

THE LOWER FLORIDA KEYS HOSPITAL DISTRICT

**FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
The Lower Florida Keys Hospital District
Key West, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities of The Lower Florida Keys Hospital District, a taxing district in the Lower Florida Keys, Monroe County, as of and for the years ended September 30, 2020 and 2019, and the related notes to the financial statements, which comprise The Lower Florida Keys Hospital District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of The Lower Florida Keys Hospital District as of September 30, 2020 and 2019, and the respective changes in financial 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 Supplemental Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedule of revenue and expenses – budget and actual, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Government Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

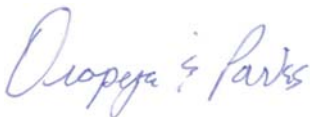
Other information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise The Lower Florida Keys Hospital District's basic financial statements. The schedule of administrative services as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards* and Chapter 10.550, Rules of the Florida Auditor General

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2021 on our consideration of The Lower Florida Keys Hospital District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of The Lower Florida Keys Hospital District's 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 Lower Florida Keys Hospital District's internal control over financial reporting and compliance.

In accordance with Chapter 10.550, Rules of the Florida Auditor General, Local Governmental Entity Audits we have also issued our reports dated June 21, 2021. The purpose of those reports is to communicate certain matters prescribed by Chapter 10.550, Rules of the Florida Auditor General.



June 21, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Lower Florida Keys Hospital District (the "District") offers readers of the District's financial statements this narrative overview and analysis of the District's financial activities for the fiscal year ended September 30, 2020.

Overview

Serving Monroe County, Florida, the District is a special purpose government, as defined by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, engaged only in business-type activities and has no other material operations. The District has determined there are no organizations for which it is financially accountable (component units) and is required to include in its financial statements, as defined by the accounting standards.

The District was created by the legislature of the State of Florida in 1967 to establish and operate a hospital in Monroe County, Florida for the people of the District, which extends south of the Seven Mile Bridge to and including the City of Key West. The Enabling Act provides for a Board of Commissioners, appointed by the Governor, of nine (9) members to govern the District. One Board member's term expired in 2020, and another in 2019, two (2) of the Board members' terms expired in September, 2018, two (2) of the Board members' terms expired in September, 2017 and one Board member's term expired in September, 2016, and all continue to serve until re-appointed or successors are appointed, or unless they give notice of intent not to continue to serve. In addition, there are two vacant Board position awaiting appointment. The board members receive no compensation for their services.

The Board of Commissioners of the District is also authorized by its Enabling Act to levy ad valorem taxes sufficient for the purposes and needs of the District. This authorization is limited to two mills per year of the county-assessed valuation of the property within the District. The District's 2020 final, before Value Adjustment Board, total taxable value was \$13,541,749,364, giving the District the ability to levy ad valorem taxes up to \$27,083,499. The Board strives to limit the economic cost of operations to the people of the District. As a result, there was no levy of ad valorem taxes during the fiscal year 2020.

In an effort to minimize the economic cost to the people of the District, and in accordance with the District's financial policy, the District has invested funds to yield the highest returns within investment guidelines established by Florida Statutes. The District has retained PFM Asset Management LLC to advise and manage its investments.

On May 1, 1999, the District entered into a 30-year lease agreement and an indigent care agreement with Key West HMA, LLC. ("HMA"), a Florida for-profit corporation, to lease substantially all of its real and tangible property and received a lump sum payment of \$20 million with no future payments during the 30-year term of the agreement. On January 27, 2014 Health Management Associates, Inc., the parent company of Key West HMA, LLC, was acquired by Community Health Systems, Inc.

In addition, under a 1999 indigent care agreement, the District agreed to provide funding for professional medical services for a primary care clinic. The maximum the District is obligated to pay is up to \$500,000 per fiscal year, until the cash and investments of the District are less than \$3,000,000, or HMA determines that the clinic becomes economically impractical to operate. If either contingent event occurs, the District's obligation to fund the Primary Care Clinic ceases.

In continuance with the District's goal to provide quality healthcare in the lower Florida Keys, the District entered into an agreement with Key West Health and Rehabilitation Center, LLC (KWHRC) to provide funds for capital improvements to the convalescent facilities located at 5860 West Junior College Road, Key West, Florida. The land at this location was owned by the State of Florida and was deeded to the District through the City of Key West, so long as the use of the property is for purposes set forth in the District's Enabling Act legislation. The District obtained a Declaratory Statement from the Circuit Court of Monroe County, Florida that the operation of convalescent facilities was within the ambit of the purposes of the Enabling Act legislation. The land and any improvements will revert back to the State if the land no longer is used for the purposes set forth in its Enabling Act, at which time the District's use of the land ceases. The District committed to provide advanced funds in prior years totaling \$2,980,000, which allowed for necessary renovations to an established long term health care provider facility. Interest accrues at a rate of 5% per annum, beginning on the date of advancement and payment of interest was deferred until June 2012. The completion of these renovations allowed for the reopening of the long term health care facility in the later part of 2010, and continues to rejuvenate job opportunities and convalescent medical services in the community.

