading down to 2.75% in 2015 and increasing 0.25% per year until 2020 when rates are 5.5%, grading down to 4.0%; for the May 1, 2014 valuation an age-graded select and ultimate table of rates was used starting with 4.0%, grading down to 2.5% in 2014 and increasing 0.25% per year to 2022 when rates are 6.0%, grading down to 4.5%; for May 1, 2009 through May 1, 2013, age-graded rates starting with 6.0%, grading down to 4.5%; prior to May 1, 2009, age-graded rates starting with 7.25%, grading down to 5.25%.

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

**Schedule of System Contributions – Last 10 Fiscal Years (continued)**  
*(In Thousands)*

**Notes to Schedule (continued)**

Investment rate of return 7.0% as of May 1, 2015 through May 1, 2017; 7.5% for May 1, 2008 through May 1, 2014 valuations

Mortality rates	Starting with the May 1, 2014 valuation – RP-2014 Employee and Annuitant Mortality tables for males and females with the Scale MP-2014 backed out to 2006 and projected forward from 2006 generationally using Scale BB (male); May 1, 2013 valuations – RP-2000 sex distinct rates projected to ten years past the valuation year using Scale AA; May 1, 2009 through May 1, 2012 valuations – RP-2000 sex distinct rates projected to the valuation year using Scale AA; May 1, 2008 valuation – RP-2000 sex distinct rates (no projection).
Other information	The benefit formula for participants hired after May 1, 2010 was changed. At May 1, 2011, the Plan was closed to employees hired or rehired after October 31, 2011.

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

Schedules of Required Supplementary Information

Schedules of Investment Returns

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return, net of investment expense	<b>8.5%</b>	10.7%	(2.0)%	4.6%

This schedule is presented for only those years for which information is available until a full 10 year trend is compiled.

## Supplementary Information

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

**Combining Statements of Net Position – System  
(*In Thousands*)**

April 30, 2018

	<b>Memorial Regional Hospital and Affiliated Providers</b>	<b>Memorial Hospital West</b>	<b>Memorial Hospital Pembroke</b>	<b>Memorial Hospital Miramar</b>	<b>Other Non- Hospital Operations, Eliminations</b>	<b>Combined</b>
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 50	\$ —	\$ —	\$ —	\$ 526,268	\$ 526,318
Investments	—	—	—	—	1,375,980	1,375,980
Designated investments for capital improvements	—	—	—	—	2,462	2,462
Designated investments for employee disability	—	—	—	—	18,078	18,078
Patient accounts receivable, net	134,476	59,480	12,985	20,916	3,770	231,627
Ad valorem taxes receivable	—	—	—	—	114	114
Inventories	20,572	8,517	2,763	2,256	3,592	37,700
Other current assets	13,418	2,844	1,397	797	43,430	61,886
Total current assets	168,516	70,841	17,145	23,969	1,973,694	2,254,165
<b>Noncurrent assets</b>						
Asset whose use is limited:						
Investments under self-insurance trust agreements	—	—	—	—	45,739	45,739
Restricted assets, net of current portion:						
Under indenture agreements	—	—	—	—	178,406	178,406
Under indenture – project funds	—	—	—	—	—	—
Total restricted assets	—	—	—	—	178,406	178,406
Due from Memorial Healthcare System	449,701	942,327	—	232,521	(1,624,549)	—
Capital assets, net	353,919	218,538	17,524	91,035	178,385	859,401
Other assets	149	4	8	—	37,930	38,091
<b>Total assets</b>	<b>\$ 972,285</b>	<b>\$ 1,231,710</b>	<b>\$ 34,677</b>	<b>\$ 347,525</b>	<b>\$ 789,605</b>	<b>\$ 3,375,802</b>
<b>Deferred outflows of resources</b>						
Unrealized pension contributions	\$ —	\$ —	\$ —	\$ —	\$ 38,343	\$ 38,343
Unrealized pension losses	—	—	—	—	31,426	31,426
Changes in pension assumptions	—	—	—	—	17,392	17,392
Loss on defeasance, net	—	—	—	—	22,397	22,397
<b>Total deferred outflows of resources</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 109,558</b>	<b>\$ 109,558</b>

