

NORTH BROWARD HOSPITAL DISTRICT

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

June 30, 2018

(With Report of Independent Auditors Thereon)

NORTH BROWARD HOSPITAL DISTRICT

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
North Broward Hospital District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the North Broward Hospital District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the North Broward Hospital District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 (x), the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Reporting for Postemployment Benefits Other Than Pensions*, GASB Statement No. 84, *Fiduciary Activities*, and GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, as of July 1, 2017. Statement No. 75 significantly changed the accounting for the District's other postemployment benefits liability and related disclosures. Statement No. 84 requires a statement of fiduciary net position and a statement of changes in fiduciary net position for the Districts' pension trust fund to be presented as part of the basic financial statements. Statement No. 89 establishes new accounting requirements for interest cost incurred before the end of a construction period. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 10, and the schedule of changes in net pension liability and related ratios – defined benefit pension plan, the schedule of employer contributions – defined benefit pension plan, schedule of money-weighted rate of return – defined benefit pension plan and the schedule of changes in total OPEB liability and related ratios on pages 62 to 65, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining information on pages 66 to 68 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Warren Averett, LLC

Birmingham, Alabama

October 31, 2018

NORTH BROWARD HOSPITAL DISTRICT

Management's Discussion and Analysis (Unaudited)

June 30, 2018

This section of the North Broward Hospital District's (the District) annual financial report presents the District's analysis of its financial performance as of June 30, 2018 and for the fiscal year then ended. Please read this analysis in conjunction with the financial statements, which follow this section.

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

Overview of the Financial Statements

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

Required Financial Statements

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

All of the revenue and expenses for fiscal year 2018 are accounted for in the statement of revenues, expenses, and changes in net position. The statement measures the annual financial performance of the District's operations and can be used to determine whether the District has recovered all of its costs through its net patient service revenue, ad valorem taxes, and other sources of revenue.

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing (capital and noncapital) activities. The statement highlights the key sources and uses of the District's cash and what the change in the cash balance was during the reporting period. The District's financial statements report also includes a separate statement of fiduciary net position and a statement of changes in fiduciary net position which represents the District's fiduciary activities consisting of its pension trust fund.

Financial Analysis of the North Broward Hospital District

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

NORTH BROWARD HOSPITAL DISTRICT

Management's Discussion and Analysis (Unaudited)

June 30, 2018

A comparative summary of the District's statements of net position at June 30, 2018 and 2017, is presented below:

	2018	2017 (As Adjusted)
	(In thousands of dollars)	
Assets:		
Current assets	\$ 825,965	\$ 682,144
Asset whose use is limited, net of amount for current obligations	58,389	56,699
Investments	150,088	146,197
Capital assets, net	577,467	557,080
Other assets	29,430	37,464
Total assets	\$ 1,641,339	\$ 1,479,584
Deferred outflows of resources:		
Accumulated decrease in fair value of hedging derivatives	\$ —	\$ 20,942
Deferred amount on debt refundings	27,859	9,380
Pension	16,721	20,671
Total deferred outflows of resources	\$ 44,580	\$ 50,993
Liabilities:		
Current liabilities	\$ 229,920	\$ 223,334
Long-term debt	343,637	210,475
Other liabilities	184,560	289,688
Total liabilities	\$ 758,117	\$ 723,497
Deferred inflows of resources:		
Pension	\$ 18,799	\$ 23,821
Other post employment benefits	5,544	—
Total deferred inflows of resources	\$ 24,343	\$ 23,821
Net position:		
Net investment in capital assets	\$ 284,295	\$ 331,852
Restricted for donor restrictions	26,117	32,234
Restricted by counter party under interest rate swap agreements	—	25,060
Unrestricted	593,047	394,113
Total net position	\$ 903,459	\$ 783,259

NORTH BROWARD HOSPITAL DISTRICT

Management's Discussion and Analysis (Unaudited)

June 30, 2018

The net position of the District totaled \$903.5 million and \$783.3 million as of June 30, 2018 and 2017, respectively. The increase in net position of \$120 million in fiscal year 2018 was due to multiple factors, included among them; a -\$130 million adjustment of prior year net position for adoption of GASB Statement No.75, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions; a \$68.9 million decrease in other postemployment benefit costs due to plan changes; increase in net patient revenue of \$3.3 million; and gain on investments of \$53 million.

Budgetary Highlights

Overall, the District performed ahead of budget by \$118.7 million, in fiscal year 2018. Operationally, the District performed above budget by \$93.8 million. The operating results were impacted by total operating expenses being under budget by \$141.7 million, offset by net operating revenue being under budget by \$47.9 million. Non-operating income was over budget by \$24.8 million primarily due to unrealized gains on investments. Inpatient admissions were under budget by 7%, while observations cases were over budget by 12.4% with total hospitalized patient (Admissions plus Observation cases) under budget by 2.3%. Outpatient volumes were under budget by 10.7%, due to a reduction in physician office visits, emergency room visits, medical center visits, ancillary visits, as well as a reduction in the physician office visits, primary care clinic visits and emergency department visits.

Capital Assets and Debt Administration

As of June 30, 2018 and 2017, the District had net capital assets of \$577.5 million and \$557.1 million, respectively, an increase of \$20.4 million from 2017 to 2018. During fiscal year 2018 Broward Health spent a total of \$74.8 million on capital. A few of the notable capital projects include Broward Health North (BHN) finishing the construction of the \$81.9 million renovation project, including \$1.2 million to construct a new emergency department; \$553 thousand on state-of-the art operating rooms; \$904 thousand on a new central energy plant and \$4.05 million on the building façade. Broward Health Medical Center (BHMC) continued the \$52.3 million Salah Foundation Children's Hospital construction project by spending \$9.6 million. Broward Health Coral Springs (BHCS) spent \$38.1 million of the \$64.8 million tower expansion project. The renovation will include an increased number of surgical beds, construction of private post-partum rooms, and relocation of the neonatal intensive care unit.

NORTH BROWARD HOSPITAL DISTRICT

Management's Discussion and Analysis (Unaudited)

June 30, 2018

Capital assets at June 30, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
	(In thousands of dollars)	
Land and land improvements	\$ 51,367	\$ 51,351
Buildings and building improvements	733,518	725,627
Equipment	<u>594,868</u>	<u>584,826</u>
	1,379,753	1,361,804
Less accumulated depreciation	<u>(925,874)</u>	<u>(879,843)</u>
	453,879	481,961
Construction-in-progress	<u>123,588</u>	<u>75,119</u>
	<u>\$ 577,467</u>	<u>\$ 557,080</u>

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

Revenues, Expenses, and Changes in Net Position

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

NORTH BROWARD HOSPITAL DISTRICT

Management's Discussion and Analysis (Unaudited)

June 30, 2018

The following table presents the District's condensed statements of revenues, expenses, and changes in net position for fiscal years 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	(In thousands of dollars)	(As Adjusted)
Operating revenues	\$ 1,035,556	\$ 1,025,279
Operating expenses	<u>1,083,593</u>	<u>1,174,463</u>
Operating loss	(48,037)	(149,184)
Unrestricted property tax revenue	138,582	137,938
Other nonoperating revenue, net	29,558	44,578
Capital contributions	<u>97</u>	<u>192</u>
Increase in net position	120,200	33,524
Net position:		
Beginning of year, as adjusted (note 2)	<u>783,259</u>	<u>749,735</u>
End of year	<u>\$ 903,459</u>	<u>\$ 783,259</u>

Management's Discussion of Recent Financial Performance

Overview – Fiscal Year 2018 as Compared to Fiscal Year 2017

In fiscal year 2018, the District experienced an increase in net position of \$120 million, as compared to an increase in net position of \$33 million in the prior year. Management continued its focus executing its strategic plan, expense and efficiency controls, and improvement in revenue cycle management.

Patient Volumes

The District focused on defining and standardizing statistics across the system this year, ultimately providing transparency and consistency into the District's volumes. Areas that were reviewed and standardized include but are not limited to admissions by financial class, emergency department visits, and total outpatient visits.

Medicare inpatient volume, as measured by admissions, decreased from FY 2017 by 2.82%, or 330 cases. Medicare observation cases increased from FY 2017 by 13.8% or 342 cases. Total hospitalized Medicare patients (Admissions plus Observation cases) increased by 0.1% or 12 cases. Correspondingly, Medicare Advantage inpatient volumes as measured by admissions decreased from FY 2017 by 2.56% or 265 cases. Medicare Advantage observation cases increased from FY 2017 by 15.7% or 827 cases. Total hospitalized Medicare Advantage patients (Admissions plus Observation cases) increased by 3.6%

NORTH BROWARD HOSPITAL DISTRICT

Management's Discussion and Analysis (Unaudited)

June 30, 2018

or 562 cases. There was a 2.12% increase in the Medicare case mix index from year to year, measured by the Medicare Severity Diagnostic Related Groups (MS-DRGs).

During the 2015 Florida Legislative session, measures were approved that have resulted in significant changes to the Medicaid program (Medicaid Reform). This five-year plan will result in all Medicaid beneficiaries being enrolled in a managed care Medicaid plan. Overall Medicaid, including Managed Medicaid admissions, decreased over the prior year by 289 cases, or 1.9%. The District made a change in the way they record patients with a high probability of being qualified for Medicaid in FY 2018. In prior years, the District would record all patients going through the Medicaid eligibility process as self-pay until the patient was qualified for Medicaid and the admission was authorized, then the patient was re-classed to Medicaid. The District established a new financial class named Medicaid Pending and created a conservative algorithm for patients that would be put in the Medicaid pending financial class and be reflected as Medicaid Admission in anticipation that the patient would qualify for Medicaid. Upon establishing the Medicaid pending financial class, the district made a one-time re-class of 878 admissions from self-pay to Medicaid Pending to ensure all prior year cases were in the appropriate financial class. Normalizing Medicaid Admissions for the prior year, Medicaid Pending inventory that was included in self-pay the District would show a decrease over prior year of 1,167 cases, or 7.6%. The District continues its efforts of the Medicaid Eligibility Unit, the Medical Options for Patient Eligibility Department, and the Department of Children's and Families (DCF), working to process applications in a more timely fashion and providing additional access for patients to apply for Medicaid or the new health exchange.

Managed care, including commercial payers, the District's largest payer category, decreased by 1,142 admissions, or 7.4%, in fiscal year 2018. Managed Care observation cases increased from FY 2017 by 2.4% or 176 cases. Total hospitalized Managed Care patients (Admissions plus Observation cases) decreased by 4.2% or 966 cases.

Outpatient volumes decreased 9.5% in fiscal year 2018 over fiscal year 2017, or 96,211 visits. Total medical center visits decreased by 35,850. Total treat and released emergency department visits decreased by 6,592. Physician office visits decreased by 43,872 visits, and primary care clinic, as well as Children's Diagnostic Center visits, decreased by 8,519 and 1,368 visits, respectively.

Operating Revenues

Net patient revenue has increased from \$950.9 million in fiscal year 2017 to \$954.1 million in fiscal year 2018.

Medicare net revenue increased by \$13.6 million, or 7.1%. Managed Care Medicare net revenue increased by \$35.4 million, or 24.8%. Medicaid net revenue (including Managed Care Medicaid net revenue) decreased over the prior fiscal year by \$24.7 million, or 13.8%. The loss in patient revenue was partially offset by additional revenue received from the LIP and DSH programs totaling \$30.9 million, an increase from the prior fiscal year of \$10.4 million. Managed care net revenue has experienced a decrease of \$30.4 million, or 6.2%, from fiscal year 2017, which includes the Commercial payers.

The provision for uncollectible accounts had a slight decrease of \$1.9 million, from \$416.7 million in fiscal year 2017, to \$414.8 million in fiscal year 2018. During fiscal year 2018, charity care decreased

NORTH BROWARD HOSPITAL DISTRICT

Management's Discussion and Analysis (Unaudited)

June 30, 2018

by \$1 million, or 35.3%, from the prior fiscal year. During fiscal year 2018, the District has continued its focus on qualifying the uninsured for state reimbursement through focused programs of timely Medicaid application processing and continued partnering with the DCF to expedite the decisions on patient qualification for Medicaid.