At year end, the parent company of KWHRC was in bankruptcy. On October 15, 2020, the nursing home operated by KWHRC was sold out of bankruptcy to the Portopiccolo Group LLC from New Jersey, who formed Key West

MANAGEMENT'S DISCUSSION AND ANALYSIS

FL Propco LLC (KWFLP), as part of their Florida Orchid Cove Group, to operate the facility. As a result of the sale, KWFLP assumed the original Advanced Rent Receivable agreement with KWHRC. KWFLP will continue to make monthly payments of principal and interest under the original amortization of 311 months, with an adjustment in terms to be a balloon payment due October 15, 2030. As a result of the bankruptcy, the District received a sum certain payment for accrued interest resulting from the original deferral of monthly payment of Advanced Rent Receivable of \$150,000 in October, 2020. As a result, the District recorded a bad debt expense, relating to the loss of accrued interest of \$266,920 for the fiscal year ended September 30, 2020.

Overview of the Financial Statements

The enclosed financial statements are designed to provide readers an overview of the District's finances. The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about the District's activities.

The statement of net position presents information on the District's assets, liabilities and net position. It also provides the basis for computing rate of return, evaluating the capital structure and assessing the liquidity and financial flexibility of the District. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information indicating how the District's net position changed during the fiscal year. This statement measures the success of the District's operations over the past year and can be used to determine liquidity, credit worthiness and whether the District has successfully covered all its costs. All changes in net position are reported when the event causing the change occurs, regardless of when cash is given or received. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods, which reflect the accrual basis of accounting.

The final required statement is the statement of cash flows. This statement reports cash receipts, payments, and net changes in cash resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. This statement highlights the sources and uses of cash and changes in cash balance over the reporting period.

In addition, the aforementioned statements contain notes to provide additional information essential to a full understanding of the information provided in the financial statements. They explain organizational matters about the District, its accounting policies and their application, and further detail information about the components of the basic financial statements.

The District adopts an annual appropriated budget. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

In addition to the financial statements and accompanying notes, this report also presents supplementary information in the form of a report on internal control and compliance issues.

Financial Analysis of the District

Statement of Net Position. In the statement of net position presented on page 6, the District's assets total \$11,522,133, and include cash and cash equivalents, investments and amounts due from a lessee for advancement of rent. The cash and cash equivalents include cash at a local bank institution and money held by a third party custodian, as required by the District's investment policy. Investments consist of equity securities and as required by the District's investment policy, are managed by PFM Management LLC and are held by a third party custodian.

Total assets of the District, increased \$12,418 compared to \$11,509,715 at September 30, 2019. This was primarily due to payments received for and a write off of receivables, offset by an increase in investments due to a favorable return on investments and a favorable change in market.

The District's current liabilities consist of payables for contracted services and funding for professional medical services at year end and total \$277,169.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table provides a condensed comparison of the District's net position at year end for 2020, 2019 and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 72,543	\$ 125,575	\$ 195,771
Investments	8,878,846	8,482,851	8,265,626
Receivables	2,570,080	2,900,182	2,939,440
Capital and other assets	664	1,107	1,489
Total assets	<u>\$ 11,522,133</u>	<u>\$ 11,509,715</u>	<u>\$ 11,402,326</u>
Total liabilities	<u>\$ 277,169</u>	<u>\$ 555,303</u>	<u>\$ 328,754</u>
Net position			
Invested in capital assets	\$ -	\$ -	-
Unrestricted	11,244,964	10,954,412	11,073,572
Total net position	<u>\$ 11,244,964</u>	<u>\$ 10,954,412</u>	<u>\$ 11,073,572</u>

Statement of Revenues, Expenses and Changes in Net Position. The Statement of Revenues, Expenses and Changes in Net Position as presented on page 7, consisted of an operating expense of \$477,597. Total operating expense decreased \$78,863, compared to the prior year primarily due to an increase in professional services provided to the District and a decrease in expenses relating to Primary Care Clinic.

Gross income from investments in the Statement of Revenues, Expenses and Changes in Net Position totaled \$873,736. Total gross investment income increased \$591,445 compared to the prior year, in part due to an unrealized gain on investments of \$588,885. Gross investment income shown is the total of interest and dividends earned plus the current realized and unrealized gains or losses on funds invested as described in Note 2. Total fees incurred relating to investments were \$29,961. Interest income from the advancement of rent and land rent income from lessee as described in Note 4 was \$142,069 and \$47,708, respectively.

The following table provides a condensed comparison of the District's statement of revenue, expenses and changes in net position for the years ended September 30, 2020, 2019 and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating expenses:			
Administrative	\$ 120,868	\$ 70,333	\$ 58,818
Primary Care Clinic	356,729	486,127	500,000
Depreciation	-	-	-
Total operating expenses	<u>477,597</u>	<u>556,460</u>	<u>558,818</u>
Non operating revenue (expense):			
Investment income, net fees	843,775	243,464	694,141
Interest income	142,069	145,170	148,119
Land rent	47,708	47,119	46,885
Bad debt expense	(266,920)	-	-
Other	1,517	1,547	1,555
Total non operating revenue	<u>768,149</u>	<u>437,300</u>	<u>890,700</u>
Increase (decrease) in net position	<u>\$ 290,552</u>	<u>\$ (119,160)</u>	<u>\$ 331,882</u>

Requests for information

This financial report is designed to provide a general overview of the District's financial position and the District's finances for those with an interest in the government's finances. Questions concerning any of the information should be addressed to the Finance Committee, P.O. Box 5403, Key West, FL 33045.

