

WEST ORANGE HEALTHCARE DISTRICT
A SPECIAL DISTRICT IN ORANGE COUNTY, FLORIDA

FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees and Finance Committee of
West Orange Healthcare District
Ocoee, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of West Orange Healthcare District (the "District") which comprise the statements of net position as of September 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, 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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of Trustees and Finance Committee of
West Orange Healthcare District

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the District as of September 30, 2018 and 2017, and the results of its operations, changes in its net position, and its cash flows for the years then ended in accordance 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 Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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 Reporting Requirements by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2019 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



MOORE STEPHENS LOVELACE, P.A.

Certified Public Accountants

Orlando, Florida
January 22, 2019

WEST ORANGE HEALTHCARE DISTRICT
A Special District in Orange County, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended September 30, 2018 and 2017

As management of West Orange Healthcare 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 years ended September 30, 2018 and 2017. The information presented herein should be read in conjunction with additional information that we have furnished in the District's financial statements, which follows this narrative.

The financial information presented herein includes all of the activities of the District, as prescribed by the Governmental Accounting Standards Board ("GASB") Codification.

Financial Highlights

- Net position, the excess of assets over liabilities, amounted to \$153,871,566 and \$171,026,839 at September 30, 2018 and 2017, respectively.
- The District's net position decreased \$16,674,938 and \$2,956,128 as a result of operations for the years ended September 30, 2018 and 2017, respectively. Total decrease in net position at September 30, 2018 and 2017 was \$17,155,273 and \$3,233,197, respectively.
- The District's cash and cash equivalents balance was \$30,385,029 and \$29,873,021 at September 30, 2018 and 2017, respectively.
- Interest and dividend income on the District's funds related to its cash equivalents and investment portfolios was \$3,354,082 and \$3,401,107 for the years ended September 30, 2018 and 2017, respectively. Realized gains and losses, and the change in net unrealized gains (losses) on investments were \$4,641,600 and \$6,349,580 for the years ended September 30, 2018 and 2017, respectively.
- The District approved and paid grant funding during the years ended September 30, 2018 and 2017 of \$25,740,339 and \$12,844,456, respectively.
- Operating expenses were \$784,667 and \$644,453 for the years ended September 30, 2018 and 2017, respectively.
- During the years ended September 30, 2018 and 2017, the District supported, as the lead champion of the Healthy West Orange Initiative (the "Initiative"), a community movement led by an engaged network of business, government, faith-based organizations, educational institutions, not-for-profits, healthcare professionals, neighborhoods and families on a journey to improve the health, happiness, and well-being of citizens living in West Orange County. The total costs incurred by the District for the Initiative was \$181,945 and \$277,069 during the years ended September 30, 2018 and 2017, respectively.

Summary of Conditional Grant Funding Obligations

During the year ended September 30, 2014, the District entered into a conditional grant to provide the Roper YMCA (the “YMCA”) \$500,000 for the purpose of making capital improvements to the YMCA Family Center, which will expand the availability of health and wellness and prevention programs, including health screenings. The conditions of the grant, among other things, require the YMCA to outlay all costs as construction progresses and programs are developed, and then it will be reimbursed by the District through grant funding. The remaining conditional grant commitment at September 30, 2018 was \$18,618.

On December 5, 2014, the District and OHCI entered into an agreement for the District, among other things, to provide 75% of grant funding for construction of a 40-bed tower, not to exceed \$13.8 million. OHCI will be responsible for the remaining 25%. Funds will be paid over the next four years. If actual construction costs are less than \$13.8 million, OHCI agrees to repay the District those excess funds that would cause the District to exceed its 75% commitment of construction costs. Project construction was finalized and fully funded in 2018. No conditional commitments exist for this grant as of September 30, 2018.

On February 3, 2016, the District and OHCI entered into a conditional grant agreement for the District, among other things, to provide 70% of grant funding for construction of an estimated \$35 million skilled nursing facility, not to exceed \$24.5 million. OHCI will be responsible for the remaining 30% and any costs in excess of \$24.5 million. Funds will be paid over five years. The conditional grant commitment by the District at September 30, 2018 was approximately \$23.4 million.