Operating Expenses

Operating expenses decreased by \$90.9 million, or 7.7%, from \$1,174.5 million in fiscal year 2017 to \$1,083.6 million in fiscal year 2018. The District emphasized on efficiency this year and implemented initiatives to control cost, a few examples being the implementation of a productivity tool for labor management, a reduction of premium pay initiative, renegotiation of the pharmacy benefits contract for the employees, renegotiation of house based physician subsidies, renegotiation of service agreements, and renegotiation of distribution contracts, including medical surgical supplies and pharmaceutical supplies. The decrease is largely due to some benefit changes that significantly reduced the OPEB liability which resulted in a onetime pickup of \$68.8 million due to effect of plan changes.

Salaries increased from \$507.8 million in fiscal year 2017 to \$516.7 million in fiscal year 2018, or a 1.8% increase. Total premium pay including overtime pay and agency cost was reduced from FY2017 by \$7.5 million. Benefits decreased by 68.9% in fiscal year 2018 from \$113.3 million in fiscal year 2017 to \$35.2 million in fiscal year 2018. The decrease in benefits of 68.9% is mostly due to a decrease in OPEB expense, health insurance costs, and pension expenses. Productive hours per adjusted patient days stayed flat at 24.2 in both FY 2018 & FY 2017. Salaries and employee benefits as a percentage of net patient revenues were 57.8% and 65.3% for fiscal years 2018 and 2017, respectively.

Supplies expense represents the next largest expense category for the District. During fiscal year 2018, supplies expense decreased by \$5.6 million, or 2.4%, from \$240 million in fiscal year 2017 to \$234.4 million in fiscal year 2018. Decreases were realized in various supply categories, including general medical and surgical supplies, supplies general, office supplies, orthopedic implants, blood, and additional rebates. These decreases were offset by increases in the District's pharmacy cost and structural heart (TAVR) costs. Supplies expense as a percent to net operating revenue was 22.43% in fiscal year 2018, while it was 23.17% in fiscal year 2017.

All other fees decreased by \$11.7 million compared to FY 2017. Physician Fees decreased by \$8.1 million compared to FY 2017 primarily driven by renegotiation of the hospital based physician subsidies. Fees other were reduced by \$6.2 million primarily driven by a reduction in outside service and marketing costs. Repairs and maintenance cost increased by \$2.3 million compared to FY 2017 primarily driven by cost related to Hurricane Irma and preparation for our tri annual Joint Commission survey.

Ad Valorem Tax Revenue

For fiscal years 2018 and 2017, ad valorem tax revenues totaled \$138.6 million and \$137.9 million, respectively. As described in Note 15 to the financial statements, the District annually levies and collects ad valorem taxes for the general support of its operations, as approved by the Board. The tax rates set by the Board for fiscal years 2018 and 2017 were 1.2483 mills and 1.3462 mills, respectively. In July 2017, taxable property values within the District's geopolitical boundaries increased from \$112.2 billion to \$123.0 billion, or 9.6%. In July 2018, the Broward County property appraiser released to the District the taxable property valuations for 2018/2019. These values increased to \$131.6 billion, an increase of 7.0%.

NORTH BROWARD HOSPITAL DISTRICT

Management's Discussion and Analysis (Unaudited)

June 30, 2018

Interest Expense

Interest expense in fiscal year 2018 was \$18.1 million, as compared to \$9.2 million in fiscal year 2017, an increase of \$8.9 million, or 96.6%. The primary drivers of this increase are related to \$3.4 million in issuance cost related to the District's 2017A & 2017B bond issuance which was fully recognized this fiscal year. In prior year the District had about \$3.5 million in capitalized interest, this fiscal year the district adopted GASB 89, *Accounting for Interest Cost Incurred before End of a Construction Period*, and as a result no interest was capitalized. Interest on the current outstanding 2017B bonds is at 5% which is slightly higher than the variable rates the District had on all previous outstanding bonds increasing cost by \$2.6 million.

Liquidity and Cash Position

Management continues to drive improvement of the District's financial position, with cash being the focal point.

With increases in market performance in the District's investment portfolio, additional debt issued in the 2017B bonds and the District's overall cash management performance there was an increase in unrestricted cash and investments from \$575.1 million to \$714.1 million at June 30, 2017 and 2018, respectively. The increase in unrestricted cash has a corresponding increase in days' cash on hand from 186.4 to 229.5, respectively. Cash to debt has decreased from 257.9% as of June 30, 2017 to 204.9% as of June 30, 2018. Average days' net revenue in accounts receivable has increased from 46.4 days in fiscal year 2017 to 53 days in fiscal year 2018.

Credit Ratings

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

Request for Information

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

BASIC FINANCIAL STATEMENTS

NORTH BROWARD HOSPITAL DISTRICT

Statement of Net Position

June 30, 2018

(In thousands of dollars)

Assets

Current assets:	
Cash and cash equivalents	\$ 121,223
Cash and investments externally restricted by donors	14,937
Short-term investments	442,756
Assets whose use is limited required for current liabilities – Investments	6,262
Due from patients and others, net of allowance for uncollectibles of \$248,968	154,812
Inventories	32,253
Estimated third-party payor settlements	5,888
Other current assets	47,834
Total current assets	<u>825,965</u>
Assets whose use is limited – Cash and investments:	
Amounts designated for self-insurance	37,670
Project fund from debt issuance	26,981
	<u>64,651</u>
Less amount required to meet current obligations	<u>(6,262)</u>
Assets whose use is limited, net	<u>58,389</u>
Investments	
Capital assets, net	150,088
Net pension asset	577,467
Other assets	1,580
	<u>27,850</u>
Total noncurrent assets	<u>756,985</u>
Total assets	<u>\$ 1,641,339</u>

Deferred Outflows of Resources

Loss on debt refundings	\$ 27,859
Deferred pension amounts	<u>16,721</u>
Total deferred outflows of resources	<u>\$ 44,580</u>

Liabilities

Current liabilities:	
Current maturities of revenue bonds payable	\$ 4,030
Accounts payable and accrued expenses	122,357
Accrued salaries, benefits, and payroll taxes	31,225
Accrued personal leave	29,735
Current portion of lease obligations	108
Estimated third-party payor settlements	36,203
Current portion of self-insurance program liability	6,262
Total current liabilities	229,920
Revenue bonds, net of current maturities	343,637
Lease obligations, net of current portion	237
Self-insurance program liability, net of current portion	26,148
Other postemployment benefit program liability	158,175
Total liabilities	<u>\$ 758,117</u>

Deferred Inflows of Resources

Deferred pension amounts	\$ 18,799
Deferred other postemployment benefits	<u>5,544</u>
Total deferred inflows of resources	<u>\$ 24,343</u>

Net Position

Net investment in capital assets	\$ 284,295
Restricted for donor restrictions	26,117
Unrestricted	<u>593,047</u>
Total net position	<u>\$ 903,459</u>

See accompanying notes to financial statements.

NORTH BROWARD HOSPITAL DISTRICT

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2018

(In thousands of dollars)

Operating revenues:		
Net patient service revenue (net of provision for uncollectible accounts of \$414,824)	\$	954,152
Other operating revenue		<u>81,404</u>
Total operating revenues		<u>1,035,556</u>
Operating expenses:		
Salaries		516,727
Employee benefits		35,163
Professional fees		52,779
Purchased services and temporary labor		15,252
Outside services		32,496
Supplies		234,424
Insurance		10,017
Utilities		18,539
Repairs and maintenance		20,869
State assessments		12,293
Depreciation and amortization		53,537
Other		<u>81,497</u>
Total operating expenses		<u>1,083,593</u>
Operating loss		<u>(48,037)</u>
Nonoperating revenues (expenses):		
Ad valorem tax revenue		138,582
Investment income, net		52,960
Interest expense		(18,089)
Other		<u>(5,313)</u>
Total nonoperating revenues		<u>168,140</u>
Gain before capital contributions		120,103
Capital contributions		<u>97</u>
Increase in net position		120,200
Net position:		
Beginning of year, as adjusted (note 2)		<u>783,259</u>
End of year	\$	<u><u>903,459</u></u>

See accompanying notes to financial statements.

NORTH BROWARD HOSPITAL DISTRICT

Statement of Cash Flows

Year ended June 30, 2018

(In thousands of dollars)

Cash flows from operating activities:	
Receipts from third-party payors and patients	\$ 957,234
Payments to employees	(622,297)
Payments to suppliers and contractors	(383,993)
Other receipts and payments, net	<u>1,335</u>
Net cash used in operating activities	<u>(47,721)</u>
Cash flows from noncapital financing activities:	
Medicaid county funding	(9,604)
Ad valorem property taxes, net	138,780
Net contributions receipts	2,916
Other	<u>110</u>
Net cash provided by noncapital financing activities	<u>132,202</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(71,217)
Proceeds from disposal of capital assets	45
Proceeds from issuance of bond payable	436,779
Payments of interest on revenue bonds, swaps, and lease facilities	(49,726)
Principal paid on revenue bonds and lease facilities	(310,998)
Capital contributions	<u>97</u>
Net cash provided by capital and related financing activities	<u>4,980</u>
Cash flows from investing activities:	
Interest and dividends on investments and assets whose use is limited	7,443
Purchases of investments	(321,221)
Proceeds from the sale and maturity of investments	<u>288,402</u>
Net cash used in investing activities	<u>(25,376)</u>
Net increase in cash and cash equivalents	64,085
Cash and cash equivalents:	
Beginning of year	<u>104,892</u>
End of year	<u>\$ 168,977</u>

NORTH BROWARD HOSPITAL DISTRICT

Statement of Cash Flows (Continued)

Years ended June 30, 2018

(In thousands of dollars)

Reconciliation of cash and cash equivalents to statement of net position:	
Cash and cash equivalents	\$ 121,223
Cash and cash equivalents included in cash and investments externally restricted by donors	14,235
Cash and cash equivalents included in assets whose use is limited - Cash and investments	
Amounts designated for self-insurance	6,538
Amounts designated for Project fund from debt issuance	26,981
Total cash and cash equivalents	<u>\$ 168,977</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (48,037)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	53,537
Provision for uncollectible accounts	414,824
Other	(2,910)
Changes in assets and liabilities:	
Due from patients and others	(410,525)
Inventories	(979)
Other assets	(3,524)
Accounts payable and accrued expenses	20,586
Accrued salaries, benefits, and payroll taxes	5,067
Accrued personal leave	(7,227)
Estimated third-party payor settlements	(1,217)
Self-insurance program liability	931
Net pension asset/liability and related deferred outflows and inflows	(1,256)
Other postemployment benefit program liability and related deferred outflows and inflows	(66,991)
Net cash used in operating activities	<u>\$ (47,721)</u>
Supplemental noncash investing, capital, and financing activities:	
Property and equipment acquired through accounts payable	\$ (229)
Property and equipment acquired through donation	(675)
Change in remarketing accruals	(80)
Change in fair value of investments	21,785
Change in fair value of interest rate swaps	(32,578)

See accompanying notes to financial statements.

NORTH BROWARD HOSPITAL DISTRICT
Statement of Fiduciary Net Position – Pension Trust Fund
June 30, 2018
(In thousands of dollars)

Assets

Current assets:	
Cash and cash equivalents	\$ 4,360
Accrued interest receivable	818
Investments:	
Fixed income	55,098
Stocks	217,438
Real estate	34,143
Mutual funds	24,722
Alternative investments	29,758
Total investments	<u>361,159</u>
Total assets	<u>366,337</u>

Liabilities and net position restricted for pensions

Payables:	
Accrued expenses	\$ <u>818</u>
Total liabilities	<u>818</u>
Total net position	<u><u>\$ 365,519</u></u>

See accompanying notes to financial statements.

NORTH BROWARD HOSPITAL DISTRICT

Statement of Changes in Fiduciary Net Position – Pension Trust Fund

Year ended June 30, 2018

(In thousands of dollars)

Additions:

Contributions:

Employer contributions \$ 16,010

Investment income:

Interest and dividends 5,546

Net increase in fair value of investments 33,967

Net investment income 39,513

Total additions 55,523

Deductions:

Benefit payments 31,731

Administrative expenses 2,131

Total deductions 33,862

Net increase in net position 21,661

Net position restricted for pension:

Beginning of year 343,858

End of year \$ 365,519

See accompanying notes to financial statements.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

(1) Organization and Description of Business

Reporting Entity

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

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

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

The Pension Trust Fund is a fiduciary fund used to account for the assets held in trust for the benefit of employees of the District who participate in the Plan (Note 9).

