

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

FINANCIAL STATEMENTS

Years Ended September 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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 February 25, 2020 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.

MSL, P.A.

Certified Public Accountants

Orlando, Florida
February 25, 2020

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended September 30, 2019 and 2018

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, 2019 and 2018. 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 \$128,268,878 and \$153,871,566 at September 30, 2019 and 2018, respectively.
- The District's net position decreased \$25,365,595 and \$16,974,938 as a result of operations for the years ended September 30, 2019 and 2018, respectively. Total decrease in net position at September 30, 2019 and 2018 was \$25,602,688 and \$17,155,273, respectively.
- The District's cash and cash equivalents balance was \$7,299,005 and \$30,385,029 at September 30, 2019 and 2018, respectively.
- Interest and dividend income on the District's funds related to its cash equivalents and investment portfolios was \$3,436,456 and \$3,354,082 for the years ended September 30, 2019 and 2018, respectively. Realized gains and losses, and the change in net unrealized gains (losses) on investments were \$2,221,546 and \$4,641,600 for the years ended September 30, 2019 and 2018, respectively.
- The District approved and paid grant funding during the years ended September 30, 2019 and 2018 of \$21,604,095 and \$25,740,339, respectively.
- Operating expenses were \$942,896 and \$784,667 for the years ended September 30, 2019 and 2018, respectively.
- During the years ended September 30, 2019 and 2018, 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 \$255,895 and \$181,945 during the years ended September 30, 2019 and 2018, 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. No conditional commitments exist for this grant as of September 30, 2019.

On February 3, 2016, the District and Orlando Health Central, Inc. (“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, 2019 was approximately \$19.5 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, 2019 was approximately \$7.1 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, 2019 was approximately \$9.2 million.

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 2019. 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, 2019 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, 2019 was approximately \$1 million.

During fiscal years 2018 and 2019, the District entered into three smaller conditional grant agreements for the District, among other things, to provide a combined \$1,000,000 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, 2019 was approximately \$750,000.

Summary of Conditional Grant Funding Obligations (Continued)

In August 2019, the District entered into two agreements with HWO, Inc. for an endowment fund and to provide administrative and operational resources to sustain the grantee's healthy community initiatives in West Orange county. HWO, Inc. is a not for profit organization that has a mission overlap with the District and has some common Board members. Total amount of the grant awards total \$50 million. The conditions of the grants, among other things, require HWO, Inc. to establish an endowment bank account, establish an investment policy for the entire Endowment fund as approved by the District, and have five or more directors serving on the Board of Directors. The conditional grant commitment by the District at September 30, 2019 was approximately \$40 million.

Total conditional grant funding to be provided by the District for the projects described above was approximately \$79.25 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, 2019 and 2018, 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, 2019 and 2018, assets exceeded liabilities by \$128,268,878 and \$153,871,566, respectively. The following is a summary of the District's net position at September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Assets:		
Current assets	\$ 7,311,198	\$ 30,396,879
Non-current assets	<u>130,338,733</u>	<u>124,361,565</u>
Total Assets	<u>\$ 137,649,931</u>	<u>\$ 154,758,444</u>
Liabilities:		
Current liabilities	\$ 9,096,793	\$ 583,239
Long-term liabilities	<u>284,260</u>	<u>303,639</u>
Total Liabilities	<u>\$ 9,381,053</u>	<u>\$ 886,878</u>
Net Position:		
Net investment in capital assets	\$ 1,381,562	\$ 675,451
Restricted	<u>79,236,000</u>	<u>56,112,000</u>
Unrestricted	<u>47,651,316</u>	<u>97,084,115</u>
Total Net Position	<u>\$ 128,268,878</u>	<u>\$ 153,871,566</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 years ended September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Interest and dividends from investments	\$ 3,436,456	\$ 3,354,082
Change in net unrealized/realized gains (losses) on investments	2,221,546	4,641,600
Miscellaneous income	18,802	1,610
Total Operating Revenues	<u>5,676,804</u>	<u>7,997,292</u>
Grants and Operating Expenses		
Health grant contributions	30,080,701	24,185,953
Payroll and related benefits	641,129	498,523
Professional fees	55,026	68,026
General and administrative	213,174	190,347
Insurance and depreciation	33,567	27,771
Healthy West Orange initiative	255,895	181,945
Total Grants and Operating Expenses	<u>31,279,492</u>	<u>25,152,565</u>
Change in Net Position	(25,602,688)	(17,155,273)
Net position – Beginning of Year	<u>153,871,566</u>	<u>171,026,839</u>
Net position – End of Year	<u>\$128,268,878</u>	<u>\$ 153,871,566</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, 2019 and 2018

