



FINANCIAL STATEMENTS AND REQUIRED  
SUPPLEMENTARY INFORMATION

South Broward Hospital District  
d/b/a Memorial Healthcare System  
Years Ended April 30, 2011 and 2010  
With Report of Independent Certified Public Accountants

Ernst & Young LLP

 **ERNST & YOUNG**

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

Financial Statements and Required Supplementary Information

Years Ended April 30, 2011 and 2010

**Contents**

Report of Independent Certified Public Accountants .....	1
Management’s Discussion and Analysis .....	3
Audited Financial Statements	
Balance Sheets – System .....	14
Statements of Revenue and Expenses and Changes in Net Assets – System .....	16
Statements of Cash Flows – System .....	17
Statements of Financial Position – Joe DiMaggio Children’s Hospital Foundation, Inc. ....	19
Statements of Activities – Joe DiMaggio Children’s Hospital Foundation, Inc.....	20
Statements of Financial Position – Memorial Foundation, Inc.....	21
Statements of Activities – Memorial Foundation, Inc. ....	22
Balance Sheets – Pension Trust Fund.....	23
Statements of Changes in Plan Net Assets – Pension Trust Fund .....	24
Notes to Financial Statements.....	25
Required Supplementary Information	
Schedule of Funding Progress (Unaudited) .....	61
Schedule of Employer Contributions (Unaudited) .....	62
Notes to Pension Disclosure Required Supplementary Information (Unaudited) .....	63
Other Financial Information	
Combining – Balance Sheet – System .....	64
Combining – Statement of Revenue and Expenses and Changes in Net Assets – System.....	66

## Report of Independent Certified Public Accountants

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

We have audited the accompanying financial statements of the business-type activities, the discretely presented component units, and the pension trust fund of the South Broward Hospital District d/b/a Memorial Healthcare System (the System), as of and for the years ended April 30, 2011 and 2010, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Joe DiMaggio Children's Hospital Foundation, Inc. and the Memorial Foundation, Inc. (collectively, the Foundations), discretely presented component units of the System, which represent 100% of the assets and public support and revenues, of the discretely presented component units. Those financial statements as of and for the years ended April 30, 2011 and 2010, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundations, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundations as of and for the years ended April 30, 2011 and 2010, were not audited in accordance with *Government Auditing Standards*. We were not engaged to perform an audit of the System's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component units, and the pension trust fund of the System as of April 30, 2011 and 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2011, on our consideration of South Broward Hospital District d/b/a Memorial Healthcare System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 through 13 and the required pension disclosure supplementary information on pages 61 through 63 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board (GASB). We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Details of Combination on pages 64 through 66 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audits of the basic financial statements and, in our opinion, based on our audits and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Ernst & Young LLP*

July 18, 2011

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

Management's Discussion and Analysis

April 30, 2011

**Required Financial Statements**

The South Broward Hospital District d/b/a Memorial Healthcare System (the System), operates Memorial Regional Hospital and the Joe DiMaggio Children's Hospital at Memorial Regional Hospital, both located in Hollywood, Florida; Memorial Regional Hospital South (a campus of Memorial Regional Hospital) located in Hollywood, Florida, approximately one mile south of Memorial Regional Hospital; Memorial Hospital Pembroke, located in Pembroke Pines, Florida, approximately six miles west of Memorial Regional Hospital; Memorial Hospital West, located in Pembroke Pines, Florida, approximately ten miles west of Memorial Regional Hospital; and Memorial Hospital Miramar, located in Miramar, Florida, approximately 15 miles west of Memorial Regional Hospital. The System also operates the Urgent Care Center and Memorial Manor Nursing Home, both located in Pembroke Pines, Florida, approximately eight miles west of Memorial Regional Hospital. Other components of the Memorial Healthcare System include the Memorial Outpatient Center – Hallandale, located in Hallandale, Florida, approximately five miles east of Memorial Regional Hospital; the Memorial Home Health Services; multiple primary care and school health centers located throughout south Broward County; the Memorial Cancer Institute, with locations on the campus of Memorial Regional Hospital and the campus of Memorial Hospital West; and the Memorial Adult Day Care Center, which provides activities, meals, and select health-related services for its elderly participants, located within the Memorial Outpatient Center – Hallandale. At April 30, 2011, the System operates a total of 1,776 licensed hospital beds and 120 licensed nursing home beds.

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

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

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

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

Management's Discussion and Analysis (continued)

**Required Financial Statements (continued)**

The pension trust fund does not issue separate financial statements.

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

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

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

**Summary of Financial Information**

The financial statements consist of two parts: a) management's discussion and analysis and b) the audited financial statements. The audited financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are intended to describe the results of operations, the changes in the net assets, the sources, and uses of cash and cash equivalents and the capital structure of the System. The following selected financial data as of April 30, 2011, 2010, and 2009, and for the three years then ended, for the System's enterprise fund are derived from the audited financial statements of the System. The data should be read in conjunction with the financial statements, related notes, and other financial information contained herein.

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

Management's Discussion and Analysis (continued)

**Summary of Financial Information (continued)**

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

**Condensed Balance Sheets – System (in thousands of dollars)**

	April 30		Dollar	Percentage
	2011	2010	Increase/ (Decrease)	Increase/ (Decrease)
Cash, cash equivalents, and investments	\$ 967,500	\$ 938,340	\$ 29,160	3.1%
Patient accounts receivable, net	163,174	119,869	43,305	36.1
Total current assets	1,180,757	1,100,798	79,959	7.3
Capital assets, net	808,436	738,459	69,977	9.5
Total assets	2,162,965	2,026,967	135,998	7.4
Total current liabilities	252,249	225,830	26,419	11.7
Long-term debt, net of current portion	545,685	552,243	(6,558)	(1.2)
Total liabilities	909,281	893,861	15,420	1.7
Unrestricted net assets	959,331	902,769	56,562	6.3
Net assets invested in capital assets, net of related debt	240,063	161,357	78,706	48.8
Restricted net assets	54,290	68,980	(14,690)	(21.3)

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

Management's Discussion and Analysis (continued)

**Summary of Financial Information (continued)**

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

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



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

Management's Discussion and Analysis (continued)

**Management's Discussion of Financial Performance**

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

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

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

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

Management's Discussion and Analysis (continued)

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

The investment policy of the System is congruent with Section 218.415 of the Florida Statutes, which is designed to ensure the prudent management of financial assets. Other than for certain investments of the pension trust fund, the System does not invest in equity securities. Cash, cash equivalents, and investments, excluding assets whose use is limited, rose from \$938.3 million to \$967.5 million at April 30, 2010 and 2011, respectively. Cash, cash equivalents, and investments, including assets whose use is limited, remained constant at \$1.1 billion, at April 30, 2011 and 2010. Net patient accounts receivable increased from \$119.9 million at April 30, 2010 to \$163.2 million at April 30, 2011, partially due to the 9% increase in net patient service revenue and delays in billings associated with some new requirements from certain managed care plans. The System continues to expand and improve its facilities. Additions to capital assets were \$102.1 million and \$160.8 million for the fiscal years ended April 30, 2010 and 2011, respectively. The System is currently engaged in expansion programs at its facilities. The estimated cost to complete all construction programs in process at April 30, 2011 is \$121.9 million. The System anticipates financing these programs through a combination of currently available cash, cash equivalents, and investments, and future cash flows from operations.

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

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

In fiscal year 2011, the System used the net tax proceeds solely to offset the cost of uncompensated care in its primary care, nursing home, and home health operations.

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

Management's Discussion and Analysis (continued)

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

*As of and for the Years Ended April 30, 2010 and 2009*

**Condensed Balance Sheets – System (in thousands of dollars)**

	April 30		Dollar	Percentage
	2010	2009	Increase/ (Decrease)	Increase/ (Decrease)
Cash, cash equivalents, and investments	\$ 938,340	\$ 664,829	\$ 273,511	41.1%
Patient accounts receivable, net	119,869	131,816	(11,947)	(9.1)
Total current assets	1,100,798	838,894	261,904	31.2
Capital assets, net	738,459	722,985	15,474	2.1
Total assets	2,026,967	1,733,909	293,058	16.9
Total current liabilities	225,830	192,976	32,854	17.0
Long-term debt, net of current portion	552,243	408,525	143,718	35.2
Total liabilities	893,861	722,905	170,956	23.6
Unrestricted net assets	902,769	665,178	237,591	35.7
Net assets invested in capital assets, net of related debt	161,357	287,995	(126,638)	(44.0)
Restricted net assets	68,980	57,831	11,149	19.3

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

Management's Discussion and Analysis (continued)

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

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

	<b>Years Ended April 30</b>		<b>Dollar</b>	<b>Percentage</b>
	<b>2010</b>	<b>2009</b>	<b>Increase/ (Decrease)</b>	<b>Increase/ (Decrease)</b>
<b>Revenue:</b>				
Net patient service revenue	\$ 1,280,488	\$ 1,242,519	\$ 37,969	3.1%
Other revenue	75,543	53,282	22,261	41.8
<b>Total revenue</b>	<b>1,356,031</b>	<b>1,295,801</b>	<b>60,230</b>	<b>4.6</b>
<b>Expenses:</b>				
Salaries and wages	623,510	599,946	23,564	3.9
Employee benefits	126,721	121,262	5,459	4.5
Professional fees	32,697	27,500	5,197	18.9
Supplies	240,608	228,606	12,002	5.3
Purchased services	81,520	78,310	3,210	4.1
Facilities	57,384	68,046	(10,662)	(15.7)
Depreciation and amortization	81,232	73,631	7,601	10.3
Other	50,365	49,759	606	1.2
<b>Total expenses</b>	<b>1,294,037</b>	<b>1,247,060</b>	<b>46,977</b>	<b>3.8</b>
<b>Income from operations</b>	<b>61,994</b>	<b>48,741</b>	<b>13,253</b>	<b>27.2</b>
Nonoperating gains, net (including depreciation of \$3,215 and \$3,055 in 2010 and 2009, respectively)	55,544	72,056	(16,512)	(22.9)
<b>Excess of revenue and net nonoperating gains over expenses</b>	<b>117,538</b>	<b>120,797</b>	<b>(3,259)</b>	<b>(2.7)</b>
Contributions and grants	4,564	1,754	2,810	160.2
<b>Increase in net assets</b>	<b>122,102</b>	<b>122,551</b>	<b>(449)</b>	<b>(0.4)</b>
Net assets at the beginning of the year	1,011,004	888,453	122,551	13.8
<b>Net assets at the end of the year</b>	<b>\$ 1,133,106</b>	<b>\$ 1,011,004</b>	<b>\$ 122,102</b>	<b>12.1%</b>