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

**Combining Statements of Net Position – System  
(*In Thousands*)**

April 30, 2018

	<b>Memorial Regional Hospital and Affiliated Providers</b>	<b>Memorial Hospital West</b>	<b>Memorial Hospital Pembroke</b>	<b>Memorial Hospital Miramar</b>	<b>Other Non- Hospital Operations, Eliminations</b>	<b>Combined</b>
<b>Liabilities</b>						
Current liabilities:						
Accounts payable and accrued expenses	\$ 26,051	\$ 13,674	\$ 4,337	\$ 4,425	\$ 53,576	\$ 102,063
Accrued compensation and payroll taxes	15,038	7,994	2,729	3,039	134,755	163,555
Estimated third-party payor settlements	28,625	4,218	5,386	4,600	45	42,874
Current installments of long-term debt	–	–	–	–	11,060	11,060
Current portion of capital lease obligations	–	–	–	–	743	743
Current portion of estimated claims liability	–	–	–	–	18,045	18,045
Other current liabilities	16,230	7,711	2,592	2,919	(240)	29,212
Total current liabilities	85,944	33,597	15,044	14,983	217,984	367,552
Due to Memorial Healthcare System	–	–	27,767	–	(27,767)	–
Long-term portion of estimated claims liability	–	–	–	–	25,896	25,896
Net pension liability	–	–	–	–	194,714	194,714
Other noncurrent liabilities	6,713	3,393	4,179	1,275	30,952	46,512
Long-term portion of capital lease obligations	–	–	–	–	9	9
Long-term debt	–	–	–	–	752,751	752,751
Total liabilities	<b>\$ 92,657</b>	<b>\$ 36,990</b>	<b>\$ 46,990</b>	<b>\$ 16,258</b>	<b>\$ 1,194,539</b>	<b>\$ 1,387,434</b>
<b>Deferred inflows of resources</b>						
Unrealized pension gains	\$ –	\$ –	\$ –	\$ –	\$ 14,635	\$ 14,635
Changes in pension experience	–	–	–	–	1,788	1,788
Total deferred inflows of resources	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 16,423</b>	<b>\$ 16,423</b>
<b>Net position</b>						
Net investment in capital assets	\$ 353,919	\$ 218,538	\$ 17,524	\$ 91,035	\$ (403,160)	\$ 277,856
Restricted:						
For debt service					28,406	28,406
Unrestricted	525,709	976,182	(29,837)	240,232	62,955	1,775,241
Total net position	<b>\$ 879,628</b>	<b>\$ 1,194,720</b>	<b>\$ (12,313)</b>	<b>\$ 331,267</b>	<b>\$ (311,799)</b>	<b>\$ 2,081,503</b>

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

**Combining Statements of Net Position – System  
(*In Thousands*)**

April 30, 2017

	<b>Memorial Regional Hospital and Affiliated Providers</b>	<b>Memorial Hospital West</b>	<b>Memorial Hospital Pembroke</b>	<b>Memorial Hospital Miramar</b>	<b>Other Non- Hospital Operations, Eliminations</b>	<b>Combined</b>
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 50	\$ —	\$ —	\$ —	\$ 424,508	\$ 424,558
Investments	—	—	—	—	1,410,330	1,410,330
Designated investments for capital improvements	—	—	—	—	461	461
Designated investments for employee disability	—	—	—	—	18,034	18,034
Patient accounts receivable, net	140,712	58,835	14,809	21,580	5,239	241,175
Ad valorem taxes receivable	—	—	—	—	110	110
Inventories	19,921	7,634	2,708	2,093	1,563	33,919
Other current assets	5,743	1,070	459	441	42,924	50,637
Total current assets	166,426	67,539	17,976	24,114	1,903,169	2,179,224
<b>Noncurrent assets</b>						
Asset whose use is limited:						
Investments under self-insurance trust agreements	—	—	—	—	49,387	49,387
Restricted assets, net of current portion:						
Under indenture agreements	—	—	—	—	181,872	181,872
Under indenture – project funds	—	—	—	—	35,346	35,346
Total restricted assets	—	—	—	—	217,218	217,218
Due from Memorial Healthcare System	413,642	892,619	—	192,226	(1,498,487)	—
Capital assets, net	355,214	176,021	17,773	94,172	157,994	801,174
Other assets	149	4	8	—	32,313	32,474
Total assets	<b>\$ 935,431</b>	<b>\$ 1,136,183</b>	<b>\$ 35,757</b>	<b>\$ 310,512</b>	<b>\$ 861,594</b>	<b>\$ 3,279,477</b>
<b>Deferred outflows of resources</b>						
Unrealized pension contributions	\$ —	\$ —	\$ —	\$ —	\$ 37,295	\$ 37,295
Unrealized pension losses	—	—	—	—	42,758	42,758
Changes in pension assumptions	—	—	—	—	21,434	21,434
Loss on defeasance, net	—	—	—	—	23,671	23,671
Total deferred outflows of resources	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 125,158</b>	<b>\$ 125,158</b>