On February 3, 2016, the District and OHCI entered into a conditional grant agreement for the District, among other things, to provide 75% of grant funding for construction of an estimated \$28 million cancer treatment center to be located on the Orlando Health Central Campus, not to exceed \$21 million. OHCI will be responsible for the remaining 25% and any costs in excess of \$21 million. Funds will be paid over no more than five years. The conditional grant commitment by the District at September 30, 2018 was approximately \$12.8 million.

On February 3, 2016, the District and OHCI entered into a conditional grant agreement for the District, among other things, to provide 66% of grant funding for construction of an estimated \$45 million Health and Wellness Campus in Horizons West, not to exceed \$29.7 million. OHCI will be responsible for the remaining 34% and any costs in excess of \$29.7 million. Funds will be paid over no more than three years. The conditional grant commitment by the District at September 30, 2018 was approximately \$16.7 million.

In August 2016, the District entered into an agreement with Shepherd’s Hope, Inc. (the “Grantee”) with a matching grant of up to \$1,000,000 for the sole purpose of assisting the Grantee in constructing an indigent care facility in Winter Garden, Florida. Project construction was finalized and fully funded in 2018. No conditional commitments exist for this grant as of September 30, 2018.

Summary of Conditional Grant Funding Obligations (Continued)

In April 2017, the District entered into an agreement with the City of Winter Garden for development of a twelve-acre working and teaching farm to produce affordable fruits and vegetables for the community. Total amount of the grant award is \$1.7 million. No activity was incurred on this grant through the end of fiscal year 2018. The City has conducted extensive feasibility studies to ensure sustainability and have engaged the District's CEO throughout. They believe that they have found the right partner and expect progress in 2019. The conditional grant commitment by the District at September 30, 2018 was approximately \$1.7 million.

On October 1, 2017, the District and Cornerstone Hospice Foundation, Inc. entered into a conditional grant agreement for the District to provide \$1.25 million of grant funding for construction of an estimated \$2.5 million Cornerstone Hospice Care Center at the Orlando Health – Health Central Hospital campus. OHCI will be responsible for the remaining costs in excess of the grant amount. The conditional grant commitment by the District at September 30, 2018 was approximately \$1.2 million.

During fiscal year 2018, the District entered into two smaller conditional grant agreements for the District, among other things, to provide a combined \$500,000 of grant funding for construction and services for the benefit of the residents of the District. The conditional grant commitment by the District at September 30, 2018 was approximately \$300,000.

Total conditional grant funding to be provided by the District for the projects described above was approximately \$56.1 million.

Overview of the Financial Statements

This report consists of three components: 1) management's discussion and analysis ("MD&A"), 2) the basic financial statements, and 3) the notes to the financial statements.

The District is structured as an enterprise fund. The financial statements report information about the District using accounting methods prescribed by the GASB. These financial statements provide current and long-term financial information about the District's activities. The Statements of Net Position include all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to the District's creditors (liabilities).

All revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. These statements measure the change in the District's operations over the past twelve months ended September 30, 2018 and 2017, and can be used to determine whether the District has recovered its costs through interest revenue and other revenue sources. The final required statement is the Statements of Cash Flows. These statements provide information about the District's cash from operating, investing, and capital 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?"

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

Financial Position

Net position increases when revenues exceed expenses. At September 30, 2018 and 2017, assets exceeded liabilities by \$153,871,566 and \$171,026,839, respectively. The following is a summary of the District's net position at September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Assets:		
Current assets	\$ 30,396,879	\$ 29,884,488
Non-current assets	124,361,565	143,582,162
Total Assets	<u>\$ 154,758,444</u>	<u>\$ 173,466,650</u>
Liabilities:		
Current liabilities	\$ 583,239	\$ 2,131,066
Long-term liabilities	303,639	308,745
Total Liabilities	<u>\$ 886,878</u>	<u>\$ 2,439,811</u>
Net Position:		
Net investment in capital assets	\$ 675,451	\$ 482,198
Restricted	56,112,000	77,876,000
Unrestricted	97,084,115	92,668,641
Total Net Position	<u>\$ 153,871,566</u>	<u>\$ 171,026,839</u>

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents information illustrating how a government's net position changed during the period. All changes in net position are reported as soon as the economic activities occur, regardless of the timing of the cash receipt or disbursement. The following is a summary of the District's statement of revenues, expenses, and changes in net position for the year ended September 30, 2018:

Operating Revenues	
Interest and dividends from investments	\$ 3,354,082
Change in net unrealized/realized gains (losses) on investments	<u>4,641,600</u>
Total Operating Revenues	7,995,682
Grants and Operating Expenses	
Health grant contributions	24,185,953
Payroll and related benefits	498,523
Professional fees	68,026
General and administrative	190,347
Insurance and depreciation	<u>27,771</u>
Total Grants and Operating Expenses	<u>24,970,620</u>
Operating Loss	(16,974,938)
Non-Operating Income (Expense)	
Other income	1,610
Healthy West Orange Initiative	<u>(181,945)</u>
Total Non-Operating Income (Expense)	<u>(180,335)</u>
Change in Net Position	(17,155,273)
Net position - September 30, 2017	<u>171,026,839</u>
Net position - September 30, 2018	<u>\$ 153,871,566</u>

Statement of Revenues, Expenses, and Changes in Net Position (Continued)

The following is a summary of the District’s statement of revenues, expenses, and changes in net position for the year ended September 30, 2017:

Operating Revenues	
Interest and dividends from investments	\$ 3,401,107
Change in net unrealized/realized gains (losses) on investments	<u>6,349,580</u>
Total Operating Revenues	9,750,687
Grants and Operating Expenses	
Health grant contributions	12,062,362
Payroll and related benefits	390,527
Professional fees	52,179
General and administrative	173,809
Insurance and depreciation	<u>27,938</u>
Total Grants and Operating Expenses	<u>12,706,815</u>
Operating Loss	(2,956,128)
Non-Operating Income (Expense)	
Healthy West Orange Initiative	<u>(277,069)</u>
Total Non-Operating Income (Expense)	<u>(277,069)</u>
Change in Net Position	(3,233,197)
Net position - September 30, 2016	<u>174,260,036</u>
Net position - September 30, 2017	<u><u>\$ 171,026,839</u></u>

Requests for Information

This report is designed to provide an overview of the District’s finances for those with an interest in this area. Questions concerning any of the information found in this report, or requests for additional information, should be directed to Kenneth Harker, CFO, West Orange Healthcare District, P.O. Box 770790, Winter Garden, FL 34777.

WEST ORANGE HEALTHCARE DISTRICT

STATEMENTS OF NET POSITION

September 30, 2018 and 2017

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 30,385,029	\$ 29,873,021
Prepaid expenses and other current assets	11,850	11,467
TOTAL CURRENT ASSETS	30,396,879	29,884,488
Non-current Assets		
Investments		
Restricted	56,112,000	77,876,000
Unrestricted	67,572,752	65,219,238
Capital Assets:		
Land - E. Plant Street	651,228	460,763
Equipment, furniture and fixtures	53,989	44,956
Less: Accumulated depreciation	(29,766)	(23,521)
TOTAL CAPITAL ASSETS	675,451	482,198
Other non-current assets	1,362	4,726
TOTAL ASSETS	154,758,444	173,466,650
LIABILITIES		
Current Liabilities		
Accrued expenses	6,559	-
Health grants payable	576,680	2,131,066
TOTAL CURRENT LIABILITIES	583,239	2,131,066
Non-current Liabilities		
Estimated claims payable	303,639	308,745
TOTAL LIABILITIES	886,878	2,439,811
NET POSITION		
Net investment in capital assets	675,451	482,198
Restricted	56,112,000	77,876,000
Unrestricted	97,084,115	92,668,641
TOTAL NET POSITION	\$ 153,871,566	\$ 171,026,839

The accompanying notes are an integral part of the financial statements.