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 7,299,005	\$ 30,385,029
Prepaid expenses and other current assets	12,193	11,850
TOTAL CURRENT ASSETS	7,311,198	30,396,879
Non-current Assets		
Investments		
Restricted	79,236,000	56,112,000
Unrestricted	49,701,154	67,572,752
Capital Assets:		
Equipment, furniture and fixtures	1,337,895	651,228
Less: Accumulated depreciation	83,641	53,989
	(39,974)	(29,766)
TOTAL CAPITAL ASSETS	1,381,562	675,451
Other non-current assets	20,017	1,362
TOTAL ASSETS	137,649,931	154,758,444
LIABILITIES		
Current Liabilities		
Accrued expenses	43,507	6,559
Health grants payable	9,053,286	576,680
TOTAL CURRENT LIABILITIES	9,096,793	583,239
Non-current Liabilities		
Estimated claims payable	284,260	303,639
TOTAL LIABILITIES	9,381,053	886,878
NET POSITION		
Net investment in capital assets	1,381,562	675,451
Restricted	79,236,000	56,112,000
Unrestricted	47,651,316	97,084,115
TOTAL NET POSITION	\$ 128,268,878	\$ 153,871,566

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, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Interest and dividends from investments	\$ 3,436,456	\$ 3,354,082
Change in net unrealized/realized gains (losses) on investments	2,221,546	4,641,600
Miscellaneous income	18,802	1,610
TOTAL OPERATING REVENUES	5,676,804	7,997,292
GRANTS AND OPERATING EXPENSES		
Health grant contributions	30,080,701	24,185,953
Operating Expenses:		
Salaries and wages	533,345	418,940
Professional fees	53,653	66,691
General and administrative	213,174	190,347
Employee benefits	107,784	79,583
Insurance	23,359	21,526
Depreciation	10,208	6,245
Consulting fees	1,373	1,335
Healthy West Orange Initiative	255,895	181,945
TOTAL OPERATING EXPENSES	1,198,791	966,612
TOTAL GRANTS AND OPERATING EXPENSES	31,279,492	25,152,565
OPERATING LOSS	(25,602,688)	(17,155,273)
CHANGE IN NET POSITION	(25,602,688)	(17,155,273)
NET POSITION - BEGINNING OF YEAR	153,871,566	171,026,839
NET POSITION - END OF YEAR	\$ 128,268,878	\$ 153,871,566

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

WEST ORANGE HEALTHCARE DISTRICT

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest, dividends and other income	\$ 3,455,258	\$ 3,355,692
Cash payments for health grants	(21,604,095)	(25,740,339)
Cash payments to suppliers and vendors	(451,591)	(434,148)
Cash payments to employees	(738,421)	(521,785)
	(19,338,849)	(23,340,580)
NET CASH USED IN OPERATING ACTIVITIES	(19,338,849)	(23,340,580)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(716,319)	(199,498)
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in investments	(3,030,856)	24,052,086
	(23,086,024)	512,008
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(23,086,024)	512,008
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	30,385,029	29,873,021
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 7,299,005	\$ 30,385,029
RECONCILIATION OF CHANGE IN NET POSITION TO		
NET CASH USED IN OPERATING ACTIVITIES		
Change in net position	\$ (25,602,688)	\$ (17,155,273)
Adjustments to reconcile net cash used in operating activities:		
Depreciation expense	10,208	6,245
Change in net (gains) losses on investments	(2,221,546)	(4,641,600)
Decrease (increase) in:		
Prepaid expenses and other assets	(18,998)	2,981
Increase (decrease) in:		
Accrued liabilities	17,569	1,453
Grants payable	8,476,606	(1,554,386)
	(19,338,849)	(23,340,580)
NET CASH USED IN OPERATING ACTIVITIES	\$ (19,338,849)	\$ (23,340,580)

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, 2019 and 2018

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 proceeds 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 adopts operating budgets. The budgets for the years ended September 30, 2019 and 2018 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. The conditional grant obligations described in Note 7 are contractual obligations of the District. Accordingly, they are included in restricted net position.

