North Brevard County Hospital District

Basic Financial Statements and Supplementary Information

For the Years Ended September 30, 2014 and 2013, and Independent Auditor's Report

NORTH BREVARD COUNTY HOSPITAL DISTRICT

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MSL MOORE STEPHENS LOVELACE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors and Audit Committee
North Brevard County Hospital District
Titusville, Florida

Report on the Financial Statements

We have audited the accompanying balance sheets of North Brevard County Hospital District (the "District"), including North Brevard Medical Support, Inc. ("NBMS") (a blended component unit of the District), as of September 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2014 and 2013, and the respective results of operations, changes in net position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the 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. This information is the responsibility of the District's management. 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 Supplementary Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole as of and for the years ended September 30, 2014 and 2013. The accompanying other supplementary information, as listed in the table of contents, is presented for the purpose of additional analysis of the financial statements, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Board of Directors and Audit Committee
North Brevard County Hospital District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 2, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moore Stephens Lovelace, P.A

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Clearwater, Florida
January 2, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the North Brevard County Hospital District (the "District") annual financial report presents background information and our analysis of the District's financial performance during the fiscal years ended September 30, 2014 and 2013. It is intended to be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total operating revenues in fiscal year 2014 increased $6.4 million, or 4.5%, while total operating expense increased $5.8 million, or 4.2%. The net operating margin for the fiscal year 2014 was approximately $4.8 million, or 3.2%, compared to the fiscal year 2013 operating margin of approximately $4.3 million, or 3.0%. The total 2014 net nonoperating loss was $9.1 million.

- Total fiscal year 2014 admissions decreased by 2.5% (from 6,803 in 2013 to 6,633 in 2014), patient days decreased by 4.3% (from 28,765 in 2013 to 27,514 in 2014). In addition, inpatient surgeries and special procedures decreased in fiscal year 2014 by 4.7% (from 2,317 in 2013 to 2,208 in 2014). Neurosurgery volume decreased 9.7% in 2014 (from 154 in 2013 to 139 in 2014). Total cardiac cath lab volume, both cardiac catheterizations and angioplasties (PTCAs), increased 0.7% in 2014 (from 1,402 in 2013 to 1,412 in 2014). The decreased volumes had a proportional impact on the change in revenues and expenses.

- Charges foregone, based upon established rates, from community (charity) care provided to patients decreased from $24.0 million in fiscal year 2013 to $18.8 million in fiscal year 2014. Community care as a percentage of total gross patient service revenue was 3.3% in 2014 and 4.3% in 2013. The provision for bad debt decreased in fiscal year 2014 by $1.4 million as compared to fiscal year 2013. The 2014 amount was $15.4 million versus the 2013 amount of $16.8 million. The 2014 provision for bad debt as a percentage of total gross patient service revenue decreased to 2.7%, compared to 3.0% in fiscal year 2013. In total, bad debt and community care, as a percentage of total gross patient service revenue, decreased to 5.9% for 2014, from 7.3% in 2013.

- Net position decreased $4.2 million for the current year, compared to a $10.2 million decrease in the prior year.

- The District's 2014 balance sheet remains strong, as evidenced by comparing the 265 days' cash on hand, as recorded at fiscal year-end 2014, to the 199 days hospital industry median for Fitch Ratings "A" rated hospitals. Similarly, the District's cash-to-debt ratio of 94% is below the Fitch Rating industry median of approximately 131%. Long-term debt to capitalization of 44% demonstrates moderate use of the debt on our balance sheet and, again, compares favorably to the same industry median of approximately 36.3%. As discussed on page 11, the District refinanced a portion of the 2008 Series Bonds with 2014 Series Bonds.

- Net capital expenditures for the year were $13.3 million and were funded by cash flow from operations. The breakdown of the $13.3 million in capital expenditures is: approximately $10.1 million for the third year of a multi-year purchase and implementation of an electronic medical record system; $1.2 million on the north building renovation; $0.9 million on the building out of the Parrish Medical Group Diagnostics – Target location; and $1.1 million in routine capital equipment replacement.

- On July 30, 2008, the District issued $99,975,000 in uninsured, fixed rate Revenue Refunding Bonds, issued at an average coupon rate of 5.69%. As a means to manage the increased interest costs, the District executed an interest rate swap on January 29, 2009, for half of the then-outstanding principal

($99,975,000) with RJ Capital Services, Inc. The District executed a second interest rate swap agreement on May 20, 2010, for the remaining half of the outstanding principal ($98,985,000) with RJ Capital Services, Inc. At September 30, 2014 and 2013, the fair value of the interest rate swaps were an unrealized asset of approximately $2,389,000 and $1,833,000, respectively, and the cash flows from the swaps resulted in a reduction of interest expense during fiscal years 2014 and 2013 of approximately $808,000 and $781,000, respectively.

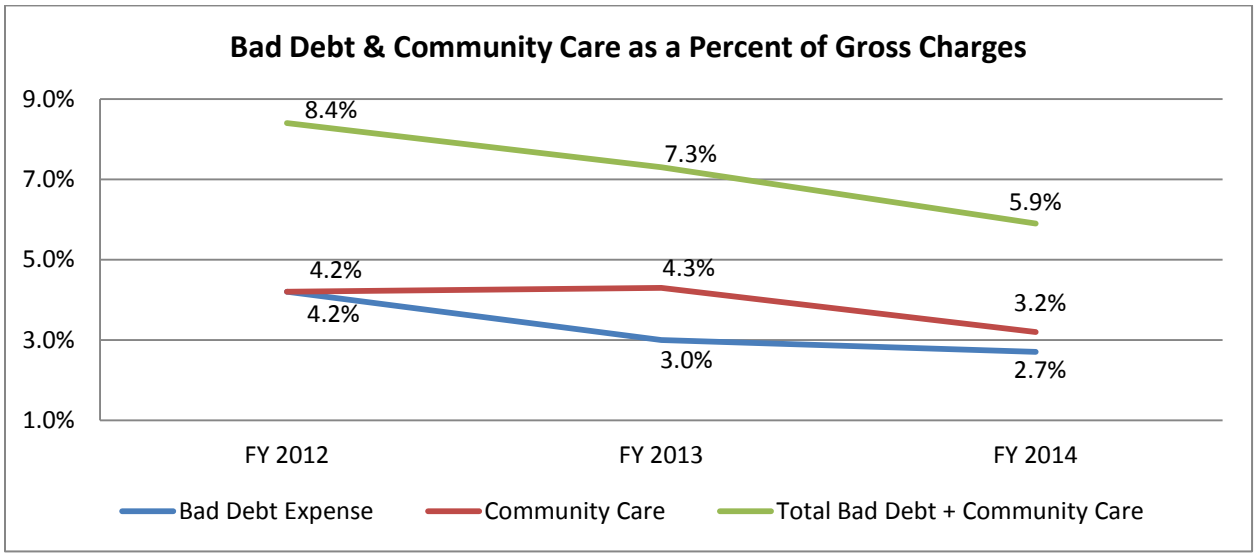
- Effective June 13, 2014, Parrish Medical Center purchased a claims-made umbrella policy with a $5 million limit covering the Hospital and employed physicians. The umbrella policy is excess over the sovereign immunity limits of $200,000/$300,000. If sovereign immunity does not apply, the policy is excess over a professional liability limit of $1.0 million/$3.0 million, which is the self-insured retention. Effective May 30, 2014, Parrish Medical Center purchased a claims-made professional liability excess policy for contract physicians working in the Florida Health Network. These physicians carry their own underlying insurance policy for the first $250,000 per claim and $750,000 per physician. The excess policy covers an additional $750,000 per claim and $2.25 million per physician, bringing the total coverage to $1 million/$3 million limits. Both policies were purchased as a result of membership in the Mayo Clinic Care Network.

COMMUNITY BENEFIT HIGHLIGHTS

Bad Debt and Community (Charity) Care

Our fiscal year 2014 total net bad debt write-offs increased $2.9 million, or 17.7%, from $16.4 million in 2013 to $19.3 million in 2014. Net bad debt write-offs reflect the annual amount of total bad debt write-offs less the amount of collections and adjustments to accounts classified as bad debt. Total 2014 bad debt write-offs were $23.3 million, compared to $21.5 million in 2013, a $1.8 million increase.

Total 2014 gross cash collections decreased $1.3 million to $141.7 million, compared to the 2013 amount of $143.0 million. Our percentage of cash collected to net patient service revenue was 97% in 2014, compared to 101% in 2013.



Our fiscal year 2014 total bad debt and community care as a percentage of total gross patient service revenue was 5.9%, which is slightly above the 4.5% 2014 Truven Health ACTION O-I average for the South Atlantic Region, and compares favorably to the National average of 6.7%. In addition, our bad debt as a percentage of gross revenue compares favorably to the Southeast Region, which is quite an

achievement considering our economy has been negatively impacted by the federal government's decision to shut down the Space Shuttle program.

	The District	South Atlantic Region	Nationally
Bad Debt and Community Care as a % of Gross Patient Revenue	5.9%	4.5%	6.7%
Bad Debt as a % of Gross Patient Revenue	2.7%	2.5%	3.3%

Bad debt improvement may be possible due to the characteristics of bad debt versus community care. A patient qualifying for community care does not have the ability to pay for services rendered. A patient's charges written-off to bad debt means that, based on information provided, the patient has the financial resources, but nevertheless refuses to pay for the services rendered.

In analyzing the $1.8 million increase in our bad debt write-offs, we noted that self-pay accounts represented the majority of our decrease in 2014 versus 2013. Self-pay account write-offs increased $1.8 million ($15.3 million in 2014 versus $13.5 million in 2013). Bad debt write-offs for self-pay patients that were unemployed increased approximately $1.2 million, or 13.9% (from $8.6 million to $9.8 million). The self-pay category of employed patients who did not have insurance coverage increased approximately $0.6 million.

The bad debt write-offs in 2014 compared to 2013 for the patient portion of Medicare, commercial HMO, and PPO insured patients was unchanged. The write-offs remained at $7.9 million for both 2013 and 2014.

Our self-pay discount policy incorporates the principles and guidelines developed by the American Hospital Association, the Patient Friendly Billing Project, and the Florida Hospital Association. The policy is centered on a sliding scale based on household income. Individuals who make 200% or less of the current Federal Poverty Guidelines ("FPG") qualify for charity care and 100% write-offs; those with household incomes between 201% and 299% of the FPG qualify for an 80% discount; those with household incomes between 300% and 399% of the FPG qualify for a 70% discount; and those with household incomes over 400% of the FPG qualify for a 60% discount. In addition, if the balance is paid in full within 30 days of service, an extra 5% discount is provided. During fiscal year 2014, we provided approximately $13.4 million in discounts to self-pay accounts, as compared to $11.0 million in fiscal year 2013.

In May 2007, PMC began issuing Care Pass Cards as a service to our self-pay patients. Care Pass is an identification card with information showing the patient's name, type of assistance for which the individual qualified, and an expiration date. A financial evaluation determines whether the patient qualifies for financial assistance (i.e., community care) or a discount. Both the discount program and financial assistance are based on the FPG. Care Pass Cards are accepted for all hospital-related services and locations as well as Parrish Medical Group locations.

Prior to receiving the cards, patients are screened for state medical assistance programs. Anyone who qualifies is helped with the application process by using the Access website provided by the Department of Children and Family Services. Our goal in fiscal year 2014 continues to be finding other community partners (physicians, pharmacies, durable medical equipment, and supply companies, etc.) that will recognize the card and offer discounted healthcare services to people in need.

During fiscal year 2014, our community care decreased to 3.2% of total gross patient service revenue, from 4.3% in 2013, or a 25.6% decrease. Total community care was $18.8 million in 2014, compared to $24.0 million in 2013, a $5.2 million decrease, or 21.7%. Included in total community care is a hardship provision category for individuals who would not qualify for community care (200% or less of the FPG), but whose total bill(s) exceeded 25% of the individual's annual salary. The total fiscal year 2014 write-offs came to approximately $0.1 million for those qualifying for the hardship category, compared to approximately $0.3 million for fiscal year 2013.

Finally, we continue to work on improving our identification of patients who qualify for community care, especially early in the process of the patient's access to our system. Our total fiscal year 2014 actual community care write-offs increased $5.9 million, or 26.3%. Costs associated with providing community care to patients amounted to approximately $4.1 million and $5.7 million for fiscal years 2014 and 2013, respectively.

The District's growth strategy into our secondary service area of Port St. John and north Cocoa is positively impacting our percentage of self-pay revenue. In comparison to Titusville, Port St. John's population is younger and has a higher income level. Prior to opening the Parrish Healthcare Center at Port St. John, we had seen a market share decline, despite having a 15,000 square-foot medical office building in the community. We believe our strategy of employing doctors and placing them full-time in the Parrish Healthcare Center is allowing us to provide better healthcare and grow market share in the area. Our outpatient diagnostic volume in Port St. John increased 4.6% in 2014 over 2013.

The District's management team had formed an advisory council of citizens from the Port St. John and north Cocoa areas at the outset of the project, and continues to utilize them to explore what the project's future phases will include (urgent care, outpatient surgery, etc.). In addition, the advisory council is involved in physician recruitment efforts, thus enhancing these physicians' probability of success in establishing a practice in this market. Thus far we have recruited 12 employed physicians to the market (one neurologist, one endocrinologist, one physiatrist, one pediatrician, one OB/GYN, one general orthopedic, one podiatrist, one sports medicine, and four family practice physicians) and one non-employed physician (internal medicine).

Other Community Benefits

PMC is a not-for-profit, community healthcare organization whose mission and vision are *Healing experiences for everyone all the time*® and *Healing families--Healing communities*®. These are words our care partners live by at all of the District's locations: Parrish Medical Center; the Parrish Healthcare Center at Port St. John, located 13 miles south of Titusville; the 4,500-member Parrish Health & Fitness Center; Parrish Occupational Medical Services; Parrish Home Care; the Senior Consultation Center; Parrish Outpatient Dialysis; Parrish Infusion Center; and Parrish Wound Healing Center.

PMC maintains its not-for-profit, public status even though the medical center's board of directors has, for more than 19 years, voted against accepting public tax money (unlike most public hospitals). Nevertheless, in 2014, we provided more than $34.1 million in uncompensated (bad debt) and community (charity) care – a testament to the medical center's excellent management of resources and finances, and its commitment to providing affordable healthcare to the people we serve.

Our service area extends from the Beach Line (SR 528) in the south to the Volusia County line in the north, and from the Atlantic coast in the east to the Orange and Seminole County lines in the west. Our unique Central Florida location means we provide care for year-round residents, seasonal residents, Kennedy Space Center-related tourists, passengers and crews from Cape Canaveral-based cruise lines, and visitors who come to enjoy Brevard County's beaches and fishing. The end of the Space Shuttle program has encouraged efforts to diversify the area's economy. The local tourism industry has made great progress; shuttle launches represented less than four percent of the District's tourism business.

Today, with more things to do at the Space Center, a growing eco-tourism business, and an expansion of the Port Canaveral cruise ship port, tourists are coming to northern Brevard even without space launches. Port Canaveral is one of the busiest ports in the country for both cruise and cargo businesses. In addition, there are a number of businesses relocating to the Brevard County area to take advantage of the highly skilled labor pool. One such venture is Kennedy Space Center ("KSC"), which is utilizing Pizzuti, a private developer, to establish an Exploration Park at KSC, for commercial business to advance their company's aerospace and technology efforts. Pizzuti is developing up to 315,000 square feet of planned research, lab, and office space, with all the necessary infrastructure and utilities.

Titusville will remain a major participant in space flight with the goal of becoming one of the world's capitals of high-technology and science. Boeing announced in October 2011 that it would be developing its new commercial space capsule at KSC. KSC will also assemble and process the Orion spacecraft for deep space missions. The first Orion exploration flight test took place in December 2014. The successful unmanned test flight lasted four and a half hours before splashing down in the Pacific Ocean. The first mission to carry astronauts is not expected to take place until 2021. Finally, KSC has seen two new programs get under way: commercial crew program and 21st century ground systems program.

An illustration of the successful business environment being cultivated on Florida's Space Coast, according to Milken Institute, Brevard boasts the most concentrated high-tech economy in the state of Florida, and the 16th most concentrated in the nation. BizJournals ranked Brevard 8th in a list of the country's Top 100 U.S. Tech Centers in 2009. Florida ranks 4th in the nation in terms of high-tech employment and 3rd for its number of high-tech business locations. Palm Bay-Melbourne-Titusville is among the top 3 (of 360) metropolitan areas in the United States for concentration of Electrical Engineers and Technicians.

Rocket Crafters, a Utah-based corporation that holds licenses for advanced hybrid rocket and aerospace composite technologies, as well as proprietary hybrid rocket design and analysis software, recently relocated to Titusville. The company plans to develop and commercialize a new hybrid rocket propulsion technology and leverage an ultra-lightweight, advanced composite material to manufacture dual-propulsion suborbital space planes. Rocket Crafters will invest $72 million to support operations at the Space Coast Regional Airport in Titusville. At full employment, up to 1,300 full-time jobs, the company's total economic impact is estimated to be over $48 million.

On the medical front, during fiscal year 2010, the Board of Directors decided to turn over the operations of the Community Medical Clinic to Brevard Health Alliance ("BHA"), a federally qualified healthcare clinic with two other locations in Brevard County. The agreement means that PMC funded more than $900,000 in both 2014 and 2013. In addition, the District provided $1.2 million and $0.5 million in outpatient diagnostic services in 2014 and 2013, respectively. Year five, the funding will approximate $900,000, depending on if BHA gets funding from Federal, State, or Local governmental agencies, and the diagnostic services allowance will increase 8%. The Board of Directors felt this was the best solution to meet the increasing needs of the uninsured and underinsured in the community.