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

Management's Discussion and Analysis (continued)

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

Despite continuing demographic and economic challenges, the System's overall financial performance for the year produced results roughly on par with the preceding year: net assets increased by approximately \$122 million in the current fiscal year compared to approximately \$123 million in fiscal year 2009. Stronger results from operations for the 2010 fiscal year, plus a modest increase in contributions and grants, were essentially offset with lower net nonoperating gains during the current year compared to the prior year. The strong operating results are due to management's ongoing efforts to increase volume and tightly manage costs. For fiscal year 2010, total revenue increased 4.6% while operating expenses increased by only 3.8%, resulting in income from operations improving 27.2% over the prior year from \$48.7 million to approximately \$62.0 million. Memorial Regional Hospital South decreased its loss from operations by over \$9 million while Memorial Hospital West improved its income from operations by 28.4%, partly the result of strong Memorial Cancer Institute volumes and an increase in deliveries.

However, net nonoperating gains decreased from the prior year due to higher interest costs, a decline in property tax revenues, and lower investment income. In order to help fund the construction of the System's Joe DiMaggio Children's Hospital and capitalize on the favorable interest rate environment, the System issued revenue bonds in 2009 (see below), thereby increasing net interest costs. In addition, the property tax base in Broward County continued to shrink in 2010. Despite a 24.8% increase in uncompensated care, tax revenues in fiscal year 2010 decreased by 9.3%. Lastly, the system's conservative investment policy, coupled with the low interest rate environment, produced investment income that was 16.9% lower than the prior year.

Total revenue and net nonoperating gains of the System rose from \$1.368 billion to \$1.412 billion for the fiscal years ended April 30, 2009 and 2010, respectively. Total expenses rose from \$1.247 billion to \$1.294 billion for the same periods. The corresponding excess of revenues and net nonoperating gains over expenses decreased from \$120.8 million to \$117.5 million for the fiscal years ended April 30, 2009 and 2010, respectively, resulting in a net margin of 9.3% and 8.7% for the fiscal years ended April 30, 2009 and 2010, respectively. Income available for debt service was \$209.1 million and \$224.9 million for the fiscal years ended April 30, 2009 and 2010, respectively.

On October 28, 2009, Hospital Revenue Bonds, Taxable Series 2009 (Build America Bonds – Direct Payment) 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.

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

Management's Discussion and Analysis (continued)

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

The investment policy of the System is congruent with Section 218.415 of the Florida Statutes, which is designed to ensure the prudent management of financial assets. Other than for certain investments of the pension trust fund, the System does not invest in equity securities. Cash, cash equivalents, and investments, excluding assets whose use is limited, rose from \$664.8 million to \$938.3 million at April 30, 2009 and 2010, respectively. Cash, cash equivalents, and investments, including assets whose use is limited, rose from \$824.4 million to \$1.1 billion at April 30, 2009 and 2010, respectively. The System continues to expand and improve its facilities. Additions to capital assets were \$127.6 million and \$102.1 million for the fiscal years ended April 30, 2009 and 2010, respectively. The System is currently engaged in expansion programs at its facilities. The estimated cost to complete all construction programs in process at April 30, 2010 is \$131.4 million. The System anticipates financing these programs through a combination of currently available cash, cash equivalents, and investments, and future cash flows from operations.

Inpatient and outpatient admissions were 105,687 and 106,673 for the years ended April 30, 2009 and 2010, respectively. Hospital based outpatient visits were 487,059 for the year ended April 30, 2009 and 512,726 for the year ended April 30, 2010. The slight increase in admissions is attributable to the growth in observation patients.

The System pursues qualification of indigent patients for available Medicaid and other reimbursement programs. The System has also established effective protocols that enable early identification of denials and short pays from managed care organizations. As a result, the denial rates for managed care claims as a percentage of managed care claims was 1.9% and 1.8% for fiscal years 2009 and 2010, respectively.

**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. The System applies the net proceeds of such taxes to partially offset the cost of indigent care.

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

Management's Discussion and Analysis (continued)

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

The financial strength of the System minimizes the tax burden in south Broward County. In fiscal years 2009, 2010, and 2011, net tax revenues accounted for approximately 3.1%, 2.8%, and 1.9%, respectively, of total net revenues and nonoperating gains. In September 2010, the System's Board of Commissioners voted to maintain the tax millage rate at 1.2732 mills.

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

**Source of Patient Charges**

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

	<b>Percentage of Gross Charges</b>		
	<b>Years Ended April 30</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Medicare	<b>19.5%</b>	18.9%	19.2%
Medicaid	<b>14.1</b>	12.3	9.5
Managed care	<b>49.6</b>	50.6	53.0
Other	<b>16.8</b>	18.2	18.3
Total	<b>100.0%</b>	100.0%	100.0%

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

Balance Sheets – System

	<b>April 30</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 168,927	\$ 165,804
Investments	798,573	772,536
Patient accounts receivable, net of estimated uncollectibles of \$341,579 and \$326,794 at April 30, 2011 and 2010, respectively	163,174	119,869
Ad valorem taxes receivable	1,325	991
Inventories	25,179	22,693
Other current assets	23,579	18,905
Total current assets	<b>1,180,757</b>	<b>1,100,798</b>
Assets whose use is limited:		
By Board for capital improvements	88,240	88,094
By Board for employee disability	16,888	16,421
Under indenture agreement-project funds	–	10,081
Under self-insurance trust agreements	52,366	51,070
Externally restricted by donors	1,924	7,795
Total assets whose use is limited	<b>159,418</b>	<b>173,461</b>
Capital assets, net	808,436	738,459
Deferred charges, net	7,510	8,036
Other assets	6,844	6,213
Total assets	<b>\$ 2,162,965</b>	<b>\$ 2,026,967</b>



	<b>April 30</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 132,319	\$ 111,170
Accrued compensation and payroll taxes	82,146	72,361
Estimated third-party payor settlements	14,566	16,675
Current installments of long-term debt	7,285	7,007
Current portion of capital lease obligations	1,785	1,722
Current portion of estimated claims liability	7,249	7,346
Other current liabilities	6,899	9,549
Total current liabilities	<u>252,249</u>	<u>225,830</u>
Long-term portion of estimated claims liability	39,838	44,557
Other noncurrent liabilities	69,051	66,988
Long-term portion of capital lease obligations	2,458	4,243
Long-term debt	545,685	552,243
Total liabilities	<u>909,281</u>	<u>893,861</u>
Net assets:		
Invested in capital assets, net of related debt	240,063	161,357
Restricted:		
For debt service	–	10,081
By donors	1,924	7,829
Under self-insurance trust agreements	52,366	51,070
Unrestricted	959,331	902,769
Total net assets	<u>1,253,684</u>	<u>1,133,106</u>
Total liabilities and net assets	<u>\$ 2,162,965</u>	<u>\$ 2,026,967</u>

*See accompanying notes.*

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

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

	<b>Years Ended April 30</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
Revenue:		
Net patient service revenue	\$ 1,395,919	\$ 1,280,488
Other revenue	<b>62,292</b>	75,543
Total revenue	<b>1,458,211</b>	1,356,031
Expenses:		
Salaries and wages	<b>663,423</b>	623,510
Employee benefits	<b>130,309</b>	126,721
Professional fees	<b>32,985</b>	32,697
Supplies	<b>253,954</b>	240,608
Purchased services	<b>87,238</b>	81,520
Facilities	<b>63,920</b>	57,384
Depreciation and amortization	<b>89,193</b>	81,232
Other	<b>60,762</b>	50,365
Total expenses	<b>1,381,784</b>	1,294,037
Income from operations	<b>76,427</b>	61,994
Nonoperating gains, net (including depreciation of \$2,852 in 2011 and \$3,215 in 2010)	<b>38,374</b>	55,544
Excess of revenue and net nonoperating gains over expenses	<b>114,801</b>	117,538
Contributions and grants	<b>5,777</b>	4,564
Increase in net assets	<b>120,578</b>	122,102
Net assets at the beginning of the year	<b>1,133,106</b>	1,011,004
Net assets at the end of the year	<b>\$ 1,253,684</b>	\$ 1,133,106

*See accompanying notes.*

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

Statements of Cash Flows – System

	<b>Years Ended April 30</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Receipts from third-party payors and patients	\$ 1,350,505	\$ 1,309,288
Payments to vendors	(482,120)	(455,386)
Other receipts	59,726	74,700
Payments to employees	(740,149)	(698,120)
Claims and self-insurance payments	(48,843)	(47,662)
Net cash provided by operating activities	139,119	182,820
<b>Noncapital financing activities</b>		
Contributions and grants	5,777	4,564
Ad valorem tax receipts, net	28,419	40,172
Net cash provided by noncapital financing activities	34,196	44,736
<b>Capital and related financing activities</b>		
Acquisition and construction of capital assets, net	(160,754)	(98,033)
Principal payments on long-term debt	(7,007)	(6,748)
Principal payments on capital lease obligations	(1,722)	(1,527)
Debt issuance costs	–	(940)
Net proceeds from issuance of long-term debt	–	150,000
Interest payments on long-term debt	(31,199)	(27,223)
Net cash (used in) provided by capital and related financing activities	(200,682)	15,529
<b>Investing activities</b>		
Proceeds from sales, maturities, or repayment of investments	61,449	86,005
Cost of investments acquired	(84,361)	(270,693)
Investment and other income received	53,402	41,018
Net cash provided by (used in) investing activities	30,490	(143,670)
Net increase in cash and cash equivalents	3,123	99,415
Cash and cash equivalents at beginning of year	165,804	66,389
Cash and cash equivalents at end of year	\$ 168,927	\$ 165,804