Hospital Division

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

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

Community Health Services Division

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

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

The District also owns and operates other Community Health Services facilities for the benefit of the community. The District is the sole member of the Children's Diagnostic and Treatment Center (CDTC), which provides an array of pediatric professional services to patients suffering from developmental, substance abuse, HIV/AIDS-related, and other medical conditions. The primary sources of funding for CDTC are a variety of federal, state, and local grants. CDTC is considered a component unit of the District because the Board appoints the voting majority of the board of directors of CDTC and the District has the ability to impose its will on CDTC. CDTC is reported as a blended component unit of the District as it provides services that benefit the District, even though they are not provided directly to the District.

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

Physician Services Division

The Physician Services Division is responsible for employing physicians to meet the needs of the community and provide services to patients. The services provided include primary care and a broad range of specialist care, including, but not limited to, cardiology, pediatrics, transplant, oncology, orthopedic, and surgical.

Insurance Management Division

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

Other

The District established a separate not-for-profit corporation, North Broward Hospital District Charitable Foundation, Inc. (Broward Health Foundation). Broward Health Foundation's mission is to improve the health of its community by providing resources to promote, support, and enhance the programs and initiatives of the District. Contributions raised by the Foundation assist the District in its continuous effort to provide world-class healthcare to its diverse population. Broward Health Foundation is considered a component unit of the District because the Board appoints the voting majority of the board of directors of Broward Health Foundation and the District has the ability to impose its will on Broward Health Foundation. Broward Health Foundation is reported as a blended component unit of the District because it provides services exclusive to the District.

The District established a separate not-for-profit corporation, Broward Health ACO Service, Inc. (BH ACO), for participation in the Medicare Shared Savings Program as an accountable care organization. The purpose of the BH ACO is to provide healthcare services through independent contractors and others

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

to patients who include, but are not limited to, Medicare beneficiaries under contracts with third-party payors who include, but are not limited to, the Center for Medicare and Medicaid Services. BH ACO is considered a component unit of the District because the Board appoints the voting majority of the board of directors of BH ACO and the District has the ability to impose its will on BH ACO. BH ACO is reported as a blended component unit of the District as the governing body of BH ACO is substantially the same as the District and the District has operational responsibility for BH ACO.

Joint Venture

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

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

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

(b) Cash and Cash Equivalents

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

(c) Investments

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

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

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

As of June 30, 2018, these equity investments in private equity, real estate investments, and hedge funds make up approximately 3.8%, 5.8%, and 2%, respectively, of total cash and cash equivalents and investments in the accompanying statement of net position. Because private equity, real estate investments, and hedge funds are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the statement of revenue, expenses, and changes in net position as investment income, net, in the period such fluctuations occur.

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

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

(e) Net Patient Accounts Receivable

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

(f) Inventories

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

(g) Other Current Assets

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

(h) Capital Assets

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

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

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

NORTH BROWARD HOSPITAL DISTRICT

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June 30, 2018

Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Expenditures for repairs and maintenance are charged to operating expenses when incurred.

(i) Impairment

Capital assets are reviewed for impairment in accordance with the methodology prescribed in Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Asset impairment, as defined by this standard, is a significant, unexpected decline in the service utility of a capital asset and is not a function of the recoverability of the carrying amount of the asset. Service utility is the usable capacity of the asset that was expected to be used at the time of acquisition and is not related to the level of actual utilization, but the capacity for utilization. Indicators that the service utility of an asset has significantly declined include: (a) evidence of physical damage; (b) changes in legal or environmental circumstances; (c) technological development or evidence of obsolescence; (d) a change in the manner or expected duration of use of the asset; and (e) construction stoppage. The District has determined that no capital asset impairment exists at June 30, 2018.

(j) Deferred Outflows and Inflows of Resources

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

(k) Accrued Personal Leave

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

(l) Pensions and Other Postemployment Benefits (OPEB)

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

For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, amounts have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

(m) Net Position

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

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

(n) Classifications of Revenues and Expenses

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

(o) Net Patient Service Revenue

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

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

Medicare

The District’s healthcare facilities participate in the Federal Medicare program (Medicare) administered by CMS. Approximately 21.6% of the District’s net patient service revenue was derived from services to Medicare beneficiaries. Inpatient acute care services rendered to Medicare beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Inpatient Acute, Inpatient Exempt, Outpatient, and Defined Capital Costs related to services provided to Medicare beneficiaries are reimbursed based upon a variety of prospective

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

reimbursement methodology systems. The health care facilities' classification of patients under the Medicare program and the appropriateness of their admission and services are subject to an independent review based on detailed and specific criteria. As of June 30, 2018, the Medicare cost reports were final audited, pending final settlement, by the health care facilities' Medicare fiscal intermediary through June 30, 2016 for all facilities, except BHMC, which was through June 30, 2015. In fiscal year 2018, the District did not record any material adjustments to net patient service revenue related to prior year Medicare settlements.

Medicaid

Approximately 5.9% of the District's net patient service revenue was derived under the Medicaid program for fiscal year 2018. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based upon prospectively determined rates. Inpatient per discharge services are paid using APR-DRG's effective July 1, 2013, while outpatient utilizes Enhanced Ambulatory Patient Groupings (EAPG's) effective July 1, 2017. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Prior to these prospective type systems, health care facilities were reimbursed for Medicaid services based on a tentative rate sheet calculation, with final settlement determined after submission of annual cost reports by the health care facilities and audits by the Medicaid fiscal intermediary. The Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2013, for BHMC, BHN, BHIP, and BHCS but application of many of these audited periods are pending processing by AHCA.

In addition to the prospectively determined rates received by the District for the provision of health care services to Medicaid beneficiaries, the State of Florida provides additional supplemental payments of \$33.4 million to Broward Health for Disproportionate Share, Low Income Pool, and Graduate Medical Education initiatives during fiscal year 2018. These payment adjustments are to help cover the additional costs associated with treating the Medicaid population in the District's service area and this amount is reflected in net patient service revenues in the accompanying statement of revenue, expenses, and changes in net position.

Other Third-Party Payors

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

(p) Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue (Note 13).

(q) Ad Valorem Tax Revenue

Property taxes are levied by Broward County on the District's behalf annually. Amounts levied are based on assessed property values as of the preceding year. The District collects the ad valorem taxes for the general support of its operations, as approved by the Board. Property taxes are recognized under the accrual method of accounting, wherein the tax levy is recognized as unearned revenue at

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

the date of assessment, less a reserve for estimated discounts (Note 15), and amortized into income over the respective year.

(r) *Restricted Donations*

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

(s) *Grant Funding*

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

(t) *Risk Management*

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

(u) *Use of Estimates*

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

(v) *Income Taxes*

The District is not subject to income tax.

(w) *Subsequent Events*

The District has evaluated the impact of subsequent events through October 31, 2018, the date on which the financial statements were issued.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

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

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, which replaced the requirements of GASB Statement No. 45. GASB Statement No. 75 requires governmental agencies to report a liability on the financial statement of other postemployment benefits (OPEB). GASB Statement No. 75 provides additional requirements for note disclosures and required supplementary information. Among the new required supplementary information is a schedule comparing a government's actual OPEB contributions to its contribution requirements. GASB Statement No. 75 is effective for fiscal years beginning after June 15, 2017. The District adopted this statement for fiscal year ended June 30, 2018 which resulted in a prior period adjustment of -\$130.8 million which increased the OPEB liability and decreased net position.

The effect of adopting GASB 75 as of July 1, 2017, was as follows (in thousands of dollars):

Net Position at June 30, 2017, as previously reported	\$	914,060
Increase in OPEB liability		(130,801)
Net Position at June 30, 2017, as adjusted	\$	<u>783,259</u>

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which establishes improved accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements in which the donor transfers resources to an intermediary to hold and administer for the benefits of a government and at least one other beneficiary. This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources and deferred outflow of resources at the inception of the agreement. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The adoption of this statement for fiscal year ended June 30, 2018, had no financial impact on the District's financial statements.

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

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

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

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The District elected to adopt this statement early for fiscal year ended June 30, 2018 resulting in the presentation of the Statement of Fiduciary Net Position – Pension Trust Fund and Statement of Changes in Fiduciary Net Position – Pension Trust Fund in the accompanying financial statements. The adoption had no impact to net position.

In March 2017, the GASB issued GASB Statement No. 85, *Omnibus*. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The adoption of this statement for fiscal year ended June 30, 2018, had no financial impact on the District's financial statements.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. This statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish debt as those requirements for when new debt is issued to provide for the refunding. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. This statement also specifies the treatment of any remaining bond insurance costs on any extinguished debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The adoption of this statement for fiscal year ended June 30, 2018, had no financial impact on the District's financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements for this statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The

NORTH BROWARD HOSPITAL DISTRICT

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June 30, 2018

District has not elected to implement this statement early; however, management is still evaluating the impact of this statement in the year of adoption.

In March 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*. This statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. Direct borrowings and direct placements have terms negotiated directly with the investor or lender and are not offered for public sale. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The District elected to adopt this statement early for fiscal year ended June 30, 2018, which resulted in \$4.6 million of interest to be expensed and not capitalized.

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interests*. This statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization and also provides guidance for reporting a component unit if a government acquires a 100 percent equity interest in that component unit. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

(3) Cash, Cash Equivalents, and Investments

The composition and credit ratings of the District's cash and cash equivalents, investments, and assets whose use is limited as of June 30, 2018, is as follows:

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

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	Fair value	Investment Maturities			
		Less than 1 year	1-5 years	6-10 years	More than 10 years
U.S. government securities	\$ 72,095	\$ 32,146	22,092	10,333	7,524
U.S. government agency securities	13,527	11,687	1,328	—	512
Corporate bonds	97,015	15,368	66,001	7,945	7,701
Mortgage-backed securities	30,045	—	2,314	3,800	23,931
International government securities	348	348	—	—	—
	213,030	\$ 59,549	91,735	22,078	39,668
Common stock	285,514				
Mutual funds	36,922				
Private equity	29,145				
Hedge funds	15,621				
Real estate	44,276				
Other investments	167				
Money markets	92,345				
Bank deposits	76,635				
	\$ 793,655				

	Fair value	Ratings					
		AAA	AA	A	BBB	<BBB	Not rated
U.S. government securities	\$ 72,095	72,095	—	—	—	—	—
U.S. government agency securities	13,527	13,015	512	—	—	—	—
Corporate bonds	97,015	4,993	18,090	39,669	27,557	1,186	5,520
Mortgage-backed securities	30,045	7,044	—	—	—	343	22,658
International government securities	348	—	348	—	—	—	—
	\$ 213,030	97,147	18,950	39,669	27,557	1,529	28,178

Investment Risk Factors

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

a) Credit Risk

Florida Statutes section 218.415 provides for each unit of local government or political subdivision to adopt investment policies that are commensurate with the nature and size of public funds within their custody. These policies must include consideration for safety of capital liquidity of funds within their custody, diversification of investments, investment income, maturity requirements, and

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performance measurement. The District has a Board-approved policy for the investment of funds. In accordance with this policy, the District invests in marketable fixed-income securities rated in the first four credit quality grades as established by one or more of the nationally recognized bond rating services. Securities downgraded by any of these rating agencies subsequent to purchase resulting in a violation of the investment quality guidelines may be at the discretion of the professional investment managers retained by the District. However, written notice including the investment manager's rationale shall be promptly submitted to the District's Investment Committee.

b) Concentration of Credit Risk

Investments in any one issuer that represent 5% or more of the District's investment portfolio are required to be disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. As of June 30, 2018, the District did not have any investments that equaled or exceeded this threshold. The investment policy includes an overall asset deployment policy which sets allowable ranges per asset class. During fiscal year 2018 the board approved new asset allocation percentages to be implemented. Those new asset allocations are expected to be implemented in the first half of fiscal year 2019. The new allocation includes an overall asset deployment target which sets allowable ranges per asset class. Liquid asset allocation may include up to: Large Cap Equity (9% – 19%), Small/Mid Cap Equities (0% – 11%), International Equities (7% – 17%), Emerging Market Equities (0% – 8%), Core Fixed Income (15% – 25%), Unconstrained Fixed Income including High Yielding (0% – 10%), Real Estate (7% – 17%), Hedge Funds (0%–5%), Private Equity (5% – 10%), MACS (2% – 12%), and Infrastructure (0% – 10%). While the District transitions to the new asset allocation, investments are still invested under the previously approved allowable ranges per asset class. The previous liquid asset allocation may include up to: Domestic Equity (30% – 35%), International Equity (10% – 15%), Private Equity (0% – 5%), Real Estate (0% – 5%), Hedge Funds (0%-5%) and Fixed Income (40% – 55%). The invested assets may include up to: Domestic Equity (35% – 45%), International Equity (10%-20%), Emerging Markets Equity (0%-10%), Private Equity (5% – 10%), Real Estate (5% – 15%), Hedge Funds (2.5% – 7.5%), Fixed Income (10% – 20%), and High Yield (0% – 7%).

c) Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Refer to the distribution of the District's investment in fixed-income securities by maturity as of June 30, 2018, in the preceding investment composition table.

d) Foreign Currency Risk

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

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e) *Custodial Credit Risk*

Investments

As of June 30, 2018, the District's investments were not exposed to custodial credit risk since the full amount of investments were insured or registered in the District's name.