The transfer of the clinic's operations to BHA enables PMC to continue to achieve its healing mission with respect to indigent patients at a lower cost than if they use the emergency department for healthcare services. The District's Board of Directors and management understand that the hospital seeks to assist our community by serving as an extension of the local healthcare safety net. All patients, regardless of their financial position, are served within the goals of the hospital's vision (*Healing families--Healing communities*®).

The District also operates Brevard County's only hospital-based diabetes education program. Parrish Medical Center's Diabetes Education Program is recognized by the American Diabetes Association as meeting the National Standards for Diabetes Self-Management Education. According to the Centers for Disease Control and Prevention (2014), 12.2% (67,000+) of the population of Brevard County has

diabetes. The program has taken extra strides to reach as many members of the community as possible through monthly diabetes support groups, community presentations, and by participating in health fairs and community events (300 community members participated in diabetes education, and over 500 community members were screened for diabetes). The diabetes education program monitors quality by measuring four indicators, including percentage of at-risk patients receiving a screening for Peripheral Arterial Disease (63%), patient perception of their ability to self-manage (95%), increasing monthly units of services provided to the community at need (33% decrease), and maintaining blood pressure within recommended guidelines (78%). The diabetes education program revenue does not cover its direct costs, and it operated at a loss of approximately $338,000 in 2014.

In 2000, the District, through its subsidiary, North Brevard Medical Support, Inc. ("NBMS"), opened a $2.0 million Children's Center (the "Center") to bring various community children's programs under one roof. This facility houses Early Learning Coalition of Brevard, Space Coast Early Steps, CDI/Early Head Start, United Way of Brevard's Healthy Families Program, Hidden Potentials, Parrish Early Care and Education, and the Parrish Rehabilitation Program. The Center's partnering agencies work together to meet the needs of children with learning and/or physical disabilities. Services range from childcare and pre-school to parenting groups, play groups, school tutoring, behavior interventions, developmental evaluations, therapy services, support groups, and more. The Children's Center serves over 300 children each day and operated at a loss of approximately $240,000 in fiscal year 2014.

Over 13,000 community members were touched by PMC in 2014 through health fairs, health-related seminars and speakers, and health screenings and testing. During 2014 and 2013, the District sponsored numerous community health and wellness-related events, programs, and health fairs. Health-fair associated costs, exclusive of staff time, were approximately $6,700 in 2014 and $6,500 in 2013. The District sponsored more than 54 organizations and programs in 2014 and 75 organizations and programs in 2013 at a cost of approximately $333,000 and $293,000, respectively. In addition, the District paid approximately $49,000 and $51,200 in 2014 and 2013, respectively, for several healthcare programs for the City of Titusville.

The District offers free multiple support groups that use our staff, resources, and facilities. Among these programs are: Beginning Breastfeeding Class, Living Healthy Workshop (Chronic Condition Management Education), Crash Course on Aging, Caregiver Academy, and a Matter of Balance (workshops for seniors). Support groups include those for Alzheimer's, AWAKE Sleep Disorders, Cardiac/Pulmonary Rehab, Caregiver (for caregivers of seniors), Congestive Heart Failure, Diabetes, Look Good Feel Better Cancer Patient, Moms & Kids Gathering (childhood development), Man to Man (prostate cancer), Parkinson's, Parrish Partners (cancer), Pulmonary Hypertension, Better Breathers (pulmonary), Stroke, and Grandparents Raising Grandchildren.

In addition, the District provides other programs that require a nominal enrollment fee that does not cover the cost of the program, but does help pay for materials for the following programs: Safe Sitter Class (adolescent child care education), Moments to Miracles (childbirth education class), Respite Nights (for parents of special needs children), Diabetes Survival Skills - Titusville & Port St. John (diabetes self-management classes), Diabetes Group Class, HeartSaver CPR Class, and the HealthBridge Education Series designed to bring a wide variety of health information and education to our community each month. The HealthBridge community boasts more than 13,000 members, or 19.1% of the District's adult population. Members consist of adults 18+ who live within the District. Through HealthBridge, the District delivers weekly health education to its 13,000 members in addition to hosting a live monthly Education Series.

The District, through its subsidiary NBMS, provides $75,000 annually to support healthcare-related community activities. Brevard County residents and not-for-profit organizations can apply for a grant. A committee reviews the grant requests quarterly to determine who receives grants for that quarter.

The care partners of PMC, through the hospital's programs, facilities, contributions, and community involvement, are working daily to fulfill our healing mission (*Healing experiences for everyone all the time*®) and our vision *(Healing Families--Healing Communities®).*

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information about the District using accounting methods prescribed by the Government Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants *Audit and Accounting Guide for Health Care Organizations* (the "Audit Guide"). These financial statements provide current and long-term financial information about the District's activities. The Balance Sheets include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides information to compute rate-of-return, evaluate the capital structure of the District, and assess the District's liquidity and financial flexibility.

All revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. These statements measure changes in the District's operations over the past two years and can be used to determine whether the District has recovered its costs through patient service revenue and other revenue sources.

The final required statement is the Statement of Cash Flows. This statement provides information about the District's cash from operating, investing, and financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT

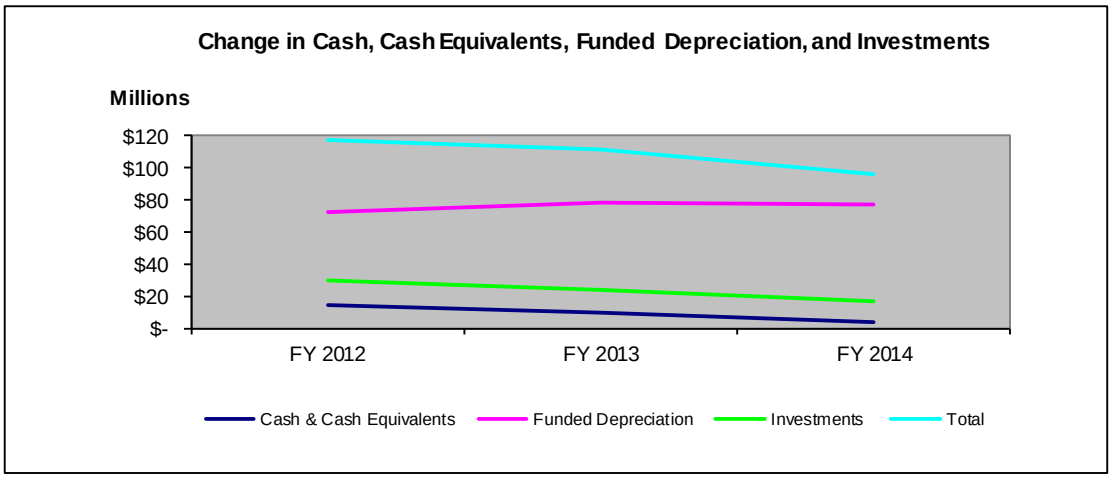
The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Position report information about the District's financial position and activities. These two statements report the net position of the District and the changes in the net position. Increases or decreases in net position are one indicator of whether the District's financial health is improving or deteriorating. However, other nonfinancial factors, such as changes in economic conditions, population growth (including the uninsured and working poor), and new or changed government legislation, should also be considered.

Net Position

A summary of the District's condensed Balance Sheets is presented in Table 1 below:

TABLE 1
Condensed Balance Sheets
(in thousands)

	FY 2012	FY 2013	FY 2014	FY13 vs FY14 Dollar Change	Total % Change
Current and other long-term assets	$ 165,841	$ 155,586	$ 142,383	$ (13,203)	(8.49)%
Capital assets	98,851	95,350	98,758	3,408	3.57 %
Deferred Outflows	-	-	11,563	11,563	100.00 %
Total assets	$ 264,692	$ 250,936	$ 252,704	$ 1,768	0.70 %
Current and long-term debt outstanding	$ 96,361	$ 95,221	$ 103,140	$ 7,919	8.32 %
Other current and long-term liabilities	25,037	22,612	20,617	(1,996)	(8.83)%
Total liabilities	$ 121,398	$ 117,833	$ 123,757	$ 5,923	5.03 %
Invested in capital assets, net of related debt	$ 3,959	$ 7,965	$ 11,843	$ 3,878	48.69 %
Restricted by donors	2,447	1,277	545	(732)	(57.32)%
Restricted for debt service	10,470	10,447	5,158	(5,289)	(50.63)%
Unrestricted	126,418	113,414	111,401	(2,013)	(1.77)%
Total net assets	$ 143,294	$ 133,103	$ 128,947	$ (4,156)	(3.12)%



2014 Compared to 2013

The decrease of $13.2 million in current and other long-term assets in fiscal year 2014, compared to 2013, is due to a $5.9 million increase in accounts receivable; a $0.4 million increase in cash collateral from the swaps; a $0.7 million decrease in temporarily donor-restricted funds; a $14.7 million decrease in cash, funded depreciation, and investments; a decrease in third-party receivables of $0.6 million; a decrease of $0.2 million in deposits and other assets; a decrease of $0.2 million in supplies; an increase of $2.2 million in prepaid expenses and other assets; and a decrease of $5.3 million of trust reserves and restricted assets. The increase of $11.6 million for deferred outflows is related to the partial refunding of the Series 2008 bonds. The increase of $3.4 million in capital assets in 2014 over 2013 stems from the net effect of the capital additions ($13.3 million), less the net change of accumulated depreciation ($9.9 million) recognized in 2014.

The approximately $7.9 million increase in current and long-term debt outstanding in fiscal year 2014 is due to the annual bond payment of approximately $1.1 million; a reduction of $62.6 million due to the partial refunding of the Series 2008 Bonds, offset by an increase in long-term capital lease obligations of

$0.4 million; an increase of $70.0 million related to the proceeds of the Series 2014 bond issue; and an increase of $1.3 million due to the amortization and deferred outflows of original issue discounts. Other current and long-term liabilities decreased $2.0 million due to a decrease of $3.6 million for accrued expenses; a decrease in deferred revenue swap of $0.2 million, offset by an increase in third-party payables of $0.1 million; and an increase in other current liabilities of $1.7 million. Finally, as seen in Table 1, fiscal year 2014 total net position decreased $4.2 million to $128.9 million, down from $133.1 million in fiscal year 2013. The change in net position results primarily from $4.2 million in net operating and nonoperating loss.

2013 Compared to 2012

The decrease of $10.3 million in current and other long-term assets in fiscal year 2013, compared to 2012, is due to a $1.2 million decrease in accounts receivable; a $1.3 million decrease in cash collateral from the swaps; a $1.2 million decrease in temporarily donor-restricted funds; a $6.0 million decrease in cash, funded depreciation, and investments; an increase in third-party receivables of $0.6 million; a decrease of $0.3 million in deposits and other assets; an increase of $0.3 million in supplies; and a decrease of $1.2 million in prepaid expenses and other assets. The decrease of $3.5 million in capital assets in 2013 over 2012 stems from the net effect of the capital additions ($5.6 million), less the net change of accumulated depreciation ($9.1 million) recognized in 2013.

The approximately $1.1 million decrease in current and long-term debt outstanding in fiscal year 2013 is due to the annual bond payment of approximately $1.1 million, plus a decrease in long-term capital lease obligations of $0.2 million, and offset by an increase of $0.2 million due to the amortization of original issue discounts. Other current and long-term liabilities decreased $2.4 million due to a decrease of $1.4 million for accrued expenses, a decrease in third-party payables of $0.6 million, a decrease in other current liabilities of $0.6 million, and an increase in deferred revenue swap of $0.2 million. Finally, as seen in Table 1, fiscal year 2013 total net position decreased $10.2 million to $133.1 million, down from $143.3 million in fiscal year 2012. The change in net position results primarily from $10.2 million in net operating and nonoperating loss.

Sources of Revenue

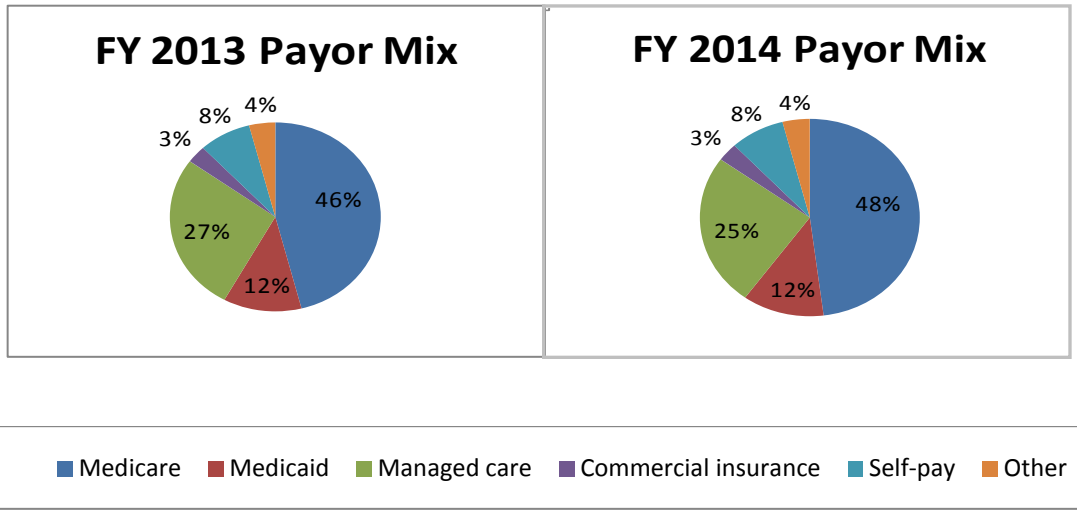
Operating Revenue

During fiscal year 2014, the District derived approximately 89.5% of total revenues from operations and approximately 10.5% from nonoperating activities. Operating revenues include revenues from the Medicare and Medicaid programs, third-party insurance carriers, and patients.

Table 2 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended September 30, 2014 and 2013.

TABLE 2
Payor Mix by Percentage

	Year Ended September 30	
	2013	**2014**
Medicare	46%	48%
Medicaid	12%	12%
Managed care	27%	25%
Commercial insurance	3%	3%
Self-pay	8%	8%
Other	4%	4%
Total patient service revenues	100%	100%



Net Nonoperating Revenues (Expenses)

Investment Income. During fiscal year 2014, investment income of $4.4 million is included in the District's $166.4 million in total revenues (both operating revenue and nonoperating revenue). This was comprised primarily of $2.4 million of interest and dividends, $1.3 million of realized gains on sale of investments, $0.2 million of net unrealized gain on investments, and $0.5 million in unrealized gain from the interest rate swaps.

Net Other Nonoperating Expenses. During fiscal year 2014, the District incurred approximately $0.1 million of net nonoperating gains from the activities of NBMS. Within other nonoperating revenue are certain income and/or expenses of the Center; Florida Health Network, a joint venture; and physician recruitment activities.

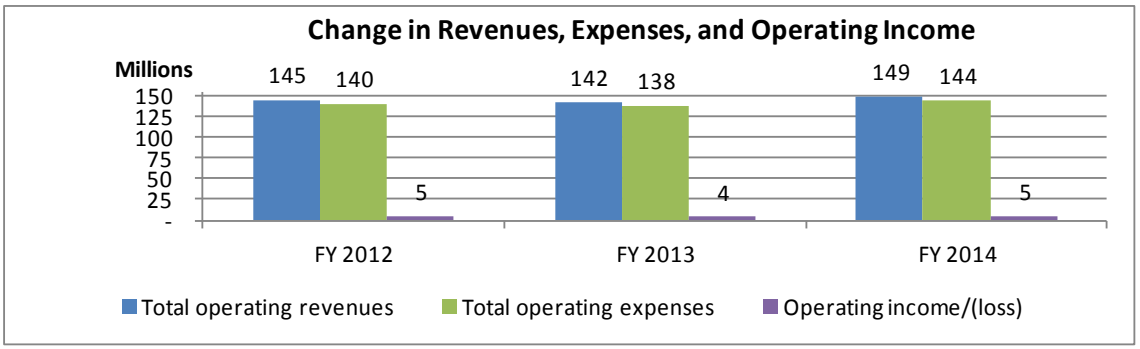
The District's net other nonoperating expenses increased $1.1 million during 2014. We have 35 employed physicians as of September 30, 2014, which generated an increased loss from the practices in 2014 over 2013 of $0.6 million due mainly to increased expenses. Our physician recruitment expenses decreased approximately $0.5 million in 2014 over 2013 ($0.4 million in 2014 versus $0.9 million in 2013). During 2014, our total active medical staff decreased by 9; our total active medical staff at September 30, 2014 and 2013, was 101 and 110, respectively.