*Continued on next page.*

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

Statements of Cash Flows – System (continued)

	<b>Years Ended April 30</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
<b>Reconciliation of excess of revenue and net nonoperating gains over expenses to net cash provided by operating activities</b>		
Excess of revenue and net nonoperating gains over expenses	\$ 114,801	\$ 117,538
Adjustments to reconcile excess of revenue and net nonoperating gains over expenses to net cash provided by operating activities:		
Depreciation and amortization, including depreciation reported in nonoperating gains	92,045	84,447
Interest expense, net of subsidy	24,798	22,973
Provision for doubtful accounts	330,361	356,527
Loss on disposal of capital assets	2,616	1,421
Ad valorem tax revenue and unrestricted investment income, net	(66,024)	(81,732)
Increase in:		
Patient accounts receivable	(373,666)	(344,580)
Other current assets and inventories	(8,626)	(1,333)
Other assets	(631)	(695)
Increase (decrease) in:		
Accounts payable and accrued expenses	21,172	5,776
Accrued compensation and payroll taxes	9,785	9,275
Estimated third-party payor settlements	(2,109)	16,854
Other current liabilities	(2,381)	1,027
Other liabilities	2,063	5,509
Estimated claims liability	(5,085)	(10,187)
Net cash provided by operating activities	\$ 139,119	\$ 182,820

*See accompanying notes.*

Joe DiMaggio Children's Hospital Foundation, Inc.

Statements of Financial Position

	<b>April 30</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 42	\$ 155
Investments, at market value, cost \$22,232 in 2011 and \$28,233 in 2010	<b>23,306</b>	27,012
Unconditional promises to give, net	<b>3,316</b>	6,026
Plant and equipment, at cost, net of \$58 in 2011 and \$53 in 2010 accumulated depreciation	<b>14</b>	19
Other assets	<b>36</b>	75
Total assets	<b>\$ 26,714</b>	<b>\$ 33,287</b>
<b>Liabilities</b>		
Accounts payable	\$ 40	\$ 52
Annuities payable	<b>401</b>	258
Due to Memorial Healthcare System	<b>759</b>	6,473
Total liabilities	<b>1,200</b>	6,783
Net assets:		
Unrestricted	<b>5,478</b>	4,871
Temporarily restricted	<b>16,554</b>	18,626
Permanently restricted	<b>3,482</b>	3,007
Total net assets	<b>25,514</b>	26,504
Total liabilities and net assets	<b>\$ 26,714</b>	<b>\$ 33,287</b>

*See accompanying notes.*

Joe DiMaggio Children's Hospital Foundation, Inc.

Statements of Activities

For the Years Ended April 30, 2011 and 2010

(In Thousands)

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support:								
Contributions	\$ 590	\$ 1,558	\$ 475	\$ 2,623	\$ 530	\$ 1,264	\$ 50	\$ 1,844
Special events	–	2,049	–	2,049	–	1,869	–	1,869
Other support	400	–	–	400	400	–	–	400
Interest and investment income	438	–	49	487	604	–	46	650
Realized gains (losses)								
on investments	(538)	–	134	(404)	228	–	–	228
Unrealized gains (losses) on investments	2,082	–	33	2,115	4,493	–	328	4,821
Net assets released from restrictions:								
Satisfaction of program restrictions	5,895	(5,679)	(216)	–	11,592	(11,202)	(390)	–
Total revenue and other support	<u>8,867</u>	<u>(2,072)</u>	<u>475</u>	<u>7,270</u>	<u>17,847</u>	<u>(8,069)</u>	<u>34</u>	<u>9,812</u>
Expenses:								
Funding benefitting Memorial Healthcare System	5,220	–	–	5,220	3,593	–	–	3,593
Management and general	442	–	–	442	451	–	–	451
Fund raising	995	–	–	995	1,057	–	–	1,057
Bad debt expense	1,603	–	–	1,603	6,701	–	–	6,701
Total expenses	<u>8,260</u>	<u>–</u>	<u>–</u>	<u>8,260</u>	<u>11,802</u>	<u>–</u>	<u>–</u>	<u>11,802</u>
Changes in net assets	607	(2,072)	475	(990)	6,045	(8,069)	34	(1,990)
Net assets – beginning of year	4,871	18,626	3,007	26,504	(1,174)	26,695	2,973	28,494
Net assets – end of year	<u>\$ 5,478</u>	<u>\$ 16,554</u>	<u>\$ 3,482</u>	<u>\$ 25,514</u>	<u>\$ 4,871</u>	<u>\$ 18,626</u>	<u>\$ 3,007</u>	<u>\$ 26,504</u>

See accompanying notes.

Memorial Foundation, Inc.

Statements of Financial Position

	<b>April 30</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 102	\$ 34
Investments, at market value, cost \$7,356 in 2011 and \$6,631 in 2010	7,715	6,464
Unconditional promises to give, net	220	469
Plant and equipment, at cost, net of \$57 in 2011 and \$54 in 2010 accumulated depreciation	8	11
Other assets	9	27
Total assets	<u>\$ 8,054</u>	<u>\$ 7,005</u>
<b>Liabilities</b>		
Accounts payable	\$ 12	\$ 102
Annuities payable	22	20
Due to Memorial Healthcare System	316	250
Total liabilities	<u>350</u>	<u>372</u>
Net assets:		
Unrestricted	744	(11)
Temporarily restricted	6,530	6,240
Permanently restricted	430	404
Total net assets	<u>7,704</u>	<u>6,633</u>
Total liabilities and net assets	<u>\$ 8,054</u>	<u>\$ 7,005</u>

*See accompanying notes.*

# Memorial Foundation, Inc.

## Statements of Activities

For the Years Ended April 30, 2011 and 2010

(In Thousands)

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support:								
Contributions	\$ 218	\$ 1,124	\$ 26	\$ 1,368	\$ 156	\$ 883	\$ 10	\$ 1,049
Other support	400	–	–	400	400	–	–	400
Interest and investment income	150	–	9	159	144	–	11	155
Realized gains (losses) on investments	51	–	–	51	(25)	–	–	(25)
Unrealized gains on investments	519	–	–	519	1,211	–	–	1,211
Net assets released from restrictions:								
Satisfaction of program restrictions	843	(834)	(9)	–	474	(463)	(11)	–
Total revenue and other support	<u>2,181</u>	<u>290</u>	<u>26</u>	<u>2,497</u>	<u>2,360</u>	<u>420</u>	<u>10</u>	<u>2,790</u>
Expenses:								
Funding benefitting Memorial Healthcare System	725	–	–	725	437	–	–	437
Management and general	371	–	–	371	364	–	–	364
Fund raising	323	–	–	323	293	–	–	293
Bad debt expense	7	–	–	7	226	–	–	226
Total expenses	<u>1,426</u>	<u>–</u>	<u>–</u>	<u>1,426</u>	<u>1,320</u>	<u>–</u>	<u>–</u>	<u>1,320</u>
Changes in net assets	755	290	26	1,071	1,040	420	10	1,470
Net assets – beginning of year	(11)	6,240	404	6,633	(1,051)	5,820	394	5,163
Net assets – end of year	<u>\$ 744</u>	<u>\$ 6,530</u>	<u>\$ 430</u>	<u>\$ 7,704</u>	<u>\$ (11)</u>	<u>\$ 6,240</u>	<u>\$ 404</u>	<u>\$ 6,633</u>

See accompanying notes.



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

Balance Sheets – Pension Trust Fund

	<b>April 30</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Assets whose use is limited:		
Externally restricted under pension plan agreement	<u>\$ 298,025</u>	<u>\$ 248,766</u>
	<u><u>\$ 298,025</u></u>	<u><u>\$ 248,766</u></u>
<b>Liabilities and restricted net assets</b>		
Restricted net assets reserved for employees' pension benefits	<u>\$ 298,025</u>	<u>\$ 248,766</u>
	<u><u>\$ 298,025</u></u>	<u><u>\$ 248,766</u></u>

*See accompanying notes.*

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

Statements of Changes in Plan Net Assets –  
Pension Trust Fund

	<b>Years Ended April 30</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
Net assets reserved for employees' pension benefits:		
Balance at beginning of year	\$ 248,766	\$ 180,699
Additions:		
Pension contributions	28,924	28,260
Net realized and unrealized gains on pension trust fund investments	28,439	46,832
	<b>57,363</b>	75,092
Deductions:		
Pension benefit payments	7,258	6,240
Administrative expenses	846	785
	<b>8,104</b>	7,025
Net increase in net assets reserved for employees' pension benefits	<b>49,259</b>	68,067
Balance at end of year	<b>\$ 298,025</b>	\$ 248,766

*See accompanying notes.*

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

Notes to Financial Statements

April 30, 2011

**1. Organization and Summary of Significant Accounting Policies**

**Organization**

The South Broward Hospital District d/b/a Memorial Healthcare System (the System), operates Memorial Regional Hospital and the Joe DiMaggio Children's Hospital at Memorial Regional Hospital, both located in Hollywood, Florida; Memorial Regional Hospital South (a campus of Memorial Regional Hospital) located in Hollywood, Florida, approximately one mile south of Memorial Regional Hospital; Memorial Hospital Pembroke, located in Pembroke Pines, Florida, approximately six miles west of Memorial Regional Hospital; Memorial Hospital West, located in Pembroke Pines, Florida, approximately ten miles west of Memorial Regional Hospital; and Memorial Hospital Miramar, located in Miramar, Florida, approximately fifteen miles west of Memorial Regional Hospital. The System also operates the Urgent Care Center and Memorial Manor Nursing Home, both located in Pembroke Pines, Florida, approximately eight miles west of Memorial Regional Hospital. Other components of the Memorial Healthcare System include the Memorial Outpatient Center – Hallandale, located in Hallandale, Florida, approximately five miles east of Memorial Regional Hospital; the Memorial Home Health Services; multiple primary care and school health centers located throughout south Broward County; the Memorial Cancer Institute, with locations on the campus of Memorial Regional Hospital and on the campus of Memorial Hospital West; and the Memorial Adult Day Care Center, which provides activities, meals, and select health-related services for its elderly participants, located within the Memorial Outpatient Center – Hallandale. At April 30, 2011, the System operates a total of 1,776 licensed hospital beds and 120 licensed nursing home beds.