Deposit Risk

In addition to insurance provided by the Federal Depository Insurance Corporation, all demand deposits are held in banking institutions approved by the State of Florida state treasurer to hold public funds. Under the Florida Statutes Chapter 280, *Florida Security for Public Deposits Act* (Chapter 280), the state treasurer requires all qualified public depositories to deposit with the treasurer or another banking institution eligible collateral equal to amounts ranging from 50% to 125% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. government and agency securities, state or local government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses in excess of amounts insured and collateralized. At June 30, 2018, the District's deposits were entirely covered by federal depository insurance or by collateral pledged with the State Treasurer pursuant to Chapter 280, *Florida Statutes*.

(4) **Fair Value Measurements**

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

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

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in an active market with daily pricing that a government can access at the measurement date. At June 30, 2018, the type of investments included in Level 1 consists of money market accounts, bank deposits, and debt and equity securities.

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

Level 3 – Inputs are unobservable for an asset or liability. Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of discounted cash flow models or similar techniques. At June 30, 2018, Level 3 securities include private equity funds in limited partnerships and investments in real estate.

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

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

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

Private Equity Funds: This type of investment includes investment in private equity limited partnerships that invest in a diversified portfolio of private companies. The District participates in these partnerships as a limited partner. These investments can never be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is expected that the majority of the underlying assets of the funds would be liquidated over five to eight years. However, as of June 30, 2018, it is probable that all of the investments in this type will be sold at an amount different from the net asset value (NAV) per share (or its equivalent) of the Plan's ownership interest in the partners' capital. Therefore, the fair values of the investment in this type have been determined by the general partners using the recent observable transaction information for similar investments, valuation multiples of revenues and/or EBITDA, and nonbinding bids received from potential buyers of investments.

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

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

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The following table presents financial instruments that are measured at fair value on a recurring basis as of June 30, 2018:

	<u>Fair Value Measurements Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets For Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Investments by fair value level:				
Money Markets	\$ 92,345	\$ 92,345	-	-
Bank Deposits	76,635	76,635	-	-
Debt Securities				
U.S. government securities	72,095	72,095	-	-
U.S. government agency securities	13,527	13,527	-	-
Corporate bonds	97,015	97,015	-	-
Mortgage-backed securities	30,045	30,045	-	-
International government securities	348	348	-	-
Total Debt Securities	<u>213,030</u>	<u>213,030</u>	<u>-</u>	<u>-</u>
Equity Securities				
Common stock	285,514	285,514	-	-
Mutual funds	36,922	36,922	-	-
Other investments	167	167	-	-
Total Equity Securities	<u>322,603</u>	<u>322,603</u>	<u>-</u>	<u>-</u>
Private Equity	29,145	-	-	29,145
Real Estate	44,276	-	-	44,276
Total investments by fair value level	<u>778,034</u>	<u>704,613</u>	<u>-</u>	<u>73,421</u>
Investments measured at net asset value (NAV):				
Hedge Funds	<u>15,621</u>			
Total investments measured at fair value	<u>\$ 793,655</u>			

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

The hedge funds that the District invests in include various limits on the redemption frequency of those investments, as well as redemption notice periods. The limits on redemption frequency generally range from being non-redeemable to a redemption frequency that is daily, monthly, quarterly, semi-annually, or annually. The redemption notice periods generally range from daily to notice periods of 5, 15, 30, 60, 75, or 90 days. The private equity funds that the District invests in include unfunded commitments as of June 30, 2018, totaling approximately \$14.1 million.

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(5) Capital Assets

A summary of changes in capital assets during fiscal year 2018, is as follows:

	Balance at June 30, 2017	Additions	Deletions/ Transfers	Balance at June 30, 2018
Capital assets not being depreciated:				
Land	\$ 43,080	—	—	43,080
Construction-in-progress	75,119	48,463	6	123,588
Total capital assets not being depreciated	<u>118,199</u>	<u>48,463</u>	<u>6</u>	<u>166,668</u>
Capital assets being depreciated:				
Buildings and improvements	725,627	7,897	(6)	733,518
Land improvements	8,271	16	—	8,287
Equipment	584,102	18,450	(8,408)	594,144
Equipment under capital lease	724	—	—	724
Total capital assets being depreciated	<u>1,318,724</u>	<u>26,363</u>	<u>(8,414)</u>	<u>1,336,673</u>
Accumulated depreciation:				
Buildings and improvements	419,843	19,695	673	440,211
Land improvements	6,693	207	—	6,900
Equipment	452,999	33,532	(8,179)	478,352
Equipment under capital lease	308	103	—	411
Total accumulated depreciation	<u>879,843</u>	<u>53,537</u>	<u>(7,506)</u>	<u>925,874</u>
Total	<u>\$ 557,080</u>	<u>21,289</u>	<u>(902)</u>	<u>577,467</u>

The estimated cost-to-complete construction-in-progress at June 30, 2018, totaled approximately \$55 million.

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(6) Long-Term Obligations

Changes in long-term liabilities for the year ended June 30, 2018, was as follows:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>	<u>Amount due in one year</u>
Revenue bonds	\$ 222,525	317,255	(222,525)	317,255	4,030
Bond premium	—	31,154	(742)	30,412	—
Lease obligations	447	—	(102)	345	108
Derivative instruments	32,578	—	(32,578)	—	—
Self-insurance program	31,479	6,563	(5,632)	32,410	6,262
Other postemployment benefit program, as restated (see note 2)	230,711	11,283	(83,819)	158,175	—
	<u>\$ 517,740</u>	<u>366,255</u>	<u>(345,398)</u>	<u>538,597</u>	<u>10,400</u>

(7) Revenue Bonds

a) Revenue Bonds, Series 2017B (the 2017B Bonds)

In December 2017, the District issued \$317.3 million of Revenue Bonds, Series 2017B at a premium of \$31.1 million, for total sources of funds in the amount of \$348.4 million. The Series 2017B Bonds of \$317.3 million is comprised of \$157.5 million Serial Bonds due through January 1, 2038; \$54.8 million Term Bonds due January 1, 2042; and \$105 million Term Bonds due January 1, 2048. All the components of the Series 2017B Bonds are 5% fixed rate bonds. The 2017B Bonds are subject to optional, extraordinary optional and mandatory sinking fund redemption prior to maturity. The bonds are secured solely by funds and accounts held under the Bond Indenture (excluding the Rebate Fund) and any other property delivered as security under the Bond Indenture.

On December 13, 2017, the District, as the sole Member of the Obligated Group delivered to the Bond Trustee, the Series 2017B Bonds (North Broward Hospital District Revenue Bonds, Series 2017B). The obligations issued under the Master Indenture are equally and ratably payable from, and are secured solely by, a pledge of and a lien on the pledged revenues (as defined in the Master Indenture) and property of any kind as additional security by the Obligated Group. Under the Master Indenture, the pledged revenues do not include ad valorem tax receipts received by the Issuer and any future member of the Obligated Group.

The Master Indenture permits the members of the Obligated Group to issue additional obligations to parties other than the Bond Trustee. The additional obligations will be secured equally and proportionately by the pledged revenues with all other obligations issued under the Master Indenture.

The Series 2017B Bonds were issued to provide funds for the redemption of \$41.5 million Revenue Bonds, Series 2005A; \$82.4 million Revenue Bonds, Series 2008A; \$21.8 million Revenue Bonds, Series 2010; \$87.2 million Revenue Bonds, Series 2017A (issued in September 2017 for 3 months to provide temporary gap funding and redeem the Series 2007 Bonds in the amount of \$76.9 million, \$10.2 million in related swap and swap interest, and \$0.1 million in related issuance costs). A portion of the proceeds of the Series 2017B Bonds were applied to the payment of termination fees in connection with the termination and discharge of interest rate swap agreements relating to the Series 2005A Bonds and Series 2008A Bonds, including accrued interest, in the amount of \$22.4 million, as well as costs of issuance in the amount of \$3.2 million. As a result, the liabilities for the

NORTH BROWARD HOSPITAL DISTRICT

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advance refunded bonds and terminated swaps have been removed from the accompanying consolidated statement of net position. In addition to provide funds for the redemption, the District used the remaining proceeds of \$90.0 million to cover the cost of certain capital projects of its healthcare facilities, including reimbursement of advanced funds for the capital projects prior to the issuance of the Series 2017B Bonds.

The refunding of the bonds resulted in a loss of defeasance of approximately \$29.3 million. At June 30, 2018, the unamortized deferred balance is approximately \$27.9 million and is reported as deferred outflows of resources.

The Series 2017B Bonds are fixed rate bonds and are callable on or after January 1, 2028. Interest was payable on July 1, 2018, and will be due on each January 1 and July 1 thereafter. Interest on the Series 2017B Bonds is computed on a basis of a 360-day year comprised of twelve 30-day months.

The Term Bonds are subject to mandatory redemption and payment prior to maturity at a redemption price equal to the principal amount plus accrued interest to the redemption date, without premium.

Maturities of the 2017B Bonds by component, including corresponding interest due, over the next five years and in five-year increments thereafter are as follows:

	<u>Principal on Serial Bonds due January 1, 2038</u>	<u>Principal on Term Bonds due January 1, 2042</u>	<u>Principal on Term Bonds due January 1, 2048</u>	<u>Total debt service Principal</u>	<u>Total debt service Interest</u>
	(In thousands of dollars)				
Years ending June 30:					
2019	\$ 4,030	—	—	4,030	16,656
2020	5,025	—	—	5,025	15,661
2021	5,280	—	—	5,280	15,410
2022	5,540	—	—	5,540	15,146
2023	5,815	—	—	5,815	14,869
2024-2028	33,760	—	—	33,760	69,679
2029-2033	43,070	—	—	43,070	60,355
2034-2038	54,995	—	—	54,995	48,452
2039-2043	—	54,735	15,440	70,175	33,261
2044-2048	—	—	89,565	89,565	13,871
	<u>\$ 157,515</u>	<u>54,735</u>	<u>105,005</u>	<u>317,255</u>	<u>303,360</u>

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(8) Lease Obligation

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

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

	Principal	Interest
	(In thousands of dollars)	
Years ending June 30:		
2019	\$ 108	15
2020	114	10
2021	119	3
2022	4	—
Total due	345	28
Amount due within one year	(108)	
Amount due, excluding due within one year	\$ 237	

(9) Defined-Benefit Pension Plan

a) Plan Description

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

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

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

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Number of employees covered:	
Active employees	6,394
Inactive employees currently receiving benefits	1,686
Inactive employees entitled to but not yet receiving benefits	1,412
Total membership	9,492

b) Contributions

The annual contribution for the current year was determined by management and the Board. While the District’s independent actuary annually determines a range for the annual contributions, the District is not required to contribute an amount equal to the total funding contribution. The Plan’s funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. All contributions to the Plan are made by the employer and are intended to fund both the actuarially determined costs, as well as the Plan’s operating costs. The District’s practice is to make sufficient annual contributions in accordance with the actuarial funding requirements of the Florida Statutes. The contributions to the Plan for fiscal year 2018 totaled \$16.0 million, which equaled the normal cost as computed through the actuarial valuation date as of June 30, 2018. The contributions represent approximately 4.26% of current covered payroll for fiscal year 2018. Maximum actuarial contributions are based upon the funding levels that would be required of an ERISA plan.

c) Net Pension Liability (Asset)

The District’s net pension liability (asset) was measured as of June 30, 2018, based upon rolling forward the results of the actuarial valuation as of July 1, 2017.

