

FINANCIAL STATEMENTS AND
OTHER REPORT

The Cape Canaveral Hospital District
Years Ended September 30, 2010 and 2009
With Reports of Independent Certified Public Accountants

Ernst & Young LLP



The Cape Canaveral Hospital District
Financial Statements and Other Report
Years Ended September 30, 2010 and 2009

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Report of Independent Certified Public Accountants

The Board of Directors
The Cape Canaveral Hospital District

We have audited the accompanying financial statements of The Cape Canaveral Hospital District (the District) as of and for the years ended September 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Cape Canaveral Hospital District as of September 30, 2010 and 2009, and the results of its operations and the cash flows of its proprietary fund for the years then ended, in conformity with US generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2011, on our consideration of the District's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 and 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

January 17, 2011

Management's Discussion and Analysis (Unaudited)

(Dollars in Thousands)

As management of The Cape Canaveral Hospital District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the financial statements and footnotes.

Financial Highlights

- The assets of the District equal its liabilities at the close of the most recent fiscal year. This is due to the fact that the District leases the hospital facility and assets to Cape Canaveral Hospital, Inc. (the Hospital) under a capital lease agreement. All rental income received from the Hospital is used by the District to pay debt service. Accordingly, the District did not recognize an excess of revenues over expenses for the fiscal years ended September 30, 2010, 2009, and 2008.
- The long-term debt of the District was composed of Revenue Refunding Certificates, Series 1998, which required that certain funds be maintained in debt service reserve funds, interest funds, and certificate sinking funds. In June 2010, this debt was extinguished and the lease agreement amended.

The following condensed financial information derived from government-wide financial statements compares the financial position and operating results for the years ended September 30:

	September 30		
	2010	2009	2008
Total assets, non-capital	\$ —	\$ 26,086	\$ 25,999
Total liabilities	—	26,086	25,999
Total net assets	—	—	—
Rental income	963	1,284	1,284
Interest expense	963	1,284	1,284
Change in net assets	—	—	—
Ending net assets	—	—	—

For 2009 and 2008, there were no differences between the original budget, final budget, and actual results. In 2010, rental income and interest expense were each approximately three-quarters of the budgeted amounts due to the extinguishment of the District's long-term debt and the amendment of the lease agreement in June 2010. This led to a decrease in both interest expense and rental income.

Management's Discussion and Analysis (Unaudited) (continued)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are composed of two components: (1) government-wide financial statements and (2) notes to the financial statements.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

- Capital lease agreement. The Hospital facility and assets are capitalized and recorded in the Hospital's financial statements. These assets revert to the District upon expiration of the lease term in 2039 and will then be recorded in the District's financial statements. Lease payments made by the Hospital to the District have been sufficient to pay the principal and interest on all outstanding certificates.
- Long-term debt. Under the requirements of the Revenue Refunding Certificates, the Hospital funded the amounts in the debt service reserve funds, interest funds, and the certificate sinking funds. The District agreed to apply amounts deposited in these funds to the payment of the Series 1998 Certificates upon final maturity. As a result, the District recorded in its financial statements a payable due to the Hospital related to the amounts deposited in these funds. Any interest earned on these funds is payable by the District to the Hospital. In June 2010, this debt was extinguished, using all of the funds in these reserve and sinking funds and the proceeds received from Health First, Inc. (on behalf of the Hospital) to settle its capital lease obligation. As a result, the payable due to the Hospital has decreased.

The government-wide financial statements can be found on pages 5 to 7 of this report.

Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements. The notes to the financial statements can be found on pages 8 to 10 of this report.

The Cape Canaveral Hospital District

Balance Sheets

	September 30	
	2010	2009
	<i>(In Thousands)</i>	
Assets		
Current assets limited as to use:		
Restricted assets reserved for debt service	\$	\$ 314
Assets limited as to use:		
Held by trustee for debt service	-	2,319
Rental receivable	-	23,453
Total assets	<u>\$</u>	<u>\$ 26,086</u>
Liabilities and net assets		
Current liabilities payable from restricted assets reserved for debt service:		
Accrued interest	<u>\$</u>	<u>\$ 314</u>
Total current liabilities payable from restricted assets reserved for debt service	-	314
Long-term debt	-	23,453
Due to Cape Canaveral Hospital, Inc.	-	2,319
Total liabilities	-	26,086
Net assets	-	-
Total liabilities and net assets	<u>\$</u>	<u>\$ 26,086</u>

See accompanying notes.

The Cape Canaveral Hospital District

Statements of Revenue and Expenses
and Changes in Net Assets

	Year Ended September 30	
	2010	2009
	<i>(In Thousands)</i>	
Rental income	\$ 963	\$ 1,284
Interest expense	963	1,284
Excess of revenue over expenses	—	—
Change in net assets	—	—
Net assets, beginning of year	—	—
Net assets, end of year	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes.

The Cape Canaveral Hospital District

Statements of Cash Flows

	Year Ended September 30	
	2010	2009
	<i>(In Thousands)</i>	
Operating activities		
Cash received for rent	\$ 963	\$ 1,284
Net cash provided by operating activities	963	1,284
Net cash provided by noncapital financing activities	-	-
Capital and related financing activities		
Cash paid for interest	(963)	(1,284)
Decrease in assets limited as to use	2,319	60
Decrease in due to Cape Canaveral Hospital, Inc.	-	(60)
Proceeds from settlement of capital lease receivable	21,621	-
Repayment of long-term debt	(23,940)	-
Net cash used in capital and related financing activities	(963)	(1,284)
Net cash provided by investing activities	-	-
Increase in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

See accompanying notes.