**Basis of Presentation**

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

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

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

Notes to Financial Statements (continued)

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

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

During the years ended April 30, 2011 and 2010, the Foundations distributed approximately \$11,301,000 and \$3,807,000, respectively, to the System for both restricted and unrestricted purposes.

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

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

**Proprietary Fund Accounting**

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

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

Notes to Financial Statements (continued)

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

**Charity Care**

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

**Cash and Cash Equivalents**

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

**Investments**

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

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

**Inventories**

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

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

Notes to Financial Statements (continued)

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

**Assets Whose Use is Limited**

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

**Capital Assets**

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

**Costs of Borrowing**

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

**Income Taxes**

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

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

Notes to Financial Statements (continued)

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

**Restricted Net Assets**

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

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

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

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

**Net Patient Service Revenue**

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

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

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

Notes to Financial Statements (continued)

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

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Accounting for Pensions by State and Local Governmental Employers**

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

**Accounting Standards**

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

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



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

Notes to Financial Statements (continued)

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

**New Accounting Pronouncements**

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

**2. Uncompensated Care**

The System maintains records to identify and monitor the level of uncompensated care it provides. These records include the amount of charges forgone for services provided under the System’s charity care policy, as well as a provision for uncollectible accounts included in the accompanying Statements of Revenue and Expenses and Changes in Net Assets – System. The following information measures the level of uncompensated care provided during the years ended April 30, 2011 and 2010 (in thousands).

	<b>2011</b>	<b>2010</b>
Uncompensated care, based on established rates	<b>\$ 898,568</b>	\$ 904,160
Percentage of uncompensated care patients to all patients served based upon total charges	<b>13.3%</b>	14.6%

For the years ended April 30, 2011 and 2010, uncompensated care includes \$568,207,000 and \$547,633,000, respectively, of charges forgone for services provided under the System’s charity care policy.

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

Notes to Financial Statements (continued)

**3. Net Patient Service Revenue**

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

**Medicare and Medicaid**

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

Reimbursement for certain services subject to special reimbursement formulas under the Medicare program is subject to audit and settlement by a Medicare Administrative Contractor. Such audits and final settlements have been completed for all years through 2007 for Memorial Hospital West and Memorial Hospital Pembroke, and through 2006 for Memorial Regional Hospital and Memorial Hospital Miramar. Medicare program beneficiaries accounted for approximately 20% and 19% of the System's gross charges in fiscal years 2011 and 2010, respectively.

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost-based prospective payment formula. The System's Medicaid cost reports have been audited by the Medicaid Administrative Contractor through 2007 for Memorial Hospital West, and Memorial Hospital Pembroke, and through 2006 for Memorial Regional Hospital and Memorial Hospital Miramar. Medicaid program beneficiaries accounted for approximately 14% and 12% of the System's gross charges in fiscal years 2011 and 2010, respectively.

As a result of the filing of the cost reports and the settlement of cost reports for prior years, the System increased reimbursement recorded in prior years by approximately \$9,203,000 in 2011 and decreased reimbursement recorded in prior years by approximately \$7,766,000 in 2010.

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

Notes to Financial Statements (continued)

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

**Insurance and Other**

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

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

	<b>2011</b>	<b>2010</b>
Gross patient charges	<b>\$ 6,767,244</b>	\$ 6,189,173
Charity care	<b>(568,207)</b>	(547,633)
Provision for doubtful accounts	<b>(330,361)</b>	(356,527)
Contractual adjustments	<b>(4,472,757)</b>	(4,004,525)
Net patient service revenue	<b><u>\$ 1,395,919</u></b>	<u>\$ 1,280,488</u>

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

The book value of the System's unrestricted bank accounts is \$19,184,000 and \$51,812,000 at April 30, 2011 and 2010, respectively. The book value of the System's bank accounts restricted by donors, included in assets whose use is limited, is \$1,924,000 and \$7,795,000 and at April 30, 2011 and 2010, respectively. These bank accounts are insured by a combination of federal depository insurance and a collateral pool pledged to the State Treasurer of Florida by financial institutions, which comply with the requirements of Florida Statutes and have been designated as qualified public depositories by the State Treasurer.

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

Notes to Financial Statements (continued)

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

**Investments and Cash Equivalents**

At April 30, 2011 and 2010, respectively, the System’s investments, including those included in cash and cash equivalents, are as follows (in thousands):

	<b>Fair Value</b>	
	<b>2011</b>	<b>2010</b>
Unrestricted cash equivalents	\$ <b>88,954</b>	\$ 113,992
Unrestricted investments	<b>859,362</b>	772,536
Assets whose use is limited:		
By Board	<b>105,128</b>	104,515
By others	<b>52,366</b>	61,151
	<b>\$ 1,105,810</b>	\$ 1,052,194

**Interest Rate Risk**

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

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

At April 30, 2011 and 2010, respectively, the System had the following investments with the respective effective durations. (Fair value in thousands and effective durations in years.)

	<b>2011</b>		<b>2010</b>	
	<b>Fair Value</b>	<b>Effective Duration</b>	<b>Fair Value</b>	<b>Effective Duration</b>
Cash and SEC registered money market funds	\$ 5,291	N/A	\$ 25,827	N/A
U.S. Treasuries	199,291	0.52	246,808	0.57
U.S. Agencies	380,038	0.66	338,352	0.60
U.S. Agency mortgage bonds	125,817	0.30	107,129	0.21
Asset-backed securities	76,550	0.10	50,551	0.06
Commercial paper	54,717	0.01	1,999	0.00
Corporate debt	205,034	0.38	218,145	0.46
Municipal securities	57,465	0.12	63,383	0.14
Foreign bonds	1,607	0.00	–	–
	<b>\$ 1,105,810</b>	<b>2.09</b>	<b>\$ 1,052,194</b>	<b>2.04</b>

**Credit Risk**

The System has adopted an investment policy that authorizes the following instruments for investment by the System: (1) the trust fund known as the Local Government Surplus Funds Trust Fund as created by Florida Statutes; (2) bankers' acceptances; (3) commercial paper of prime quality rated by at least two nationally recognized debt rating agencies in the highest letter and numerical ratings of each agency or secured by a letter of credit provided by a commercial bank that carries a credit rating in one of the two highest ratings; (4) interest-bearing time deposits or savings accounts at institutions that are Qualified Public Depositories; (5) negotiable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the United States Government; (6) obligations of Federal Agencies and Instrumentalities; (7) interest-bearing notes, bonds, debentures, and other such evidence of indebtedness with a fixed maturity of any domestic listed corporation within the United States that when purchased carry ratings in one of the two highest classifications of at least two nationally recognized debt rating agencies or be secured by a letter of credit provided by a commercial bank that carries a credit rating in one of the two highest ratings; (8) repurchase

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

Notes to Financial Statements (continued)

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

agreements and reverse repurchase agreements entered into with a member bank of the Federal Reserve System or a primary dealer in United States Government Securities provided such repurchase agreements and reverse repurchase agreements are fully collateralized by the types of securities disclosed in sections (5) and (6) above; (9) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and (10) municipal bond investments that carry ratings in one of the top two classifications of at least two nationally recognized rating agencies or secured by bond insurance or a letter 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; (4) registered money market funds rated in the two highest rating categories by Standard & Poor's (S&P) and Moody's Investors Service (Moody's); (5) commercial paper rated Prime-1 by Moody's and A-1 or better by S&P; municipal securities rated in the two highest rating categories by S&P and Moody's; (6) repurchase agreements; (7) investment agreements, including GICs acceptable to any credit facility provider; and (8) Federal funds and bankers' acceptances from banks rated Prime-1 or A3 by Moody's and A-1 or A by S&P.

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

Notes to Financial Statements (continued)

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

At April 30, 2011 and 2010, respectively, the System’s investment securities have the following credit ratings as shown below (in thousands):

	2011		2010	
	Fair Value	Credit Rating*	Fair Value	Credit Rating*
Cash and SEC registered money market funds	\$ 5,291	AAA	\$ 25,827	AAA
U.S. Treasuries	199,291	TSY	246,808	TSY
U.S. Agency discount notes	80,706	A-1+	55,194	A-1+
U.S. Agencies	279,366	AAA	275,247	AAA
U.S. Agencies	19,966	AA+	5,048	AA+
U.S. Agencies	–	–	1,119	AA
U.S. Agencies	–	–	1,744	AA-
U.S. Agency mortgage bonds	125,817	AAA	106,986	AAA
U.S. Agency mortgage bonds	–	–	143	AA-
Asset-backed securities	68,841	AAA	48,145	AAA
Asset-backed securities	3,637	AA+	2,010	AA+
Asset-backed securities	1,626	AA-	–	–
Asset-backed securities	688	AA	175	AA
Asset-backed securities	1,758	A+	69	A+
Asset-backed securities	–	–	152	A
Commercial paper	18,721	A-1+	1,000	A-1+
Commercial paper	35,996	A-1	999	A-1
Corporate debt	97,925	AAA	127,795	AAA
Corporate debt	25,023	AA+	21,229	AA+
Corporate debt	27,682	AA	16,419	AA
Corporate debt	28,852	AA-	22,664	AA-
Corporate debt	12,729	A+	15,606	A+
Corporate debt	12,823	A	13,826	A
Corporate debt	–	–	606	Not Rated
Municipal securities	25,077	AAA	26,483	AAA
Municipal securities	9,120	AA+	6,373	AA+
Municipal securities	15,773	AA	20,246	AA
Municipal securities	5,301	AA-	7,962	AA-
Municipal securities	–	–	1,080	A+
Municipal securities	477	A	1,239	A
Municipal securities	199	BBB	–	–
Municipal securities	1,518	Not Rated	–	–
Foreign bonds	802	AAA	–	–
Foreign bonds	805	AA-	–	–
	<b>\$ 1,105,810</b>		<b>\$ 1,052,194</b>	

\*Standard & Poor’s ratings or comparable

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

Notes to Financial Statements (continued)

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

**Concentration of Credit Risk**

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

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

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

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

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

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

Corporate debt. A maximum of 30% of the portfolio. Further limitations include no more than 10% in AAA-rated asset-backed securities, single industry concentration of 10%, 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.