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

**Combining Statements of Net Position – System  
(In Thousands)**

April 30, 2017

	<b>Memorial Regional Hospital and Affiliated Providers</b>	<b>Memorial Hospital West</b>	<b>Memorial Hospital Pembroke</b>	<b>Memorial Hospital Miramar</b>	<b>Other Non- Hospital Operations, Eliminations</b>	<b>Combined</b>
<b>Liabilities</b>						
Current liabilities:						
Accounts payable and accrued expenses	\$ 29,198	\$ 8,264	\$ 3,948	\$ 3,494	\$ 41,251	\$ 86,155
Accrued compensation and payroll taxes	14,796	7,591	2,711	2,981	121,036	149,115
Estimated third-party payor settlements	21,063	6,780	4,013	3,768	32	35,656
Current installments of long-term debt	–	–	–	–	10,285	10,285
Current portion of capital lease obligations	–	–	–	–	1,596	1,596
Current portion of estimated claims liability	–	–	–	–	15,111	15,111
Other current liabilities	19,268	7,114	3,113	2,736	822	33,053
Total current liabilities	84,325	29,749	13,785	12,979	190,133	330,971
Due to Memorial Healthcare System	–	–	29,101	–	(29,101)	–
Long-term portion of estimated claims liability	–	–	–	–	21,977	21,977
Net pension liability	–	–	–	–	219,139	219,139
Other noncurrent liabilities	6,826	3,293	4,279	1,233	32,418	48,049
Long-term portion of capital lease obligations	–	–	–	–	763	763
Long-term debt	–	–	–	–	765,559	765,559
Total liabilities	<b>\$ 91,151</b>	<b>\$ 33,042</b>	<b>\$ 47,165</b>	<b>\$ 14,212</b>	<b>\$ 1,200,888</b>	<b>\$ 1,386,458</b>
<b>Deferred inflows of resources</b>						
Unrealized pension gains	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Changes in pension experience	–	–	–	–	1,310	1,310
Total deferred inflows of resources	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 1,310</b>	<b>\$ 1,310</b>
<b>Net position</b>						
Net investment in capital assets	\$ 239,110	\$ 176,021	\$ 17,773	\$ 94,172	\$ (319,814)	\$ 207,262
Restricted:						
For debt service	–	–	–	–	67,217	67,217
Unrestricted	605,170	927,120	(29,181)	202,128	37,151	1,742,388
Total net position	<b>\$ 844,280</b>	<b>\$ 1,103,141</b>	<b>\$ (11,408)</b>	<b>\$ 296,300</b>	<b>\$ (215,446)</b>	<b>\$ 2,016,867</b>