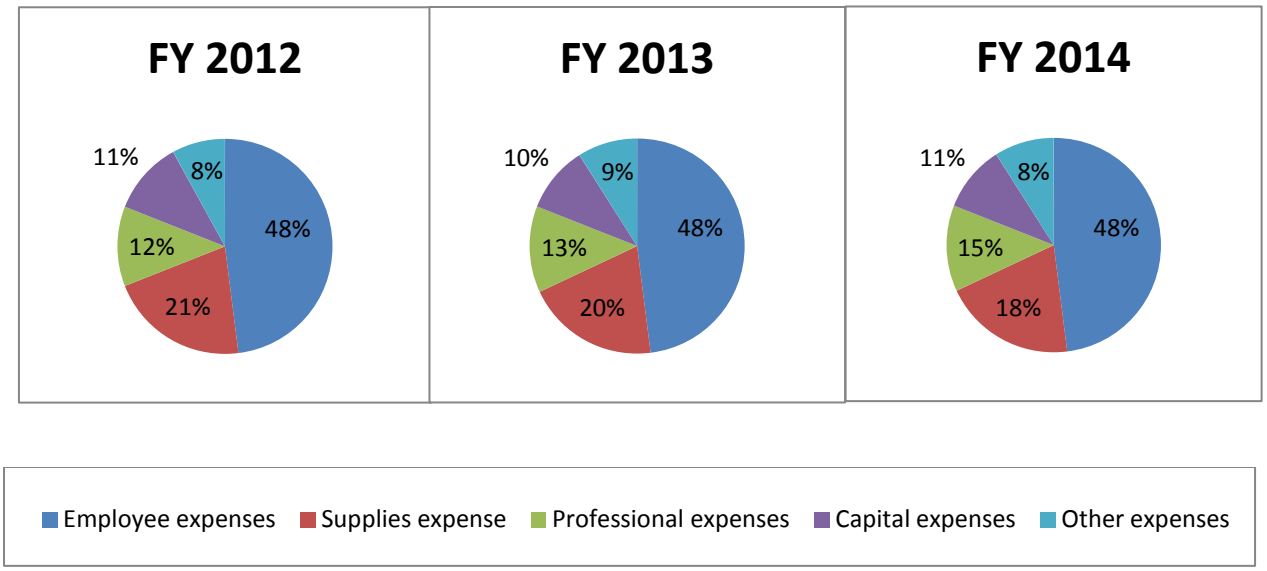
Summary of Revenues, Expenses, and Changes in Net Position

The following table presents a summary of the District's historical revenues and expenses for each of the fiscal years ended September 30, 2012, 2013, and 2014:

TABLE 3
Condensed Statements of Revenues, Expenses, and Changes in Net Position
(in thousands)

	FY 2012	FY 2013	FY 2014	FY13 vs FY14 Dollar Change	Total % Change
Net patient service revenue	$ 144,712	$ 141,380	$ 146,705	$ 5,325	3.8 %
Other operating revenues	269	1,159	2,226	1,067	92.1 %
Total operating revenues	144,981	142,539	148,931	6,392	4.5 %
Employee expenses	67,677	65,575	68,433	2,858	4.4 %
Supplies expense	28,855	27,857	26,286	(1,571)	(5.6)%
Professional expenses	16,220	17,835	21,995	4,160	23.3 %
Capital expenses	16,091	14,245	15,531	1,286	9.0 %
Other expenses	10,835	12,753	11,857	(896)	(7.0)%
Total operating expenses	139,678	138,265	144,102	5,837	4.2 %
Operating income	5,303	4,274	4,829	555	13.0 %
Nonoperating expense - net	(8,420)	(14,719)	(9,055)	5,664	(38.5)%
Loss before capital contributions	(3,117)	(10,445)	(4,226)	6,219	(59.5)%
Capital contributions	251	254	70	(184)	(72.4)%
Decrease in net position	(2,866)	(10,191)	(4,156)	6,035	(59.2)%
Total net position - beginning of year	146,160	143,294	133,103	(10,191)	(7.1)%
Total net position - end of year	$ 143,294	$ 133,103	$ 128,947	$ (4,156)	(3.1)%





OPERATING AND FINANCIAL PERFORMANCE

Table 4 presents the volume indicators for the years ended September 30, 2014 and 2013, as well as the 2014 budget:

TABLE 4
Hospital Volume Indicators

	Year Ended September 30		
	Actual 2013	**Actual 2014**	**Budget 2014**
Admissions	6,803	6,633	6,427
Patient Days	28,765	27,514	27,857
Average Length of Stay	4.23	4.15	4.30
Adjusted Admissions	21,275	19,102	20,597
Adjusted Patient Days	90,057	79,218	89,272
Inpatient Surgery and Special	2,317	2,208	2,294
Outpatient Surgery and Special	4,513	4,044	4,634
Emergency Room Visits	40,251	42,281	40,932
Outpatient Diagnostic Visits	69,870	68,895	69,415

Admissions. The decrease of 170 admissions from the prior year was due to several factors. The decrease is primarily isolated to the following specialties:

- Hospitalists – 97 cases
- Pulmonary – 80 cases
- Infectious Disease – 62 cases
- General Surgery – 57 cases
- Oncology – 45 cases
- Pediatrics – 33 cases
- Nephrology – 32 cases

The specialties with a noticeable increase in admissions from the prior year were Internal Medicine with 115, Family Practice with 92, and Nephrology with 32.

Oncology Program: During fiscal year 2013, the Commission on Cancer ("CoC") awarded community status, with Silver designation, to the District's cancer center. Only 20% of the nation's programs earn accreditation and must demonstrate a quality improvement program and adhere to robust standards. The programs must also demonstrate state of the art pre-treatment evaluation and have a full range of clinical service. One such service is the navigator program, a specialized oncology nurse to help patients navigate and receive needed oncology services. Current statistical analysis indicates that the navigator program has significantly improved access and timeliness to definitive diagnosis for oncology patients. In addition, the Oncology Program supports academic and commercial clinical trials and, as a Mayo Clinic Network Member, collaborates with Mayo for complex patient care issues.

PMC holds four Joint Commission Disease Specific Gold Seals of Approval in the categories of Primary Stroke Center, Congestive Heart Failure, Breast Cancer, and Acute Coronary Syndrome. In addition, PMC was recognized as a Top Performer on Key Quality Measures® by The Joint Commission, the leading accreditor of healthcare organizations in the United States. PMC was recognized as part of the Joint Commission's 2014 annual report, "America's Hospitals: Improving Quality and Safety," for attaining and sustaining excellence in accountability measure performance in four categories: heart attack, heart failure, pneumonia, and surgical care. This is the second year PMC has been recognized as a Top Performer in these four categories.

Parrish Medical Center is the only health system in Brevard County to receive an A rating by Leapfrog for all six reporting periods. In Florida, just 72 hospitals, or fewer than 24%, received "A" ratings in the November report. Only 204 hospitals across the country, and 17 in Florida, including PMC, have received an A rating in all six reports released by Leapfrog since spring 2012. More than 2,600 hospitals in the U.S. were rated. The Leapfrog Group is an independent, national, not-for-profit organization founded more than a decade ago by the nation's leading employers and private healthcare experts. We believe that our focus on quality will lead to increased reimbursement from the government, as part of their value-based purchasing program, and commercial insurance payors.

Game Plan: The Game Plan was introduced in 2000 and is the medical center's strategic plan. It is the framework the District uses for the consistent, standardized communication of the organization's annual business strategic goals and expectations. It is supported and directed by the medical center's Board of Directors. In 2012, the District introduced an updated Game Plan. The new Game Plan is a matrix of 10 pillars to drive organizational success: five pillars defining ***what*** we do and five pillars defining ***how*** we do it.

"What we do" Pillars:

- Educate = Knowledge-gain strategies
- Assess = Health screening and assessment strategies
- Understand = Diagnostic strategies
- Care = Treatment strategies
- Maintain = Disease management strategies

"How we do it" Pillars:

- Community Investment = Stewardship and budget strategies
- Engaged Partners in Care = Loyalty and care partner engagement strategies
- System Reliability = Safety and excellence strategies (applying Lean Sigma principles)
- Healing Experiences = Compassion and patient satisfaction strategies
- Healing Communities = Integrity and overall community health management strategies

The premise of the Game Plan is that if an organization is balanced among the pillars, it will be well-positioned to sustain long-term success. These goals are: to achieve and maintain HCAHPS patient satisfaction scores in top 10% nationally (Healing Experience); to achieve and maintain engagement scores in top 10% nationally (Engaged partners in Care); to achieve and maintain a rank in the top 10% nationally in CMS quality indicators for heart attack, heart failure, surgical infection prevention, and pneumonia (System Reliability); to achieve and maintain credit rating in the top 10% nationally (Community Investment); and to achieve and maintain a readmission rate of less than 8% (Healing Communities).

Mayo Clinic announced Parrish Medical Center as the 29th member of the Mayo Clinic Care Network (MCCN). PMC is the first Central Florida member of the network and the third in Florida. As a member of the MCCN, physicians will have direct access to the latest Mayo Clinic expertise and clinical care information. They will have access to resources and tools that connect PMC physicians with Mayo Clinic experts when our physicians want additional input regarding a patient's care.

Parrish Medical Center ranked as Central Florida's No. 1 hospital, America's No. 5 independent public hospital, and in the top six percent of all U.S. hospitals. These rankings are based on data compiled by the Centers for Medicare and Medicaid Services (CMS) on clinical care, the quality of the patient experience, and cost. PMC is ranked as Brevard's lowest-cost hospital. Overall clinical care measures on which hospitals are scored (each with a number of sub-measures) are: heart attack, heart failure, pneumonia, hospital-acquired infections, and surgical care.

In 2014, Parrish Medical Center was one of only 37 hospitals in the United States to receive "Consumer Reports'" highest rating in preventing surgical-site infections, central line infections, and infections stemming from urinary catheters.

Parrish Medical Center was rated #1 safest hospital in Florida by Consumer Reports**.** This annual report is based on Centers for Medicaid and Medicare Services data related to preventing infections, mortality rates, communication with patients, readmission rates, and overuse of imaging. PMC's score of 68 (out of 100) makes it the top rated hospital in Florida. The top hospital in the U.S. this year had a score of 78.

Parrish Medical Center was recognized as one of America's most customer-friendly hospitals by the American Alliance of Healthcare Providers (AAHCP) for the spring quarter of 2013; one of only 10 hospitals nationwide to earn this Hospital of Choice Award. This is the second time PMC has been recognized for this honor. Winning hospitals are selected based on a secret review of a facility's performance in customer service, public communication, and good citizenship. AAHCP evaluates approximately 400 hospitals around the nation each quarter for consideration of this award.

In 2012/2013, PMC earned HealthGrades' Cardiac Care and Gynecologic Surgery Excellence Awards. PMC is rated among the top 10% in the nation for excellence in cardiac care, according to Healthgrades.com, the nation's leading independent healthcare ratings organization. PMC is among the best 10% of hospitals. HealthGrades' 2012 Trends in Women's Health in American Hospitals Report finds that, collectively, from 2008–2010, if all hospitals in America performed at 5-star quality, women would have had nearly 32,000 fewer gynecologic surgery complications. PMC was the only hospital in Brevard County to earn this award.

Parrish Medical Center also received the Women's Choice Award®, distinguishing PMC as one of the 2013 America's Best Hospitals for Patient Experience in Orthopedics. The award is based on robust criteria that include female patient satisfaction measurements as well as clinical excellence considerations. Women-certified awards products and services are based on the collective recommendations of women and serve to empower women to make smart healthcare choices.

During these uncertain times, we had another surveillance review in June 2014 with Standard and Poor's, one of our two credit rating agencies, and in November 2013, we met with our other credit rating agency

Fitch Ratings. In Standard & Poor's report issued in July 2014, they affirmed our rating of A- with a stable outlook. The Fitch Ratings report was issued in December 2013, and our credit rating was affirmed A-, outlook to negative from stable, citing the same concerns that Standard & Poor's noted.

Surgery Procedures. Inpatient surgery and special procedures in fiscal year 2014 decreased by 4.7%, or 109 procedures, compared to fiscal year 2013. Outpatient surgery and special procedures decreased by 10.4%, or 469 procedures, in fiscal year 2014. The following specialties had a decrease in fiscal year 2014, as compared to 2013: ENT, neurosurgery, general surgery, gastroenterology, and oncology. ENT volumes continue to be lower, as many of these physicians opened competing, free-standing, outpatient surgery centers in November 2010.

Emergency Room Visits. Emergency room visits increased by 2,030 visits, or 5.0%, in fiscal year 2014, compared to fiscal year 2013. When compared to the fiscal year 2014 budget, emergency room visits were 3.3%, or 1,349 above budget. The increase in emergency room visits is primarily due to changes in the uninsured population and related declining economic factors.

Outpatient Diagnostics. In fiscal year 2014, outpatient diagnostic visits decreased 1.4%, or 975 visits, from fiscal year 2013. In addition, compared to the fiscal year 2014 budget, outpatient diagnostic visits were below budget by 520, or 0.7%. Outpatient diagnostics did not achieve the budgeted level due to the economy declining and fewer people with health insurance due to the layoffs from the Space Shuttle program, and the opening of the Parrish Medical Group, low cost, outpatient diagnostic center in May 2014. Parrish Healthcare Center in Port St. John, which opened in 2007, had an increase in volumes compared to 2013 by 4.6%, or 921. In addition, compared to the fiscal year 2014 budget, volumes were above budget by 4.5%, or 901. This is due to increased marketing efforts in the Port St. John area. The strategy of employing physicians, placing them on the second floor, and having the entire range of outpatient diagnostic procedures available to the community is continuing to substantiate that investment.

The urgent care center we opened in collaboration with MedFast Urgent Care physicians in June 2010 (the "Urgent Care Center"), added volume to the diagnostic center in Port St. John. In fiscal year 2014, urgent care visits decreased 1.2%, or 122 visits (9,727 in 2014 compared to 9,849 in 2013).

In May 2014 Parrish Medical Group opened the second collaboration with MedFast Urgent Care physicians in Titusville. The urgent care visits from May 2014 through September 2014 were 1,319.

Both Urgent Care locations are assisting the community by providing another cost-effective alternative to the emergency room for the community. The physicians that staff the urgent care center are all board-certified emergency room physicians, which is a major differentiator from other urgent care centers.

In 2014, the Urgent Care Centers combined referred 153 patients to PMC, with 57 of them (37.3%) admitted either as inpatient or for observation and the other 96 patients were treated in the emergency room. The 153 patients generated over $1.9 million in gross charges and approximately $0.7 million in net revenue, as the payer mix of the patients transferred is significantly better than the traditional payer mix at PMC.

The following summarizes the District's Statements of Revenues, Expenses, and Changes in Net Position between 2014 and 2013, as presented in Table 3:

Net Patient Service Revenue: Net patient service revenue increased $5.3 million, or 3.8%, in 2014 as a result of decreased volumes in 2014, compared to 2013. Admissions and patient days declined 2.5% and 4.3%, respectively. Total inpatient and outpatient surgery volume declined 8.5%, and emergency room volume increased 5.0%. Fiscal year 2014 inpatient gross revenue increased 12.9% and outpatient gross revenue decreased slightly, 0.4% from fiscal year 2013. We continue to qualify for the State of Florida's Medicaid disproportionate share, intergovernmental transfers, and low-income pool programs. We

received approximately $6.2 million in 2014, whereas in 2013, we received approximately $5.5 million. One factor that counteracts the decline in our net revenue due to volume is the commercial HMO and PPO contracts we have reimbursed based on a percentage of charge, and outpatient gross revenue increased 7.5% in 2014, resulting in a $3.6 million increase in net revenue. Finally, fiscal year 2014 combined bad debt, and community care declined $680,613 from fiscal year 2013 ($40,064,761 – fiscal year 2014 vs. $40,745,374 – fiscal year 2013). The combined bad debt and community care, as a percentage of gross revenue, was 7.0% in fiscal year 2014 compared to 7.3% in fiscal year 2013.

Total cash collections on patient accounts decreased by $1.1 million compared to fiscal year 2013. The total cash collections of $142.2 million represent 96.8% of the net patient service revenue. Disproportionate share, Low Income Pool funding, and other cost report settlements make up the difference between patient cash and net revenue.

Employee Expenses. Employee expenses increased $2.9 million, or 4.4%, in 2014, and is a combination of salary and benefit costs. Salary costs increased $1.5 million, or 3.1%. This was caused by market adjustments, internal promotions, and an increase of 1.8%, or 19, FTEs, compared to 2013. Employee benefits increased $1.4 million, or 8.3%, primarily because of an increase of $1.2 million in group health claims paid and an increase in payroll taxes of $0.2 million due to the increase in salary expense.

Supplies Expense. Supply costs decreased $1.6 million, or 5.6%. Medical and surgical supplies decreased approximately $0.4 million, or 2.5%. This decrease was primarily related to the decrease in neurosurgery procedures of 9.7%. Medications costs increased $0.7 million, or 13.4%. This increase was primarily due to increased usage and costs for chemotherapy drugs. Administrative supplies and other expenses decreased $1.9 million, or 28.0%. The decrease in administrative supplies and other expenses results principally from a decrease of $2.1 million from the elimination of the accrual for the indigent care tax, and an offsetting increase of $0.2 million in software related costs.

Professional Expenses. Professional fees and contractual services increased $4.2 million, or 23.3%. Contract labor costs increased $1.0 million, or 53.3%, due to an increase of $ 1.0 million for nursing, home health, and ancillary areas during the training phase of the EMR implementation. There was an increase of $0.3 million for health information management offset by a decrease of $0.3 million in the finance division. In addition to contract labor costs increasing, contract services increased $2.7 million and physician fees increased approximately $0.4 million. Contractual service arrangements with outside providers increased $1.3 million, or 38.3%, in contract rehab services due to increased volumes, and an increase of $0.3 million, or 29.0%, in legal fees; an increase of $0.6 million, or 74.8%, in collection fees resulting from the transition to the new EMR; an increase of $0.3 million in IS consulting fees; and $0.2 million in diabetes education. Physician fees increased approximately $0.4 million for anesthesia service guarantees.