Repurchase/reverse repurchase agreements. Maximum term six months and subject to Public Securities Association (PSA) documentation requirements.

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



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

Notes to Financial Statements (continued)

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

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

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

The following table shows the composition of the System’s investments at April 30, 2011 and 2010, respectively (in thousands):

	2011		2010	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
Cash and SEC registered money market funds	\$ 5,291	1%	\$ 25,827	3%
US Treasuries	199,291	18	246,808	23
US Agencies	380,038	34	338,352	32
US Agency mortgage bonds	125,817	11	107,129	10
Asset-backed securities	76,550	7	50,551	5
Commercial paper	54,717	5	1,999	–
Corporate debt	205,034	19	218,145	21
Municipal securities	57,465	5	63,383	6
Foreign bonds	1,607	–	–	–
	<b>\$ 1,105,810</b>	<b>100%</b>	<b>\$ 1,052,194</b>	<b>100%</b>

At April 30, 2011, investments in any one issuer representing 5% or more of the System’s total investments are as follows: \$221,242,000 (20%) invested in issues of the Federal National Mortgage Association; \$152,787,000 (14%) invested in issues of the Federal Home Loan Mortgage Corporation; and, \$62,349,000 (6%) invested in issues of the Federal Home Loan Bank. The System’s investment policy does not have an issuer limitation for U.S. Treasury securities.

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

Notes to Financial Statements (continued)

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

**Custodial Credit Risk**

Pursuant to Florida Statute 218.415, securities, with the exception of certificates of deposit, are held with a third-party custodian; and all securities purchased by, and all collateral obtained by the System is properly designated as an asset of the System. The securities are held in an account separate and apart from the assets of the financial institution. At April 30, 2011 and 2010, the System's investment securities were held by U.S. Bank, a third-party custodian as required by the System's investment policy.

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

**5. Capital Assets**

A summary of the activity in the capital assets and the related accumulated depreciation accounts for the years ended April 30, 2011 and 2010 is as follows (in thousands):

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

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

Notes to Financial Statements (continued)

**5. Capital Assets (continued)**

	<b>Balance at May 1, 2009</b>	<b>Additions</b>	<b>Transfers</b>	<b>Deletions</b>	<b>Balance at April 30, 2010</b>
Land improvements	\$ 15,211	\$ 45	\$ 14	\$ –	\$ 15,270
Buildings and improvements	770,879	1,833	91,107	(2,042)	861,777
Equipment	368,604	17,059	15,547	(18,257)	382,953
Depreciable assets	1,154,694	18,937	106,668	(20,299)	1,260,000
Accumulated depreciation	(565,875)	(84,074)	–	17,835	(632,114)
Net depreciable assets	588,819	(65,137)	106,668	(2,464)	627,886
Land	33,083	948	–	(39)	33,992
Construction in progress	101,083	82,263	(106,668)	(97)	76,581
Capital assets, net	<u>\$ 722,985</u>	<u>\$ 18,074</u>	<u>\$ –</u>	<u>\$ (2,600)</u>	<u>\$ 738,459</u>

The System is currently engaged in expansion programs at its facilities. The estimated cost to complete all construction programs in process at April 30, 2011 is \$121,900,000.

**6. Self-Insurance**

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

The System, as a subdivision of the State of Florida, has sovereign immunity in tort actions. Therefore, in accordance with Chapter 768.28 of the Florida Statutes, for claims with occurrence dates subsequent to September 30, 1981, the System is not liable to pay a claim or judgment by any one person which exceeds the sum of \$100,000 or any claim or judgments, or portions thereof, which when totaled with all other claims or judgments paid by the State or its agencies or subdivisions arising out of the same incident or occurrence exceeds the sum of \$200,000.

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

Notes to Financial Statements (continued)

**6. Self-Insurance (continued)**

Chapter 768.28 also provides that judgments may be claimed or rendered in excess of these limits; however, these amounts must be reported to, and approved by, the Florida Legislature. The System's management estimates and accrues for the cost of unreported claims based on historical data and actuarial projections. Accrued claims have been discounted based on an interest rate of 1.5% for 2011 and 2010. The System has established a trust fund for the purpose of setting aside assets to fund future self-insurance losses. The trust assets can only be used for payment of losses and administrative expenses. Earnings on investments in the self-insurance trust are reported as nonoperating gains in the Statements of Revenue and Expenses and Changes in Net Assets – System and are retained as part of the fund. A roll-forward of the System's claims liability for self-insurance claims is as follows (in thousands):

Year Ended April 30	Liability at Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Liability at End of Fiscal Year	Estimated Amount Due Within One Year
2010	\$ 62,090	\$ 37,475	\$ (47,662)	\$ 51,903	\$ 7,346
2011	\$ 51,903	\$ 44,027	\$ (48,843)	\$ 47,087	\$ 7,249

**7. Long-Term Debt**

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

	2011	2010
Series 2009 Hospital Revenue Bonds – \$150,000 authorized and issued:		
6.978% Term Bond due May 1, 2039	\$ 40,000	\$ 40,000
7.278% Term Bond due May 1, 2044	110,000	110,000
	<u>150,000</u>	<u>150,000</u>
Series 2008 Hospital Refunding Revenue Bonds – \$156,575 authorized and issued:		
Serial Bonds, interest rates of 4.00% to 5.25% maturing amounts ranging from \$1,400 to \$4,000 through May 1, 2017	10,310	12,005
5.25% Term Bond due May 1, 2022	8,180	8,180
5.00% Term Bond due May 1, 2028	30,270	30,270
5.00% Term Bond due May 1, 2036	102,885	102,885
	<u>151,645</u>	<u>153,340</u>
Unamortized loss on defeasance, net	(4,777)	(5,058)
Unamortized discount, net	(2,211)	(2,299)
	<u>144,657</u>	<u>145,983</u>

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

Notes to Financial Statements (continued)

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

	<b>2011</b>	<b>2010</b>
Series 2007 Hospital Refunding Revenue Bonds – \$112,745 authorized and issued: Serial Bonds, interest rate of 4.75% maturing amounts ranging from \$4,695 to \$6,595 through May 1, 2024	\$ 16,200	\$ 16,200
4.75% Term Bond due May 1, 2028	34,215	34,215
4.75% Term Bond due May 1, 2032	62,330	62,330
	<b>112,745</b>	112,745
Unamortized loss on defeasance, net	<b>(6,018)</b>	(6,307)
Unamortized premium, net	2,729	2,860
	<b>109,456</b>	109,298
Series 2006 Hospital Revenue and Refunding Revenue Bonds – \$120,000 authorized and issued: Serial Bonds, interest rates of 4.00% to 5.00% maturing amounts ranging from \$930 to \$8,735 through May 1, 2023.	50,150	50,150
4.375% Term Bond due May 1, 2025	7,440	7,440
4.50% Term Bond due May 1, 2030	20,865	20,865
5.00% Term Bond due May 1, 2035	27,595	27,595
4.50% Term Bond due May 1, 2037	13,950	13,950
	<b>120,000</b>	120,000
Unamortized loss on defeasance, net	<b>(3,381)</b>	(3,752)
Unamortized premium, net	2,188	2,272
	<b>118,807</b>	118,520
Series 2003 A Refunding Revenue Bonds – \$39,945 and Series 2003 B Revenue Bonds – \$5,065 authorized and issued: Serial Bonds, interest rates of 2.75% to 5.25% maturing in amounts ranging from \$380 to \$4,155, through May 1, 2015	11,440	15,630
Unamortized premium, net	545	690
Unamortized loss on defeasance, net	<b>(235)</b>	(293)
	<b>11,750</b>	16,027
Series 2001 Revenue Certificate – \$10,000 authorized and issued: Payable in annual installments of \$400 commencing May 1, 2002, through and including May 1, 2016, and a balloon payment of \$4,000 due on November 1, 2016. Interest is payable semiannually based on the following formula [(one month LIBOR + 0.55%)/ 1.5037]. The LIBOR Rate at April 30, 2011 was 0.22648%.	6,000	6,400
Series 2000 Revenue Certificate – \$10,000 authorized and issued: Payable in annual installments ranging from approximately \$206 to \$400 commencing May 1, 2002, through and including May 1, 2015, and a balloon payment of approximately \$6,300 due on November 1, 2015. The interest rate is fixed at 5.155%.	7,500	7,822
Series 1998 Revenue Certificate – \$10,000 authorized and issued: Payable in annual installments of \$400 through and including May 1, 2017, and a balloon payment of \$2,400 due May 1, 2018. The interest rate is fixed at 4.374%.	4,800	5,200
	<b>552,970</b>	559,250
Less current portion	<b>(7,285)</b>	(7,007)
	<b>\$ 545,685</b>	<b>\$ 552,243</b>

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

Notes to Financial Statements (continued)

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

During 2011 and 2010, interest cost of \$3,753,000 and \$2,479,000, respectively, was capitalized. During 2011 and 2010, interest earned on invested Revenue Certificates and bond proceeds was \$9,000 and \$13,000, respectively, and is netted against capitalized interest. Net capitalized interest is included in capital assets.