WEST ORANGE HEALTHCARE DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended September 30, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Interest and dividends from investments	\$ 3,354,082	\$ 3,401,107
Change in net unrealized/realized gains (losses) on investments	4,641,600	6,349,580
TOTAL OPERATING REVENUES	7,995,682	9,750,687
GRANTS AND OPERATING EXPENSES		
Health grant contributions	24,185,953	12,062,362
Operating Expenses:		
Salaries and wages	418,940	321,830
Professional fees	66,691	50,616
General and administrative	190,347	173,809
Employee benefits	79,583	68,697
Insurance	21,526	22,019
Depreciation	6,245	5,919
Consulting fees	1,335	1,563
TOTAL OPERATING EXPENSES	784,667	644,453
TOTAL GRANTS AND OPERATING EXPENSES	24,970,620	12,706,815
OPERATING LOSS	(16,974,938)	(2,956,128)
NON-OPERATING INCOME (EXPENSE)		
Other income	1,610	-
Healthy West Orange Initiative	(181,945)	(277,069)
TOTAL NON-OPERATING INCOME (EXPENSE)	(180,335)	(277,069)
CHANGE IN NET POSITION	(17,155,273)	(3,233,197)
NET POSITION - BEGINNING OF YEAR	171,026,839	174,260,036
NET POSITION - END OF YEAR	\$ 153,871,566	\$ 171,026,839

The accompanying notes are an integral part of the financial statements.

WEST ORANGE HEALTHCARE DISTRICT

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Other cash receipts	\$ 3,355,692	\$ 3,401,107
Cash payments for health grants	(25,740,339)	(12,844,456)
Cash payments to suppliers and vendors	(434,148)	(852,865)
Cash payments to employees	(521,785)	(321,830)
	(23,340,580)	(10,618,044)
NET CASH USED IN OPERATING ACTIVITIES		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(199,498)	(16,570)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments	24,052,086	(38,297,093)
	512,008	(48,931,707)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	29,873,021	78,804,728
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 30,385,029	\$ 29,873,021
RECONCILIATION OF CHANGE IN NET POSITION TO		
NET CASH USED IN OPERATING ACTIVITIES		
Change in net position	\$ (17,155,273)	\$ (3,233,197)
Adjustments to reconcile net cash used in operating activities:		
Depreciation expense	6,245	5,919
Change in net unrealized/realized (gains) losses on investments	(4,641,600)	(6,349,580)
Decrease (increase) in:		
Prepaid expenses and other assets	2,981	(521)
Increase (decrease) in:		
Accrued liabilities	1,453	(258,572)
Grants payable	(1,554,386)	(782,093)
	(23,340,580)	(10,618,044)
NET CASH USED IN OPERATING ACTIVITIES	\$ (23,340,580)	\$ (10,618,044)

The accompanying notes are an integral part of the financial statements.

WEST ORANGE HEALTHCARE DISTRICT
A SPECIAL DISTRICT IN ORANGE COUNTY, FLORIDA

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

NOTE 1 - HISTORY AND BACKGROUND OF THE DISTRICT

West Orange Healthcare District (the “District”) is a special taxing district in Orange County, Florida created and incorporated in 1949 by the Legislature of the State of Florida under Chapter 97-255 of the Florida Statutes (the “Act”). The District’s Board of Trustees (the “Board”) is enabled to acquire, construct, operate and maintain hospitals, healthcare facilities, or contract with third parties for the care of people within the District, and to levy taxes and issue bonds to finance healthcare facilities’ operations, and to participate in other activities to promote the general health of the District. Prior to October 1, 2000, the District received tax monies assessed and levied against the real, personal, and taxable property within the District, as defined in Section 1 of the Act. In 1995, a bill was passed by the Florida Legislature terminating the taxing authority of the District as of October 1, 2000.

Prior to April 1, 2012, the District operated Health Central (the “Hospital”), a 171-bed, short-term, acute care hospital; Health Central Park (the “Park”), a 228-bed, long-term care facility; and other ancillary healthcare operations. On December 22, 2011, the District and Orlando Health, Inc. (“OHI”), a not-for-profit healthcare provider, entered into an asset purchase agreement (the “APA”) in which OHI agreed to purchase substantially all of the assets and assume substantially all of the liabilities of the District for \$177,000,000, plus interest, through an affiliate, Orlando Health Central, Inc. (“OHCI”). The sale was approved by both the District’s Board and OHI’s Board of Directors. The agreement contained provisions for certain closing adjustments, which would increase or decrease the final purchase price.

On April 1, 2012, the District and OHCI closed on the APA. Due primarily to an increase in the value of marketable securities in the investment portfolio after the original valuation date, the purchase price at closing was \$181,300,000. As consideration for the purchase of the District’s assets, OHCI issued a Purchase Money Promissory Note (the “Note”) for \$181,300,000.