**THE LOWER FLORIDA KEYS HOSPITAL DISTRICT
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2020 AND 2019**

ASSETS	2020	2019
Current assets:		
Unrestricted current assets:		
Cash and cash equivalents	\$ 72,543	\$ 125,575
Accrued interest receivable	160,025	10,370
Advanced rent receivable–Key West Health & Rehabilitation Center, LLC	94,474	89,856
Accounts receivable	4,025	3,927
Prepaid expenses and other current assets	664	1,107
Total unrestricted current assets	331,731	230,835
Non current assets:		
Advanced rent receivable–Key West Health & Rehabilitation Center, LLC	2,311,556	2,796,029
Long–term investments	8,878,846	8,482,851
Total non current assets	11,190,402	11,278,880
Total assets	\$ 11,522,133	\$ 11,509,715
LIABILITIES AND EQUITY		
Current liabilities:		
Current liabilities payable from unrestricted assets:		
Due to Key West HMA	\$ 256,610	\$ 543,803
Other liabilities	20,559	11,500
Total current liabilities payable from unrestricted assets	277,169	555,303
Net position		
Unrestricted	11,244,964	10,954,412
Total net position	11,244,964	10,954,412
Total liabilities and equity	\$ 11,522,133	\$ 11,509,715

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

**THE LOWER FLORIDA KEYS HOSPITAL DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Operating expenses:		
Administrative services	\$ 120,868	\$ 70,333
Primary Care Clinic expense	356,729	486,127
Total operating expenses	<u>477,597</u>	<u>556,460</u>
Loss from operations	(477,597)	(556,460)
Non–operating revenues and (expenses):		
Bad debt expense	(266,920)	-
Custodial fees	(2,549)	(2,854)
Investment advisor fees	(27,412)	(35,973)
Investment income	873,736	282,291
Interest income – Key West Health and Rehabilitation Center, LLC	142,069	145,170
Land rent	47,708	47,119
Other revenues	1,517	1,547
Total non–operating revenues	<u>768,149</u>	<u>437,300</u>
Change in Net Position	290,552	(119,160)
Net Position at Beginning of Year	<u>10,954,412</u>	<u>11,073,572</u>
Net Position at Year End	<u>\$ 11,244,964</u>	<u>\$ 10,954,412</u>

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

**THE LOWER FLORIDA KEYS HOSPITAL DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Payments for other services	\$ (94,409)	\$ (68,250)
Payments to Primary Care Clinic	(643,922)	(250,000)
Payments for contracted management	(17,055)	(15,089)
Land rent received	47,708	47,119
Other cash received	1,517	1,547
	<u> </u>	<u> </u>
Net cash used for operating activities	(706,161)	(284,673)
Cash flows from investing activities:		
Return of funds – Key West Heath and Rehabilitation Center	82,789	75,237
Investment income	293,847	292,745
Payments for advisory and custodial fees	(29,961)	(38,827)
Purchase of securities and notes	(5,102,922)	(18,607,005)
Proceeds from redemption of securities	5,409,376	18,492,327
	<u> </u>	<u> </u>
Net cash provided by investing activities	653,129	214,477
Net decrease in cash	(53,032)	(70,196)
Cash and cash equivalents at beginning of year	<u>125,575</u>	<u>195,771</u>
Cash and cash equivalents at end of year	<u><u>\$ 72,543</u></u>	<u><u>\$ 125,575</u></u>
Reconciliation of operating income to net cash provided by operating activities		
Change in net position	\$ 290,552	\$ (119,160)
Provision for bad debt	266,920	-
Net (increase) in the fair value of investments	(702,449)	(102,547)
Interest and dividend income	(313,356)	(324,914)
Advisor and custodial fees	29,961	38,827
(Increase) in accounts receivable	(98)	(3,810)
Decrease in prepaid expenses	443	382
Increase (decrease) in other liabilities	(278,134)	226,549
	<u> </u>	<u> </u>
Net cash used for operating activities	<u><u>\$ (706,161)</u></u>	<u><u>\$ (284,673)</u></u>
Non cash transactions:		
Accrued interest income on note receivable	<u><u>\$ 19,853</u></u>	<u><u>\$ 18,908</u></u>

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

**THE LOWER FLORIDA KEYS HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

Note 1 – Summary of Significant Accounting Policies

The Lower Florida Keys Hospital District (“District”) was created August 4, 1967, and became a political subdivision in Monroe County, Florida by the legislature of the State of Florida for the purpose of establishing and maintaining a hospital for the people of the District. The District boundaries include the area of the southern end of the Seven Mile Bridge continuing south to, and including, the City of Key West. The District currently operates pursuant to Chapter 2003-307, Laws of Florida, which is a re-codification of its original special act, being Chapter 67.1724, Laws of Florida and all amendments thereto. The legislation provides for a Board of Commissioners to govern the District. The Board consists of nine (9) members, all residents living within the boundaries of the District and appointed by the Governor. One Board member’s term expired in 2020 and another in 2019, two (2) of the Board members’ terms expired in September, 2018, two (2) of the Board members’ terms expired in September, 2017 and one Board member’s term expired in September, 2016, and all continue to serve until re-appointed or successors are appointed, or unless they give notice of intent not to continue to serve. In addition, there are two vacant Board position awaiting appointment. The board members receive no compensation for their services.