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

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

The Series 2003A Refunding Revenue Bonds (described below) were issued to provide funds, to currently refund the Series 1993 Refunding and Revenue Bonds, and the Series 2003B Revenue Bonds were issued, to provide funds, together with other available funds, to pay the costs of acquisition, construction, and equipping of certain improvements to the hospital facilities, including the reimbursement of certain funds advanced by the System. The computations performed in accordance with GASB Statement No. 23 for the current refunding of the 1993 Refunding and Revenue Bonds resulted in a loss on defeasance of \$1,559,000 and is reported in the accompanying financial statements as a deduction from long-term debt. At April 30, 2011, the unamortized value of the deferred amount is \$234,746. The deferred amount is being charged

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

Notes to Financial Statements (continued)

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

to operations through the year 2015 using an effective interest amortization method. The Series 2003A Refunding Revenue Bonds and the Series 2003B Revenue Bonds maturing after May 1, 2013 are callable at par and in such proportion within maturities as may be directed by the System.

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

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

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

The computations performed in accordance with GASB Statement No. 23 for the current refunding of the Series 1996 Revenue Refunding Bonds resulted in a loss on defeasance of approximately \$5,246,000 and is reported in the accompanying financial statements as a deduction from long-term debt. At April 30, 2011, the unamortized value of the deferred amount is approximately \$3,381,000. The deferred amount is being charged to operations through the year 2021 using an effective interest amortization method.

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

Notes to Financial Statements (continued)

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

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

The System completed the advance refunding of its Series 2002 Revenue Bonds in conjunction with a rate lock agreement dated February 8, 2007 to reduce future debt service. On a match-maturity basis, the cash flow savings not including the funds held in related bond debt service accounts was approximately \$8,113,000. The advance refunding reduced the annual gross debt service of the System by approximately an average of \$1,520,000 over the life of the Series 2007 bonds. The net proceeds of the Series 2007 Bonds of approximately \$113.1 million plus other available funds of approximately \$15.8 million were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2002 Revenue Bonds through May 1, 2012 at which time the remaining Series 2002 Revenue Bonds will be called for redemption at a redemption price of 101% of the principal amount. As a result, the \$120 million in remaining Series 2002 Revenue Bonds are considered defeased and the liability for those bonds has been removed from the April 30, 2011 and 2010 Balance Sheets.

The computations performed in accordance with GASB Statement No. 23 for the advance refunding of the Series 2002 Hospital Revenue Bonds resulted in a loss on defeasance of approximately \$7,197,000 and is reported in the accompanying financial statements as a deduction from long-term debt. At April 30, 2011, the unamortized value of the deferred amount is approximately \$6,018,000. The deferred amount is being charged to operations through the year 2032 using an effective interest amortization method.

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



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

Notes to Financial Statements (continued)

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

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

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

The fair value of the System's long-term debt, based primarily on quoted market prices, was \$549,087,000 and \$563,485,000 at April 30, 2011 and 2010, respectively.

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

	<b>Principal Payments</b>	<b>Estimated Interest Payments</b>	<b>Estimated Total Debt Service</b>
Years ending April 30:			
2012	\$ 7,285	\$ 26,879	\$ 34,164
2013	7,585	26,530	34,115
2014	7,880	26,165	34,045
2015	3,365	25,810	29,175
2016	10,355	25,528	35,883
2017–2021	52,290	121,401	173,691
2022–2026	69,965	108,223	178,188
2027–2031	109,110	87,251	196,361
2032–2036	139,155	58,050	197,205
2037–2044	157,140	35,094	192,234
	<u>\$ 564,130</u>	<u>\$ 540,931</u>	<u>\$ 1,105,061</u>

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

Notes to Financial Statements (continued)

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

For purposes of determining estimated future interest payments for the System's variable interest rate debt, estimated future interest payments were calculated using the rates in effect at April 30, 2011.

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

	<b>Years Ended April 30</b>	
	<b>2011</b>	<b>2010</b>
Balance at beginning of year	\$ 559,250	\$ 415,273
Issuance of long-term debt, net of premium or discount	—	150,000
Principal payments on long-term debt	(7,007)	(6,748)
Amortization of premiums, discounts, and loss on defeasance, net	727	725
Balance at end of year	\$ 552,970	\$ 559,250

**8. Capital Lease Obligations**

Capital lease obligations payable at April 30, 2011 and 2010, amounted to \$4,243,000 and \$5,965,000, respectively. These obligations, which are collateralized by equipment, have annual installments ranging from \$101,000 to \$1,614,000 including interest at 3.73% and mature through 2014.

Future minimum capital lease payments due under these obligations as of April 30, 2011 are as follows (in thousands):

	<b>Total</b>
Years ending April 30:	
2012	\$ 1,912
2013	1,825
2014	701
Total minimum lease payments	4,438
Less amount representing interest	(195)
Present value of minimum lease payments	\$ 4,243

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

Notes to Financial Statements (continued)

**8. Capital Lease Obligations (continued),**

The equipment acquired under the capital leases has an aggregate cost of \$8,326,000 and accumulated amortization of \$3,913,000 at April 30, 2011 and \$2,334,000 at April 30, 2010. Amortization expense is included with depreciation expense in the accompanying financial statements.

**9. Pension Plan**

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

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

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

Notes to Financial Statements (continued)

**9. Pension Plan (continued)**

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

Participant data as of May 1, 2010:

Active	7,203
Retired	1,074
Terminated vested	1,981
Total	<u>10,258</u>

The Plan funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The contribution rate for normal cost is determined using the projected unit credit actuarial funding method with proration based on service. The actuary uses the level percentage of payroll method to amortize the unfunded liability over a weighted average of 17 years for changes in benefits or actuarial assumptions and five-year smoothing for actuarial gains and losses. The significant actuarial assumptions used to compute the annual required contribution include a 7.5% rate of return on investments and an age-related salary increase scale (from 6.00% below age 35 to 4.50% for age 60 and older). The rate of return on investments and the projected salary increase rate include projected inflation of 2.5%.

The annual required contributions to the Plan for 2010/2011 were made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of May 1, 2010. The System's annual pension cost for the years ended April 30, 2011, 2010, and 2009 was approximately \$28,924,000, \$28,260,000, and \$23,615,000, respectively. The actuarial value of the Plan assets at April 30, 2011, 2010, and 2009 was \$306,235,000, \$276,000,000, and \$216,838,000, respectively. The System's contributions to the Plan during the years ended April 30, 2011, 2010, and 2009 were equal to or in excess of 100% of annual pension cost for all three years. As of April 30, 2011, 2010, and 2009, the System's net pension obligation was zero.

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

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

Notes to Financial Statements (continued)

**9. Pension Plan (continued)**

At April 30, 2011 and 2010, the Plan had the following investments with the respective effective durations. Fair values are determined primarily using quoted market prices or absent such, by other customary pricing methods by the custodian. (Fair values are in thousands and effective durations are in years.)

	2011		2010	
	Fair Value	Effective Duration	Fair Value	Effective Duration
<b>Investments</b>				
Domestic investments:				
Equities	\$ 106,036	N/A	\$ 92,765	N/A
U.S. Government and agency obligations	56,506	2.25	42,526	1.55
Corporate debt	29,215	1.48	28,397	1.34
Commercial mortgage securities	4,262	0.15	5,066	0.19
Collateralized mortgage obligations	5,829	0.30	6,721	0.31
Asset-backed securities	6,951	0.09	6,833	0.10
Municipal bonds	4,853	0.44	859	0.10
SEC registered money market funds	27,376	N/A	25,397	N/A
Preferred securities	47	N/A	35	N/A
International investments:				
JP Morgan EAFE Plus Fund	51,044	N/A	42,091	N/A
Other:				
Cash	5,137	N/A	6,692	N/A
Due from brokers	769	N/A	-	-
	298,025		257,382	
<b>Liabilities</b>				
Due to brokers	-	N/A	(8,616)	N/A
	\$ 298,025		\$ 248,766	

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

Notes to Financial Statements (continued)

**9. Pension Plan (continued)**

**Credit Risk**

The Plan has adopted an investment policy that authorizes the following instruments for investment: (1) *Domestic Large Cap Equity*: U.S. large capitalization securities are defined as securities of companies which have greater than \$4.0 billion in market capitalization. The following list of investments may be purchased in the large capitalization domestic equity portfolio: common and preferred stock; securities convertible into common stock, including offerings under Securities Act Rule 144, limited to 10% of the portfolio at market value; warrants; American Depository Receipts (ADRs) listed on a major U.S. exchange, limited to 5% of the portfolio at market value; no-load mutual funds; bank, trust, or insurance company pooled funds; and cash or cash equivalents. (2) *Domestic Small Cap Equity*: U.S. small capitalization securities are defined as securities of companies which have less than \$4.0 billion in market capitalization. The following list of investments may be purchased in the small capitalization domestic equity portfolio: common and preferred stock; securities convertible into common stock, including offerings under Securities Act Rule 144, limited to 10% of the portfolio at market value; warrants; ADRs listed on a major U.S. exchange, limited to 5% of the portfolio at market value; no-load mutual funds, bank, trust, or insurance company pooled funds; and cash or cash equivalents. (3) *International Equity*: The following list of investments may be purchased in an international equity portfolio: common and preferred stock; securities convertible into common stock, including offerings under Securities Act Rule 144, limited to 10% 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 (any speculative or opportunistic country exposure to currencies is strictly prohibited); World Equity Benchmarks (WEBs); U.S. companies with significant exposure to international markets (i.e., over 50% of their sales overseas), limited to 5% of the portfolio at market value; no-load mutual funds; bank, trust, or insurance company pooled funds; and cash or cash equivalents, limited to 10% of the portfolio at market value. (4) *Fixed Income*: The following list of investments may be purchased in the core fixed-income portfolio: U.S. Treasury obligations, Treasury Inflation Protected Bonds, Government Agencies and Government Sponsored Agency debentures and mortgage pass-throughs; mortgage-backed To-Be-Announced (TBAs) notes; collateralized mortgage obligations, limited to 25% of the portfolio; non-agency issued mortgages originated in Florida per Statute 215.47(2)(b)(c)(d); commercial mortgage-backed securities; corporate bonds and other corporate obligations including equipment trust certificates; asset-backed securities; indexed notes, floaters, and other variable rate obligations; pooled accounts or other collective investment funds; certificates of deposit, bankers' acceptances, and commercial paper rated at least A-1 by S&P or P-1 by

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

Notes to Financial Statements (continued)

**9. Pension Plan (continued)**

Moody's; mutual funds; municipal bonds; and complex tranches of collateralized mortgage obligations, asset-backed securities and commercial mortgage-backed securities (including interest only, principal only, super floaters, inverse floaters, and support bonds), limited to 10% of the portfolio at market value. Investments not listed above may be purchased only if the investment manager receives written approval from the System's Finance Committee.