The terms of the APA provided, among other things, for the District to retain approximately \$1,707,000 in cash for working capital and operating expenses and \$4,700,000 in investment assets, comprising a self-insurance fund related to malpractice and general liability. The District also retained the risk of losses from claims arising from incidents that occurred prior to the sale date.

In April 2016, the District and OHCI agreed and entered into an early payoff of the Note for a combined total cash sale of \$141,120,000, plus accrued unpaid interest of \$413,516, and a 2% prepayment premium of \$2,822,400.

NOTE 2 - BASIS OF ACCOUNTING, MEASUREMENT FOCUS, AND FINANCIAL STATEMENT PRESENTATION

The District's financial statements are prepared in accordance with the GASB Codification. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

In evaluating the District as a reporting entity, the District's management considered all potential component units for which the District may be financially accountable and, as such, be includible within the District's financial statements. No such component units were identified.

The District's Board adopted operating budgets. The budgets for the years ended September 30, 2018 and 2017 were prepared on an accrual basis. The District does not use encumbrance accounting.

The District classifies its net position into three categories - net investment in capital assets, restricted, and unrestricted. These categories are defined as follows:

Net Investment in Capital Assets - Consists of capital assets, net of accumulated depreciation.

Restricted Net Position - Consists of assets that have external constraints placed upon their use imposed either by creditors (such as through debt covenants), grantors, contributors, or through laws or regulations of other governments or constraints imposed by law through constitutional provisions, enabling legislation, or contractual obligations reduced by any liabilities to be paid from these assets.

Unrestricted Net Position - Consists of net assets that do not meet the definition of "net investment in capital assets" and "restricted net assets."

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents are defined as highly liquid investments with original maturities of three months or less when purchased and consist of amounts held as bank deposits and money market funds.

Investments

Investments are stated at fair value (see Note 4). Fair value is determined using the quoted closing or latest bid prices. Realized gains and losses on investment transactions are included in investment income and are calculated based on proceeds received, less carrying value, at the beginning of the reporting period. The cost of securities sold is based on the specific-identification method. Dividends are recorded in income, based on payment dates. Interest is recognized when earned. Changes in net unrealized gains and losses represent the change in the fair value of investment holdings over their cost during the period.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, including real estate, with an acquisition value in excess of \$1,000 are recorded at cost or, if donated, at estimated fair value at the date of donation. The cost of maintenance, repairs, and minor replacements are charged to expense as incurred. Depreciation is provided using the straight-line method over the estimated useful lives of 3 to 10 years for equipment and furniture.

Liabilities

Current liabilities consist of health grants payable to Second Harvest Food Bank of South Florida, The Public Good Projects, The American Diabetes Association, YMCA of Central Florida, Shepherd's Hope, and University of Central Florida Foundation at September 30, 2018 and to OHCI, The Howard Phillips Center, Second Harvest Food Bank of South Florida, and The Public Good Projects at September 30, 2017 (see Note 5).

Non-current liabilities consist primarily of self-insurance reserves. Self-insurance reserves for unpaid and incurred but not reported professional liability claims were approximately \$304,000 and \$309,000 at September 30, 2018 and 2017, respectively. The claims are recorded based upon estimates developed with the advice of legal counsel considering historical payment levels and claims data (see Note 7).

Operating Revenues and Expenses

Operating revenues and expenses generally result from activities related to the District's principal ongoing operations. The principal operating revenues of the District are interest investment income from investments. Grants and operating expenses include grants made, salaries and benefits, professional service costs, general and administrative expenses, insurance, and depreciation of capital assets.

Estimates and Assumptions

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 and disclosures in the financial statements. Actual results could differ from those estimates.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations, Market, and Credit Risk

Financial instruments, which potentially subject the District to concentrations of credit risk, consist principally of cash and cash equivalents, and investments.

Cash and cash equivalents, and investment balances, at times, may exceed federally insured limits. The District has not incurred any credit losses on its cash and cash equivalent accounts or investments and does not believe that it is exposed to any significant credit risk thereon. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net position.

Subsequent Events

The District's management has evaluated subsequent events for potential recognition or disclosure through January 22, 2019, which is the date the financial statements were issued.