The Board of Commissioners of the District is authorized by its Enabling Act of the State of Florida to levy ad valorem taxes sufficient for the purposes and needs of the District. This authorization is limited to two mills per year of the county-assessed valuation of the property within the boundaries of the District.

On December 13, 1989, the Florida Legislature approved the lease of hospital facilities to newly formed Florida not-for-profit corporation, The Lower Florida Keys Health System, Inc. (Health System). The District has the right to appoint four members of the Board of Directors of Health System. In addition, Health System acquired the operations of the District’s hospital facilities and those of a private for-profit hospital facility located in Key West including contracts, leases and inventory of these facilities. The District signed a lease consolidation agreement on December 5, 1989. The lease of the District’s hospital facilities, contracts and other selected assets occurred on May 1, 1990. On May 1, 1999 the District and Health System voluntarily terminated their lease dated May 1, 1990 and the related Indigent Care Agreement. The District simultaneously, on May 1, 1999, entered into a 30-year lease agreement and Indigent Care Agreement with Key West HMA, LLC (“HMA”), a Florida for-profit corporation covering substantially the same real and tangible property previously leased to Health System. The District received a lump-sum payment of \$20,000,000 upon signing the lease with no future payments due from HMA during the 30-year term of the lease. On April 15, 2002, the District and HMA entered into an agreement retroactive to October 1, 2001 to amend the 30-year lease and indigent care agreement, to amend and clarify certain aspects of the lease agreement regarding the operations of the Clinic and the funding obligations of the District. On January 27, 2014 Health Management Associates, Inc., the parent company of Key West HMA, LLC, was acquired by Community Health Systems, Inc.

Under the 1999 indigent care agreement, the District contracted with HMA to provide indigent care for the District for 30 years, which, during the first 10 years of the agreement, the District will pay a maximum of \$1,500,000 per year from a restricted escrow account for indigent care costs incurred by HMA. In accordance with the lease agreement, \$15,000,000 was placed in a separate escrow account to fund indigent care. The terms of this agreement were fulfilled as of April 30, 2009.

The District also has an obligation to provide funding for professional medical services for a primary care clinic. The maximum the District is obligated to pay is \$500,000 per fiscal year, until the cash and investments of the District are less than \$3,000,000, or if HMA determines that the clinic becomes economically impractical to operate, the District’s obligation ceases.

The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The District complies with generally accepted accounting principles and applies all relevant Governmental Accounting Standards Board (“GASB”) pronouncements. In addition, the District applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

Financial Reporting Entity

The District complies with GASB Statement No. 14, “*The Financial Reporting Entity*”. This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the officials of the primary government are financially accountable and other organizations

**THE LOWER FLORIDA KEYS HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

Note 1 – Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria the District has determined that it has no component units to include in the financial statements.

Basis of Presentation

The District uses governmental funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions and activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types." The following fund type is used by the District: Proprietary Fund.

Proprietary funds are used to account for activities similar to those funds in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds). The District's funds are enterprise funds. Enterprise funds are used to account for business like activities provided to the general public.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net position. Proprietary fund equity is classified as net position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position. Proprietary funds utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The District's enterprise fund does not have any principal operating revenue. Operating expenses for the District's enterprise fund include the administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Assets, Liabilities and Net position

Budgets

Annual budgets are legally adopted by the District. The budget is adopted on a basis consistent with generally accepted accounting principles in the United States of America, except no amounts are provided for depreciation.

Cash and Investments

For purposes of the statement of cash flows, the District considers all highly liquid investments including cash on

**THE LOWER FLORIDA KEYS HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

Note 1 – Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Net position (continued)

hand, demand deposits, time deposits, and short-term investments with original maturities of three months or less from the date of acquisition to be cash and cash equivalents.

Investments are stated at fair value, based upon quoted market prices. Additional cash and investment disclosures are presented in Note 2.

Capital Assets

Capital assets are recorded at cost of items purchased or constructed and at fair market value on the date donated for items contributed. For financial reporting purposes, it is the policy of the District to provide depreciation based on the estimated useful lives of the individual units using the straight-line method of depreciation.

The estimated useful life of the principal class of assets is as follows:

<u>Classification</u>	<u>Years</u>
Office equipment	5

There were no purchases of capital assets in the current year. During the current year, no obsolete or fully depreciated items were removed and there was no addition to accumulated depreciation – office equipment. At September 30, 2020, total capital assets consisted of fully depreciated office equipment with a cost of \$2,259.

Income Taxes

The District is exempt from Federal income taxes as a political subdivision of the State of Florida.