At April 30, 2011 and 2010, the Plan's investment securities have the following credit ratings as shown below (in thousands):

	2011		2010	
	Fair Value	Credit Rating*	Fair Value	Credit Rating*
<b>Investments</b>				
Domestic investments:				
Equities	\$ 106,036	Not Rated	\$ 92,765	Not Rated
U.S. Treasuries	27,162	TSY	14,488	TSY
U.S. Agencies	2,172	AAA	1,707	AAA
U.S. Agencies	-	-	425	A
U.S. Agency mortgage bonds	27,172	AAA	25,906	AAA
Corporate debt	-	-	421	AAA
Corporate debt	896	AA+	868	AA+
Corporate debt	504	AA	-	-
Corporate debt	535	AA-	911	AA-
Corporate debt	1,941	A+	2,362	A+
Corporate debt	5,741	A	6,945	A
Corporate debt	5,602	A-	3,606	A-
Corporate debt	4,974	BBB+	5,009	BBB+
Corporate debt	4,857	BBB	4,001	BBB
Corporate debt	3,919	BBB-	3,671	BBB-
Corporate debt	222	BB+	254	BB+
Corporate debt	-	-	327	BB
Corporate debt	24	Not Rated	22	Not Rated
Commercial mortgage securities	4,110	AAA	4,997	AAA
Commercial mortgage securities	72	AA-	69	AA-
Commercial mortgage securities	80	Not Rated	-	-

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

Notes to Financial Statements (continued)

**9. Pension Plan (continued)**

	2011		2010	
	Fair Value	Credit Rating*	Fair Value	Credit Rating*
Domestic investments (continued):				
Collateralized mortgage obligations	\$ 4,454	AAA	\$ 3,725	AAA
Collateralized mortgage obligations	-	-	34	AA+
Collateralized mortgage obligations	111	A-	89	A-
Collateralized mortgage obligations	-	-	201	BBB
Collateralized mortgage obligations	-	-	170	BBB-
Collateralized mortgage obligations	-	-	94	BB
Collateralized mortgage obligations	-	-	188	B+
Collateralized mortgage obligations	678	CCC	1,335	CCC
Collateralized mortgage obligations	277	CC	311	CC
Collateralized mortgage obligations	1	D	6	D
Collateralized mortgage obligations	308	Not Rated	568	Not Rated
Asset-backed securities	5,204	AAA	5,247	AAA
Asset-backed securities	420	AA+	26	A+
Asset-backed securities	-	-	85	BB+
Asset-backed securities	99	B	-	-
Asset-backed securities	384	CCC	398	CCC
Asset-backed securities	-	-	352	CC
Asset-backed securities	319	D	103	D
Asset-backed securities	525	Not Rated	622	Not Rated
Municipal bonds	146	AA+	-	-
Municipal bonds	248	AA	375	AA
Municipal bonds	1,699	AA-	-	-
Municipal bonds	2,277	A+	-	-
Municipal bonds	483	A-	484	BBB
SEC registered money market funds	27,376	AAA	25,397	AAA
Preferred securities	47	C	35	C
International investments:				
JP Morgan EAFE Plus Fund	51,044	Not Rated	42,091	Not Rated
Other:				
Cash	5,137		6,692	
Due from brokers	769		-	
	<u>298,025</u>		<u>257,382</u>	
<b>Liabilities</b>				
Due to brokers	-		(8,616)	
	<u>\$ 298,025</u>		<u>\$ 248,766</u>	

\*Standard & Poor's ratings



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

Notes to Financial Statements (continued)

**9. Pension Plan (continued)**

**Concentration of Credit Risk**

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

Domestic equity investments in any individual company should not exceed 10% at cost and no more than 10% of a portfolio's market value. No more than 45% of the portfolio's market value may be invested in any one sector, as defined by S&P. Investments in any individual company on a "Total Plan" basis shall not exceed 3%. Holdings of any single issue in a portfolio should not exceed 5% of the market value of the total outstanding common stock of any one company. The permissible range of investment in U.S. large capitalization securities will typically be in companies with greater than \$4.0 billion in market capitalization. Within the small capitalization mandate, the permissible range of investment will typically be in companies with less than \$4.0 billion in market capitalization.

International equity investments in any individual company should not exceed 5% at cost and no more than 8% of a portfolio's market value. No more than 45% of the portfolio's market value may be invested in any one sector, as defined by S&P. Holdings of any single issue in a portfolio should not exceed 5% of the market value of the total outstanding common stock of any one company. Within the small capitalization mandates, this guideline may be waived with prior notification and Finance Committee approval. The permissible capitalization range of investments in international securities will be established upon discussion with the Plan and the investment manager.

No more than 10% of the bond portfolio at market value shall be invested in the securities of any one issuer, with the exception of the U.S. Government. No more than 3% of the portfolio may be invested in one bond, with the exception being securities issued or guaranteed by the U.S. Government. No more than 50% of the portfolio shall have exposure to non-government guaranteed agency obligations (at market value). Fixed-income securities should be rated BBB- (or its equivalent) or higher at time of purchase by a nationally recognized statistical rating agency. The minimum dollar-weighted average quality rating of the portfolio is "A." Asset backed securities, mortgage-backed securities, and collateralized mortgage obligations should be rated "AAA" (or its equivalent) at the time of purchase by a nationally recognized statistical rating agency. For split ratings, the higher rating will be used to determine compliance with these

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

Notes to Financial Statements (continued)

**9. Pension Plan (continued)**

guidelines. If issues are downgraded to non-investment grade, the investment manager will determine the appropriate action based on the perceived risk and expected return of the position and will inform System Management and the investment consultant in writing of the action that was taken. The duration of the portfolio must be within +/- 10% of the indicated index. The maximum effective maturity of any single security should not exceed 40 years.

The following table shows the composition of the Plan's investments at April 30, 2011 and 2010 (in thousands):

	2011		2010	
	Fair Value	% of Portfolio	Fair Value	% of Portfolio
<b>Investments</b>				
Domestic investments:				
Equities	\$ 106,036	36%	\$ 92,765	37%
U.S. Government and agency obligations	56,506	19	42,526	17
Corporate debt	29,215	10	28,397	11
Commercial mortgage securities	4,262	1	5,066	2
Collateralized mortgage obligations	5,829	2	6,721	3
Asset-backed securities	6,951	2	6,833	3
Municipal bonds	4,853	2	859	-
SEC registered money market funds	27,376	9	25,397	10
Preferred securities	47	-	35	-
International investments:				
JP Morgan EAFE Plus Fund	51,044	17	42,091	17
Other:				
Cash	5,137	2	6,692	3
Due from brokers	769	-	-	-
	298,025		257,382	
<b>Liabilities</b>				
Due to brokers	-	-	(8,616)	(3)
	\$ 298,025	100%	\$ 248,766	100%

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

Notes to Financial Statements (continued)

**9. Pension Plan (continued)**

At April 30, 2011, there was no single investment representing 5% or more of the Plan's total investments.

The System amended the Plan's investment policy in January 2011 to expand asset classes available for investment. None of these new asset classes had been funded as of April 30, 2011.

**Custodial Credit Risk**

GASB 40 requires disclosure of deposits and investments exposed to custodial credit risk. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Plan would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of April 30, 2011, the Plan's investment portfolio was held by a single third-party custodian.

**Foreign Currency Risk**

GASB 40 requires disclosure of deposits or investments exposed to foreign currency risk which is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The JPMorgan EAFE Plus Fund is comprised of primarily equity securities in Europe, Australia, and Asia Far East (EAFE) countries. The fund's objective is to maintain neutral currency exposure in each currency's weighting in the Morgan Stanley Capital International (MSCI) EAFE Index. The fund is priced daily in U.S. dollars.

**10. Regulatory Matters**

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

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

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

Notes to Financial Statements (continued)

**11. Other Noncurrent Liabilities**

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

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

	<b>Years Ended April 30</b>	
	<b>2011</b>	<b>2010</b>
Balance at beginning of year	\$ 66,988	\$ 61,479
Disability expense	845	2,382
AHCA assessments	17,411	17,468
Medical equipment loan	4,158	–
Amortization of early retirement benefits	(238)	(238)
Humana deferred income	(877)	877
Payments	(19,236)	(14,980)
Balance at end of year	\$ 69,051	\$ 66,988

**12. Leases**

Effective July 1, 1995, the System entered into a lease (the Lease) of Pembroke Pines Hospital from HCA Inc. and affiliates. During 2006, HCA Inc. sold the facility to Hospital Realty, LLC. The System operates the facility under the name of Memorial Hospital Pembroke. The Lease is for a period of ten years with two successive optional ten-year terms. Either party may elect not to renew the Lease at the end of the first and second ten-year term. During fiscal year 2005, the System exercised its option to renew the Lease for the first of the two successive optional ten-year terms. In May 2007, the System and Hospital Realty, LLC renegotiated the lease and extended the lease term through June 30, 2025.