NOTE 4 - CASH AND CASH EQUIVALENTS, INVESTMENTS, AND FAIR VALUE MEASUREMENT

At September 30, 2018 and 2017, the carrying value of the District's cash deposits in the operating and payroll checking accounts, and deposits invested in bank money market funds (considered cash equivalents), were approximately \$30,385,000 and \$29,873,000, respectively. The bank balances are held in a banking institution approved by the State of Florida Treasurer to hold public funds.

The composition of the District's cash and cash equivalents at September 30, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Cash	\$ 102,176	\$ 68,319
Money market funds	<u>30,282,853</u>	<u>29,804,702</u>
Total cash and cash equivalents	<u>\$ 30,385,029</u>	<u>\$ 29,873,021</u>

The District is authorized to invest in financial instruments in accordance with an investment policy approved by the District's Board. The policy specifies the authorized investment vehicles, which include U.S. Treasury and Agency securities, corporate bonds, mutual funds invested in fixed income or equity securities, limited partnerships, insurance contracts, and marketable real estate investments.

NOTE 4 - CASH, CASH EQUIVALENTS, INVESTMENTS, AND FAIR VALUE MEASUREMENT (Continued)

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements at September 30, 2018:

- Money market funds, mutual funds, equity securities, U.S. Government securities, and corporate debt obligations of \$111,393,489 are valued using quoted market prices (Level 1 inputs).
- Marketable real estate investments of \$12,291,263 are valued using inputs other than quoted prices that are observable for the asset (Level 2 inputs).

The following table sets forth the District's measurement of its investments at fair value as of September 30, 2018:

	<u>Fair Value Measurement Using</u>			
	<u>September 30, 2018</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>Investments by Fair Value Level</u>				
Cash and cash equivalents	\$ 507,073	\$ 507,073	\$ -	\$ -
<u>Debt securities</u>				
Corporate debt obligations	8,555,794	8,555,794	-	-
Government agency obligations	4,644,462	4,644,462	-	-
Foreign debt obligations	715,119	715,119	-	-
Municipal debt obligations	1,065,374	1,065,374	-	-
Total debt securities	<u>14,980,749</u>	<u>14,980,749</u>	<u>-</u>	<u>-</u>
<u>Equity securities</u>				
Mutual funds	83,821,909	83,821,909	-	-
Domestic common stock	11,083,395	11,083,395	-	-
Foreign stock	1,000,363	1,000,363	-	-
Marketable real estate investments	12,291,263	-	12,291,263	-
Total equity securities	<u>108,196,930</u>	<u>95,905,667</u>	<u>12,291,263</u>	<u>-</u>
Total investments by fair value level	<u>\$ 123,684,752</u>	<u>\$ 111,393,489</u>	<u>\$ 12,291,263</u>	<u>\$ -</u>

NOTE 4 - CASH, CASH EQUIVALENTS, INVESTMENTS, AND FAIR VALUE MEASUREMENT (Continued)

The following table sets forth the District's measurement of its investments at fair value as of September 30, 2017:

	Fair Value Measurement Using			
	September 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments by Fair Value Level</u>				
Cash and cash equivalents	\$ 696,332	\$ 696,332	\$ -	\$ -
<u>Debt securities</u>				
Corporate debt obligations	44,085,769	44,085,769	-	-
Government agency obligations	13,400,948	13,400,948	-	-
Foreign debt obligations	5,412,563	5,412,563	-	-
Municipal debt obligations	1,867,152	1,867,152	-	-
Total debt securities	<u>64,766,432</u>	<u>64,766,432</u>	<u>-</u>	<u>-</u>
<u>Equity securities</u>				
Mutual funds	60,943,857	60,943,857	-	-
Domestic common stock	6,852,182	6,852,182	-	-
Foreign stock	815,909	815,909	-	-
Marketable real estate investments	9,020,526	-	9,020,526	-
Total equity securities	<u>77,632,474</u>	<u>68,611,948</u>	<u>9,020,526</u>	<u>-</u>
Total investments by fair value level	<u>\$ 143,095,238</u>	<u>\$ 134,074,712</u>	<u>\$ 9,020,526</u>	<u>\$ -</u>

Investment Income (Loss)