Net position

Equity is classified as net position and displayed in two components:

- a. Invested in Capital Assets – Consists of capital assets, net of accumulated depreciation.
- b. Unrestricted net position – All other net position that do not meet the definition of “invested in capital assets”.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Revenues and Expenses

Operating revenue and expenses for proprietary funds are those that result from providing services and producing and delivering goods and services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

Note 2 – Cash and Investments

Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does have a deposit policy for custodial risk. The carrying amount of the District's deposits with financial institutions, as of September 30, 2020 and 2019, were \$50,052 and \$103,500, respectively, and the bank balances were \$50,213 and \$103,661, respectively. The bank balances were first covered by federal depository insurance and for any amount in excess of such federal depository insurance, by the State of Florida's Security of Public Deposits Act. Provisions of the Act require that public deposits may only be made at qualified public depositories. The Act requires each qualified public depository to deposit with the State Treasurer eligible

**THE LOWER FLORIDA KEYS HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

Note 2 – Cash and Investments (continued)

collateral equal to or in excess of the required collateral as determined by the provisions of the Act. In the event of a failure by a qualified public depository, losses in excess of federal depository insurance and proceeds from the sale of securities pledged by the depository are assessed against the other qualified public depositories of the same type as the depository in default.

Investments

The District has adopted an investment policy in accordance with Florida Statutes, Chapter 218.415(16), such that the District's investment objectives for operational cash are to provide safety, liquidity and yield. Operational cash is considered to be funds that will need to be accessed during the fiscal year for operational and program expenses. The Finance Committee will recommend to the Board an appropriate amount. Operating cash needed for daily operations will be deposited in a local financial institution. Funds not required for daily operations may be segregated and invested for 0-3 years in the following securities.

- a. Non-negotiable interest-bearing time certificates of deposit or interest bearing accounts in financial institutions organized under the laws of the United States and doing business and situated in the State of Florida, provided that any such deposits are secured by the Federal Deposit Insurance Corporation. Additionally, the financial institution shall not be listed with any recognized credit watch information service.
- b. United States Treasury Securities: maximum of 100% of the portfolio
- c. Federal Instrumentality Securities: maximum of 100% of the portfolio
- d. Government Agency Securities: maximum of 50% of the portfolio
- e. Corporate Bonds: maximum of 25% of the portfolio, maximum of 5% per issuer. Issuers must have a long term debt rating, at the time of purchase, at a minimum "A" category by Moody's or a minimum long term debt rating of "A" category by Standard & Poor's.
- f. Municipal Securities: maximum 50% of the portfolio, maximum 10% per issuer. Issuers must be rated at least a minimum "A" category by Moody's or a minimum long term debt rating of "A" category by Standard & Poor's for long-term debt, or rated at least "VMIG2" by Moody's or "A-2" by Standard & Poor's or equivalent rating by another nationally recognized statistical rating organization ("NRSRO") for short-term debt.
- g. Money Market Mutual Funds: maximum 50% of the portfolio. Funds must be AAAM rated by Standard & Poor's and registered with the SEC.

It is anticipated that any investments that do not provide daily liquidity will be held to maturity in order to avoid having to sell securities at a market price that will result in recognizing a loss.

1. *Interest Rate Risk*

The District's investment objectives are based on an average 3-10 year investment horizon. Interim fluctuations should be viewed with appropriate perspective. The District's Board has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. Investment shall be diversified with the intent to minimize the risk of investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, sectors, countries, governments, or industries.

2. *Credit Risk*

The District's Policy permits for investments in fixed income securities and cash equivalents that are limited to credit quality ratings from nationally recognized rating agencies as follows:

Pooled Vehicles – Every effort shall be made, to the extent practical, prudent and appropriate, to select commingled funds and/or mutual funds that have investment objectives and policies that are consistent with the Policy. However, given the nature of commingled funds and mutual funds, it is recognized that there may be deviations between the Policy and the objectives of these pooled vehicles. A commingled fund or mutual fund will not be included in the District portfolio unless it complies with the Investment Company Act of 1940's diversification requirement.

**THE LOWER FLORIDA KEYS HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

Note 2 – Cash and Investments (continued)

Investments (continued)

Cash Equivalents – Cash equivalents shall be held in funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

Equities – Pooled equity vehicles, including mutual funds, shall comply with the diversification rules outlined in the Investment Company Act of 1940. No more than 5% of the total stock portfolio valued at market may be invested in the common stock of any one corporation. Ownership of the shares of one company shall not exceed 2% of those outstanding. Not more than 25% of stock valued at market may be held in any one industry category. Other than these constraints, there are no quantitative guidelines suggested as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the Investment Managers.

The overall non-U.S. equity allocation should include a diverse global mix that is comprised of the stocks of companies from multiple regions and sectors. The emerging markets exposure as defined by Morgan Stanley Capital International Inc. (“MSCI”) should be limited to 35% of the non-U.S. portion of the portfolio.

In order to maintain an effective money management structure that is style neutral, the target growth to value allocation in all market capitalizations is one-to-one. However, in no case will the growth value allocation for market capitalizations exceed two-to-one. Conversely, value shall not exceed growth by the same ratio.

Fixed Income – Fixed income investments shall be high quality pooled vehicles with a preponderance of the investments in (1) U.S. Treasury, federal agencies and U.S. Government guaranteed obligations, (2) investment grade corporate issues including convertibles, and (3) sovereign debt of foreign countries.

Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other federal agencies. The overall rating of the aggregate fixed income assets shall be at least “A”, based on the rating of one of the three rating agencies (Fitch, Moody’s or Standard & Poor’s). In cases where the yield spread adequately compensates for additional risk, high yield securities (BB+ or lower), can be purchased or held up to a maximum of 20% of the total market value of fixed income securities of the Fund.

3. Custodial Credit Risk

All securities, with the exception of certificates of deposits, shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by; the District should be properly designated as an asset of the District. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Section 658.12, Florida Statutes, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida. Certificates of deposits will be placed in the provider’s safekeeping department for the term of the deposit.

The Finance Committee will execute on behalf of the District, third party custodial agreement(s) with its bank(s) and depository institution(s). Such agreements may include letters of authority from the District, details as to the responsibilities of each party, method of notification of security purchases, sales, delivery, procedures related to repurchase agreements and wire transfers, safekeeping and transaction costs, procedures in case of wire failure or other unforeseen mishaps and describing the liability of each party.

The custodian shall accept transaction instructions only from those persons who have been duly authorized by the Finance Committee and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made from safekeeping, shall be permitted unless by such a duly authorized person.

The custodian shall provide the District with safekeeping receipts that provide detail information on the securities held by the custodian. Security transactions between a broker/dealer and the custodian involving

**THE LOWER FLORIDA KEYS HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

Note 2 – Cash and Investments (continued)

Investments (continued)

the purchase or sale of securities by transfer of money or securities must be made on a “delivery vs. payment” basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Securities held as collateral shall be held free and clear of any liens.

As of September 30, 2020, all Districts’ assets were held by a third-party custodian, U.S. Bank N.A., as required by the District’s Policy.

4. *Concentration of Credit Risk*

The District’s Board believes that to achieve the greatest likelihood of meeting the District’s investment objectives and the best balance between risk and return for optimal diversification, the investment assets will be invested in accordance with the targets for each asset class as follows:

<u>Investment Assets</u>	<u>Asset Weightings</u>	
<u>Asset Classes</u>	<u>Range</u>	<u>Target</u>
Domestic Equity	36%-56%	46%
International Equity	14%-34%	24%
Other	0%-15%	0%
Fixed Income	10%-50%	30%
Cash Equivalent	0%-20%	0%

5. *Foreign Currency Risk*

The District’s Policy allows for non-U.S. investments through the use of commingled funds and/or mutual funds. All of the District’s assets are invested in mutual funds denominated in U.S. Dollars. There is no direct foreign currency risk; however, underlying securities of these funds may be denominated in currencies other than the U.S. Dollar. It is at the discretion of the investment advisor of each mutual fund to determine whether the foreign currency risk(s) of their respective fund should be hedged.

The cash and cash equivalents and investment balances as of September 30, 2020 and September 30, 2019 were as follows:

	<u>September 30, 2020</u>			<u>September 30, 2019</u>		
	<u>Actual Year End Fair Value</u>	<u>Effective Duration At Year End</u>	<u>Credit Quality</u>	<u>Actual Year End Fair Value</u>	<u>Effective Duration At Year End</u>	<u>Credit Quality</u>
Cash and Equivalents						
Cash	\$ 50,261	*	*	\$ 103,709	*	*
Money market funds	22,282	*	*	21,866	*	*
	<u>\$ 72,543</u>			<u>\$ 125,575</u>		
Other Investments:						
Mutual funds						
Domestic Equity	\$ 4,235,343	*	*	\$ 4,158,879	*	*
Fixed Income	2,485,340	*	*	2,208,587	*	*
International Equity	2,158,163			2,115,385		
Other Growth	-	*	*	-	*	*
	<u>\$ 8,878,846</u>			<u>\$ 8,482,851</u>		

* Not subject to categorization

**THE LOWER FLORIDA KEYS HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

Note 2 – Cash and Investments (continued)

Investments (continued)

Investment income from cash and cash equivalents and investments is comprised of the following:

	<u>2020</u>	<u>2019</u>
Interest/Dividend income	\$ 171,287	\$ 179,744
Realized gain on investments	113,564	1,797,457
Unrealized gain (loss) on investments	<u>588,885</u>	<u>(1,694,910)</u>
Total investment income	<u>\$ 873,736</u>	<u>\$ 282,291</u>

The calculation of realized loss from sale and maturity of securities was independent of a calculation of the net change in fair value of investments, as noted above. The realized (loss)/gain on investments that were held in more than one fiscal year and sold in the current fiscal year were included as a net change in the fair value of investments reported in the current and prior fiscal year, as noted above.

Note 3 – Advanced Rent Receivable – Key West Health and Rehabilitation Center

On February 24, 2010, the District entered into an amendment to the Ground Lease Agreement with Key West Health and Rehabilitation Center, LLC (KWHRC) in which the District advanced funds, not to exceed \$2.98 million, for remediation, renovation and capital improvement of the building located at 5860 West Junior College Road, Key West, Florida. The advanced funds will accrue interest at a rate of five percent (5.0%) per annum. Interest shall accrue but will be deferred until June 1, 2012. After June 1, 2012, KWHRC shall utilize “surplus cash” generated solely from its operations of the nursing home facility located at the same address during the period of deferral period after KWHRC has allocated an amount of surplus cash to fund a one month working capital reserve. If no surplus cash is generated during the deferral period, KWHRC shall use any surplus cash that is generated from operations in subsequent years, that is allowable to be distributed after the one month working capital reserve is funded, until the accrued and unpaid interest is paid in full.