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

**Combining Statements of Revenues, Expenses,  
and Changes in Fund Net Position – System  
*(In Thousands)***

Year Ended April 30, 2018

	<b>Memorial Regional Hospital and Affiliated Providers</b>	<b>Memorial Hospital West</b>	<b>Memorial Hospital Pembroke</b>	<b>Memorial Hospital Miramar</b>	<b>Other Non- Hospital Operations</b>	<b>Combined</b>
<b>Operating revenue:</b>						
Net patient service revenue	\$ 957,100	\$ 523,123	\$ 141,815	\$ 190,046	\$ 81,005	\$ 1,893,089
Disproportionate share distributions	23,806	8,137	5,746	1,274	323	39,286
Other operating revenues	30,128	8,752	3,557	2,738	37,384	82,559
<b>Total operating revenue</b>	<b>1,011,034</b>	<b>540,012</b>	<b>151,118</b>	<b>194,058</b>	<b>118,712</b>	<b>2,014,934</b>
<b>Operating expenses:</b>						
Salaries and wages	464,542	205,993	73,123	78,754	133,353	955,765
Employee benefits	94,240	41,736	14,945	16,220	12,787	179,928
Professional fees	23,433	11,477	4,779	4,388	1,229	45,306
Supplies	204,546	95,910	22,452	22,752	38,380	384,040
Purchased services	51,177	35,810	14,359	12,577	5,712	119,635
Facilities	37,682	13,966	10,231	6,856	10,805	79,540
Depreciation and amortization	50,999	20,164	5,954	8,950	4,146	90,213
Other	39,716	18,931	5,778	6,652	10,704	81,781
<b>Total operating expenses</b>	<b>966,335</b>	<b>443,987</b>	<b>151,621</b>	<b>157,149</b>	<b>217,116</b>	<b>1,936,208</b>
<b>Operating income (loss)</b>	<b>44,699</b>	<b>96,025</b>	<b>(503)</b>	<b>36,909</b>	<b>(98,404)</b>	<b>78,726</b>
<b>Nonoperating (losses) gains, net</b>	<b>(12,285)</b>	<b>(3,946)</b>	<b>(406)</b>	<b>(1,942)</b>	<b>2,051</b>	<b>(16,528)</b>
<b>Income (loss) before capital contributions and grants</b>	<b>32,414</b>	<b>92,079</b>	<b>(909)</b>	<b>34,967</b>	<b>(96,353)</b>	<b>62,198</b>
<b>Capital contributions and grants</b>	<b>2,934</b>	<b>(500)</b>	<b>4</b>	<b>–</b>	<b>–</b>	<b>2,438</b>
<b>Increase (decrease) in net position</b>	<b>35,348</b>	<b>91,579</b>	<b>(905)</b>	<b>34,967</b>	<b>(96,353)</b>	<b>64,636</b>
<b>Net position at the beginning of the year</b>	<b>844,280</b>	<b>1,103,141</b>	<b>(11,408)</b>	<b>296,300</b>	<b>(215,446)</b>	<b>2,016,867</b>
<b>Net position at the end of the year</b>	<b>\$ 879,628</b>	<b>\$ 1,194,720</b>	<b>\$ (12,313)</b>	<b>\$ 331,267</b>	<b>\$ (311,799)</b>	<b>\$ 2,081,503</b>

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

**Combining Statements of Revenues, Expenses,  
and Changes in Fund Net Position – System  
*(In Thousands)***

Year Ended April 30, 2017

	<b>Memorial Regional Hospital and Affiliated Providers</b>	<b>Memorial Hospital West</b>	<b>Memorial Hospital Pembroke</b>	<b>Memorial Hospital Miramar</b>	<b>Other Non- Hospital Operations</b>	<b>Combined</b>
Operating revenue:						
Net patient service revenue	\$ 955,059	\$ 505,181	\$ 135,264	\$ 183,876	\$ 74,234	\$ 1,853,614
Disproportionate share distributions	30,502	205	2,684	(416)	722	33,697
Other operating revenues	31,295	7,202	3,417	2,239	6,127	50,280
Total operating revenue	1,016,856	512,588	141,365	185,699	81,083	1,937,591
Operating expenses:						
Salaries and wages	449,378	195,115	69,910	74,716	113,218	902,337
Employee benefits	92,271	39,891	14,758	15,355	12,860	175,135
Professional fees	21,528	8,316	4,250	3,493	34	37,621
Supplies	198,556	83,269	20,127	21,726	12,945	336,623
Purchased services	52,784	30,379	13,912	11,307	5,320	113,702
Facilities	35,640	12,570	9,449	6,568	9,655	73,882
Depreciation and amortization	48,570	19,891	5,969	8,573	3,303	86,306
Other	42,560	18,370	5,952	6,068	1,674	74,624
Total operating expenses	941,287	407,801	144,327	147,806	159,009	1,800,230
Operating income (loss)	75,569	104,787	(2,962)	37,893	(77,926)	137,361
Nonoperating (losses) gains, net	(13,000)	(5,522)	(433)	(2,119)	15,740	(5,334)
Income (loss) before capital contributions and grants	62,569	99,265	(3,395)	35,774	(62,186)	132,027
Capital contributions and grants	899	500	–	12	700	2,111
Increase (decrease) in net position	63,468	99,765	(3,395)	35,786	(61,486)	134,138
Net position at the beginning of the year	780,812	1,003,376	(8,013)	260,514	(153,960)	1,882,729
Net position at the end of the year	\$ 844,280	\$ 1,103,141	\$ (11,408)	\$ 296,300	\$ (215,446)	\$ 2,016,867

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