Capital Costs. Capital costs, which include depreciation and interest expense, increased approximately $1.3 million, or 9.0%. Depreciation expense increased approximately $1.1 million, or 11.4%, primarily related to the EMR conversion costs being capitalized and depreciated. Interest expense increased by approximately $0.2 million, or 3.9%. This is due to a reduction of approximately $0.3 million due to capitalized interest being lower in 2014 compared to 2013, offset by a reduction of interest expense of approximately $0.1 million due to the principal payment made on the 2008 bonds.

Other Expenses. Other operating expenses decreased $0.9 million, or 7.0%. Repair and maintenance costs decreased $0.5 million, or 6.9%, due to a decrease of $0.3 million in software and hardware maintenance costs related to radiology equipment upgrades, and changes in the women's center, dialysis, surgical services, and registration software support, and a decrease of $0.2 million inpatient in-room cable and information services. Rents and leases decreased $150,000, or 6.0%. Utilities costs remained unchanged from 2013. Finally, there was a decrease of $250,000, or 36.9%, in our total insurance costs, mainly due to a $300,000 decrease in malpractice costs and an increase of $50,000 in liability and property insurance.

The following summarizes the District's Statements of Revenues, Expenses, and Changes in Net Position between 2013 and 2012, as presented in Table 3:

Net Patient Service Revenue: Net patient service revenue decreased $3.3 million, or 2.3%, in 2013 as a result of decreased volumes in 2013, compared to 2012. Admissions and patient days declined 7.9% and 5.5%, respectively. Total inpatient and outpatient surgery volume declined 10.0%, and emergency room volume decreased 1.3%. Fiscal year 2013 inpatient gross revenue increased 1.8% and outpatient gross revenue increased 1.6% from fiscal year 2012. We continue to qualify for the State of Florida's Medicaid disproportionate share and low-income pool programs. We received approximately $2.2 million in 2013, whereas in 2012, we received approximately $2.4 million. One factor that counteracts the decline in our net revenue due to volume is the commercial HMO and PPO contracts we have reimbursed based on a percentage of charge and outpatient gross revenue increased in 2013.

Total cash collections on patient accounts decreased by $9.4 million compared to fiscal year 2012. The total cash collections of $143 million represent 101% of the net patient service revenue, which contributed to net patient accounts receivable decreasing by $1.2 million in fiscal year 2013.

Employee Expenses. Employee expenses decreased $2.1 million, or 3.1%, in 2013 and is a combination of salary and benefit costs. Salary costs decreased $1.8 million, or 3.6%. This was caused by a reduction in merit and market adjustments and a decrease of 3.9%, or 42, FTEs, compared to 2012. Employee benefits decreased $0.3 million, or 1.7%, primarily because of a decrease in payroll taxes of $0.3 million due to the decrease in salary expense.

Supplies Expense. Supply costs decreased $1.0 million, or 3.5%. Medical and surgical supplies decreased approximately $1.5 million, or 8.5%. This decrease was related to the decrease in neurosurgery procedures of 30.3%, and a 9.7% decrease in cardiac cath lab procedures. Medications had no fluctuation from 2012. Administrative supplies and other expenses increased $0.5 million, or 8.7%. The increase in administrative supplies and other expenses results principally from an increase in marketing expenses ($.03 million), and an increase in recruitment expense for hard to fill positions ($0.2 million).

Professional Expenses. Professional fees and contractual services increased $1.6 million, or 10.0%. Contract labor costs increased $1.0 million, or 143.8%, due to an increase in home health travelers and the utilization of five interim management positions throughout the year in finance and nursing. In addition to contract labor costs increasing, contract services increased $0.5 million, and physician fees increased approximately $0.1 million. Contractual service arrangements with outside providers increased in such areas as food and nutrition, plant and facility management, and environmental service by $0.2 million; an increase of $0.4 million, or 14.3%, in contract rehab services due to increased volumes; and an increase of $0.4 million in legal fees offset by a decrease of $0.2 million in collection fees resulting from a partnership with Patient Matters; a decrease of $0.2 million in OR fees for lithotripsy and lasertripsy services due to better negotiated contact rates; and a decrease of $0.1 million in finance system conversion consulting fees. Physician fees increased approximately $0.1 million for medical director fees related to the hospitalist services.

Capital Costs. Capital costs, which include depreciation and interest expense, increased approximately $1.8 million, or 11.5%. Depreciation expense decreased approximately $2.1 million, or 18.4%, related to items becoming fully depreciated during 2013, now that the main hospital has passed 10 years of life. Interest expense increased by approximately $353,000, or 8.2%. This is due to the interest rate swap performing lower and reducing interest expense by $120,000 in fiscal year 2013 over 2012, a reduction of approximately $80,000 due to capitalized interest being lower in 2013 compared to 2012, and a reduction of $200,000 in a class-action settlement with Bank of America on the 2000 and 2006 bond issue SWAPs in 2013 compared to 2012, offset by a reduction of interest expense of approximately $53,000 due to the principal payment made on the 2008 bonds.

Other Expenses. Other operating expenses increased $1.9 million, or 17.7%. Repair and maintenance costs increased $2.1 million, or 43.2%, due to an increase of $1.9 million in software maintenance costs related to the electronic medical record system upgrade and related software; an increase of $0.1 million in service contracts on environment and lab equipment coming off of warranty; and an increase of $0.1 million for increases in other software service maintenance contracts. Rents and leases decreased $190,000, or 7.1%. Utilities costs decreased $280,000, or 10.6%, due to a decrease of $76,000 in electricity costs, a decrease of $160,000 in telephone/connectivity costs, and a decrease of $44,000 in fuel costs. Finally, there was an increase of $270,000, or 49.9%, in our total insurance costs, mainly due to a $230,000 increase in malpractice costs.

CURRENT BUDGET

The District prepares an annual operating budget, approved by its Board of Directors. The budget is in effect for the entire fiscal year, which begins October 1 and ends on September 30. Significant changes are possible during the year to fund unplanned programs approved by the Board. A fiscal year 2014 budget comparison and analysis is presented monthly in the District's interim financial statements. A comparison of actual revenues and expenses to the approved budget is summarized in Table 5 below:

TABLE 5
Revenues and Expenses
Budget vs. Actual
(in thousands)

	Actual FY 2014	Budget FY 2014	Over (Under)	% Difference
Net patient service revenue	$ 146,705	$ 143,522	$ 3,183	2.22%
Other operating revenue	2,226	604	1,622	268.54%
Total operating revenues	148,931	144,126	4,805	3.33%
Employee expenses	68,433	67,629	804	1.19%
Supplies expense	26,286	27,904	(1,618)	-5.80%
Professional expenses	21,995	16,834	5,161	30.66%
Capital expenses	15,531	14,874	657	4.42%
Other expenses	11,857	12,551	(694)	-5.53%
Total operating expenses	144,102	139,792	4,310	3.08%
Operating income	4,829	4,334	495	11.42%
Nonoperating revenue (expenses), net	(9,055)	(9,576)	521	-5.44%
Income/(loss) before capital contributions	(4,226)	(5,242)	1,016	-19.38%
Capital contributions	70	-	70	100.00%
Increase/(decrease) in net position	$ (4,156)	$ (5,242)	$ 1,086	-20.72%

The District completed its fiscal year with a favorable variance of a $1.1 million increase in net position, compared to budget. The following significant variances and their impact on future operations are noted below:

Net Patient Service Revenue. Net patient service revenue was over budget by $3.2 million, or 2.2%. The most significant difference was admissions, outpatient volumes, and emergency room visits, which were all over budget by 3.2%, or 206, .3%, or 351, and 3.3%, or 1,349, respectively.

Other Operating Revenue. Other operating revenue was over budget by $1.6 million, or 268.5%. The increase over budget was due to unbudgeted revenue during the year related to Medicare meaningful use of $1.4 million, and donations received were over budget by $0.2 million.

Employee Expenses. Employee expenses were $0.8 million, or 1.2%, over budget. Employee expenses include both salaries and benefits. Salaries were over budget $0.1 million, or 0.1%, and benefits were over budget $0.7 million, or 4.3%. Salaries were within a reasonable range of budget. Benefits were over budget due to a higher-than-expected experience in our self-insured health insurance of $1.2 million, or 16.3%, offset by a decrease in workers compensation costs of $0.4 million, or 42.7%, and a decrease in other employee benefits of $0.1 million, or 1.1%.

Supplies Expense. Total supply costs were lower than expected by $1.6 million, or 5.8%, compared to budget. Medical and surgical supplies were over budget by $0.3 million, or 2.1%. The decrease in medical and surgical supply costs was mainly due to a decrease in cath lab rebates of $0.1 million due to a change in how rebates are processed, and an increase of $0.2 million in ortho implant costs. Medications were over budget ($0.6 million, or 10.2%), due to increased usage and costs for antineoplastics and chemotherapy drugs. Other supply costs, such as administrative supplies, were below budget ($2.5 million, or 33.9%), a decrease of $2.2 million, or 125.1%, related to the elimination of the accrual for the state indigent care tax, and a decrease of $0.3 million, or 16.9%, in marketing and communication expenses.

Professional Expenses. Professional fees and contract services were $5.2 million, or 30.7%, above budget. Contract labor, which was over budget by approximately $1.8 million, or 181.2%, was due to unbudgeted interim director positions in pharmacy, finance, health information management, and home health plus interim clinical and ancillary staffing during the training phase of the EMR implementation. Our total service contract fees were above budget by approximately $2.8 million, or 18.7%. Legal fees exceeded budget by $.04 million. Fees increased in rehab management fees of approximately $1.4 million, or 43.3%, due to increased volume, administration consulting fees increased $0.4 million due to researching outpatient growth opportunities, and collection fees increased $0.6 million related to the EMR conversion. Physician fees were $0.6 million, or 74.3%, over budget. Anesthesia support increased $0.4 million and the cath lab medical services fees increased $0.2 million due to the use of locum tenens.

Capital Expenses. Capital expenses, which include interest and depreciation, were $0.7 million, or 4.4%, over budget. Interest expense was at budget and depreciation expense was $0.7, or 4.4%, over budget, caused by timing differences of assets reaching a fully depreciated state.

Other Expenses. Other operating expenses were under budget by $0.7 million, or 5.5%. Utilities were under budget by approximately $40,000, which includes electricity, gas, and water. Repairs and maintenance were under budget by approximately $930,000, or 12.2%. This was offset by an increase in rents over budget by approximately $270,000, or 13.0%. Insurance expense was at budget.

Nonoperating Revenue/(Expense). Net nonoperating expense was under budget by $0.5 million, or 5.4%, principally due to the net loss from physician practices being over budget by $0.8 million, unbudgeted bond closing costs of $0.5 million offset by a gain from activities of NBMS being under budget by $0.1 million, and investment income above budget by $1.7 million related to realized and unrealized gains.

CAPITAL ASSETS

During fiscal year 2014, the District invested approximately $15.2 million in capital assets included in Table 6 below:

TABLE 6
Capital Assets
(in thousands)

	FY2013	FY2014	Dollar Change	Total % Change
Land	$ 9,690	$ 9,840	$ 150	1.55 %
Land improvements	2,115	2,115	-	0.00 %
Buildings and improvements	131,701	134,194	2,493	1.89 %
Equipment	65,231	84,052	18,821	28.85 %
Subtotal	208,737	230,201	21,464	10.28 %
Less: accumulated depreciation	(124,332)	(134,202)	(9,870)	7.94 %
Construction in progress	10,945	2,759	(8,186)	(74.79)%
Net capital assets	$ 95,350	$ 98,758	$ 3,408	3.57 %

Net property, plant, and equipment increased $3.4 million, or 3.6%, due to the net effect of capital assets purchased and depreciation expense recognized. Capital expenditures for the year were $15.2 million and were funded by cash flows from operations offset by retirements of $2.0 million and net accumulated depreciation of $9.9 million. The capital funds were invested as follows: $10.1 million for the third year of a multi-year purchase and implementation of an electronic medical record system, $1.2 million on the north building renovation, $0.9 million on the build out of the Parrish Medical Group Diagnostics at the Target location, and approximately $1.1 million in routine capital equipment replacement. More information about the District's capital assets is presented in the Notes to Basic Financial Statements.

LONG-TERM DEBT AND CAPITAL LEASE OBLIGATION

On September 24, 2014, the Hospital completed its refunding of a portion of the Revenue Refunding Bonds, Series 2008 (the "Series 2008 Bonds") and issued $70,000,000 in refunding Bonds, Series 2014 (the "Series 2014 Bonds"), maturing October 1, 2043. The proceeds from the Series 2014 Bonds were used for the purpose of (i) refunding a portion ($62,575,000) of the Series 2008 term bonds maturing in 2028, 2038, and 2043 through defeasance; and (ii) establishment of an escrow account with TD Bank, National Association, as escrow agent, sufficient to pay when due the interest and principal on the bonds, at a price equal to 100% of the principal amount thereof (the "Redemption Price") together with accrued interest thereon to October 1, 2018 (the "redemption Date"). The Series 2014 Bonds bear a fixed interest rate of 3.0% through October 1, 2029. The interest rate on the Series 2014 Bonds will be remarketed after October 1, 2029, based on then prevailing rates.

On July 30, 2008, due to the auction rate bond market turmoil, the Hospital issued $99,975,000 in Revenue Refunding Bonds, Series 2008, maturing October 1, 2043. The Series 2008 Bonds' proceeds were used for the purpose of (i) financing all or a portion of the acquisition, construction, and equipping of an outpatient healthcare center; a cardiac catheterization lab; and certain routine capital projects; (ii) refunding the District's outstanding Auction Rate Revenue Bonds, Series 2000, and outstanding Auction Rate Revenue Bonds, Series 2005; (iii) funding a reserve fund; and (iv) paying certain costs with respect to the issuance of the Series 2008 Bonds. The Series 2008 Bonds bear a fixed interest rate of 5.69%.

As a means to manage the increased interest costs, the Hospital entered into an interest rate swap agreement on January 29, 2009, and on May 20, 2010, with RJ Capital Services, Inc. ("Interest Rate Swap Counterparty") in connection with its $99,975,000 Series 2008 Revenue Refunding Bonds.

The interest rate swap agreement entered into on January 29, 2009, and the Series 2008 Bonds mature on October 1, 2043, and the swap's notional amount is equal to 50% of the Series 2008 Bonds' outstanding principal. The notional amount at September 30, 2014 and 2013, was $47,315,000 and $47,897,500, respectively. Under the swap, beginning April 1, 2009, and on the first of each quarter thereafter during the term of the agreement, the Hospital pays the Interest Rate Swap Counterparty the weighted average of the weekly interest rates of the Securities Industry and Financial Markets Association ("SIFMA") and receives a payment computed at 68% of the three-month London InterBank Offered Rate ("LIBOR"), plus 108.5 basis points.

On August 8, 2012, the District received a one-time payment of approximately $1,609,000 as part of a partial termination of the interest rate swap agreement entered into on January 29, 2009. This payment is in lieu of the cash flow exchange during the period July 1, 2012, through October 1, 2015. The swap and related cash flow exchange will recommence effective January 1, 2016.

On June 17, 2014, the District received a one-time payment of approximately $967,000 as part of a partial termination of the interest rate swap agreement entered into on January 29, 2009. This payment is in lieu of the cash flow exchange during the period October 1, 2015, through October 1, 2017. The swap and related cash flow exchange will recommence effective October 1, 2017, and the next cash flow date will be January 1, 2018.

The interest rate swap agreement entered into on May 20, 2010, matures on June 1, 2022, and the swap's notional amount is equal to 50% of the Series 2008 Bonds' outstanding principal. The notional amount at September 30, 2014 and 2013, was $47,315,000 and $47,897,500, respectively. Under the swap, beginning July 1, 2010, and on the first of each quarter thereafter during the term of the agreement, the Hospital pays the Interest Rate Swap Counterparty the weighted average of the weekly interest rates of the SIFMA and receives a payment computed at 68% of the three-month LIBOR, plus 51.75 basis points.

At September 30, 2014 and 2013, the fair value of the swaps were an unrealized asset of approximately $2,389,000 and $1,833,000, respectively, and the total net payments received from the Interest Rate Swap Counterparty were approximately $808,000 and $781,000, respectively.

The District has entered into certain lease and loan agreements to finance the purchase of certain operating equipment and construction upgrades. The lease is payable in varying installments through 2023, with rates ranging from 3.8% to 6.0%.

At September 30, 2014, the Hospital had $103.1 million in short-term and long-term debt and capital lease obligations. Of this amount, $32.1 million was the Series 2008 Bonds offering, $70 million was the Series 2014 Bonds issued September 24, 2014, $0.6 million was unamortized bond discount on the Series 2008 Bond issue, and $1.6 million was the capital lease obligation. The principal payment of approximately $1.2 million on the Series 2008 Bonds was due October 1, 2013, and is classified as a current liability on the 2013 Balance Sheet. A more detailed description of the bonds and information about the Hospital's long-term debt is presented in the Notes to Basic Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's Board and management considered many factors when establishing the fiscal year 2014 budget. Of primary importance was the status of the economy, which takes into account market forces and environmental factors, such as the following:

- Medicare and Medicaid legislation;
- Security legislation (HIPAA);
- Competitive factors in the District's market area;
- Workforce shortages;
- Impact of the tightening of the credit markets and its impact on the District's access to capital funds;
- Impact of the significant fluctuations in the stock market and its impact on pension fund assets;
- Impact of the fixed income markets on the District's $97,000,000 investment portfolio;
- New insurance products that allow for high deductibles;
- Physician recruitment;
- Parrish Healthcare Center at Port St. John expanded services;
- Impact of turning over the operations of the Community Medical Clinic to Brevard Health Alliance;
- Increasing pressure to determine/establish the appropriate physician alignment strategy;
- Dealing with the impacts of the healthcare reform on operations of the Hospital, as well as providing health insurance to Hospital employees;
- Increasing costs of health insurance and pension costs;
- Managed care penetration;
- Implementation of a $20 million electronic medical records system;
- Attesting to Stage II meaningful use;
- Physician competition with free-standing, ambulatory surgery center; and
- Employed physician practices continuing to operate at a loss.