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 operating revenues 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 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 and are included in operating revenues.

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; The Public Good Projects; The American Diabetes Association; YMCA of Central Florida; HWO, Inc.; Health Council of East Central Florida; Healthy Start Coalition; Polis Institute; Unlocking Children's Potential; and Orlando Health Foundation at September 30, 2019. Current liabilities at September 30, 2018 consisted of health grants to Second Harvest Food Bank; The Public Good Projects; The American Diabetes Association; YMCA of Central Florida; Shepherd's Hope; and University of Central Florida Foundation (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 \$284,000 and \$304,000 at September 30, 2019 and 2018, 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 is from investment income. 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 February 25, 2020 which is the date the financial statements were issued.

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

At September 30, 2019 and 2018, 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 \$7,299,000 and \$30,385,000, 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, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Cash	\$ 180,347	\$ 102,176
Money market funds	<u>7,118,658</u>	<u>30,282,853</u>
Total cash and cash equivalents	<u>\$ 7,299,005</u>	<u>\$ 30,385,029</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 funds.

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, 2019:

- Money market funds, mutual funds, equity securities, U.S. Government securities, and corporate debt obligations of \$115,909,145 are valued using quoted market prices (Level 1 inputs).
- Marketable real estate funds of \$13,028,009 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, 2019:

	<u>Fair Value Measurement Using</u>			
	<u>September 30, 2019</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	\$ 278,257	\$ 278,257	\$ -	\$ -
<u>Debt securities</u>				
Corporate debt obligations	6,453,381	6,453,381	-	-
Government agency obligations	8,603,799	8,603,799	-	-
Foreign debt obligations	633,762	633,762	-	-
Municipal debt obligations	887,095	887,095	-	-
Total debt securities	<u>16,578,037</u>	<u>16,578,037</u>	<u>-</u>	<u>-</u>
<u>Equity securities</u>				
Mutual funds	86,179,441	86,179,441	-	-
Domestic common stock	11,612,929	11,612,929	-	-
Foreign stock	1,260,481	1,260,481	-	-
Marketable real estate funds	13,028,009	-	13,028,009	-
Total equity securities	<u>112,080,860</u>	<u>99,052,851</u>	<u>13,028,009</u>	<u>-</u>
Total investments by fair value level	<u>\$ 128,937,154</u>	<u>\$ 115,909,145</u>	<u>\$ 13,028,009</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, 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 funds	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>

Investment Income (Loss)

The composition of the District's investment income (loss) for the years ended September 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Dividend and interest income, less fees of \$315,015 in 2019 and \$338,005 in 2018	\$ 3,436,456	\$ 3,354,082
Net realized gains (losses)	3,302,348	(90,085)
Change in net unrealized losses	(1,080,802)	4,731,685
Total investment income (loss), net	<u>\$ 5,658,002</u>	<u>\$ 7,995,682</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, 2019 and 2018 consist of the following:

<u>Grantee</u>	<u>Program</u>	<u>2019</u>	<u>2018</u>
HWO, Inc.	Healthy West Orange	\$ 7,500,000	\$ -
Second Harvest Food Bank	Healthy food plan	45,327	134,004
YMCA	Healthy weight & your child	99,950	95,900
Shepherd’s Hope	Healthcare access program	-	72,075
Health Council of E. Cent FL	Healthy, happy, home	186,500	-
Healthy Start Coalition	Nurse-family partnership	97,708	-
Polis Institute	K-ready and Place based projects	192,506	-
United Cerebral Palsy	Unlocking children’s potential	41,500	-
UCF Foundation	Nursing faculty program	-	51,887
American Diabetes Assn.	Morning mile program	43,375	43,375
Orlando Health Foundation	Teen express program	33,334	-
The Public Good Projects	Public good projects	813,086	179,439
Total healthcare grants payable		<u>\$ 9,053,286</u>	<u>\$ 576,680</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 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.