The Cape Canaveral Hospital District

Notes to Financial Statements

September 30, 2010
(Dollars in Thousands)

1. Summary of Significant Accounting Policies

Reporting Entity

The Cape Canaveral Hospital District (the District) was created under the laws of the state of Florida (Chapter 59-1121, Laws of Florida, Special Acts of 1959) on August 18, 1959, which created and incorporated a special tax district in Brevard County, Florida. The District was recreated by Chapter 2003-337, Laws of Florida, which codified all special acts related to the District. The District operated Cape Canaveral Hospital, Inc. (the Hospital) through March 7, 1985. In December 1984, the Board of Directors of the District voted to approve reorganization under the laws of the state of Florida. The District leased the hospital facility and assets to the Hospital, under a capital lease arrangement. The lease agreement was amended in June 2010. Aggregate rentals due from the Hospital under the amended lease are nominal (ten dollars per year), through the year 2039.

The Hospital facility and assets revert to the District upon expiration of the lease term in 2039. The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code and Chapter 220.13 of the *Florida Statutes*, respectively.

Tax Assessments

The District may levy taxes upon all real and personal taxable property in the District, not to exceed 2.25 mills annually. The District did not levy taxes for the years ended September 30, 2010 or 2009.

Use of Estimates

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The Cape Canaveral Hospital District

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Investment Risk

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Substantially all of the District's investments at September 30, 2010 and 2009, are insured or registered and are held by its agent in the District's name. All investments are made based on reasonable research as to credit quality, liquidity, and counterparty risk prior to the investment being acquired.

Basis of Accounting

The District's financial statements are prepared on a full accrual basis of accounting, with revenue recognized when earned and expenses recognized when incurred. Each year, the District's budgets for revenues and expenses are prepared based upon the lease.

Budgetary Comparison Schedules and Statements

The District has excluded supplemental budgetary comparison schedules and statements from the basic financial statements, as the differences between original budgets, final budgets, and actual results are all due to the extinguishment of the long-term debt and amendment of the lease in June 2010. All activity is a function of maturities of long-term debt payments and the extinguishment of debt (see Note 3).

2. Assets Limited as to Use

The Revenue Refunding Certificates, Series 1998, require that certain funds be maintained in debt service reserve funds, interest funds, and certificate sinking funds. The Hospital has funded the amounts in these funds. The District agreed to apply amounts on deposit in the debt service reserve funds to the payment of the final maturities of the Series 1998 Certificates. Accordingly, the District has a payable due to the Hospital related to the amounts deposited in these funds.

Interest earned on the various trustee funds is payable by the District to the Hospital.

The Cape Canaveral Hospital District

Notes to Financial Statements (continued)

2. Assets Limited as to Use (continued)

The composition of assets limited as to use is set forth in the following table. Investments are stated at fair value based on quoted market prices.

	September 30	
	2010	2009
Cash and cash equivalents	\$ —	\$ 2,633
U.S. Treasury obligations	—	—
	—	2,633
Less current portion	—	(314)
	<u>\$ —</u>	<u>\$ 2,319</u>

3. Long-Term Debt

The District's long-term debt as of September 30, 2009 consisted of Revenue Refunding Certificates, Series 1998, with outstanding principal of \$23,940, net of an unamortized discount of \$487. The debt was extinguished in June 2010; therefore, no amounts are outstanding as of September 30, 2010.

4. Fair Value of Financial Instruments

The following methods and assumptions were used by the District in estimating the fair value of its financial instruments:

Assets limited as to use: Reported in the balance sheets based on quoted market prices.

Long-term debt: Estimated based on the quoted market price for the outstanding issue. The carrying value and fair value at September 30, 2009 are \$23,453 and \$23,452, respectively. There is no long-term debt outstanding as of September 30, 2010.

Due to Cape Canaveral Hospital, Inc.: It is not practicable to estimate the fair value due to the uncertainty regarding the timing of future payments.

Other Report

Report of Independent Certified Public Accountants 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

The Board of Directors
The Cape Canaveral Hospital District

We have audited the financial statements of The Cape Canaveral Hospital District (the District) as of and for the year ended September 30, 2010, and have issued our report thereon dated January 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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.

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 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.

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, and contracts, 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*.

Other disclosures

In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1) of the *Florida Statutes*.

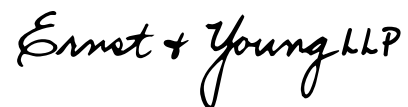
We have read the District's investment policy and compared it with Section 218.415 of the *Florida Statutes*. We noted no significant variances between these documents during our review.

As required by the *Rules of the Auditor General* Section 10.556(7), we applied financial condition assessment procedures. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by the same.

Annual report to department of financial services

The District filed its annual financial report for the fiscal year ended September 30, 2010, as required by Section 218.32(1)(a) of the *Florida Statutes*, with the Florida Department of Financial Services. Based on our review of the financial information contained in this report, no material differences were found in comparing this information to the District's audited financial statements.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, the Florida Department of Financial Services, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

January 17, 2011

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