The other major consideration was to understand the dynamics of the District's potential for increasing bad debt and community care costs, while maintaining control of the cost structure necessary to support operations given the impact from the economy on hospital volumes. The desire of the Board and Executive Management is to establish the appropriate physician alignment strategy, to meet the needs of our medical staff, and be in compliance with federal regulations. This is a very sensitive issue, yet critical to successfully meeting the healthcare needs in our community.

Our strategy with respect to the Parrish Healthcare Center at Port St. John is being well-received by north Cocoa and Port St. John, as our volumes from that market area continue to grow. The recruitment of additional physicians to Port St. John enables residents to stay within their community to receive health-care services. The facility opened in late May 2007, and we are very proud that we met our three goals: on time, on budget, and Silver LEED certification.

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is intended to provide our citizens, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for its funding. If you have any questions about this report or need additional financial information, please contact the District's Finance Department at 951 North Washington Avenue, Titusville, Florida 32796.

NORTH BREVARD COUNTY HOSPITAL DISTRICT

BALANCE SHEETS
SEPTEMBER 30, 2014 AND 2013

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents - Note 3	$ 3,132,487	$ 9,245,304
Restricted assets - Held by trustee and required for current liabilities - Note 3	2,115,652	3,871,112
Patient accounts receivable - net of estimated uncollectibles of $5,241,171 and $9,190,825, respectively - Note 10	26,122,379	20,187,484
Supplies	2,772,920	2,954,415
Estimated third party settlements	-	637,222
Prepaid expenses and other assets	6,874,138	4,625,006
Total current assets	41,017,576	41,520,543
RESTRICTED ASSETS - Note 3:		
Temporarily donor-restricted net position	544,883	1,276,738
Funded depreciation	76,864,013	78,685,273
Interest rate swap - cash collateral - Note 5	2,360,000	2,006,263
Held by trustee - Note 5	3,041,918	6,575,491
Total restricted assets, less current portion	82,810,814	88,543,765
OTHER ASSETS:		
Net pension asset - Note 6	484,395	522,702
Deposits and other assets	1,284,111	1,485,440
Investments - Note 3	16,785,738	23,513,648
Total other assets	18,554,244	25,521,790
CAPITAL ASSETS - Note 4:		
Land	9,840,078	9,690,078
Improvements to land	2,114,810	2,114,810
Buildings and improvements	134,193,611	131,701,331
Equipment	84,051,880	65,231,268
Construction in progress	2,759,226	10,944,604
	232,959,605	219,682,091
Less accumulated depreciation	(134,201,900)	(124,332,338)
Net capital assets	98,757,705	95,349,753
DEFERRED OUTFLOWS		
Series 2008 Bond refunding	11,563,250	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 252,703,589	$ 250,935,851

(Continued)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

BALANCE SHEETS
SEPTEMBER 30, 2014 AND 2013

	2014	2013
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	$ 5,353,253	$ 8,153,387
Accrued health insurance and workers' compensation - Note 6	2,760,188	3,038,028
Accrued employee personal leave bank - Note 11	3,680,003	3,303,126
Accrued salaries	4,289,704	3,027,729
Accrued medical malpractice - Note 11	72,963	244,511
Accrued public assistance assessment	-	1,257,802
Other current liabilities	3,277,327	1,612,061
Estimated third-party settlements - Note 2	121,900	-
Current portion of long-term debt and capital lease obligations - Note 5	2,178,303	1,390,405
Total current liabilities	21,733,641	22,027,049
OTHER LIABILITIES:		
Accrued medical malpractice - Note 11	1,060,726	960,966
Swap cash collateral - payable - Note 5	-	173,176
Accrued public assistance assessment	-	840,894
Total other liabilities	1,060,726	1,975,036
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS:		
Net of current portion - Note 5	100,962,076	93,830,581
Total liabilities	123,756,443	117,832,666
COMMITMENTS AND CONTINGENCIES		
NET POSITION:		
Net invested in capital assets	11,842,609	7,964,757
Restricted by donors - Note 7	544,883	1,276,738
Restricted for debt service	5,157,570	10,446,603
Unrestricted	111,402,084	113,415,087
Total net position	128,947,146	133,103,185
TOTAL LIABILITIES AND NET POSITION	$ 252,703,589	$ 250,935,851

See notes to the basic financial statements. (Concluded)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
OPERATING REVENUE:		
Net patient service revenue - net of provision for bad debt of $15,350,164 and $16,782,688, respectively - Note 2	$ 146,705,334	$ 141,379,265
Other operating revenue	2,226,206	1,159,100
Total operating revenue	148,931,540	142,538,365
OPERATING EXPENSES:		
Salaries and wages	50,740,352	49,237,828
Employee benefits	17,692,654	16,336,775
Medications and supplies	26,286,059	27,856,740
Professional fees and contractual services	21,994,890	17,835,113
Other operating expenses	11,856,735	12,752,921
Depreciation	10,833,448	9,721,844
Interest expense	4,698,081	4,523,630
Total operating expenses	144,102,219	138,264,851
OPERATING INCOME	4,829,321	4,273,514
NONOPERATING REVENUES (EXPENSES):		
Investment income (loss), net - Note 3	4,412,724	(1,968,741)
Other nonoperating expenses - net - Note 1	(13,468,455)	(12,750,403)
Total nonoperating revenue (expenses) - net	(9,055,731)	(14,719,144)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(4,226,410)	(10,445,630)
CAPITAL CONTRIBUTIONS - Note 7	70,371	254,356
CHANGE IN NET POSITION	(4,156,039)	(10,191,274)
NET POSITION:		
Beginning of year	133,103,185	143,294,459
End of year	$ 128,947,146	$ 133,103,185

See notes to the basic financial statements.

NORTH BREVARD COUNTY HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from third-party payors and patients	$ 140,892,339	$ 141,920,178
Other receipts and payments, net	2,226,206	1,159,100
Payments to employees	(49,478,377)	(49,879,968)
Payments to suppliers and contractors	(80,848,430)	(72,472,133)
Net cash provided by operating activities	12,791,738	20,727,177
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest, dividends, and net realized gains on investments	3,661,920	2,738,576
Change in funded depreciation and investments	9,982,851	1,114,959
Net cash provided by investing activities	13,644,771	3,853,535
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Other nonoperating expenses	(9,216,036)	(16,411,879)
Depreciation - nonoperating	891,021	876,935
Net cash used in noncapital financing activities	(8,325,015)	(15,534,944)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds on sale of property and equipment	33,061	23,937
Purchases of property and equipment	(14,419,760)	(7,890,102)
Interest paid on long-term debt	(5,382,208)	(5,463,001)
Principal payments on long-term debt	(63,740,000)	(1,115,000)
Principal payments on capital lease obligation	(319,258)	(205,209)
Proceeds from issuance of Series 2014 Bonds	70,000,000	-
Interest payments made on Series 2008 Bond refunding	(10,466,517)	-
Capital grants and contributions	70,371	254,356
Net cash used in capital and related financing activities	(24,224,311)	(14,395,019)
CHANGE IN CASH AND CASH EQUIVALENTS	(6,112,817)	(5,349,251)
CASH AND CASH EQUIVALENTS - Beginning of year	9,245,304	14,594,555
CASH AND CASH EQUIVALENTS - End of year	$ 3,132,487	$ 9,245,304

(Continued)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	$ 4,829,321	$ 4,273,514
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	10,833,448	9,721,844
Amortization of bond discounts	176,795	179,765
Provision for bad debts	15,350,164	16,782,688
Interest expense considered capital financing activity	5,382,208	5,463,001
Loss (gain) on disposal of property and equipment	71,733	(23,937)
Increase in patient accounts receivable	(21,285,059)	(15,617,722)
Decrease (increase) in supplies	181,495	(300,432)
Decrease (increase) in estimated third party settlements	759,122	(1,261,275)
(Increase) decrease in prepaid expenses and other assets	(2,249,132)	1,171,794
Decrease in temporarily donor restricted funds	731,855	1,170,063
Decrease in net pension asset	38,307	42,212
Decrease in deposits and other assets	201,329	260,142
(Decrease) increase in accounts payable	(2,912,466)	253,492
(Decrease) increase in accrued health insurance and workers' compensation	(277,840)	203,502
Increase (decrease) in accrued employee personal leave bank	376,877	(519,303)
Increase (decrease) in accrued salaries	1,261,975	(642,140)
(Decrease) increase in accrued medical malpractice	(71,788)	60,523
(Decrease) Increase in swap collateral payable	(173,176)	173,176
Decrease in accrued public assistance assessment	(2,098,696)	(73,622)
Increase (decrease) in other current liabilities	1,665,266	(590,108)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 12,791,738	$ 20,727,177
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES:		
Assets acquired but unpaid for and included in accounts payable	$ 112,332	$ -
Property and equipment acquired through capital lease	$ 705,123	$ -

See notes to the basic financial statements. (Concluded)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The North Brevard County Hospital District (the "District") was created under the laws of the state of Florida in 1953 and operates Parrish Medical Center (the "Hospital"), a community hospital providing inpatient and outpatient healthcare services in North Brevard County, Florida. The basic financial statements of the District include the balances of North Brevard Medical Support, Inc. ("NBMS"), a not-for-profit, non-stock corporation and blended component unit of the District, organized under the laws of the state of Florida solely to benefit and further the interests of the District through physician recruitment and the provision of medical goods and services.

The District's primary activity is the operation of a 210-bed general acute care hospital.

The District has entered into employment agreements with certain local physicians to ensure that adequate professional and medical services are available in its service area. The District managed a total of 14 physicians' practices with 35 physicians as of September 30, 2014, and 15 physicians' practices with 37 physicians as of September 30, 2013.

During 2003, NBMS entered into a letter of agreement with Physicians Professional Liability Risk Retention Group ("PPLRRG") to purchase 500,000 shares of PPLRRG's Class E common stock. The purpose of this investment is to provide local physicians practicing at the Hospital with an alternative and affordable primary layer of malpractice insurance coverage (see Note 3).

The District may levy taxes upon all real and personal taxable property in the District for operating purposes and debt service, not to exceed five mills for all purposes. Effective September 19, 1994, the Board of Directors adopted a tax rate of zero mills; subsequently, no taxes have been assessed, including fiscal years 2014 and 2013.

During fiscal year 1995, the Florida Legislature approved an amendment to the District's enabling legislation, which allowed the District to participate with other hospitals and healthcare providers to provide services within and beyond the boundaries of the District. The District is expressly prohibited from using any funds derived from the assessment of ad valorem taxes on property within the District to support any such joint participation beyond the boundaries of the District.

All intercompany balances and transactions between the Hospital and NBMS have been eliminated.

Basis of Presentation - The District applies the provisions of Governmental Accounting Standards Board ("GASB") pronouncements. The GASB has established standards for external financial reporting for all state and local governmental entities, which include a balance sheet, a statement of revenue and expenses, a statement of changes in net position, and a direct method statement of cash flows. Net position is classified into three components: net invested in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- *Net Invested in Capital Assets*: This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- *Restricted*: This component of net position consists of contributed assets whose use is restricted through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws

or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted*: This component of net position consists of net position that do not meet the definition of "restricted" or "net invested in capital assets."

Enterprise Fund Accounting - The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 basic financial statements, and the reported amounts of revenues and expenses during the reporting period. The more significant areas subject to management estimates include estimated reserves for professional liability, workers' compensation and health insurance claims, allowances for uncollectible patient accounts receivable, and third-party payor settlements. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, and excludes otherwise qualifying amounts which are internally designated by the Board of Directors for a specific purpose and reported in restricted assets.

Supplies - Supplies are stated at the lower of cost or market, determined by the first-in, first-out method.

Restricted Assets - Cash, investments, and pledges receivable limited in substance under terms of debt indentures, trust agreements, or other similar arrangements, and internally designated assets set aside by the Board of Directors for future capital improvements ("funded depreciation"), over which the Board retains control and may, at its discretion, subsequently use for other purposes, are considered to be restricted assets. Investments, consisting of marketable debt securities, are carried at fair value. Amounts required to meet current liabilities of the District are presented as current assets in the balance sheets.

Investments - Marketable securities included in the District's investment portfolios are carried at fair value based on quoted market prices (see Note 3). Changes in fair value are included in investment income in the statements of revenues, expenses, and changes in net position.

Derivative Instruments – The District's derivative instruments consist of interest rate swap agreements which were recorded at their fair value as either an asset or liability. Accounting for changes in the fair value depends on whether the derivative has been designated as part of a hedging relationship and on the type of hedging relationship. Derivative instruments designated as hedging instruments are further designated as either fair value hedges, cash flow hedges, or hedges of a net investment in a foreign operation, depending on the exposure being hedged. Derivative instruments include interest rate swap agreements entered into on January 29, 2009, and on May 20, 2010, respectively. Although the Hospital does not enter into derivatives or other financial instruments for trading or speculative purposes, the Hospital had not designated the respective interest rate swap agreements as a cash flow hedge and, therefore, recorded all changes in fair value in net investment income in the statements of revenues, expenses, and changes in net position.

Capital Assets - Capital assets are recorded at cost, except for donated assets, which are recorded at fair value at the time of donation. Expenditures, which materially increase values, change capacities, or extend useful lives, are capitalized, as is interest cost during the period of construction. Depreciation is computed using the straight-line method over the estimated useful lives of the various assets. Equipment under capital lease obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Amortization is included in depreciation in the statements of revenues, expenses, and changes in net position. Gains and losses on dispositions are recorded in the year of disposal

and are included in other nonoperating revenues (expenses) in the statements of revenues, expenses, and changes in net position. Estimated useful lives used in computing depreciation range as follows:

Improvements to land	5 to 20 years
Buildings and improvements	5 to 40 years
Equipment	3 to 15 years

The Hospital has a policy of funding depreciation on certain assets. The funds are held in cash and investment accounts and recorded as part of restricted assets (see Note 3).

The District considers impairment whenever indicators of impairment are present, such as when the decline in service utility of the capital asset is large in magnitude and unexpected. Pursuant to these guidelines, management has determined that no impairments of capital assets existed at September 30, 2014 and 2013.

Capitalized Interest - The District capitalizes the interest cost of restricted, tax-exempt borrowings less any interest earned on temporary investment of the proceeds of those borrowings from the date of borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use. As a result, the balance sheets reflect an increase of approximately $41,000 and $336,000 to construction in progress, representing net interest expense capitalized for the years ended September 30, 2014 and 2013, respectively.

Deferred Outflows - The defeasance costs related to the partial refunding of the Series 2008 Bonds are included in deferred outflows and will be amortized over the period the bonds are outstanding. Amortization expense related to these costs is included in other nonoperating expenses, as interest expense.

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; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the prior three years. The Hospital is self-insured for medical malpractice and employee health and workers' compensation benefits. The estimated liabilities for such self-insured programs include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Statements of Revenues, Expenses, and Changes in Net Position - For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as operating revenue or operating expenses. Nonoperating revenues (expenses) represent the net operations of activities or transactions incidental or peripheral to the direct care of patients within the Hospital setting and primarily include the District's funding of NBMS, physician practices, health and fitness center, rental activities, and investment income. Approximately $8,731,000 and $8,173,000 of net loss related to the physician practice operations, $4,785,000 and $4,641,000 of other nonoperating expenses, and $48,000 and $64,000 of net income from health and fitness is included in other net nonoperating expenses in the 2014 and 2013 statements of revenues, expenses, and changes in net position, respectively. When an expense is incurred for purposes which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position, to the extent such are available.

Net Patient Service Revenue - Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others when services are rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Bad debts are reported as a component of net patient service revenue.

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 net patient service revenue.

Contributed Resources - Resources restricted by donors for specific operating purposes are held as restricted funds until expended for the intended purpose and are reported as other operating revenue. Resources

restricted by donors for additions to property and equipment, which are reported as capital contributions, are held as restricted funds until expended, at which time they are reported as transfers to unrestricted net position. Gifts, grants, and bequests not restricted by donors are initially reported as other operating revenue regardless of the use for which they might be designated by the Board of Directors.

Income Taxes - NBMS has been recognized by the Internal Revenue Service as a tax-exempt organization, as described in Section 501(c)(3) of the Internal Revenue Code. Income earned in furtherance of the District's tax-exempt or governmental purpose is exempt from federal and state income taxes. The Internal Revenue Code provides for taxation of unrelated business income under certain circumstances. Management has determined that the District has no significant unrelated business income. Accordingly, these financial statements include no provision or liability for income taxes.

Fair Value of Financial Instruments - The carrying value of net accounts receivable, accrued liabilities, and accounts payable approximates fair value due to the short-term nature of these accounts.

