

FINANCIAL STATEMENTS AND OTHER REPORT

The Cape Canaveral Hospital District  
Years Ended September 30, 2009 and 2008  
With Report of Independent Certified Public Accountants

Ernst & Young LLP



The Cape Canaveral Hospital District  
Financial Statements and Other Report  
Years Ended September 30, 2009 and 2008

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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, 2009 and 2008, 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, 2009 and 2008, and the results of its operations and the cash flows of its proprietary fund for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2009, 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*

December 22, 2009

## Management's Discussion and Analysis (Unaudited)

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, 2009. We encourage readers to consider the information presented here in conjunction with 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, 2009, 2008, and 2007.
- The long-term debt of the District is comprised of Revenue Refunding Certificates, Series 1998, which require that certain funds be maintained in debt service reserve funds, interest funds, and certificate sinking funds.

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

	<b>September 30</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Total assets, noncapital	\$ 26,086	\$ 25,999	\$ 26,121
Total liabilities	<b>26,086</b>	25,999	26,121
Total net assets	-	-	-
Rental income	<b>1,284</b>	1,284	1,284
Interest expense	<b>1,284</b>	1,284	1,284
Change in net assets	-	-	-
Ending net assets	-	-	-

For each of the three years presented, there were no differences between original budget, final budget, and actual results.

## **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. The lease payments made by the Hospital to the District should be sufficient to pay the principal and interest on all outstanding certificates.
- Long-term debt. Under the requirements of the Revenue Refunding Certificates, the Hospital funds the amounts in the debt service reserve funds, interest funds, and the certificate sinking funds. The District has agreed to apply amounts deposited in these funds to the payment of the Series 1998 Certificates upon final maturity. As a result, the District has 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.

The government-wide financial statements can be found on pages 5–7 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 8–11 of this report.

# The Cape Canaveral Hospital District

## Balance Sheets

	<b>September 30</b>	
	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current asset limited as to use:		
Restricted assets reserved for debt service	\$ 314	\$ 314
Assets limited as to use:		
Held by trustee for debt service	2,319	2,258
Rental receivable	23,453	23,427
Total assets	<u>\$ 26,086</u>	<u>\$ 25,999</u>
<b>Liabilities and net assets</b>		
Current liabilities payable from restricted assets reserved for debt service:		
Accrued interest	\$ 314	\$ 314
Total current liabilities payable from restricted assets reserved for debt service	314	314
Long-term debt	23,453	23,427
Due to Cape Canaveral Hospital, Inc.	2,319	2,258
Total liabilities	<u>26,086</u>	<u>25,999</u>
Net assets	-	-
Total liabilities and net assets	<u>\$ 26,086</u>	<u>\$ 25,999</u>

*See accompanying notes.*

The Cape Canaveral Hospital District

Statements of Revenue and Expenses  
and Changes in Net Assets

	<b>Year Ended September 30</b>	
	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
Rental income	\$ 1,284	\$ 1,284
Interest expense	1,284	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

	<b>Year Ended September 30</b>	
	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Cash received for rent	\$ 1,284	\$ 1,284
Net cash provided by operating activities	<u>1,284</u>	<u>1,284</u>
Net cash provided by noncapital financing activities	-	-
<b>Capital and related financing activities</b>		
Cash paid for interest	(1,284)	(1,284)
Decrease in assets limited as to use	60	169
Decrease in due to Cape Canaveral Hospital, Inc.	(60)	(169)
Net cash used in capital and related financing activities	<u>(1,284)</u>	<u>(1,284)</u>
Net cash provided by investing activities	<u>-</u>	<u>-</u>
Increase in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	<u>\$ -</u>	<u>\$ -</u>

*See accompanying notes.*

# The Cape Canaveral Hospital District

## Notes to Financial Statements

September 30, 2009

### 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 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 Cape Canaveral Hospital, Inc. (the Hospital), under a capital lease arrangement.

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. Lease payments by the Hospital to the District should be sufficient to pay the principal and interest on all outstanding certificates (see Note 3).

#### 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, 2009 or 2008.

#### 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, 2009 and 2008, 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 there are no differences between original budgets, final budgets, and actual results due to the nature of the entity. All activity is a function of maturities of long-term debt payments (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 amounts deposited in these funds.

In the event funds on deposit in the debt service reserve funds are used to make up deficiencies in the payment of interest or principal on the certificates, the Hospital is required to repay the District for such amounts.

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.

	<b>September 30</b>	
	<b>2009</b>	<b>2008</b>
Cash and cash equivalents	\$ 2,633	\$ 1,527
U.S. Treasury obligations	–	1,045
	<u>2,633</u>	<u>2,572</u>
Less current portion	<u>(314)</u>	<u>(314)</u>
	<u><u>\$ 2,319</u></u>	<u><u>\$ 2,258</u></u>

**3. Long-Term Debt**

The District’s long-term debt consists of Revenue Refunding Certificates, Series 1998, with outstanding principal of \$23,940 September 30, 2009 and 2008. At September 30, 2009 and 2008, the outstanding amount is net of an unamortized discount of \$487 and \$513, respectively.

Following is a schedule of annual principal and interest sinking fund requirements on the revenue certificates outstanding at September 30, 2009:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending:			
2010	\$ –	\$ 1,257	\$ 1,257
2011	–	1,257	1,257
2012	–	1,257	1,257
2013	–	1,257	1,257
2014	1,090	1,257	2,347
2015–2019	6,360	5,364	11,724
2020–2024	8,220	3,509	11,729
2025–2028	8,270	1,114	9,384
	<u>\$ 23,940</u>	<u>\$ 16,272</u>	<u>\$ 40,212</u>

The Cape Canaveral Hospital District  
Notes to Financial Statements (continued)

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

**Rental Receivable**

Aggregate rentals due from the Hospital to be used by the District to pay principal and interest on the above outstanding debt are \$40,212 through the year 2028. Future minimum rentals to be received for each of the succeeding five fiscal years are \$1,257 per year through fiscal year 2013 and \$2,347 in 2014.

**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 at September 30, 2009 and 2008, is \$23,453 and \$23,427, respectively. The fair value at September 30, 2009 and 2008, is \$23,452 and \$22,834, respectively.

*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, 2009, and have issued our report thereon dated December 22, 2009. 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*.

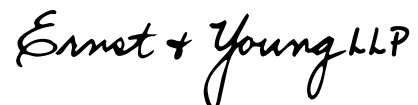
We have read the District's investment policy and compared it with Section 218.415 of the *Florida Statutes*. We noted no significant variances between these documents during our review.

As required by the *Rules of the Auditor General* Section 10.556(8), 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, 2009, as required by Section 218.32(1)(a) of the *Florida Statutes*, with the 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 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'.

December 22, 2009