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

Inflation	2.50%
Investment rate of return	6.25%
Projected salary increases	4.50%
Cost-of-living adjustment	None

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

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

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Long-Term Rate of Return – The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are from Broward Health’s asset advisors. The 6.25% assumption reflects the composite expected return based on the target asset allocation for the Plan. The actuary uses the Global Capital Asset Pricing Model (Global CAPM) methodology to determine expected returns for each asset class, rather than relying on historical returns or other estimates. The CAPM is an economic model for valuing stocks, securities, derivatives, and/or assets by relating risk and expected return and is based on the idea that investors demand additional expected return if they are asked to accept additional risk.

The following is the Plan’s adopted asset allocation policy and long-term expected rate of return as of June 30, 2018:

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate Of Return	Long-Term Expected Geometric Real Rate of Return
US Core Fixed Income	15.00%	2.66%	2.52%
US High Yield	3.50%	5.20%	4.65%
US Equity Market	40.00%	5.15%	3.81%
Foreign Developed Equity	15.00%	5.88%	4.20%
Emerging Markets Equity	4.00%	8.14%	4.79%
Private Real Estate Property	10.00%	3.85%	3.13%
Private Equity	7.50%	8.96%	5.08%
Hedge Funds Multi Strategy	5.00%	3.79%	3.37%
Assumed Inflation - Mean		2.32%	2.32%
Assumed Inflation - Standard Deviation		1.85%	1.85%
Portfolio Real Mean Return		4.59%	3.83%
Portfolio Nominal Mean Return		6.91%	6.22%
Portfolio Standard Deviation			12.15%
Long-Term Expected Rate of Return			6.25%

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

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Discount Rate – The discount rate used to measure the total pension liability was 6.25% (7.50% in prior year). The projection of cash flows used to determine the discount rate assumed that the District’s contributions will be made at rates equal to the actuarially determined contribution rates. Based upon those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on plan assets was applied to all periods of projected benefit payments to determine the total pension liability. The following section discusses the sensitivity of the net pension liability to changes in the discount rate.

d) Changes in Net Pension Liability (Asset)

		Increase (Decrease)	
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
	<u>(In thousands of dollars)</u>		
Balance as of June 30, 2017	\$ 340,554	343,858	(3,304)
Changes for the year:			
Service cost	11,692	—	11,692
Interest on total pension liability	25,251	—	25,251
Effect of economic/demographic gains or losses	(3,996)	—	(3,996)
Effect of assumptions changes or inputs	20,211	—	20,211
Benefit payments	(31,731)	(31,731)	—
Employer contributions	—	16,010	(16,010)
Net investment income	—	39,513	(39,513)
Administrative expenses	—	(2,131)	2,131
Balance as of June 30, 2018	\$ <u>361,981</u>	<u>365,519</u>	<u>(3,538)</u>

Sensitivity Analysis – The following presents the net pension liability (asset) of the District, calculated using the discount rate of 6.25%, as well as what the District’s net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (5.25%) or 1 percentage point higher (7.25%) than the current rate.

		1% Decrease	Current Discount Rate	1% Increase
		5.25%	6.25%	7.25%
	<u>(In thousands of dollars)</u>			
Net pension liability (asset)	\$ 20,647	(3,538)	(3,538)	(25,077)

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

The following tables present the composition and credit ratings of the defined-benefit pension plan’s cash and cash equivalents and investments as of June 30, 2018:

	Fair value	Investment maturities			
		Less than 1 year	1–5 years	6–10 years	More than 10 years
U.S. government securities	\$ 12,164	\$ —	683	6,970	4,511
U.S. government agency securities	304	—	—	—	304
Corporate bonds	22,633	1,438	10,675	4,887	5,633
Mortgage-backed securities	19,747	—	1,776	2,282	15,689
International government securities	250	250	—	—	—
	55,098	\$ 1,688	13,134	14,139	26,137
Common stock	217,438				
Mutual funds	24,722				
Private equity	17,044				
Hedge funds	12,714				
Real estate	34,143				
Money markets	4,360				
	\$ 365,519				

	Fair value	Ratings					
		AAA	AA	A	BBB	<BBB	Not rated
U.S. government securities	\$ 12,164	12,164	—	—	—	—	—
U.S. government agency securities	304	—	304	—	—	—	—
Corporate bonds	22,633	—	1,269	6,293	14,297	494	280
Mortgage-backed securities	19,747	4,850	5	—	—	275	14,617
International government securities	250	—	250	—	—	—	—
	\$ 55,098	17,014	1,828	6,293	14,297	769	14,897

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The following table presents information about the fair value measurements of the Plan's fiduciary net position as of June 30, 2018.

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Plan investments by fair value level:				
Money Markets	\$ 4,360	4,360	—	—
Debt Securities				
U.S. government securities	12,164	12,164	—	—
U.S. government agency securities	304	304	—	—
Corporate bonds	22,633	22,633	—	—
Mortgage-backed securities	19,747	19,747	—	—
International government securities	250	250	—	—
Total debt securities	<u>55,098</u>	<u>55,098</u>	<u>—</u>	<u>—</u>
Equity Securities				
Common stock	217,438	217,438	—	—
Mutual funds	24,722	24,722	—	—
Total Equity Securities	<u>242,160</u>	<u>242,160</u>	<u>—</u>	<u>—</u>
Private Equity	17,044	—	—	17,044
Real Estate	34,143	—	—	34,143
Total Plan investments by fair value level	<u>352,805</u>	<u>301,618</u>	<u>—</u>	<u>51,187</u>
 Plan investments measured at net asset value (NAV):				
Hedge Funds	<u>12,714</u>			
Total investments measured at fair value	<u>\$ 365,519</u>			

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

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

The hedge funds that the Plan invests in include various limits on the redemption frequency of those investments, as well as redemption notice periods. The limits on redemption frequency generally range from being non-redeemable to a redemption frequency that is daily, monthly, quarterly, semi-annually or annually. The redemption notice periods generally range from daily to notice periods of 5, 15, 30, 60, 75, or 90 days. The private equity funds that the Plan invests in include unfunded commitments as of June 30, 2018, totaling approximately \$8.8 million.

e) Pension Expense

The pension expense for the year ended June 30, 2018, is \$14.6 million.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

f) Deferred Inflows/Outflows of Resources

A summary of deferred outflows and deferred inflows of resources as of June 30, 2018, is as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	(In thousands of dollars)	
Differences between expected and actual experience	\$ —	\$ (5,007)
Changes of assumptions	15,504	(2,267)
Net difference between projected and actual earnings	—	(10,886)
 Total	\$ 15,504	\$ (18,160)

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

Year ending June 30:	
2019	\$ 1,982
2020	592
2021	(2,749)
2022	(2,481)
	\$ (2,656)

(10) Defined-Contribution Plan

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

The District's total payroll for fiscal year 2018 was \$516.7 million. The total covered payroll for eligible employees during the same period is not determinable. For fiscal year June 30, 2018, the District's contribution was \$6.7 million, representing 1.3% of total payroll. The employees' contribution for fiscal year June 30, 2018, were \$25.7 million, representing 5.0% of total payroll.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

(11) Florida Retirement System

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

The following amounts have been recorded in the District's financial statements as of and for the year ended June 30, 2018, representing its proportionate share of the net pension liability and the related pension expense and deferred outflows/inflows of resources of the FRS Plan:

	2018	
	(In thousands of dollars)	
Net pension liability	\$	1,958
Deferred outflows of resources		1,217
Deferred inflows of resources		(639)
Pension expense		262

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

(12) Other Postemployment Benefits (OPEB)

In addition to providing pension benefits, the District provides certain healthcare and life insurance benefits for approximately 1,198 eligible retired employees, which include those at the healthcare facilities. Many of the District's employees may become eligible for those benefits if they reach retirement age while working for the District.

a) Plan Description

The District maintains a single-employer defined-benefit healthcare plan, providing OPEB for all full-time employees of the District. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75; this is a pay-as-you-go plan. Benefit payments are recognized when due and payable in accordance with the benefit terms. The District does not issue separate financial statements for their healthcare plan. The authority to establish and amend benefit provisions of the District's plan is held by the CEO of the District.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

b) Benefits Provided

The District provides medical and dental insurance benefits for retirees and their dependents, as well as life insurance coverage to future employees. Benefits are provided through third-party insurers. Eligible retirees and their dependents either enrolled or not enrolled in Medicare pay an insurance premium to participate in either one of the health plans. Grandfathered employees who as of June 30, 2007, were at least age 55 with 5 years of service will contribute the active employee rate for medical and dental coverage for themselves and for dependent spouses. Transition employees who qualified for the rule of 80 as of June 30, 2012, will contribute the active employee rate for medical and dental coverage for themselves and for dependent spouses. All other retirees enrolling in medical and dental insurance through Broward Health will pay 100% of the group rated premium for coverage. The plan also provides eligible retirees with life insurance coverage based on age and pay prior to retirement. Retirees younger than age 65 receive coverage of 100% of annual pre-retirement pay (up to a maximum of \$50,000). Retirees age 65 and older receive coverage of 25% of annual pre-retirement pay (up to a maximum of \$10,000). Retirees are required to contribute a portion of the premium for life insurance coverage at \$.07 per month per \$1,000 of coverage (retirees younger than age 65). All premiums are paid for retirees age 65 and older.

A condition for all retirees and their covered eligible dependents to continue employer sponsored medical benefits after age 65 is to enroll in Medicare Parts A and B.

The covered spouse of a Transition or Grandfathered retiree who survives the retiree is eligible to continue employer sponsored medical and dental coverage. Medical and dental insurance premium subsidies will continue to the surviving spouse of eligible rule of 80 retirees.

c) Employees covered by benefit terms. At June 30, 2018, the following employees were covered by the benefit terms:

Number of employees covered:	
Inactive employees currently receiving benefits:	994
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	7,232
Total membership	<u>8,226</u>

d) Contribution Requirements

Retirees and eligible dependents are required to contribute a portion of the premium for coverage. The amount of monthly retiree premium contribution depends on the elected coverage and whether the retiree qualifies as having met the rule of 80 at retirement. The table below shows the monthly rates for the retiree of the optional plans for medical and dental.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

Best Choice Plus Medical	<u>Single</u>	<u>Employee + 1</u>
Rule of 80:		
Medical pre-65	\$ 119.15	288.45
Medical post-65	88.86	219.24
Retiree and Spouse one older and one younger than 65	N/A	255.14
Other retirees:		
Medical pre-65	\$ 650.74	1,352.39
Medical post-65	501.07	1,041.34
Retiree and Spouse one older and one younger than 65	N/A	1,202.72
Aetna EPO Medical		
Rule of 80:		
Medical pre-65	\$ 154.67	366.02
Medical post-65	117.60	278.96
Retiree and Spouse one older and one younger than 65	N/A	324.13
Other retirees:		
Medical pre-65	\$ 667.62	1,387.51
Medical post-65	514.07	1,068.35
Retiree and Spouse one older and one younger than 65	N/A	1,233.96
Aetna HDHP Medical		
Rule of 80:		
Medical pre-65	\$ 17.53	77.27
Medical post-65	10.62	56.62
Retiree and Spouse one older and one younger than 65	N/A	67.33
Other retirees:		
Medical pre-65	\$ 550.28	1,143.62
Medical post-65	423.72	880.57
Retiree and Spouse one older and one younger than 65	N/A	1,017.06

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

		<u>Single</u>	<u>Employee + 1</u>
	Reliance Dental		
Rule of 80:			
Retiree	\$	12.02	
Retiree and Spouse		N/A	24.10
Other retirees:			
Retiree	\$	24.04	
Retiree and Spouse		N/A	49.96
	Safeguard Dental		
Rule of 80:			
Retiree	\$	9.27	
Retiree and Spouse		N/A	17.60
Other retirees:			
Retiree	\$	18.53	
Retiree and Spouse		N/A	35.20

Rule of 80 retirees pay the same rates as active employees. Other retirees pay the premium equivalent funding rate. For fiscal year June 30, 2018, the District contributed \$8.6 million to the healthcare plan, which is net of the retiree contributions.

e) Actuarial Methods and Assumptions

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

In the current valuation, the entry age normal actuarial cost method was used. Benefit liabilities were reported as of June 30, 2018, and were valued as of June 30, 2018. The current valuation reflects identical Measurement and Reporting Dates due to a change in pharmacy benefits managers effective after June 30, 2017. The actuarial valuation date includes participant census as of January 1, 2016. The actuarial assumptions included a 3.87% discount rate for 2018. The selected discount rate at June 30, 2018, reflects a snapshot as of the Measurement Date of the 20-year Governmental Obligation Index published by Bond Buyer.