Physician Guarantees - NBMS has made contractual commitments to provide medical practice assistance to newly recruited physicians. The estimated guarantee costs, net of amortization, were approximately $-0- and $42,000 at September 30, 2014 and 2013, respectively, and are included in the other assets section, deposits and other assets, in the balance sheets. Such guarantee costs represent an asset of NBMS due to the obligation of the physicians to operate their practice for a certain period of time or, upon default, repay NBMS on a pro-rata basis. Amortization of such costs is over the term of the contract (generally 4 years) to physician recruitment expense. The amount amortized during fiscal years 2014 and 2013 was approximately $42,000 and $193,000, respectively.

Accrued Public Assessment Assistance - The District is required to make quarterly payments to The Public Medical Assistance Trust Fund ("PMATF") based on a prescribed percentage (1.5% for inpatient and 1.0% for outpatient) of prior period revenue as prescribed by the Agency for Health Care Administration. Prior to October 1, 2013, the District recognized an estimated liability based on all revenues earned through the end of the fiscal year without regard to when the amounts would be due. As the result of new information from recent court cases, the District has elected to recognize a liability for the PMATF based on the calculated amount currently due. Under the previous application, the PMATF liability would have been approximately $841,000 higher at September 30, 2014.

Other Postemployment Benefits - The GASB requires state and local governmental employers to account for and report their annual cost of postemployment healthcare and other non-pension benefits ("OPEB") and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs are based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they become due. As described in Note 6, the District's defined-benefit pension retirement plan includes a health insurance subsidy benefit of $100 per month. The District's net OPEB obligation was approximately $703,000 and $646,000 as of September 30, 2014 and 2013, respectively, which is included within accrued health insurance and workers' compensation. The District has elected to fund the OPEB obligation on a pay-as-you-go basis.

New Accounting Standards - GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, ("GASB No. 68") is effective for the District's fiscal year ended September 30, 2015. This statement will require the District to recognize the entire net pension asset (liability) on the balance sheets and to report a more comprehensive measure of pension expense in the statements of revenues, expenses, and changes in net assets. Additionally, GASB No. 68 will require enhanced disclosures and new required supplemental information.

The District is in the process of evaluating the impact that will result from adopting GASB No. 68 and is, therefore, unable to disclose the impact that adopting GASB No. 68 will have on its financial position, results of operations, and cash flows when such statement is adopted. GASB No. 68 will be applied to the earliest period presented and, thus, it is anticipated that the reported amounts as of September 30, 2014, and for the year then ended will be changed upon adoption.

Subsequent Events - The District evaluated subsequent events for recognition and disclosure through January 2, 2015, which is the date the basic financial statements were issued.

Reclassifications - Certain amounts from the 2013 basic financial statements have been reclassified to conform to the 2014 basic financial statements. Such reclassifications had no impact on the change in net position for the year ended September 30, 2013.

2. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Major third-party payors are summarized below:

Medicare - Inpatient acute care services and certain outpatient services rendered to Medicare program beneficiaries are paid 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 non-acute services and use of capital related to Medicare beneficiaries are paid based on a cost-reimbursement methodology. The Hospital is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary (reports audited through 2011). The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization.

Reimbursement for Medicare Outpatient services is made in accordance with the Ambulatory Payment Classification ("APC") system called for under the Outpatient Prospective Payment System. Unlike the Inpatient Prospective Payment System ("DRG"), with one DRG payment per inpatient discharge, each outpatient encounter under the APC system could result in the assignment of multiple APC payments. Regulations allow providers to reduce or waive the beneficiary's co-insurance, as well as provide for additional payments for new devices, drugs, or biologicals. The Hospital has determined not to reduce or waive beneficiary co-insurance during 2014 and 2013.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost-reimbursement methodology. The Hospital is paid at a prospective tentative rate based upon the most recent cost report available at the time of the rate setting. Such rates are based on specific services, adjusted for inflation, and subject to regional cost limitations. After submission of annual cost reports by the Hospital and audits thereof by the Medicaid Fiscal Intermediary (reports audited through 2008), a final rate is determined. Claims paid at prospective rates are reprocessed using the final audited rates, and a settlement is computed.

Final determination of amounts earned pursuant to the Medicare and Medicaid programs for open years is subject to review by appropriate governmental authorities or their agents. It is management's opinion that settlements for cost reporting years after 2011 for Medicare and 2008 for Medicaid, when reached, will not vary significantly from the estimated amounts. During 2014 and 2013, the Hospital received additional assessments and reimbursement from the Medicare and Medicaid programs, primarily related to increased reimbursement levels and funding for disproportionate share services. The increase to historically claimed reimbursements were processed and approved by the various Intermediaries through lump-sum settlements and retroactive rate adjustments during the current year. In 2014 and 2013, the Hospital recorded an increase to net patient service revenue of approximately $430,000 and $1,208,000, respectively, relating to prior-year, estimated third party settlement, and other payment issues. The net estimated third-party payable to Medicare and Medicaid as of September 30, 2014, of approximately $122,000 is recorded in estimated third party settlements in the current liabilities section of the balance sheet. The net estimated third-party receivable from Medicare and Medicaid as of September 30, 2013, of approximately $637,000, is recorded in estimated third party settlements in the current assets section of the balance sheet.

Other Third-Party Payors - The Hospital also has various payment arrangements for inpatient and outpatient services rendered to commercial insurance carriers, health maintenance organizations, and preferred provider

organizations. These agreements include prospectively determined discharge rates, per diems, and discounts from established rates.

Following is a summary of net patient service revenue for fiscal years 2014 and 2013:

	2014	2013
Gross patient service revenue	$ 575,924,041	$ 554,499,658
Less provision for contractual adjustments	(395,094,816)	(372,375,020)
Less provision for charity adjustments	(18,773,727)	(23,962,685)
Less provision for bad debt	(15,350,164)	(16,782,688)
Net patient service revenue	$ 146,705,334	$ 141,379,265

3. CASH, CASH EQUIVALENTS, INVESTMENTS, AND OTHER

Investments are stated at fair values, which are estimated based upon quoted market prices for those or similar instruments. The composition of the District's cash and cash equivalents, investments, and restricted assets at September 30, 2014 and 2013, is as follows:

	2014	2013
Restricted Assets		
Restricted cash and cash equivalents:		
Temporarily donor-restricted net position	$ 544,883	$ 639,819
Held by trustee - net of current portion	3,041,918	6,575,491
Swap cash collateral	2,360,000	2,006,263
	5,946,801	9,221,573
Cash and investments for funded depreciation:		
Cash and cash equivalents	5,103	7,087,141
Marketable securities	76,563,673	71,391,632
Accrued interest receivable	295,237	206,500
	76,864,013	78,685,273
Pledges receivable:		
Temporarily donor-restricted net position - net (see Note 7)	-	636,919
Total restricted assets - noncurrent portion	82,810,814	88,543,765
Current portion included in current assets - cash held by trustee	2,115,652	3,871,112
Total restricted assets	$ 84,926,466	$ 92,414,877
Other Assets - Investments		
Marketable securities	$ 16,729,429	$ 23,125,702
Accrued interest receivable	56,309	387,946
Total other assets - investments	$ 16,785,738	$ 23,513,648

The composition of the Hospital's marketable securities as of September 30, 2014 and 2013, are as follows:

		Investment Maturities			
September 30, 2014	**Market Value**	**One year or Less**	**1–5 Years**	**6–10 Years**	**More Than 10 Years**
U.S. Government Obligations	$ 345,954	$ -	$ -	$ 345,954	$ -
Municipal Obligations	4,251,629	590,070	3,661,559	-	-
Corporate Bonds	10,720,588	-	7,127,921	2,715,843	876,824
U.S. Agency Mortgage-Backed Securities	3,022,823	3,022,823	-	-	-
Collateralized Mortgage Obligations	411,289	411,289	-	-	-
	18,752,283	$ 4,024,182	$ 10,789,480	$ 3,061,797	$ 876,824
Mutual Funds:					
Domestic Equities	32,624,020				
Corporate Bonds	16,173,148				
International Equities	8,123,091				
Collateralized Mortgage Obligations	6,127,314				
Asset-Backed and Other	8,142,479				
Alternative Investments	1,171,999				
Real Estate EFT's	2,172,270				
Bank Deposits	6,498				
Total marketable securities	$ 93,293,102				

	Ratings					
	AAA	**AA**	**A**	**BBB**	**<BBB**	**Not Rated**
U.S. Government Obligations	$ 345,954	$ -	$ -	$ -	$ -	$ -
Municipal Obligations	-	1,484,841	2,092,101	674,687	-	-
Corporate Bonds	-	639,547	4,877,903	4,141,903	1,061,236	-
U.S. Agency Mortgage-Backed Securities	3,022,823	-	-	-	-	-
Collateralized Mortgage Obligations	411,289	-	-	-	-	-
Mutual Funds	-	-	-	-	-	71,190,052
Alternative Investments	-	-	-	-	-	1,171,999
Real Estate EFT's	-	-	-	-	-	2,172,270
Bank Deposits	-	-	-	-	-	6,498
Total marketable debt securities	$ 3,780,066	$ 2,124,388	$ 6,970,004	$ 4,816,590	$ 1,061,236	$ 74,540,819

		Investment Maturities			
September 30, 2013	**Market Value**	**One year or Less**	**1–5 Years**	**6–10 Years**	**More Than 10 Years**
U.S. Treasury notes	$ 40,204,372	$ 3,261,680	$ 33,916,366	$ 3,026,326	$ -
U.S. Gov't guaranteed securities	51,342,935	170,989	14,624,892	15,596,821	20,950,233
Total marketable debt securities	$ 94,517,334	$ 3,853,282	$ 49,835,353	$ 19,878,466	$ 20,950,233

All of the debt securities held in the portfolio at September 30, 2013, were rated AAA by Moody's and AA+ by Standard & Poor's.

Credit Risk - State of Florida Statutes, Section 218.415, provides for each unit of local government or political sub-division 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, diversification of investments, investment income, maturity requirements, and performance measurement. Section 218.415, Florida Statutes, authorizes the District to invest in (1) the Local Government Surplus Funds Trust Fund, which is administered by the State Board of Administration; (2) obligations of, or obligations for which the principal and interest are unconditionally guaranteed by the U.S. Government; (3) interest-bearing time deposits or savings accounts in banks and savings and loans organized under laws of the United States of America; (4) obligations of the Federal Farm Credit Banks, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, the Federal National Mortgage Association, and obligations guaranteed by the Government National Mortgage Association; and (5) other investments authorized by resolution by the governing board of a special district.

The District has a Board-approved policy for the investment of funds. The District has investment management agreements which provide for selected investment managers to invest and manage the District's board-designated and excess operating funds in accordance with the District's investment policy. The funds are pooled and invested according to established investment criteria and the nature of intended use. Long-term designation of investments is based on the maturity dates underlying investments and/or the intent of management to hold the investments for long-term purposes. Investment securities are classified as available for sale, as the investment managers have the ability to liquidate investments in order to avoid losses from changes in market conditions. Funds held under the Bond Indenture are required to be invested in qualified investments, as defined in the Bond Indenture. All other funds are required to be invested according to the District's investment policy, which was updated in August 2014. The objectives of the District's investment policy are prioritized in the following order: (1) safety of principal, (2) liquidity, (3) generation of income, (4) inflation protection, (5) return on investment/yield, and (5) understanding of risk.

The District also enters into overnight repurchase agreements with its investment managers. On any given business day, the District authorizes the investment manager to "sweep" its account for the purpose of entering into repurchase agreements and other investments. The next business day the same account is credited for the principal amount of the previous business day's sweep, plus interest earned. As such, the balance is included as part of the restricted assets total for purposes of financial statement presentation. The amounts are fully collateralized, normally by U.S. Government Treasury and/or Agency Securities. The principal amount of outstanding repurchase amounts on September 30, 2014 and 2013, was approximately $-0- and $6,600,000.

Concentration of Credit Risk - Investments in any one issuer that represent 5% or more of an entity'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. Based on the nature of the District's investments, no concentration of credit risk exists for the District.

Custodial Credit Risk - As of September 30, 2014 and 2013, all of the District's cash and cash equivalents are held in the name of the District or NBMS. Accordingly, no custodial credit risk exists for the District.

Deposit Risk - In addition to insurance provided by the Federal Deposit Insurance Corporation, all of the District's 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 qualified public depository failure, the remaining public

depositories would be responsible for covering any resulting losses in excess of amounts insured and collateralized. Amounts held by the bank are insured or fully collateralized by Government Securities.

Interest Rate Risk - The District's investment policy includes certain limitations on investment maturities; however, the District's primary means of managing exposure to fair value losses arising from increasing interest rates is based upon the composition of its investment portfolio, which includes marketable securities, which are unconditionally guaranteed by the U.S. Government and have limited interest rate variability.

The effective yield earned on the District's investments as of September 30, 2014 and 2013, was approximately 2.4% and 2.5%, respectively.

Investment income (loss) consisted of the following for the years ended September 30, 2014 and 2013:

	2014	2013
Investment income (loss):		
Interest and dividends earned on investments	$ 2,381,694	$ 2,641,740
Realized gain on marketable securities	1,280,236	136,762
Change in unrealized gain/(loss) on marketable securities	193,432	(3,156,691)
Change in net unrealized derivative gain/(loss)	557,362	(1,590,552)
	$ 4,412,724	$ (1,968,741)

During the year ended September 30, 2003, NBMS purchased $500,000 of Class E common stock of PPLRRG to create an alternative malpractice insurance vehicle in which the medical staff could obtain malpractice insurance at more affordable rates than commercially available in the local market. Eight local physicians are currently taking advantage of the program as of September 30, 2014. This investment is recorded at cost in deposits and other assets in the balance sheets. The Class E common stock of PPLRRG is nonvoting, and NBMS owns approximately 6% of the total outstanding common stock of PPLRRG. As a Class E shareholder of PPLRRG, NBMS has certain rights and obligations, as defined under the PPLRRG Articles of Incorporation.

4. CAPITAL ASSETS

A summary of changes in capital assets during 2014 and 2013 is as follows:

	2014			
	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
Land	$ 9,690,078	$ 150,000		$ 9,840,078
Improvements to land	2,114,810	-		2,114,810
Building and improvements	131,701,331	2,492,280		134,193,611
Equipment	65,231,268	20,780,313	(1,959,701)	84,051,880
Construction in progress	10,944,604	(8,185,378)		2,759,226
Total capital assets	219,682,091	15,237,215	(1,959,701)	232,959,605
Less accumulated depreciation	(124,332,338)	(11,724,469)	1,854,907	(134,201,900)
Capital assets - net	$ 95,349,753	$ 3,512,746	$ (104,794)	$ 98,757,705

	2013			
	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
Land	$ 9,690,078	$ -	$ -	$ 9,690,078
Improvements to land	2,114,810	-	-	2,114,810
Building and improvements	131,605,636	735,728	(640,033)	131,701,331
Equipment	59,150,790	7,081,298	(1,000,820)	65,231,268
Construction in progress	11,561,709	(617,105)	-	10,944,604
Total capital assets	214,123,023	7,199,921	(1,640,853)	219,682,091
Less accumulated depreciation	(115,272,039)	(10,598,779)	1,538,480	(124,332,338)
Capital assets - net	$ 98,850,984	$ (3,398,858)	$ (102,373)	$ 95,349,753

Depreciation expense for 2014 and 2013 was approximately $11,700,000 and $10,600,000, respectively, and has been included in operating and nonoperating expenses in the statements of revenues, expenses, and changes in net position based on the District's policy for reporting related activities, as defined in Note 1. At September 30, 2014, the District had fully depreciated capital assets of approximately $4,843,000 that were still in use.

5. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATION

On September 24, 2014, the Hospital completed its refunding of a portion of the Revenue Refunding Bonds, Series 2008 (the "Series 2008 Bonds") and issued $70,000,000 in refunding Bonds, Series 2014 (the "Series 2014 Bonds"), maturing October 1, 2043. The proceeds from the Series 2014 Bonds were used for the purpose of (i) refunding a portion ($62,575,000) of the Series 2008 term bonds maturing in 2028, 2038, and 2043 through defeasance and (ii) establishment of an escrow account with TD Bank, National Association, as escrow agent, sufficient to pay when due the interest and principal on the bonds, at a price equal to 100% of the principal amount thereof (the "Redemption Price") together with accrued interest thereon to October 1, 2018 (the "redemption Date"). The Series 2014 Bonds bear a fixed interest rate of 3.0% through October 1, 2029. The interest rate on the Series 2014 Bonds will be remarketed after October 1, 2029, based on then prevailing rates.

The District recognized a deferred outflow related to the defeasance of a portion of the Series 2008 Bonds of approximately $11,571,000. This represents the difference between the amounts funded into the escrow account and the carrying value of principal and associated bond discounts. Deferred outflows on defeasance of approximately $11,563,000 at September 30, 2014, are presented net of interest expense amortization of approximately $7,000.

On July 30, 2008, the Hospital completed its refunding of the Auction Rate Revenue Bonds, Series 2000 (the "Series 2000 Bonds"), and Auction Rate Revenue Bonds, Series 2005 (the "Series 2005 Bonds"), and issued $99,975,000 in the Series 2008 Bonds. The proceeds from the Series 2008 Bonds were used for the purpose of (i) financing all or a portion of the acquisition, construction, and equipping of an outpatient healthcare center, a cardiac catheterization lab, and certain routine capital projects; (ii) refunding the District's outstanding Auction Rate Revenue Bonds, Series 2000, and outstanding Auction Rate Revenue Bonds, Series 2005; (iii) funding a reserve fund; and (iv) paying certain costs with respect to the issuance of the Series 2008 Bonds. The Series 2008 Bonds bear a fixed interest rate of 5.695%.