The composition of the District's investment income (loss) for the years ended September 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Dividend and interest income, less fees of \$338,005 in 2018 and \$290,511 in 2017	\$ 3,354,082	\$ 3,401,107
Net realized gains (losses)	(90,085)	(368,260)
Change in net unrealized losses	<u>4,731,685</u>	<u>6,717,840</u>
Total investment income (loss), net	<u>\$ 7,995,682</u>	<u>\$ 9,750,687</u>

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. To manage custodial credit risk, the District has executed a Third-Party Custodial Safekeeping Agreement with a commercial bank's trust department separately chartered by the U.S. Government. All securities purchased by the District are properly designated as an asset of the District and are held in safekeeping by the bank's trust department.

NOTE 4 - CASH, CASH EQUIVALENTS, INVESTMENTS, AND FAIR VALUE MEASUREMENT (Continued)

Interest Rate Risk

Interest rate risk is the risk that as market rates change, the fair value of an investment will vary. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in the market interest rates. The District’s formal investment policy ensures that securities mature to meet operating cash requirements to avoid the need to sell on the open market prior to maturity. In addition, the policy allows the District to maintain a liquid pool of assets to serve as a reserve fund for its operating cash requirements. The reserve fund invests primarily in shorter-term securities, from which funds can be readily withdrawn without penalty.

NOTE 5 - HEALTHCARE GRANTS PAYABLE

Healthcare grants payable presented in the statements of net position at September 30, 2018 and 2017 consist of the following:

<u>Grantee</u>	<u>Program</u>	<u>2018</u>	<u>2017</u>
The Public Good Projects	Public good projects	\$ 179,439	\$ 622,500
Second Harvest Food Bank	Healthy food plan	134,004	177,354
YMCA	Healthy weight & your child	95,900	-
Shepherd’s Hope	Healthcare access program	72,075	-
UCF Foundation	Nursing faculty program	51,887	-
American Diabetes Assn.	Morning mile program	43,375	-
Orlando Health Central, Inc.	Emergency room expansion	-	1,279,837
The Howard Phillips Center	Teen express program	-	51,375
Total healthcare grants payable		<u>\$ 576,680</u>	<u>\$ 2,131,066</u>

NOTE 6 - HEALTHY WEST ORANGE INITIATIVE

In December 2015, the District founded a movement called Healthy West Orange in concert with Orlando Health Central Hospital and Observer/West Orange Times (the “Observer”). Healthy West Orange is a community movement of engaged network of business, government, faith-based organizations, educational institutions, not-for-profits, healthcare professionals, neighborhoods, and families on a journey to improve the health, happiness, and well-being of citizens in West Orange County. In addition, Healthy West Orange inspires the community with the information, tools, and social connection to sustain a transformation creating and supporting a culture of wellness for the West Orange community in these four areas of focus: nutrition, lifestyle, fitness, and health status.

During the years ended September 30, 2018 and 2017, the District entered into professional service agreements for assistance with the creation of an official web page, social media, visioning, and branding/positioning. The District also promoted Healthy West Orange, including all health and wellness events, through advertising with the Observer. Total costs related to Healthy West Orange were approximately \$182,000 and \$277,000 for the years ended September 30, 2018 and 2017, respectively, and are reported as non-operating expenses on the statements of revenues, expenses, and changes in net position.

NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES

Operating Lease

The District entered into a month-to-month lease with OHCI for the use of office space. The lease can be terminated by either party at will. Rent expense was approximately \$13,000 and \$14,000 for the years ended September 30, 2018 and 2017, respectively.

Professional Liability Claims

Effective December 1, 2001, the District became self-insured for professional liability up to the established sovereign immunity limits. The District had employed an independent actuary to estimate the ultimate costs of the settlement of known claims and incidents, as well as unreported incidents that may be asserted arising from services rendered to patients through March 31, 2012. Accrued professional liability reserves have not been discounted and, in management's opinion, provide an adequate reserve for loss contingencies.