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

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

Salary increases	Salaries are assumed to increase at 4.5% per year
Mortality Rates	RP 2000Mortality – separate tables for Healthy Employees and Annuitants-generational projection per Scale BB Table with generational projections
Inflation	2.50%
Healthcare cost trend rates	The trend rates of incurred claims represent the rate of increase in employer claims payments

Claims costs in future years are estimated by adjusting the starting claim costs by an assumed ongoing cost trend. Such trends are based on the health care cost trend rate adjusted for the impact of plan design and cost containment features.

Trend was calculated assuming an implied inflation rate of 2.5% per year, and actual premiums, and reflects current provisions of the Affordable Care Act of 2010 (ACA), which impose an excise tax Trend for the first time in 2020 for medical coverage which exceeds certain premium thresholds. The ACA Excise tax is assumed to be applied to single/family implied equivalent rates based on the total premium equivalent rates for the District.

Medical annual rates of increase:	
Initial trend rate	4.80%
Ultimate trend rate	4.40%
Year that the rate reaches the ultimate trend rate	2100
Dental annual rates of increase:	
Initial trend rate	5.73%
Ultimate trend rate	4.24%
Year that the rate reaches the ultimate trend rate	2072

f) Discount Rate

A single discount rate of 3.87% was used to measure the total OPEB liability. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate.

g) OPEB Liability

At June 30, 2018, the District reported a total OPEB liability of \$158,175. The total OPEB liability was determined by an actuarial valuation as of January 1 2016, calculated based on the discount rate of 3.87% and various key actuarial assumptions, and was then projected forward to the measurement date of June 30, 2018. There have been no significant changes between the valuation date and the fiscal year end.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

h) Changes in the Total OPEB Liability

	Increase (Decrease) Total OPEB Liability
	<u>(In thousands of dollars)</u>
Balance as of June 30, 2017 (as adjusted) \$	230,711
Changes for the year:	
Service cost	3,066
Interest on total OPEB liability	8,217
Effect of plan changes	(68,863)
Effect of economic/demographic gains or losses	—
Effect of assumptions changes or inputs	(6,393)
Benefit payments	<u>(8,563)</u>
Balance as of June 30, 2018 \$	<u><u>158,175</u></u>

i) Plan Changes and Changes in Assumptions

During 2018, the Plan sponsor changed the terms of their engagement with their pharmacy benefits manager. This change is expected to significantly reduce retiree prescription drug charges. For the purposes of the valuation, the impact is reflected as a Plan Change, having been adopted and communicated to Plan participants as of April 1, 2018.

j) Sensitivity Analysis

The following presents the total OPEB liability of the District, calculated using the discount rate of 3.87%, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percent point lower (2.87%) or 1 percent higher (4.87%) than the current rate.

	1% Decrease 2.87%	Current Discount Rate 3.87%	1% Increase 4.87%
	<u>(In thousands of dollars)</u>		
Total OPEB liability \$	182,016	158,175	138,866

The following presents the total OPEB liability of the District, calculated using the current healthcare cost trend rates, as well as, what the District's total OPEB liability would be if it were calculated using trend rates that are 1 percent point lower (4.4 percent decreasing to 3.4 percent) or 1 percent point higher (6.4 percent decreasing to 5.4 percent) than the current trend rates.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

	1% Decrease (4.4% decreasing to 3.4%)	Healthcare Cost Trend Rates (5.4% decreasing to 4.4%)	1% Increase (6.4% decreasing to 5.4%)
	<u>(In thousands of dollars)</u>		
Total OPEB liability	\$ 138,965	158,175	181,378

k) OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized negative expense of \$58.4 million as a result of change in the engagement with the pharmacy benefit manager. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>(In thousands of dollars)</u>	
Differences between expected and actual experience	\$ —	\$ —
Changes of assumptions	<u>—</u>	<u>(5,544)</u>
Total	\$ <u>—</u>	\$ <u>(5,544)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:	(In thousands of dollars)
2019	\$ (849)
2020	(849)
2021	(849)
2022	(849)
2023	(849)
Thereafter	<u>(1,299)</u>
	\$ <u>(5,544)</u>

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

(13) Charity Care

The District provides charity care to patients that meet the eligibility criteria under the Districts Financial Assistance Program (FAP) Policy. Eligibility into the FAP includes the following, residency requirements, income requirements and final approval. The District charges eligible charity patients for services and supplies rendered. The total gross charges of charity care provided during fiscal year 2018 was \$132.3 million. Total gross charges of charity care provided reflects inpatient services of \$59.2 million and outpatient services of \$73.1 million for fiscal year 2018. The estimated cost of charity care was \$30.7 million for fiscal year 2018, comprised of \$14.1 million for inpatient services and \$16.6 million for outpatient services. The estimated costs were derived using a cost accounting system, which included indirect and direct costs.

(14) Net Patient Service Revenue

Net patient service revenue for fiscal year 2018 consisted of the following:

	2018
	(In thousands of dollars)
Gross patient service revenue:	
Medicare	\$ 777,550
Medicaid	330,830
HMO/PPO	2,466,448
Indigent Write-Off	132,342
Other	581,082
	<hr/>
	4,288,252
	<hr/>
Allowances:	
Medicare	581,680
Medicaid	290,189
HMO/PPO	1,841,595
Indigent Write-Off	132,342
Other	73,470
	<hr/>
Total allowances	2,919,276
Provision for uncollectible amounts	414,824
	<hr/>
Total deductions from patient service revenue	3,334,100
	<hr/>
Net patient service revenue	\$ 954,152
	<hr/> <hr/>

(15) Ad Valorem Tax Revenue

The Board of the District is empowered and directed to annually levy upon all real and personal taxable property within the boundaries of the District a sufficient tax, not to exceed 2.5 mills, to accomplish the purposes of the District, as determined by the Board. For fiscal year 2018, the levy was 1.2483 mills. The total assessed value for which fiscal year 2018 levies was based was approximately \$123 billion, with total taxes, net of associated fees, levied at the District level aggregating \$138.6 million for fiscal year

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

2018. The Broward County Property Appraiser assesses and the Broward County Tax Collector collects all ad valorem taxes within Broward County.

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

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

(16) Concentrations of Credit Risk

The District grants credit without collateral to its patients, most of whom are local residents and are covered under third-party payor agreements. The mix of receivables, net of contractual allowance reserves and provision for uncollectible accounts from patients and third-party payors at June 30, 2018, is detailed below. The District establishes reserves against these receivables based upon estimated collectability and credit risk. Self-pay receivables are, by nature, high risk, and estimated collectability is low. Therefore, the related net receivables represent a low percentage of the total mix of receivables in the table below.

	<u>2018</u>
Medicare	9.1%
Managed care	71.5
Medicaid	9.0
Commercial insurance	5.7
Self-pay and all other	4.7
	<u>100.0%</u>

(17) Risk Management

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

Public Liability, Medical Malpractice, and Workers' Compensation

In 1975, the District developed a self-insurance program to provide coverage against public liability and medical malpractice claims. In September 1979, the District added workers' compensation to its self-

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

insurance program. The District operates a comprehensive quality assurance program, which enables its healthcare facilities to closely monitor potential claims at the point of occurrence and to enhance its procedures for estimating accruals for such claims.

The District provides for losses in the self-insurance program based on limits set by sovereign immunity, except for the waiver of such immunity, relating to medical professional and general liability. Effective October 1, 2011, the limits increased from \$0.1 million to \$0.2 million per claimant and from \$0.2 million to \$0.3 million per incident. In November 1995, the District purchased a commercial umbrella insurance policy for malpractice insurance claims, which is renewed annually. This policy became effective for incidents incurred on or after January 22, 1996. Under the terms of the current policy, the District is insured for any individual incident in excess of \$2.0 million (self-insured retention) up to a maximum annual aggregate limit of \$20.0 million by the insurer.

The District established a current and noncurrent liability in the total amount of \$32.4 million at June 30, 2018 to cover losses resulting from asserted and unasserted claims. The liability includes estimates of the ultimate costs of both reported claims and claims incurred but not reported. Management believes these reserves are adequate to cover losses from such claims after considering the limits provided by Florida Statutes as set forth above. The current year claims expense is included within insurance expenses in the statement of revenues, expense, and changes in net position.

Changes in the District’s self-insurance program claims liability during 2018 were as follows:

	<u>2018</u>
	(In thousands of dollars)
Liability at beginning of year	\$ 31,479
Current year claims expense	6,563
Current year claims payments	<u>(5,632)</u>
Liability at end of year	<u><u>\$ 32,410</u></u>

Medical Health Benefits

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

The estimated reserve for the District’s health benefits as of June 30, 2018, for non-retirees is \$9.8 million and is included in accrued salaries, benefits and payroll taxes in the accompanying statement of net position. The District considered the need for a margin for adverse deviation from the best estimate of reserve based on the variability of claims and has included a 10% explicit margin. The liability includes estimates of the ultimate costs of both reported claims and claims incurred but not reported. Management believes these reserves are adequate to cover such claims.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

Changes in the District's health plan liability during fiscal year 2018 were as follows:

	<u>2018</u>
	(In thousands of dollars)
Liability at beginning of year	\$ 11,241
Current year claims expense	79,833
Current year claims payments	<u>(81,265)</u>
Liability at end of year	<u>\$ 9,809</u>

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

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

Since dental became fully insured as of January 1, 2012, and vision became fully insured as of January 1, 2014, there is no remaining material self-insured plan run-out reserve liability as of June 30, 2018.

(18) Related Parties

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

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

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

As of June 30, 2018, the District's investment in CCP was approximately \$18.2 million and is included in other assets. The District recorded equity in earnings of \$2.8 million.

Summarized financial information taken from the audited financial statements of CCP as of December 31, 2017 was as follows:

NORTH BROWARD HOSPITAL DISTRICT

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June 30, 2018

	<u>2017</u> (In thousands of dollars)
Assets	
Current assets	\$ 45,218
Capital assets, net	2,330
Other assets	<u>22,551</u>
Total assets	<u><u>\$ 70,099</u></u>
Liabilities and Net Position	
Current liabilities	\$ 23,290
Long-term liabilities	<u>13,574</u>
Total liabilities	<u>36,864</u>
Net position	<u>33,235</u>
Total liabilities and net position	<u><u>\$ 70,099</u></u>
	<u>2017</u> (In thousands of dollars)
Revenue	\$ 172,915
Expenses:	
Medical services expenses	138,615
General administrative expenses	<u>29,685</u>
Total expenses	<u>168,300</u>
Operating income	4,615
Other income	<u>160</u>
Increase in net position	4,775
Net position:	
Beginning of year	28,460
Distribution to Members	-
End of year	<u><u>\$ 33,235</u></u>

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

(19) Public Medical Assistance Trust Fund

In 1984, the Agency for Healthcare Administration created a Public Medical Assistance Trust Fund to collect assessments from all hospitals in the state of Florida to fund enhancements to the Medicaid program. Hospitals in the state of Florida are required to deposit into the fund an amount equal to 1.5% of the hospital's prior year net inpatient revenue and 1.0% of the hospital's prior year net outpatient revenue. During fiscal year 2018, approximately \$12.2 million was recorded as an operating expense in the accompanying statement of revenues, expenses, and changes in net position.

(20) Commitments and Contingencies

a) Operating Leases

The District leases various equipment and facilities under operating lease arrangements. Total rental expense under operating leases in fiscal year 2018 was \$10.1 million and is included in other expenses in the accompanying statement of revenues, expenses, and changes in net position.

Future minimum lease payments under operating leases as of June 30, 2018, with initial or remaining lease terms in excess of one year are as follows (in thousands of dollars):

Years ending June 30:		
2019	\$	5,203
2020		3,520
2021		2,949
2022		2,597
2023		2,240
Thereafter		5,979
	\$	<u>22,488</u>

b) Litigation

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

The District has been named as a defendant in a number of malpractice lawsuits. In the event that a claim exceeds its sovereign immunity level, the District may incur charges in excess of its established reserves that could have an adverse impact on the District's net income and net cash flows in the period in which it is recorded or paid. In order for the District to incur liability in excess of its sovereign immunity level, a claims bill must be presented and sponsored by a senator or representative of the State of Florida, passed through committee, and signed by the governor of Florida according to Florida Statute 768.28. The deadline to file new claims bills for the March 1st, 2019 session was August 1st, 2018 and the District had no new claims bills filed for the upcoming session.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

c) *Other Industry Risks*

The healthcare industry is subject to numerous complex laws and regulations imposed by federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation by both the District with respect to implementation, as well as the government with respect to retrospective review. In addition, at this time, regulatory actions are unknown and unasserted.