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

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

Notes to Financial Statements (continued)

**12. Leases (continued)**

The System has noncancelable operating lease commitments including the Memorial Hospital Pembroke lease, office space, medical equipment, data processing equipment, and system support services, the expense for which was approximately \$20,982,000 and \$20,097,000 for the years ended April 30, 2011 and 2010, respectively. At April 30, 2011, future minimum lease payments by year under the noncancelable operating leases are as follows (in thousands):

Years ending April 30:	
2012	\$ 18,108
2013	15,031
2014	11,542
2015	10,258
2016	8,490
2017–2021	30,737
2022–2026	22,573

**13. Nonoperating Gains, Net**

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

	<b>Years Ended April 30</b>	
	<b>2011</b>	<b>2010</b>
Ad valorem tax revenue, net	\$ 28,753	\$ 38,904
Investment income and other, net	34,419	39,613
Interest	(28,545)	(24,883)
Interest subsidy	3,747	1,910
	<u>\$ 38,374</u>	<u>\$ 55,544</u>

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

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

Notes to Financial Statements (continued)

**14. Net Assets**

A summary of the activity in the net asset accounts for the years ended April 30, 2011 and 2010 is as follows (in thousands):

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

	Invested in Capital Assets, Net of Related Debt	Restricted for Debt Service	Restricted by Donors	Restricted Under Self- Insurance Trust Agreements	Unrestricted	Total Net Assets
Balance at May 1, 2009	\$ 287,995	\$ 19	\$ 8,446	\$ 49,366	\$ 665,178	\$ 1,011,004
Excess of revenue and net nonoperating gains over expenses	-	-	-	-	117,538	117,538
Net increase in capital assets, net	15,474					
Issuance of long-term debt and capital leases	(150,387)					
Principal payments on long-term debt and capital leases	8,275					
Net transfers to and from unrestricted	(126,638)	10,062	(2,773)	1,704	117,645	-
Contributions and grants	-	-	2,156	-	2,408	4,564
Balance at April 30, 2010	<u>\$ 161,357</u>	<u>\$ 10,081</u>	<u>\$ 7,829</u>	<u>\$ 51,070</u>	<u>\$ 902,769</u>	<u>\$ 1,133,106</u>

# Required Supplementary Information

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

Schedule of Funding Progress (Unaudited)  
*(In Thousands)*

<b>Year Ended April 30</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability*</b>	<b>Unfunded Actuarial Accrued Liability</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll</b>
2005	\$ 155,085	\$ 183,097	\$ 28,012	84.7%	\$ 218,950	12.8%
2006	175,129	197,500	22,371	88.7	251,197	8.9
2007	203,113	225,047	21,934	90.3	296,396	7.4
2008	232,328	256,634	24,306	90.5	325,691	7.5
2009	216,838	312,744	95,906	69.3	360,160	26.6
2010	276,000	344,203	68,203	80.2	399,400	17.1
2011	306,235	384,397	78,162	79.7	421,333	18.6

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



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

Schedule of Employer Contributions (Unaudited)

<b>Year Ended April 30</b>	<b>Annual Required Contribution*</b>	<b>Percentage Contributed</b>
2005	\$ 13,995,000	100%
2006	14,191,000	100
2007	17,095,000	100
2008	18,914,000	100
2009	23,615,000	100
2010	28,260,000	100
2011	28,924,000	100

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

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

Notes to Pension Disclosure Required Supplementary  
Information (Unaudited)

The information presented in the schedules on pages 63 and 64 included as Pension Disclosure Required Supplementary Information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	May 1, 2010
Actuarial cost method	Projected Unit Credit Actuarial Cost Method
Amortization method	Level percent of pay, closed
Remaining amortization period	Various, ranging from one to 30 years depending on items being amortized – the weighted-average period is 17 years
Asset valuation method	Five-year smoothing of market value
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	Age-based rates based on plan experience

<u>Attained Age</u>	<u>Percentage Increase</u>
Less than 35	6.00%
35-39	5.75%
40-44	5.50%
45-49	5.25%
50-54	5.00%
55-59	4.75%
60 or older	4.50%

Growth in covered payroll for amortization	5.0%
Cost-of-living adjustments	Not applicable

\*Includes inflation at 2.5%.

## Other Financial Information

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

Combining Balance Sheet – System

As of April 30, 2011  
(In Thousands of Dollars)

	<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	\$ –	\$ –	\$ –	\$ 168,877	\$ 168,927
Investments	–	–	–	–	798,573	798,573
Patient accounts receivable, net	86,920	42,223	13,093	20,628	310	163,174
Ad valorem taxes receivable	–	–	–	–	1,325	1,325
Inventories	14,217	5,729	2,372	2,061	800	25,179
Other current assets	4,452	1,424	689	531	16,483	23,579
<b>Total current assets</b>	<b>105,639</b>	<b>49,376</b>	<b>16,154</b>	<b>23,220</b>	<b>986,368</b>	<b>1,180,757</b>
Assets whose use is limited:						
By Board for capital improvements	88,240	–	–	–	–	88,240
By Board for employee disability	–	–	–	–	16,888	16,888
Under self-insurance trust agreements	–	–	–	–	52,366	52,366
Externally restricted by donors	1,924	–	–	–	–	1,924
<b>Total assets whose use is limited</b>	<b>90,164</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>69,254</b>	<b>159,418</b>
Due from Memorial Healthcare System	4,053	375,873	–	–	(379,926)	–
Capital assets, net	356,909	161,209	21,044	114,543	154,731	808,436
Deferred charges, net	–	–	–	–	7,510	7,510
Other assets	186	2	15	–	6,641	6,844
<b>Total assets</b>	<b>\$ 556,951</b>	<b>\$ 586,460</b>	<b>\$ 37,213</b>	<b>\$ 137,763</b>	<b>\$ 844,578</b>	<b>\$ 2,162,965</b>

	<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 and net assets</b>						
Current liabilities:						
Accounts payable and accrued expenses	\$ 44,786	\$ 12,118	\$ 11,057	\$ 5,046	\$ 59,312	\$ 132,319
Accrued compensation and payroll taxes	39,846	16,303	5,964	6,394	13,639	82,146
Estimated third-party payor settlements	6,354	3,236	882	3,992	102	14,566
Current installments of long-term debt	-	-	-	-	7,285	7,285
Current portion of capital lease obligations	214	42	8	21	1,500	1,785
Current portion of estimated claims liability	-	-	-	-	7,249	7,249
Other current liabilities	2,499	879	328	238	2,955	6,899
<b>Total current liabilities</b>	<b>93,699</b>	<b>32,578</b>	<b>18,239</b>	<b>15,691</b>	<b>92,042</b>	<b>252,249</b>
Due to Memorial Healthcare System	-	-	3,970	33,502	(37,472)	-
Long-term portion of estimated claims liability	-	-	-	-	39,838	39,838
Other noncurrent liabilities	35,404	14,637	4,880	4,952	9,178	69,051
Long-term portion of capital lease obligations	153	33	6	16	2,250	2,458
Long-term debt	-	-	-	-	545,685	545,685
<b>Total liabilities</b>	<b>129,256</b>	<b>47,248</b>	<b>27,095</b>	<b>54,161</b>	<b>651,521</b>	<b>909,281</b>
Net assets:						
Invested in capital assets, net of related debt	356,541	161,135	21,030	114,506	(413,149)	240,063
Restricted:						
By donors	1,924	-	-	-	-	1,924
Under self-insurance trust agreements	-	-	-	-	52,366	52,366
Unrestricted	69,230	378,077	(10,912)	(30,904)	553,840	959,331
<b>Total net assets</b>	<b>427,695</b>	<b>539,212</b>	<b>10,118</b>	<b>83,602</b>	<b>193,057</b>	<b>1,253,684</b>
<b>Total liabilities and net assets</b>	<b>\$ 556,951</b>	<b>\$ 586,460</b>	<b>\$ 37,213</b>	<b>\$ 137,763</b>	<b>\$ 844,578</b>	<b>\$2,162,965</b>

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

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

For the Year Ended April 30, 2011  
(In Thousands of Dollars)

	<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>Eliminations</b>	<b>Combined</b>
Revenue:							
Net patient service revenue	\$ 711,536	\$ 385,862	\$ 110,064	\$ 156,116	\$ 32,341	\$ –	\$ 1,395,919
Other revenue	39,328	12,457	5,799	2,676	15,875	(13,843)	62,292
Total revenue	<u>750,864</u>	<u>398,319</u>	<u>115,863</u>	<u>158,792</u>	<u>48,216</u>	<u>(13,843)</u>	<u>1,458,211</u>
Expenses:							
Salaries and wages	344,766	155,961	56,464	61,810	45,715	(1,293)	663,423
Employee benefits	69,840	30,858	11,537	11,972	6,414	(312)	130,309
Professional fees	23,602	4,157	2,178	1,845	1,203	–	32,985
Supplies	148,426	63,684	18,358	20,375	3,255	(144)	253,954
Purchased services	40,027	24,112	11,430	9,166	3,782	(1,279)	87,238
Facilities	31,740	13,045	10,971	5,707	4,796	(2,339)	63,920
Depreciation and amortization	50,158	23,488	5,531	9,397	3,321	(2,702)	89,193
Other	31,222	15,364	5,553	6,498	3,048	(923)	60,762
Total expenses	<u>739,781</u>	<u>330,669</u>	<u>122,022</u>	<u>126,770</u>	<u>71,534</u>	<u>(8,992)</u>	<u>1,381,784</u>
Income (loss) from operations	11,083	67,650	(6,159)	32,022	(23,318)	(4,851)	76,427
Non-operating gains (losses), net	(6,169)	(5,630)	489	(5,162)	49,995	4,851	38,374
Excess (deficiency) of revenues and net non-operating gains over expenses	4,914	62,020	(5,670)	26,860	26,677	–	114,801
Contributions and grants	4,461	941	38	314	23	–	5,777
Increase (decrease) in net assets	9,375	62,961	(5,632)	27,174	26,700	–	120,578
Net assets at the beginning of the year	418,320	476,251	15,750	56,428	166,357	–	1,133,106
Net assets at the end of the year	<u>\$ 427,695</u>	<u>\$ 539,212</u>	<u>\$ 10,118</u>	<u>\$ 83,602</u>	<u>\$ 193,057</u>	<u>\$ –</u>	<u>\$ 1,253,684</u>

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

**About Ernst & Young**

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit [www.ey.com](http://www.ey.com)

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This Report has been prepared by Ernst & Young LLP, a client serving member firm located in the United States.