Claims in excess of sovereign immunity limits require legislative approval, as established in Florida Statutes, Chapter 768, and are not specifically recorded as a probable professional liability claims loss. The liabilities for potential professional liability claims were estimated, based on advice of legal counsel, at approximately \$304,000 and \$309,000 as of September 30, 2018 and 2017, respectively. The accrual has been included in non-current liabilities, as these matters are generally not expected to be settled during the following year. The reconciliation of activity related to the professional liability accrual as of September 30, 2018 and 2017 is approximately as follows:

	<u>Liabilities at September 30, 2017</u>	<u>Payments/ Adjustments</u>	<u>Liabilities at September 30, 2018</u>
Estimated claims payable	\$ 309,000	\$ (5,000)	\$ 304,000

	<u>Liabilities at September 30, 2016</u>	<u>Payments/ Adjustments</u>	<u>Liabilities at September 30, 2017</u>
Estimated claims payable	\$ 567,000	\$ (258,000)	\$ 309,000

Employee Benefit Plans

The District sponsors medical insurance plans (effective June 1, 2015), a Flexible Spending Account ("FSA") plan (effective April 1, 2012), and a defined contribution 401(k) retirement plan (effective January 1, 2015) for its staff members. The District's expense for the medical insurance plans was approximately \$19,000 and \$27,000 for the years ended September 30, 2018 and 2017, respectively. The District makes no contributions to the FSA plan. The District's contributions to the 401(k) retirement plan were approximately \$21,000 for each of the years ended September 30, 2018 and 2017.

NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Conditional Grants

Grants are considered conditional if ultimate payment is dependent on the outcome of future events. The District has entered into a number of grant agreements under which it reimburses grantees for construction costs that the grantees have incurred. At September 30, 2018, the District reports conditional grant obligations approximately as follows:

Grant	Original Award	Amount Funded to Date	Conditional Obligation at September 30, 2018
Orlando Health Central, Inc.			
Emergency room expansion	\$ 13,800,000	\$ 13,800,000	\$ -
100-bed skilled nursing facility	24,500,000	1,129,000	23,371,000
Cancer treatment center	21,000,000	8,174,000	12,826,000
Health and wellness center	29,700,000	12,975,000	16,725,000
Total Orlando Health Central, Inc.	89,000,000	36,078,000	52,922,000
Central Florida YMCA, Inc.			
Family health facility	500,000	481,000	19,000
Cornerstone Health Centers			
OHCI cancer center	1,250,000	72,000	1,178,000
Shepherd's Hope, Inc.			
Indigent care facility	1,000,000	1,000,000	-
City of Winter Garden			
Wellness facility	1,700,000	-	1,700,000
Other Grants			
CHC and B&G Club	500,000	207,000	293,000
Total	\$ 93,950,000	\$ 37,838,000	\$ 56,112,000

Total conditional grant funding to be provided by the District for the projects described above is approximately \$56.1 million.



Certified Public Accountants

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

To the Board of Trustees and Finance Committee of
West Orange Healthcare District
Ocoee, Florida

We have audited, 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, the financial statements of West Orange Healthcare District (the "District") as of and for the year ended September 30, 2018, 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 22, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 District'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 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Trustees and Finance Committee of
West Orange Healthcare District

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 District'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.
Certified Public Accountants

Orlando, Florida
January 22, 2019



Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Trustees and Finance Committee of
West Orange Healthcare District
Ocoee, Florida

We have examined the compliance of West Orange Healthcare District (the "District") with the requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2018. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2018.

A handwritten signature in blue ink that reads "Moore Stephens Lovelace, P.A.".

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
January 22, 2019



MANAGEMENT LETTER

To the Board of Trustees and Finance Committee of
West Orange Healthcare District
Ocoee, Florida

Report on the Financial Statements

We have audited the financial statements of West Orange Healthcare District (the "District") as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated January 22, 2019.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Chapter 10.550, *Rules of the Auditor General*.

Other Reports

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated January 22, 2019, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. In connection with its previous audit, the District was not provided any such recommendations.

Official Title and Legal Authority

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The legal authority is disclosed in the notes to the financial statements.

To the Board of Trustees and Finance Committee of
West Orange Healthcare District

Financial Condition

Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), *Rules of the Auditor General*, 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 same.

Annual Financial Report

Sections 10.554(1)(i)5.b. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2018, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2018. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts and grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, federal and other granting agencies, the Board of Trustees and Finance Committee, and applicable management, and is not intended to be, and should not be, used by anyone other than these specified parties.



MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
January 22, 2019