For repayment of the advanced funds not to exceed \$2.98 million, commencing on June 1, 2012, and on the first date of each month thereafter, KWHRC shall remit to the District, as additional rent, an amount of amortized principal and interest over a term of 311 months. The repayment of advanced funds is secondary to a monthly mortgage obligation that KWHRC has with HUD. In the event KWHRC refinances the building, the remaining balance of any outstanding advance funds and accrued interest shall be due at closing.

The total amount due from KWHRC at September 30, 2020 was \$2,566,055, comprising advanced funds of \$2,406,030 and accrued interest of \$160,025. The total amount due from KWHRC at September 30, 2019 was \$2,896,255, comprising advanced funds of \$2,488,818 and accrued interest of \$407,437. Total interest income associated with the advanced funds for the fiscal years ending September 30, 2020 and 2019 was \$142,069 and \$145,170, respectively.

At year end, the parent company of KWHRC was in bankruptcy. On October 15, 2020, the nursing home operated by KWHRC was sold out of bankruptcy to the Portopiccolo Group LLC from New Jersey, who formed Key West FL Propco LLC (KWFLP), as part of their Florida Orchid Cove Group, to operate the facility. As a result of the sale, KWFLP assumed the original Advanced Rent Receivable agreement with KWHRC. KWFLP will continue to make monthly payments of principal and interest under the original amortization of 311 months, with an adjustment in terms to be a balloon payment due October 15, 2030. KWFLP paid off the HUD loan and the repayment of advanced funds is secondary to a monthly mortgage obligation that KWFLP has with Cross River Bank (Leasehold Mortgagee). In the event KWFLP refinances the building, the remaining balance of any outstanding advance funds and accrued interest shall be due at closing. As a result of the bankruptcy, the District received a sum certain payment for accrued interest resulting from the original deferral of monthly payment of Advanced Rent Receivable of \$150,000 in October, 2020. As a result, the District recorded a bad debt expense, relating to the loss of accrued interest of \$266,920 for the fiscal year ended September 30, 2020.

**THE LOWER FLORIDA KEYS HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

Note 4 – Property Taxes

The tax levy for the Lower Florida Keys Hospital District is established by the District Board of Commissioners and is incorporated into the total district tax levy by the Monroe County Property Appraiser. The maximum millage rate allowable is 2.0 mills. The millage rate proposed by the Hospital District was -0- mills for the year ended September 30, 2020 and -0- mills for the year ended September 30, 2019. Actual property tax revenues received prior to September 30, 2020 were \$0, less property appraiser and tax assessor fees of \$0. Actual property tax revenues received prior to September 30, 2019 were \$0, less property appraiser and tax assessor fees of \$0. The District's tax calendar is as follows:

Valuation Date:	January 1
Levy Date:	November 1
Due Date:	March 31, succeeding year
Lien Date:	April 1, succeeding year

Note 5 – Risk Management

The District is exposed to various risks of loss related to theft and errors and omissions. The District, after a review of loss history, elected to be self-insured for general losses and transferred the risk of loss to theft, errors and omissions to insurance companies. There were no claims in excess of insurance coverage during the last three fiscal years.

Note 6 – Primary Care Clinic

As part of the contract signed on May 1, 1999 with Key West HMA, LLC ("HMA"), the District is under an obligation to provide funding for professional medical services for a Primary Care Clinic ("Clinic") during the 30-year term. HMA is obligated to establish and operate such a Clinic for a minimum of one (1) year. The maximum amount the District is required to pay, in association with professional medical services provided to indigents by the Clinic, or referred directly from the Clinic, is \$500,000 per year. If the services provided by the Clinic are replaced by other programs, or if the Clinic becomes economically impractical to operate as determined by HMA, or if during any fiscal year the total of cash and investments of the District are less than \$3,000,000, then the District's obligations to fund the professional medical services at the Clinic ceases. HMA started operation of the Clinic on September 13, 1999. For the years ended September 30, 2020 and 2019, the District's cost for the primary care clinic was \$356,729 and \$486,127, respectively.

Note 7 – Contingencies

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelters for all but those deemed essential services. As a result, the outbreak has caused uncertainty in the financial markets. The District services are considered essential and therefore did not have a disruption in services. The District finances have not been significantly affected by the COVID-19 outbreak through June 21, 2021. However, the ultimate financial impact and duration cannot be estimated at this time.

Note 8 – Subsequent Events

In accordance with ASC Topic 855, Subsequent Events, the District has evaluated events and transactions for potential recognition or disclosure through June 21, 2021, the date that the financial statements were available to be issued.

The Key West Health and Rehabilitation Center was sold under bankruptcy on October 15, 2020 as further described in Note 3.