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

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

d) *Corporate Integrity Agreement*

The Corporate Integrity Agreement (CIA) was entered into between the District and the Office of Inspector General (OIG) to “promote compliance with the statutes, regulations, and written directives of Medicare, Medicaid, and all other Federal health care programs.” The CIA became effective on August 31, 2015 (the “*Effective Date*”), and the period of compliance assumed by the District under the CIA is five years from the Effective Date. Each one year period following the Effective Date, commencing September 1, 2015, is a “Reporting Period.”

Compliance Program Requirements

The CIA required the District to establish, within 90-120 days after the Effective Date, and maintain, a Compliance Program that includes the following principal elements:

- A Compliance Officer must be appointed and such position must be maintained for the term of the CIA (“*Chief Compliance Officer*”). Among other things, the Chief Compliance Officer must develop and implement policies, procedures, and practices to ensure compliance with the CIA and with federal health care program requirements, and monitor the day-to-day compliance activities engaged in by the District as well as report any obligations required under the CIA.
- A Compliance Committee must be appointed, which shall include the Chief Compliance Officer and other members of senior management necessary to meet the requirements of the CIA; such committee is required to meet at least quarterly.
- The Board of Commissioners of the District, supported by a committee of the Board, is responsible for the review and oversight of matters related to compliance with federal health care program requirements and the obligations of the CIA.
- The District must develop, implement, and distribute a written Code of Conduct to all “Covered Persons” (as defined in the CIA), and develop and implement written policies and procedures regarding the operation of its compliance program.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

- The District must develop a written training plan, and provide training to all Covered Persons (as defined in the CIA) regarding the CIA, the Anti-Kickback Statute, and the Stark Law.
- The District must create and maintain a centralized tracking system for all existing and new or renewed arrangements between the District and (i) any actual source of health care business or referrals to the District that involves the offer, payment, or provision of anything of value, or (ii) any physician (or physician's immediate family member) who makes a referral to the District for designated health services, as defined at 42 U.S.C. § 1395nn(h)(6) ("*Focus Arrangements*").
- The District must establish a Disclosure Program to enable individuals to disclose any issues or questions pertaining to the District's policies, conduct, practices, or procedures with respect to a Federal health care program believed to be a violation of law.

Generally, the District took the following actions in order to implement these Compliance Program requirements, including:

- The District appointed a Chief Compliance Officer and created a Board Compliance and Ethics Committee;
- The Board's Compliance and Ethics Committee reviews and oversees the District's Compliance and Ethics Program, including but not limited to the performance of the Chief Compliance Officer and the Executive Compliance Workgroup, which serves as the Compliance Committee under the CIA;
- The District developed a written Code of Conduct and has implemented written policies and procedures regarding the operation of its compliance program, including the compliance program requirements contained in the CIA and federal health care program requirements;
- The District developed a written training plan and conducted training of Covered Persons and the Board members;
- The District is in the process of implementing an improved centralized database for Focus Arrangements (the District began transitioning its contract files to a new database platform in August 2017);
- The District implemented Focus Arrangement review and approval processes, including ensuring that Focus Arrangements are signed and in writing, and ensuring that Focus Arrangement agreements contain certain provisions required by the CIA;
- The District developed and implemented a centralized annual risk assessment and internal review process to identify and address risks associated with Arrangements; and
- The District established a Disclosure Program that includes a mechanism for individuals to disclose any identified issues or questions and that emphasizes a non-retribution and non-retaliation policy.

Engagement of IRO

The District is required by the terms of the CIA to engage an Independent Review Organization ("*IRO*") to conduct systems reviews and transactions reviews. The systems review is a review of the District's systems, processes, policies, and procedures relating to the initiation, review, approval and tracking of Arrangements (as defined in the CIA). A systems review is to be performed for the first and fourth Reporting Periods, and for each Reporting Period in which the District materially changes its systems, processes, policies, and procedures. The transaction review is a review, conducted annually, of 50 randomly-selected Focus Arrangements.

Fiscal Year 2018 IRO Update:

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

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- Independent Review Organization Supplemental Report on Arrangements Transactions Review of North Broward Hospital District – July 10, 2017
- Independent Review Organization Letter to Beverly Capasso about potential conflicts of interest issues regarding John Knox Village of Florida, Inc. – August 1, 2017
- Independent Review Organization Report on Arrangements Transactions Review of North Broward Hospital District – October 27, 2017
- Independent Review Organization Letter to State of Florida, Chief Inspector General about potential misconduct in 2016 identified and referred to the Inspector General – November 3, 2017
- Independent Review Organization Arrangements Systems Review Report of North Broward Hospital District – November 30, 2017
- Independent Review Organization Arrangement Systems Review of Focus Arrangements Relating to Broward Health North’s Cancer Center, Hematology and Oncology Services and Hospice Services – June 1, 2018

Annual Report

Under the CIA, the District is required to submit an annual report each year to the OIG (“*Annual Report*”). The Annual Report must detail the status of, and findings regarding, the District’s compliance activities for each Reporting Period. The Annual Report must contain a number of elements, including: (i) any change in the identity or position description of the Chief Compliance Officer; (ii) a summary of any changes to the Code of Conduct or the District’s policies and procedures; (iii) information regarding the trainings conducted under the training plan; (iv) a copy of all reports prepared by the IRO and the District’s response to the reports; (v) a description of the risk assessment and internal review process; (vi) a copy of the District’s internal review work plans; (vii) a summary of the disclosures in the disclosure log; and (viii) a summary of Reportable Events (as defined in the CIA).

In addition to the Chief Compliance Officer and Chief Executive Officer certifications described above, for each Reporting Period of the CIA, the Board must adopt a resolution summarizing its review and oversight of the District’s compliance with federal health care program requirements and the obligations of the CIA.

- North Broward Hospital District Report for the Second Reporting Period Under the HHS-OIG Corporate Integrity Agreement Executed August 31, 2015 – Submitted to OIG on December 4, 2017
- Response to Independent Review Organization Report on Arrangements Transactions Review of North Broward Hospital District – Submitted with Second Annual Report on December 4, 2017. The board listed two exceptions to their certification. The first exception was that NBHD did not have a centralized tracking system (as required by Section III.D of the CIA) at the end of the reporting period due to the transition from the MediTract system to C360 for the centralized tracking system. The second exception was that while NBHD implemented most of the

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processes for the risk assessment and internal review process as required by Section III.F of the CIA, it was done on a less formal basis than NBHD Standard Operating Procedure #111, Risk Assessment and Internal Review Process – Arrangements outlines.

- Subsequently to filing the District’s 2nd annual report to the OIG, the following disclosures were made:
 - On December 28, 2017, the district reported to the OIG a “probable violation” of the Stark Law, which was reported to the Centers for Medicare and Medicaid Services (CMS) through the Voluntary Self-Referral Disclosure Protocol. The District’s outside counsel, on behalf of the District, reported this “probable violation” of The Stark Law to CMS on December 18, 2017.
 - On May 23, 2018, the District reported to the OIG a “probable violation” of the Stark Law, which was reported to CMS through the Voluntary Self-Referral Disclosure Protocol. The District’s outside counsel, on behalf of the District, reported this “probable violation” of the Stark Law to CMS on May 23, 2018.
 - On May 30, 2018, the District reported to the OIG that the District engaged in conduct that constitutes a “probable violation” of the Sherman Act and Federal Trade Commission (FTC) Act. In addition, the District disclosed this “probable violation” to the FTC and is currently responding to additional information requested by the FTC. The amount of any penalties, if any, cannot be determined at this time.

Potential Penalties Under the CIA

If the OIG determines that the District has failed to comply with its CIA obligations, it has the authority to impose contractually stipulated penalties, which could be material to the organization. The OIG provides notice if it finds a failure to comply, which includes notice of the OIG’s exercise of its contractual right to demand payment of penalties. As of October 31, 2018, the OIG had not provided such notice to the District.

(21) Significant Business Risk

The District receives a significant amount of reimbursements from Medicaid. The Florida State Legislature, the Centers for Medicare and Medicaid Services (CMS), and the Florida Medicaid Agency continually evaluate the terms of the Medicaid Program. If the terms of the Medicaid program change, the District cannot determine what impact this will have on future funding. In addition, during and subsequent to FY 2018 the District has operated with open Board of Commissioners seats, which the District’s Board of Commissioners are appointed by the Governor of the State of Florida. While the District appointed a permanent CEO, CFO, & COO, after years of turnover and people acting as interim, there are risks that some of them may not stay. Subsequent to the end of the fiscal year, the CEO of the District resigned. Further, as noted previously, the District failed to comply with certain requirements of the CIA discussed in Note 20(d). These items individually and in the aggregate pose a significant business risk to the organization.

NORTH BROWARD HOSPITAL DISTRICT

Notes to the Financial Statements

June 30, 2018

(22) Condensed Financial Information – Component Units

The following tables represent the condensed financial information of the District’s component units at June 30, 2018 (in thousands of dollars):

	Children’s Diagnostic & Treatment Center	Broward Health Foundation	Total Claims Administration	Broward Health ACO	Total of Blended Component Units
Assets:					
Due from other components	\$ —	443	—	—	443
Other current assets	10,125	11,159	4,554	7,946	33,784
Total current assets	10,125	11,602	4,554	7,946	34,227
Capital assets, net	1,331	2	1	4,212	5,546
Other assets	138	8,434	2,526	—	11,098
Total assets	11,594	20,038	7,081	12,158	50,871
Deferred outflows of resources	321	15	52	48	436
Liabilities:					
Due to other components	1,344	—	412	15,431	17,187
Other current liabilities	10,482	11,454	567	4,832	27,335
Total current liabilities	11,826	11,454	979	20,263	44,522
Other long-term liabilities	4,137	141	475	315	5,068
Total liabilities	15,963	11,595	1,454	20,578	49,590
Deferred inflows of resources	535	18	66	35	654
Net position:					
Net investment in capital assets	1,331	2	1	4,212	5,546
Restricted net position	5,214	19,768	—	—	24,982
Unrestricted net position	(9,229)	(11,331)	5,612	(12,619)	(27,567)
Total net position	\$ (2,684)	8,439	5,613	(8,407)	2,961

NORTH BROWARD HOSPITAL DISTRICT

Notes to Financial Statements

June 30, 2018

	Children's Diagnostic & Treatment Center	Broward Health Foundation	Total Claims Administration	Broward Health ACO	Total of Blended Component Units
Operating revenues	\$ 16,943	—	1,869	1,708	20,520
Operating expenses	16,672	979	2,229	1,100	20,980
Operating income (loss)	271	(979)	(360)	608	(460)
Nonoperating revenues (expenses)	415	(6,037)	169	—	(5,453)
Capital contributions	48	—	—	—	48
Increase (decrease) in net position	734	(7,016)	(191)	608	(5,865)
Net position:					
Beginning of year, as adjusted (see note 2)	(3,418)	15,455	5,804	(9,015)	8,826
End of year	\$ (2,684)	8,439	5,613	(8,407)	2,961

	Children's Diagnostic & Treatment Center	Broward Health Foundation	Total Claims Administration	Broward Health ACO	Total of Blended Component Units
Net cash provided (used) by:					
Operating activities	\$ 940	—	(115)	4,394	5,219
Capital and related financing activities	(25)	—	—	(347)	(372)
Investing activities	2	—	(71)	—	(69)
Net increase (decrease) in cash and cash equivalents	\$ 917	—	(186)	4,047	4,778
Cash and cash equivalents:					
Beginning of year	\$ 24	—	4,610	3,716	8,350
End of year	\$ 941	—	4,424	7,763	13,128

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

NORTH BROWARD HOSPITAL DISTRICT

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

June 30, 2015 Through June 30, 2018

(in thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability				
Service cost	\$ 11,692	11,114	10,603	9,775
Interest on total pension liability	25,251	25,255	24,568	25,875
Effect of economic/demographic gains or losses	(3,996)	(2,843)	(2,600)	—
Effect of assumption changes or inputs	20,211	(4,654)	965	(5,629)
Benefit payments	<u>(31,731)</u>	<u>(27,411)</u>	<u>(25,626)</u>	<u>(24,520)</u>
Net change in total pension liability	21,427	1,461	7,910	5,501
Total pension liability, beginning	<u>340,554</u>	<u>339,093</u>	<u>331,184</u>	<u>325,683</u>
Total pension liability, ending (a)	<u>\$ 361,981</u>	<u>340,554</u>	<u>339,094</u>	<u>331,184</u>
Fiduciary Net Position				
Employer contributions	\$ 16,010	17,000	15,200	17,600
Investment income net of investment expenses	39,513	42,243	(1,210)	15,583
Benefit payments	(31,731)	(27,411)	(25,626)	(24,520)
Administrative expenses	<u>(2,131)</u>	<u>(2,273)</u>	<u>(2,126)</u>	<u>(2,533)</u>
Net change in plan fiduciary net position	21,661	29,559	(13,762)	6,130
Fiduciary net position, beginning	<u>343,858</u>	<u>314,299</u>	<u>328,061</u>	<u>321,931</u>
Fiduciary net position, ending (b)	<u>\$ 365,519</u>	<u>343,858</u>	<u>314,299</u>	<u>328,061</u>
Net pension liability (asset), ending = (a) - (b)	<u>\$ (3,538)</u>	<u>(3,304)</u>	<u>24,795</u>	<u>3,123</u>
Fiduciary net position as a % of total pension liability	100.98%	100.97%	92.69%	99.06%
Covered payroll	\$ 375,867	376,441	353,296	351,806
Net pension liability as a % of covered payroll	-0.94%	-0.88%	7.02%	0.89%

See accompanying independent auditors' report.