The Series 2014 and Series 2008 Bonds are collateralized by and are payable solely from an obligation issued under the master trust indenture (the "Master Indenture") between TD Bank, as Master Trustee (the "Master Trustee"), and the Hospital, as well as certain monies held under the trust indenture governing the Series 2008 Bonds (the "Bond Indenture"). The obligation issued under the Master Indenture is collateralized by a pledge of and a security interest in the Net Revenues of the District and any future member of the Obligated Group that is a Governmental Unit, and the Net Revenue and Accounts of any future Member of the Obligated Group that is a corporation or other business entity. Currently, the Hospital is the sole member of the Obligated Group.

Under the terms of the Bond Indenture, various amounts are being held on deposit with the Master Trustee, as trustee, for bond redemption, interest payments, a debt service reserve, and certain construction expenditures. Such amounts are not available for current operations of the Hospital. The Master Indenture requires the Obligated Group to maintain sinking fund deposits equal to the maximum annual debt service requirement of the Series 2008 Bonds. Amounts on deposit in the sinking fund as of September 30, 2014 and 2013, were approximately $3,016,000 and $6,575,000, respectively. In addition, the Master Indenture requires the Obligated Group to maintain certain financial ratios and places restrictions on various activities, such as the transfer of assets and incurrence of additional indebtedness. At September 30, 2014 and 2013, the Hospital was in compliance with all such covenants.

As a means to manage interest rate exposure, the Hospital entered into interest rate swap agreements on January 29, 2009, and on May 20, 2010, respectively, with RJ Capital Services, Inc. (the "Interest Rate Swap Counterparty") in connection with its $99,975,000 Series 2008 Revenue Refunding Bonds.

The interest rate swap agreement entered into on January 29, 2009, and the Series 2008 Bonds both mature on October 1, 2043. The swap's notional amount is equal to 50% of the Series 2008 Bonds' outstanding principal. The notional amount at September 30, 2014 and 2013, was $47,315,000 and $47,897,500, respectively. Under the swap, beginning April 1, 2009, and on the first of each quarter thereafter during the

term of the agreement, the Hospital pays the Interest Rate Swap Counterparty the weighted average of the weekly interest rates of the Securities Industry and Financial Markets Association ("SIFMA") and receives a payment computed at 68% of the three-month London InterBank Offered Rate ("LIBOR"), plus 108.5 basis points.

On August 8, 2012, the District received a one-time payment of approximately $1,609,000 as part of a partial termination of the interest rate swap agreement entered into on January 29, 2009. This payment is in lieu of the cash flow exchange during the period July 1, 2012, through October 1, 2015. The payment received has been recorded as a deferred liability, as a component of other current liabilities on the balance sheet, and is being systematically amortized as a reduction of interest expense. Deferred revenue at September 30, 2014 and 2013, was approximately $494,000 and $989,000, respectively.

On June 17, 2014, the District received a one-time payment of approximately $967,000 as part of a partial termination of the interest rate swap agreement entered into on January 29, 2009. This payment is in lieu of the cash flow exchange during the period October 1, 2015, through October 1, 2017. The swap and related cash flow exchange will recommence effective October 1, 2017, and the next cash flow date will be January 1, 2018. The payment received has been recorded as a deferred liability, as a component of other current liabilities on the balance sheet, and will be systematically amortized as a reduction of interest expense effective October 1, 2015. Deferred revenue at September 30, 2014, was approximately $967,000.

The interest rate swap agreement entered into on May 20, 2010, matures on June 1, 2022, and the swap's notional amount is equal to 50% of the Series 2008 Bonds' outstanding principal. The notional amount at September 30, 2014 and 2013, was $47,315,000 and $47,897,500, respectively. Under the swap, beginning July 1, 2010, and on the first of each quarter thereafter during the term of the agreement, the Hospital pays the Interest Rate Swap Counterparty the weighted average of the weekly interest rates of SIFMA and receives a payment computed at 68% of the three-month LIBOR, plus 51.75 basis points.

The swaps are collateralized by a weekly cash transfer when the value changes by more than $200,000. At September 30, 2014 and 2013, the fair value of the interest rate swap agreements is approximately $2,389,000 and $1,833,000, respectively. Related cash collateral of approximately $2,360,000 and $2,006,000 is recorded as a component of restricted assets in the balance sheet at September 30, 2014 and 2013, respectively.

The District has entered into certain lease and loan agreements to finance the purchase of certain operating equipment and construction upgrades. The lease is payable in varying installments through 2023, with rates ranging from 3.8% to 6.0%. The leases have been recognized as capital leases. At September 30, 2014 and 2013, the District's leased assets of approximately, $2,502,000 and $1,795,000, respectively, are recorded net of accumulated depreciation of approximately $1,165,000 and $812,000, respectively.

Long-term debt and capital lease obligations as of September 30, 2014 and 2013, consist of the following:

	2014	2013
Revenue Refunding Bonds, Series 2008, principal payable in variable annual installments beginning 2009 through 2043, interest payable October 1 and April 1 at the average coupon rate of 5.695%.	$ 32,055,000	$ 95,795,000
Refunding Bonds, Series 2014, principal payable in monthly beginning 2014 through 2043, interest payable monthly at the fixed rate of 3.0%.	70,000,000	-
Capital lease obligation	1,646,362	1,260,498
Principal maturities	103,701,362	97,055,498
Unamortized bond discount	(560,983)	(1,834,512)
Total long-term debt	103,140,379	95,220,986
Less current installments	(2,178,303)	(1,390,405)
Long-term portion	$ 100,962,076	$ 93,830,581

A summary of changes in long-term debt and capital lease obligations during 2014 and 2013 is as follows:

	2014				
	Beginning Balance	Additions	Repayments	Ending Balance	Amounts Due Within One Year
Series 2008					
Fixed rate refunding bonds	$ 95,795,000	$ -	$ (63,740,000)	$ 32,055,000	$ 1,220,000
Series 2014					
Fixed rate refunding bonds	$ -	$ 70,000,000	$ -	$ 70,000,000	$ 627,000
Capital lease obligations	$ 1,260,498	$ 705,123	$ (319,258)	$ 1,646,363	$ 331,303

	2013				
	Beginning Balance	Additions	Repayments	Ending Balance	Amounts Due Within One Year
Fixed rate refunding bonds	$ 96,905,000	$ -	$ (1,110,000)	$ 95,795,000	$ 1,165,000
Capital lease obligations	$ 1,469,656	$ -	$ (209,158)	$ 1,260,498	$ 225,405

As of September 30, 2014, the District has the following outstanding bonds, which were funded by the placement of assets in an irrevocable trust to be used for satisfying debt service requirements; therefore, the debt is not reported in the financial statements.

Description of Obligation	Fiscal Year Defeased	Original Issue	Amount Outstanding
Series 2008 Fixed Rate Bonds	2014	$ 62,575,000	$ 62,575,000

Annual scheduled principal maturities and interest on long-term debt and capital lease obligations as of September 30, 2014, are as follows:

Fiscal Year Ending September 30,	Principal	Interest
2015	$ 2,178,303	$ 3,728,671
2016	2,319,975	3,816,461
2017	2,426,265	3,708,751
2018	2,521,206	3,600,526
2019	3,313,940	3,473,387
2020-2024	12,587,690	16,066,139
2025-2029	14,783,000	13,603,518
2030-2034	17,621,000	10,623,878
2035-2039	21,120,000	6,971,597
2040-2044	24,830,000	2,392,363
	$ 103,701,379	$ 67,985,290

The annual scheduled interest requirements included above related to the Series 2014 Bonds are based on a fixed rate of 3.0% per annum, and the Series 2008 Bonds are based on a fixed average interest rate of 5.695% per annum.

The total future lease payments on the capital lease included in the schedule above is approximately $1,646,000; the interest portion is $181,000.

6. EMPLOYEE BENEFIT PLANS

Employees' Retirement System

Plan Description - The Hospital contributes to a noncontributory, single-employer, defined-benefit pension retirement plan. The plan covers all permanent full-time Hospital employees and all permanent part-time employees who customarily work at least 20 hours per week and five months per year, after completion of one year of service. In addition to providing pension benefits, the plan provides death and disability benefits. The plan was established under the authority of the District's Board of Directors. Additionally, all amendments and changes to the Hospital's obligation to contribute to the plan are covered by this authority. The average rating for investments held in the pension plan portfolio is an average of AA. Separate financial statements are not available for the plan.

Funding Policy - The Hospital contributes the amount necessary to meet the minimum required employer contribution, as calculated by the actuary. Employees are not required to contribute; however, optional contributions are allowed up to 10% of earnings.

Annual Pension Cost and Net Pension Asset - The Hospital's annual pension cost and net pension asset as of September 30, 2014 and 2013, are as follows:

	2014	2013
Annual required contribution	$ 3,126,488	$ 3,166,215
Interest on net pension asset	(41,816)	(45,193)
Adjustment to annual required contribution	80,122	87,402
Annual pension cost	3,164,794	3,208,424
Contributions made	(3,126,487)	(3,166,212)
Decrease in net pension asset	38,307	42,212
Net pension asset - beginning of year	522,702	564,914
Net pension asset - end of year	$ 484,395	$ 522,702

The annual required contribution for the current year was determined as part of the October 1, 2012, actuarial valuation using the aggregate actuarial cost method with the allocation of future normal costs based on earnings. The actuarial present value of projected benefits in excess of the actuarial value of assets is allocated on a level basis over the earnings of the participants between the valuation date and assumed exit. The actuarial assumptions for 2014 and 2013 included (a) an 8% investment rate of return (net of administrative expenses) and (b) projected salary increases based on years of service ranging from 1.7% to 7.7% per year. Both (a) and (b) included an assumed 2.8% inflation component. The assumptions did not include postretirement benefit increases, as there is no provision for cost-of-living adjustments.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension Asset
September 30, 2012	$ 3,274,818	98.7%	$ 564,914
September 30, 2013	$ 3,208,424	98.7%	$ 522,702
September 30, 2014	$ 3,164,794	98.8%	$ 484,395

Employee Health Plan

The Hospital has established a self-insured program for health benefits covering substantially all employees. During both 2014 and 2013, the plan covers healthcare services up to $185,000 per claim and provides unlimited commercial insurance coverage for cases exceeding these amounts for each covered employee or dependent. Health insurance expense, which includes medical expense provided by outside providers, dental and life benefits, and administrative costs (net of employee contributions), was approximately $9,210,000 and $8,220,000 in 2014 and 2013, respectively. Medical services provided to covered employees at the Hospital are recorded as a contractual adjustment when service is provided. Contractual adjustments under this plan amounted to approximately $7,544,000 and $8,307,000 in 2014 and 2013, respectively. At September 30, 2014 and 2013, the liability for reported and estimated unreported employee health plan claims incurred was approximately $480,000 and $485,000, respectively, and is included as a component of accrued health insurance and workers' compensation in the accompanying balance sheets.

Workers' Compensation Plan

The Hospital has established a self-insured program for workers' compensation benefits covering all employees. The plan covers employees up to $650,000 and $500,000 per claim for 2014 and 2013, respectively, and is limited to approximately $3.0 million and $1.7 million per year in the aggregate for 2014 and 2013, respectively, and provides for commercial insurance relating to cases exceeding these amounts. Workers' compensation insurance expense, which includes payments for administrative fees, wages, and outside medical services, amounted to approximately $579,000 and $775,000 in 2014 and 2013, respectively. Medical services provided by the Hospital under this plan are recorded as contractual adjustments when the service is provided. These services amounted to approximately $269,000 and $148,000 in 2014 and 2013, respectively. At September 30, 2014 and 2013, the liability for reported and estimated unreported workers' compensation claims incurred was approximately $1,576,000 and $1,907,000, respectively, and is included as a component of accrued health insurance and workers' compensation liabilities in the balance sheets. The total accrual includes estimates of the ultimate costs of both reported claims and claims incurred but not reported, as determined by an actuary in 2013 and discounted at 4%, and are actuarially determined every other year.

Other Postemployment Obligation

The District provides postemployment healthcare benefits to all employees who retire from the District under the plan after 20 or more years of service and age 55, or after 30 years of service. Premiums paid by retirees are based on the projected average plan cost of the District's self-insured health benefit program for the year. The plan is funded on a pay-as-you-go basis. The District may make additional contributions as desired. No additional contributions have been made to date.

The District's annual OPEB cost is calculated based on the Annual Required Contribution of the employer ("ARC"), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a closed period not to exceed 30 years. The following table shows the components of the District's annual cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan:

	2014	2013
Annual required contribution	$ 129,274	$ 127,899
Interest on net OPEB obligation	29,057	26,426
Adjustment to annual required contribution	(31,612)	(28,138)
Annual OPEB cost	126,719	126,187
Contributions made	(68,960)	(67,729)
Increase in net pension obligation	57,759	58,458
Net OPEB obligation - beginning of year	645,712	587,254
Net OPEB obligation - end of year	$ 703,471	$ 645,712

The net OPEB obligation is included with employee compensation and benefits payable in the balance sheets. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 were as follows:

Three-Year Trend Information

Fiscal Year Ending	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
September 30, 2012	$ 153,279	31.7%	$ 587,254
September 30, 2013	$ 126,187	53.7%	$ 645,712
September 30, 2014	$ 126,719	54.4%	$ 703,471

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan 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 the 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 the assets, consistent with the long-term perspective of the calculations.

In the October 1, 2013, interim actuarial valuation (the most recent calculation available), the Entry Age Normal Actuarial Cost Method was used. The actuarial assumptions included a 4.5% discount rate, and an annual healthcare cost trend rate of 7.5%, which is expected to decrease 1% each year until the ultimate rate of 4.5% in fiscal 2017. The funded ratio was 0.0% as the plan is unfunded and, thus, the unfunded actuarial accrued liability of approximately $1,259,000 is equal to the actuarial accrued liability. Covered payroll under the plan was approximately $40,478,000, resulting in a ratio of 3.1% as compared to the unfunded actuarial liability.

The following is a summary of the activity in the accrued health insurance, workers' compensation, and OPEB accounts for the years ended September 30, 2014 and 2013:

	Beginning Balance	Additions	Reductions	Ending Balance
2014	$ 3,038,028	$ 7,338,513	$ 7,616,353	$ 2,760,188
2013	$ 2,834,526	$ 6,545,750	$ 6,342,248	$ 3,038,028

7. DONOR-RESTRICTED NET POSITION

Donor-restricted net position is available for the following programs at September 30, 2014 and 2013:

	2014	2013
Auxiliary	$ 143,294	$ 214,571
PMC Clinic	76,356	76,356
Cancer Programs	64,908	65,342
Circle of Giving	59,402	52,354
Emergency Preparedness	31,733	22,116
Prostate Cancer	30,765	30,765
PMC Senior Center	27,766	27,766
Diabetes	19,003	23,671
Stereotactic Breast Biopsy	16,017	17,931
Health Village	-	636,919
All other	75,639	108,947
	$ 544,883	$ 1,276,738

Amounts receivable from donors that were recorded as pledges receivable as of September 30, 2013, was calculated as follows:

	2013
Amounts due	$ 871,160
Less present value discounts (5%)	(234,241)
Pledges receivable	$ 636,919

8. CHARITY AND OTHER UNREIMBURSED CARE

The District's mission is to provide high-quality, affordable healthcare to the community. In pursuing its commitment to serve all members of the community, the District provides services to the financially disadvantaged, despite the lack or adequacy of payment for those services. The District maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. The District also provides a charity care revenue deduction for those with billed charges equal to or greater than 125% of their annual salary. The allowance was approximately $81,000 and $272,000 as of September 30, 2014 and 2013, respectively, consistent with its charity care policy. Charges forgone, based upon established rates, due to the provision of charity care to patients, amounted to approximately $18,774,000 and $23,963,000 in 2014 and 2013, respectively. Associated costs to provide charity care to patients amounted to approximately $4,680,000 and $6,125,000 in 2014 and 2013, respectively. Charity care is also provided through reduced price services and fee programs offered throughout the year based upon activities and services, which the District believes will serve a community health need. These activities include the Brevard Health Alliance, wellness programs, community education programs, and health fairs.

9. RELATED-PARTY TRANSACTIONS AND RELATIONSHIPS

North Brevard Medical Support, Inc. - Other than earnings on investments, NBMS has no other material sources of revenue with which to continue its operations or meet its obligations as they become due. However, NBMS receives funding from the Hospital in the form of grants. NBMS can obtain grants from the Hospital in any fiscal year equal to the lesser of the net patient service revenue of the Hospital for its preceding fiscal year, or 2.5% of the Hospital's gross revenue for its preceding fiscal year. The Hospital funded a grant of approximately $1,865,000 in 2014 for NBMS to meet its fiscal year 2014 obligations and a grant of $2,312,000 in 2013 for NBMS to meet its fiscal year 2013 obligations, which is recorded in other net nonoperating expenses in the statements of revenues, expenses, and changes in net position. The grant is eliminated in consolidation. The operating activities of NBMS are included in other net nonoperating expenses in the statements of revenues, expenses, and changes in net position for the years ended September 30, 2014 and 2013.

Florida Health Network, Inc. - In March 2007, the Florida Health Network, Inc. (the "Network") was formed. The primary purpose of the Network is to create a community network with clinical integration, which combines the resources, strengths, knowledge, and expertise of our local healthcare providers in order to offer the community exceptional, comprehensive care. The Network is a wholly-owned subsidiary of NBMS.