NOTE 6 - HEALTHY WEST ORANGE INITIATIVE (Continued)

During the years ended September 30, 2019 and 2018, 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 \$256,000 and \$182,000 for the years ended September 30, 2019 and 2018, 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 \$17,000 and \$13,000 for the years ended September 30, 2019 and 2018, 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 \$284,000 and \$304,000 as of September 30, 2019 and 2018, 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, 2019 and 2018 is approximately as follows:

	<u>Liabilities at September 30, 2018</u>	<u>Payments/ Adjustments</u>	<u>Liabilities at September 30, 2019</u>
Estimated claims payable	\$ 304,000	\$ (20,000)	\$ 284,000

	<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

NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

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 \$21,000 and \$19,000 for the years ended September 30, 2019 and 2018, respectively. The District makes no contributions to the FSA plan. The District’s contributions to the 401(k) retirement plan were approximately \$23,000 and \$21,000 for the years ended September 30, 2019 and 2018, respectively.

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, 2019, 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. 100-bed skilled nursing facility	\$ 24,500,000	\$ 4,985,000	\$ 19,515,000
Cancer treatment center	21,000,000	13,907,000	7,093,000
Health and wellness center	29,700,000	20,518,000	9,182,000
Total Orlando Health Central, Inc.	75,200,000	39,410,000	35,790,000
Central Florida YMCA, Inc. Family health facility	500,000	500,000	-
Cornerstone Hospice Fnd. OHCI cancer center	1,250,000	254,000	996,000
HWO, Inc. Healthy West Orange endowment fund	40,000,000	-	40,000,000
City of Winter Garden Tucker ranch sustainable farm	1,700,000	-	1,700,000
Town of Oakland Arts and heritage center	500,000	-	500,000
Other Grants	500,000	250,000	250,000
Total	\$ 119,650,000	\$ 40,414,000	\$ 79,236,000

NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Conditional Grants (Continued)

Total conditional grant funding to be provided by the District for the projects described above is approximately \$79.2 million. In October 2019, HWO, Inc. met the conditions included in the grant agreement and the total \$40 million grant was paid out by the District.

Related Party

HWO, Inc. (“HWO”) was established as a not-for-profit entity in the state of Florida. As of September 30, 2019, the majority of the HWO Board of Directors was comprised of members of the District’s Board. HWO has received grants from the District, with additional grants to continue. During the year ended September 30, 2019, the District granted HWO a \$100,000 grant with the intention to provide funding of the start-up and administrative costs. Further, a \$10 million grant was issued to provide operating and capital funding for approximately three years, only \$2.5 million of this grant has been paid and the remainder is due during the year ending September 30, 2020. Also, a \$40 million grant was issued to HWO to serve as the corpus of an endowment fund to provide administrative and operational resources to sustain HWO healthy community initiatives. This grant’s conditions were met, and the funds were provided after year-end. Finally, the District plans to grant a building and land to HWO in the future.

Office Building Construction

The District has entered into a contract for construction of a 24,000 square foot office building on its property in Winter Garden, Florida. The contract amount is \$4.6 million of which \$368,000 has been paid as of September 30, 2019, exclusive of contract retainage. Other costs related to planning, design, permitting, furnishing and legal fees related to this project are estimated at \$1.8 million of which \$519,000 has been paid as of September 30, 2019.



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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 25, 2020.

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.

MSL, P.A.

Certified Public Accountants

Orlando, Florida
February 25, 2020



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, 2019. 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, 2019.

MSL, P.A.

Certified Public Accountants

Orlando, Florida
February 25, 2020



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, 2019, and have issued our report thereon dated February 25, 2020.

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 February 25, 2020, 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, 2019, 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, 2019. 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.

MSL, P.A.

Certified Public Accountants

Orlando, Florida
February 25, 2020