ADDITIONAL SUPPLEMENTAL INFORMATION

**THE LOWER FLORIDA KEYS HOSPITAL DISTRICT
SCHEDULES OF ADMINISTRATIVE SERVICES
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Accounting contract services	\$ 6,000	\$ 6,000
Administrative contract services	11,055	9,089
Advertising expense	268	48
Audit fees	14,906	17,700
Insurance	698	662
Legal fees	87,024	36,455
Miscellaneous	694	77
Office supplies	223	302
	<u>\$ 120,868</u>	<u>\$ 70,333</u>

REQUIRED SUPPLEMENTAL INFORMATION

**THE LOWER FLORIDA KEYS HOSPITAL DISTRICT
SCHEDULE OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Original & Final Budget	Actual	Variance – (Unfavorable)
Operating revenues:			
Patient bad debt recoveries, net	\$ -	\$ -	\$ -
Total operating revenues	-	-	-
Operating expenses:			
Administrative services	75,252	120,868	(45,616)
Primary Care Clinic expense	500,000	356,729	143,271
Total operating expenses	575,252	477,597	97,655
Loss from operations	575,252	477,597	(97,655)
Non–operating revenues and (expenses):			
Bad debt expense	-	(266,920)	(266,920)
Land rent	47,119	47,708	589
Other nonoperating revenues and (expenses)			
Investment advisor and custodial fees	(40,268)	(29,961)	10,307
Interest and dividend income	625,201	313,356	(311,845)
Net increase in the fair value of investments	-	702,449	702,449
Other revenues	-	1,517	1,517
Total non–operating revenues	632,052	768,149	136,097
Excess of revenues over (under) expenses	\$ 56,800	290,552	\$ 233,752
Adjustments:			
Depreciation		-	
Change in net position		\$ 290,552	

SUPPLEMENTAL INDEPENDENT AUDITOR REPORTS

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

The Board of Commissioners
The Lower Florida Keys Hospital District
Key West, 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 the business type activities of The Lower Florida Keys Hospital District, a taxing district in the Lower Florida Keys, Monroe County, Florida, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise The Lower Florida Keys Hospital District's basic financial statements, and have issued our report thereon dated June 21, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Lower Florida Keys Hospital 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 Lower Florida Keys Hospital District's internal control. Accordingly, we do not express an opinion on the effectiveness of The Lower Florida Keys Hospital 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in a letter dated June 21, 2021 and we consider finding 2020-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Lower Florida Keys Hospital 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

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

June 21, 2021

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

The Board of Commissioners
The Lower Florida Keys Hospital District
Key West, Florida

Report on the Financial Statements

We have audited the financial statements of The Lower Florida Keys Hospital District, as of and for the fiscal year ended September 30, 2020, and have issued our report thereon dated June 21, 2021.

Auditor's Responsibility

We conducted our audit 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. Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

Other Reporting Requirements

We have issued our Independent Auditor's Report and 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 *Governmental Auditing Standards*; and Independent Accountant's Report on an examination conducted in accordance with AICPA Professional Standards, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General, all dated June 21, 2021. Disclosures in those reports 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 our audit, we did not note any such findings and recommendations made in the preceding annual financial audit report.

Official Title and Legal Authority

Section 10.554(1)(i)4., The 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. There were no component units related to The Lower Florida Keys Hospital District. The Lower Florida Keys Hospital District's legal authority was disclosed in the notes of the financial statements.

Financial Condition and Management

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

Pursuant to Sections 10.554(1)(i)5.b. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor The Lower Florida Keys Hospital 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.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we provide the following:

2020-01

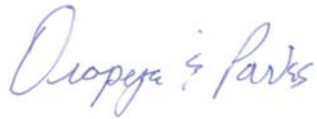
Shortly after the fiscal year end, the bankruptcy proceeding involving the Key West Health and Rehabilitation Center was concluded. Along with certain changes noted in the leasing agreement with the new owner, the District settled the claim on accrued but unpaid interest on the Additional Rent Advance originally given to the prior owner. The result of the settlement was a decrease in the amount due for accrued interest of \$266,920. The District's general ledger did not include the bad debt expense associated with the settlement. We believe the error would have been discovered in regular quarterly meetings. However, due to COVID-19 issues, the February 2021 board meeting was not held and as such there was no review of financial information. We believe regular meetings provide consistent oversight of financial conditions.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to occur, 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 note any such findings.

Purpose of this Letter

This 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, the Board of Directors and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.



June 21, 2021



**OROPEZA
& PARKS**
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James H. Hill, Jr., CPA, PLLC

REPORT OF INDEPENDENT ACCOUNTANT ON COMPLIANCE WITH LOCAL GOVERNMENT INVESTMENT
POLICIES

The Board of Commissioners
The Lower Florida Keys Hospital District
Key West, Florida

Report on Compliance

We have examined The Lower Florida Keys Hospital District compliance with the local government investment policy requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2020. Management is responsible for The Lower Florida Keys Hospital District's compliance with those requirements. Our responsibility is to express an opinion on The Lower Florida Keys Hospital Districts compliance based on our examination.

Scope

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 Lower Florida Keys Hospital 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 of The Lower Florida Keys Hospital District's compliance with specified requirements.

Opinion

In our opinion, The Lower Florida Keys Hospital District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2020.

June 21, 2021