The operating activities of the Network are included in other net nonoperating expenses in the statements of revenues, expenses, and changes in net position for the years ended September 30, 2014 and 2013.

Jess Parrish Medical Foundation, Inc. - The Jess Parrish Medical Foundation, Inc. (the "Foundation") is a separate Florida 501(c)(3) corporation, which raises money to support the District's programs and for the general advancement of healthcare organizations and objectives. The District has determined that the Foundation's financial statements are immaterial for inclusion in the District's financial statements. As such, the District has elected to exclude the Foundation's activities from the District's financial statements.

During the year ended September 30, 2011, the Foundation made a multi-year pledge donation of approximately $2,221,000 and donated houses with a fair value of approximately $477,000 to the District. At September 30, 2014 and 2013, the Foundation pledge outstanding to the District was approximately $-0- and $637,000, respectively.

10. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the District to credit risk consist principally of patient accounts receivable. Patient accounts receivable consists of amounts due from Medicare, Medicaid, insurance companies, and self-pay patients.

The District grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2014 and 2013, is as follows:

	2014	2013
Medicare	29.4 %	20.4 %
Medicaid	7.2 %	12.1 %
Commercial and other	40.2 %	29.4 %
Self-pay	23.2 %	38.1 %
	100.0 %	100.0 %

All balances, net of related contractual discounts and collectability allowances, are expected to be collected within the subsequent fiscal year.

11. COMMITMENTS AND CONTINGENCIES

Operating Leases - The District leases certain office space and equipment under noncancelable operating leases, expiring in various years through 2019. Payments under these obligations, which are not subject to cancellation, are based on fixed monthly amounts. The following is a summary, by year, of the approximate future minimum lease payments for the operating leases:

2015	$ 2,176,000
2016	1,654,000
2017	1,464,000
2018	186,000
2019	109,000
	$ 5,589,000

Total rental expense was approximately $2,354,000 and $2,505,000 in 2014 and 2013, respectively.

Accrued Medical Malpractice - Prior to July 1987, the Hospital maintained malpractice coverage through the Florida Hospital Trust Fund and the Florida Hospital Excess Trust Fund B for the purpose of paying malpractice claims against the Hospital. On July 21, 1987, the Hospital elected to rely on sovereign immunity with respect to liability claims against the Hospital, subject to the limited waiver provisions of Section 768.28, Florida Statutes ($200,000 per claim, $300,000 per incident) for both 2014 and 2013. The Hospital terminated its participation in the Florida Hospital Trust Fund and Florida Hospital Excess Trust Fund B, purchased insurance coverage for non-reported acts prior to July 22, 1987, and engaged an actuary for the purpose of projecting future malpractice liability on a self-insured basis. Based upon the actuary's analysis and the possibility of a special act of the Florida Legislature, as provided in Section 768.29(5), Florida Statutes, the Hospital has recorded a total accrued liability for reported and unreported claims of approximately $1,134,000 and $1,205,000 (net of claims paid) for the period July 22, 1987, through September 30, 2014 and 2013, respectively. The total accrual includes estimates of the ultimate costs of both reported claims and claims incurred but not reported and are discounted at 4%.

The following is a summary of the activity in the accrued medical malpractice liability accounts for the years ended September 30, 2014 and 2013:

	Beginning Balance	Additions	Reductions	Ending Balance
2014	$ 1,205,477	$ 244,512	$ 316,300	$ 1,133,689
2013	$ 1,144,954	$ 216,000	$ 155,477	$ 1,205,477

At September 30, 2014 and 2013, the estimated current portion of the total accrued liability was approximately $73,000 and $245,000, respectively. The statements of revenues, expenses, and changes in net position reflects an approximate $210,000 decrease and $50,000 increase in other operating expenses for 2014 and 2013, respectively, representing a change in estimate of the liability for medical malpractice claims incurred in the prior years.

Excess Insurance - Effective June 13, 2014, the Hospital purchased a claims-made umbrella policy with a $5 million limit covering the Hospital and employed physicians. The umbrella policy is excess over the sovereign immunity limits of $200,000/$300,000. If sovereign immunity does not apply, the policy is excess over a professional liability limit of $1.0 million/$3.0 million, which is the self-insured retention. Effective May 30, 2014, the Hospital purchased a claims-made professional liability excess policy for contract physicians working in the Florida Health Network. These physicians carry their own underlying insurance policy for the first $250,000 per claim and $750,000 per physician. The excess policy covers an additional $750,000 per claim and $2.25 million per physician, bringing the total coverage to $1 million/$3 million limits. Both policies were purchased as a result of membership in the Mayo Clinic Care Network.

Accrued Employee Personal Leave Bank - The Hospital provides a benefit program entitled "Personal Leave Bank." This program allows all eligible employees to earn personal leave in lieu of traditional sick days, vacation days, or holidays. Accrual of personal leave time is based upon length of service with the Hospital. The personal leave bank is charged for hours taken off from work. All employees may request payment for all or part of earned personal leave at four specified times during the fiscal year. Payment is made at the employee's current pay rate. The accrued liability under this program amounted to approximately $3,680,000 and $3,303,000 at September 30, 2014 and 2013, respectively.

Litigation - The District is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a material, adverse effect on the future financial position, results of operations, or cash flows of the District.

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REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2014

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - UNAUDITED SCHEDULE OF FUNDING PROGRESS - PENSION

YEAR ENDED SEPTEMBER 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Interest (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
October 1, 2004	$ 32,107,511	$ 35,624,715	$ 3,517,204	90.1%	$ 26,553,817	13.2%
October 1, 2005	$ 32,029,689	$ 29,816,918	$ -	107.4%	$ 28,694,304	0.0%
October 1, 2006	$ 32,781,890	$ 29,557,246	$ -	110.9%	$ 30,595,600	0.0%
October 1, 2007	$ 33,890,789	$ 32,031,728	$ -	105.8%	$ 32,528,236	0.0%
October 1, 2008	$ 36,222,441	$ 35,698,466	$ -	101.5%	$ 37,613,044	0.0%
October 1, 2009	$ 39,039,169	$ 39,065,935	$ 26,766	99.9%	$ 39,851,771	0.1%
October 1, 2010	$ 42,360,867	$ 41,706,410	$ -	101.6%	$ 39,739,824	0.0%
October 1, 2011	$ 44,347,219	$ 43,935,305	$ -	100.9%	$ 39,001,675	0.0%
October 1, 2012	$ 46,730,757	$ 43,866,575	$ -	106.5%	$ 37,971,703	0.0%
October 1, 2013	$ 52,343,902	$ 52,101,075	$ -	100.5%	$ 36,130,480	0.0%

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - UNAUDITED SCHEDULE OF FUNDING PROGRESS - OPEB

YEAR ENDED SEPTEMBER 30, 2014

Actuarial Valuation Date	Acturial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Interest (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
October 1, 2006	$ -	$ 3,511,441	$ 3,511,441	0.0%	$ 31,378,457	11.2%
October 1, 2010	$ -	$ 1,480,384	$ 1,480,384	0.0%	$ 46,585,080	3.2%
October 1, 2012	$ -	$ 1,259,205	$ 1,259,205	0.0%	$ 40,478,347	3.1%

OTHER SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2014

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 2,186,613	$ 945,874	$ -	$ 3,132,487
Restricted assets - held by trustee and required for current liabilities	2,115,652	-	-	2,115,652
Patient accounts receivable - net	26,255,001	-	(132,622)	26,122,379
Supplies	2,772,920	-	-	2,772,920
Prepaid expenses and other assets	8,400,287	221,172	(1,747,321)	6,874,138
Total current assets	41,730,473	1,167,046	(1,879,943)	41,017,576
RESTRICTED ASSETS:				
Temporarily donor-restricted net position	544,883	-	-	544,883
Funded depreciation	76,864,013	-	-	76,864,013
Interest rate swap - cash collateral	2,360,000	-	-	2,360,000
Held by trustee	3,041,918	-	-	3,041,918
Total restricted assets	82,810,814	-	-	82,810,814
OTHER ASSETS:				
Net pension asset	484,395	-	-	484,395
Deposits and other assets	136,668	1,147,443	-	1,284,111
Investments	16,785,738	-	-	16,785,738
Total other assets	17,406,801	1,147,443	-	18,554,244
CAPITAL ASSETS:				
Land	9,690,078	150,000	-	9,840,078
Improvements to land	2,114,810	-	-	2,114,810
Buildings and improvements	131,218,838	2,974,773	-	134,193,611
Equipment	83,133,462	918,418	-	84,051,880
Construction in progress	2,672,264	86,962	-	2,759,226
	228,829,452	4,130,153	-	232,959,605
Less accumulated depreciation	(132,402,422)	(1,799,478)	-	(134,201,900)
Net capital assets	96,427,030	2,330,675	-	98,757,705
DEFERRED OUTFLOWS				
2008 Series Bond Defeasance	11,563,250	-	-	11,563,250
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 249,938,368	$ 4,645,164	$ (1,879,943)	$ 252,703,589

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2014

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
LIABILITIES AND NET POSITION				
CURRENT LIABILITIES:				
Accounts payable	$ 5,321,420	$ 1,911,776	$ (1,879,943)	$ 5,353,253
Accrued health insurance and workers' compensation	2,760,188	-	-	2,760,188
Accrued employee personal leave bank	3,680,003	-	-	3,680,003
Accrued salaries	4,289,704	-	-	4,289,704
Accrued medical malpractice	72,963	-	-	72,963
Other current liabilities	3,277,327	-	-	3,277,327
Estimated third party settlements	121,900	-	-	121,900
Current portion of long-term debt & capital lease obligations	2,146,981	31,322	-	2,178,303
Total current liabilities	21,670,486	1,943,098	(1,879,943)	21,733,641
OTHER LIABILITIES:				
Accrued medical malpractice	1,060,726	-	-	1,060,726
Total other liabilities	1,060,726	-	-	1,060,726
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS:				
Net of current portion	100,658,295	303,781	-	100,962,076
Total liabilities	123,389,507	2,246,879	(1,879,943)	123,756,443
COMMITMENTS AND CONTINGENCIES				
NET POSITION:				
Net invested in capital assets	9,511,934	2,330,675	-	11,842,609
Restricted by donors	544,883	-	-	544,883
Restricted for debt service	5,157,570	-	-	5,157,570
Unrestricted	111,334,474	67,610	-	111,402,084
Total net position	126,548,861	2,398,285	-	128,947,146
TOTAL LIABILITIES AND NET POSITION	$ 249,938,368	$ 4,645,164	$ (1,879,943)	$ 252,703,589

(Concluded)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2013

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 8,365,683	$ 879,621	$ -	$ 9,245,304
Restricted assets - held by trustee and required for current liabilities	3,871,112	-	-	3,871,112
Patient accounts receivable - net	20,335,724	-	(148,240)	20,187,484
Supplies	2,954,415	-	-	2,954,415
Estimated third party settlements	637,222	-	-	637,222
Prepaid expenses and other assets	5,686,392	107,123	(1,168,509)	4,625,006
Total current assets	41,850,548	986,744	(1,316,749)	41,520,543
RESTRICTED ASSETS:				
Temporarily donor-restricted net position	1,276,738	-	-	1,276,738
Funded depreciation	78,685,273	-	-	78,685,273
Interest rate swap - cash collateral	2,006,263	-	-	2,006,263
Held by trustee	6,575,491	-	-	6,575,491
Total restricted assets	88,543,765	-	-	88,543,765
OTHER ASSETS:				
Net pension asset	522,702	-	-	522,702
Deposits and other assets	82,424	1,403,016	-	1,485,440
Investments	23,513,648	-	-	23,513,648
Total other assets	24,118,774	1,403,016	-	25,521,790
CAPITAL ASSETS:				
Land	9,690,078	-	-	9,690,078
Improvements to land	2,114,810	-	-	2,114,810
Buildings and improvements	129,676,851	2,024,480	-	131,701,331
Equipment	64,079,585	1,151,683	-	65,231,268
Construction in progress	10,944,604	-	-	10,944,604
	216,505,928	3,176,163	-	219,682,091
Less accumulated depreciation	(122,411,340)	(1,920,998)	-	(124,332,338)
Net capital assets	94,094,588	1,255,165	-	95,349,753
TOTAL ASSETS	$ 248,607,675	$ 3,644,925	$ (1,316,749)	$ 250,935,851

(Continued)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2013

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
LIABILITIES AND NET POSITION				
CURRENT LIABILITIES:				
Accounts payable	$ 8,148,873	$ 1,321,263	$ (1,316,749)	$ 8,153,387
Accrued health insurance and workers' compensation	3,038,028	-	-	3,038,028
Accrued employee personal leave bank	3,303,126	-	-	3,303,126
Accrued salaries	3,027,729	-	-	3,027,729
Accrued medical malpractice	244,511	-	-	244,511
Accrued public assistance assessment	1,257,802	-	-	1,257,802
Other current liabilities	1,612,061	-	-	1,612,061
Estimated third party settlements	-	-	-	-
Current portion of long-term debt & capital lease obligations	1,390,405	-	-	1,390,405
Total current liabilities	22,022,535	1,321,263	(1,316,749)	22,027,049
OTHER LIABILITIES:				
Accrued medical malpractice	960,966	-	-	960,966
Swap cash collateral - payable	173,176			173,176
Accrued public assistance assessment	840,894	-	-	840,894
Total other liabilities	1,975,036	-	-	1,975,036
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS:				
Net of current portion	93,830,581	-	-	93,830,581
Total liabilities	117,828,152	1,321,263	(1,316,749)	117,832,666
COMMITMENTS AND CONTINGENCIES				
NET POSITION:				
Net invested in capital assets	6,709,592	1,255,165	-	7,964,757
Restricted by donors	1,276,738	-	-	1,276,738
Restricted for debt service	10,446,603	-	-	10,446,603
Unrestricted	112,346,590	1,068,497	-	113,415,087
Total net position	130,779,523	2,323,662	-	133,103,185
TOTAL LIABILITIES AND NET POSITION	$ 248,607,675	$ 3,644,925	$ (1,316,749)	$ 250,935,851

(Concluded)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2014

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
OPERATING REVENUE:				
Net patient service revenue	$ 146,705,334	$ -	$ -	$ 146,705,334
Other operating revenue	2,226,206	-	-	2,226,206
Total operating revenue	148,931,540	-	-	148,931,540
OPERATING EXPENSES:				
Salaries and wages	50,740,352	-	-	50,740,352
Employee benefits	17,692,654	-	-	17,692,654
Medications and supplies	26,286,059	-	-	26,286,059
Professional fees and contractual services	21,994,890	-	-	21,994,890
Other operating expenses	11,856,735	-	-	11,856,735
Depreciation	10,833,448	-	-	10,833,448
Interest expense	4,698,081	-	-	4,698,081
Total operating expenses	144,102,219	-	-	144,102,219
OPERATING INCOME	4,829,321	-	-	4,829,321
NONOPERATING REVENUES (EXPENSES):				
Investment income (loss), net	4,429,582	(16,858)	-	4,412,724
Other nonoperating expenses - net	(11,694,437)	(1,774,018)	-	(13,468,455)
Internal grants	(1,865,499)	1,865,499	-	-
Total nonoperating revenues (expenses) - net	(9,130,354)	74,623	-	(9,055,731)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(4,301,033)	74,623	-	(4,226,410)
CAPITAL CONTRIBUTIONS	70,371	-	-	70,371
CHANGE IN NET POSITION	$ (4,230,662)	$ 74,623	$ -	$ (4,156,039)

NORTH BREVARD COUNTY HOSPITAL DISTRICT

SUPPLEMENTARY INFORMATION - CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2013

	North Brevard County Hospital District Operating Parrish Medical Center (Obligated Group)	North Brevard Medical Support, Inc.	Eliminations	North Brevard County Hospital District
OPERATING REVENUE:				
Net patient service revenue	$ 141,379,265	$ -	$ -	$ 141,379,265
Other operating revenue	1,159,100	-	-	1,159,100
Total operating revenue	142,538,365	-	-	142,538,365
OPERATING EXPENSES:				
Salaries and wages	49,237,828	-	-	49,237,828
Employee benefits	16,336,775	-	-	16,336,775
Medications and supplies	27,856,740	-	-	27,856,740
Professional fees and contractual services	17,835,113	-	-	17,835,113
Other operating expenses	12,752,921	-	-	12,752,921
Depreciation	9,721,844	-	-	9,721,844
Interest expense	4,523,630	-	-	4,523,630
Total operating expenses	138,264,851	-	-	138,264,851
OPERATING INCOME	4,273,514	-	-	4,273,514
NONOPERATING REVENUES (EXPENSES):				
Investment income (loss), net	(2,008,667)	39,926	-	(1,968,741)
Other nonoperating expenses - net	(10,159,404)	(2,590,999)	-	(12,750,403)
Internal grants	(2,311,827)	2,311,827	-	-
Total nonoperating revenues (expenses) - net	(14,479,898)	(239,246)	-	(14,719,144)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(10,206,384)	(239,246)	-	(10,445,630)
CAPITAL CONTRIBUTIONS	254,356	-	-	254,356
CHANGE IN NET POSITION	$ (9,952,028)	$ (239,246)	$ -	$ (10,191,274)

MOORE STEPHENS LOVELACE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors and Audit Committee
North Brevard County Hospital District
Titusville, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Brevard County Hospital District (the "District"), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 2, 2015.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Moore Stephens Lovelace, P.A

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Clearwater, Florida
January 2, 2015