NORTH BROWARD HOSPITAL DISTRICT

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

July 1, 2008 Through June 30, 2018

(in thousands)

Fiscal Year Ending June 30	Actuarially Determined Contribution*	Actual Employer Contribution**	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2018	\$ 9,028	\$ 16,010	\$ (6,982)	\$ 375,867	4.26%
2017	11,052	17,491	(6,439)	376,441	4.65%
2016	11,834	15,656	(3,822)	353,296	4.43%
2015	14,957	18,126	(3,169)	351,806	5.15%
2014	15,688	18,169	(2,481)	336,524	5.40%
2013	17,205	20,204	(2,999)	345,555	5.85%
2012	17,120	19,587	(2,467)	335,101	5.85%
2011	14,042	19,658	(5,616)	315,874	6.22%
2010	11,932	19,605	(7,673)	307,858	6.37%
2009	6,191	17,253	(11,062)	280,724	6.15%

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

**Interest adjusted to plan year-end.

Notes to Schedule

Assumed rate of return on investments	6.25%
Mortality basis	RP-2000 Combined healthy mortality with generational projection per Scale BB
Amortization method	Level dollar layered
Existing amortization period	15 years
Asset valuation method	
Smoothing period	Three years
Corridor	90% to 110% of Market
Assumed inflation rate	2.50%
Salary increases	4.50%
Cost of living adjustments	None
Actuarial cost method	Entry age normal

See accompanying independent auditor's report.

NORTH BROWARD HOSPITAL DISTRICT

Schedule of Money-Weighted Rate of Return – Defined Benefit Pension Plan (Unaudited)

Year ended June 30, 2018

<u>Fiscal Year</u> <u>Ending</u> <u>June 30</u>	<u>Net</u> <u>Money-Weighted</u> <u>Rate of Return</u>
2009	N/A
2010	N/A
2011	N/A
2012	N/A
2013	N/A
2014	N/A
2015	4.87%
2016	-0.38%
2017	13.96%
2018	11.71%

See accompanying independent auditors' report.

NORTH BROWARD HOSPITAL DISTRICT

Schedule of Changes in Total OPEB Liability and Related Ratios (Unaudited)

June 30, 2018

(in thousands)

	2018
Total OPEB Liability	
Service cost	\$ 3,066
Interest on total OPEB liability	8,217
Effect of plan changes	(68,863)
Effect of economic/demographic gains or losses	—
Effect of assumption changes or inputs	(6,393)
Benefit payments	(8,563)
Net change in total OPEB liability	(72,536)
Total OPEB liability, beginning, as adjusted (see note 2)	230,711
Total OPEB liability, ending	\$ 158,175
Covered payroll	\$ 428,904
Total OPEB liability as a % of covered payroll	36.88%

See accompanying independent auditors' report.

SUPPLEMENTAL COMBINING INFORMATION

NORTH BROWARD HOSPITAL DISTRICT

Combining Schedule of Net Position

June 30, 2018

(In thousands of dollars)

Assets	Broward Health Medical Center	Broward Health North	Broward Health Imperial Point	Broward Health Coral Springs	Foundation	Other Non-Hospital Entities	Eliminations	Total
Current assets:								
Cash and cash equivalents	\$ 9	4	2	4	—	121,204	—	121,223
Cash and investments externally restricted by donors	326	106	14	100	8,389	5,990	12	14,937
Short-term investments	—	—	—	—	—	442,756	—	442,756
Assets whose use is limited required for current liabilities	3,158	1,407	624	541	—	532	—	6,262
Due from patients and other, net of allowance for uncollectibles	84,190	32,249	15,115	19,240	—	4,018	—	154,812
Inventories	14,317	9,543	3,265	4,302	—	826	—	32,253
Estimated third-party payor settlements	2,215	1,244	2,020	409	—	—	—	5,888
Other current assets	7,393	2,277	1,021	1,420	2,769	51,178	(18,224)	47,834
Total current assets	111,608	46,830	22,061	26,016	11,158	626,504	(18,212)	825,965
Assets whose use is limited – Cash and investments:								
Amounts designated for self-insurance	18,480	5,927	4,908	6,027	—	2,328	—	37,670
Project fund from debt issuance	—	—	—	—	—	26,981	—	26,981
Less amount required to meet current obligations	18,480	5,927	4,908	6,027	—	29,309	—	64,651
Assets whose use is limited, net	(3,158)	(1,407)	(624)	(541)	—	(532)	—	(6,262)
Investments	15,322	4,520	4,284	5,486	—	28,777	—	58,389
Due from/(to) affiliates	—	—	—	—	—	150,088	—	150,088
Capital assets, net	655,400	101,526	73,958	139,883	443	(971,210)	—	—
Net pension asset	205,621	117,562	48,601	107,462	2	98,219	—	577,467
Other assets	2,121	921	547	683	(1)	(2,691)	—	1,580
Total assets	990,072	271,359	149,451	279,530	20,037	19,415	(18,212)	1,641,339
Deferred outflows of resources:								
Loss on debt refundings	19,949	2,412	1,344	916	—	3,238	—	27,859
Deferred pension amounts	6,360	2,505	1,433	1,997	15	4,411	—	16,721
Total deferred outflows of resources	26,309	4,917	2,777	2,913	15	7,649	—	44,580

NORTH BROWARD HOSPITAL DISTRICT

Combining Schedule of Net Position (Continued)

June 30, 2018

(In thousands of dollars)

Liabilities	Broward Health Medical Center	Broward Health North	Broward Health Imperial Point	Broward Health Coral Springs	Foundation	Other Non-Hospital Entities	Eliminations	Total
Current liabilities:								
Current maturities of revenue bonds payable	\$ 1,835	272	246	263	—	1,414	—	4,030
Accounts payable and accrued expenses	47,142	23,152	10,604	18,128	11,433	30,110	(18,212)	122,357
Accrued salaries, benefits and payroll taxes	9,491	4,743	2,624	3,338	17	11,012	—	31,225
Accrued personal leave	11,532	5,121	2,836	3,268	4	6,974	—	29,735
Current portion of lease obligations	108	—	—	—	—	—	—	108
Estimated third-party payor settlements	25,852	3,499	1,780	5,072	—	—	—	36,203
Current portion of self-insurance program liability	3,158	1,407	624	541	—	532	—	6,262
Total current liabilities	99,118	38,194	18,714	30,610	11,454	50,042	(18,212)	229,920
Revenue bonds, net of current maturities	156,464	23,149	20,973	22,413	—	120,638	—	343,637
Lease obligations, net of current portion	237	—	—	—	—	—	—	237
Self-insurance program liability, net of current portion	10,352	3,852	2,878	3,171	38	5,857	—	26,148
Other postemployment benefit program liability	63,263	25,819	15,009	19,748	104	34,232	—	158,175
Total liabilities	329,434	91,014	57,574	75,942	11,596	210,769	(18,212)	758,117
Deferred inflows of resources:								
Deferred pension amounts	7,298	2,985	1,719	2,290	13	4,494	—	18,799
Deferred other postemployment benefits	2,192	990	545	711	4	1,102	—	5,544
Total deferred inflows of resources	9,490	3,975	2,264	3,001	17	5,596	—	24,343
Net position:								
Net investment in capital assets	66,927	96,553	28,726	85,702	2	6,385	—	284,295
Restricted for donor restrictions	326	106	14	104	19,768	5,799	—	26,117
Unrestricted	610,204	84,628	63,650	117,694	(11,331)	(271,798)	—	593,047
Total net position	\$ 677,457	181,287	92,390	203,500	8,439	(259,614)	—	903,459

See accompanying independent auditors' report.

NORTH BROWARD HOSPITAL DISTRICT

Combining Schedule of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2018

(In thousands of dollars)

	Broward Health Medical Center	Broward Health North	Broward Health Imperial Point	Broward Health Coral Springs	Foundation	Other Non-Hospital Entities	Eliminations	Total
Operating revenues:								
Net patient service revenue (net of provision for uncollectible accounts)	\$ 463,340	206,138	109,199	142,377	—	33,098	—	954,152
Other operating revenue	23,320	9,958	3,266	2,279	—	51,904	(9,523)	81,404
Total operating revenues	486,860	216,096	112,465	144,656	—	85,002	(9,523)	1,035,556
Operating expenses:								
Salaries	186,875	92,932	47,048	63,928	555	125,389	—	516,727
Employee benefits	10,794	6,688	2,823	2,102	58	13,886	(1,188)	35,163
Professional fees	31,210	11,794	6,735	8,951	—	(1,053)	(4,858)	52,779
Purchased services and temporary labor	7,487	3,651	1,579	1,776	—	759	—	15,252
Outside services	10,863	4,234	1,793	3,731	(3)	12,558	(680)	32,496
Supplies	116,223	66,582	22,472	24,314	11	4,822	—	234,424
Insurance	3,979	1,620	957	1,213	11	2,236	—	10,016
Utilities	6,299	3,034	2,075	1,882	4	5,245	—	18,539
Repairs and maintenance	6,023	4,161	2,402	2,756	—	5,527	—	20,869
State assessments	5,673	2,823	1,515	1,999	—	283	—	12,293
Depreciation and amortization	18,932	10,208	4,882	5,725	2	13,788	—	53,537
Other	78,542	39,605	22,252	26,773	341	(83,218)	(2,797)	81,498
Total operating expenses	482,900	247,332	116,533	145,150	979	100,222	(9,523)	1,083,593
Operating income/(loss)	3,960	(31,236)	(4,068)	(494)	(979)	(15,220)	—	(48,037)
Nonoperating revenues (expenses):								
Ad valorem tax revenue	69,555	37,872	13,917	17,238	—	—	—	138,582
Investment income, net	435	117	340	533	840	50,695	—	52,960
Interest expense	(9,869)	(1,220)	(1,024)	(1,042)	—	(4,934)	—	(18,089)
Other	1,108	(1,783)	(263)	(762)	(6,877)	3,264	—	(5,313)
Total nonoperating revenues	61,229	34,986	12,970	15,967	(6,037)	49,025	—	168,140
Income (loss) before capital contributions	65,189	3,750	8,902	15,473	(7,016)	33,805	—	120,103
Capital contributions	—	5	9	—	—	83	—	97
Increase (decrease) in net position	65,189	3,755	8,911	15,473	(7,016)	33,888	—	120,200
Net position:								
Beginning of year, as adjusted (note 2)	612,268	177,532	83,479	188,027	15,455	(293,502)	—	783,259
End of year	\$ 677,457	181,287	92,390	203,500	8,439	(259,614)	—	903,459

See accompanying independent auditors' report.