

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

FINANCIAL STATEMENTS

Years Ended September 30, 2016 and 2015

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MOORE STEPHENS
LOVELACE, P.A.

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, 2016 and 2015, 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, 2016 and 2015, and the results of its operations, changes in its net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Requirements by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



MOORE STEPHENS LOVELACE, P.A.

Certified Public Accountants

Orlando, Florida

January 3, 2017

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended September 30, 2016 and 2015

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, 2016 and 2015. 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 include 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 \$174,260,035 and \$184,052,756 at September 30, 2016 and 2015, respectively.
- The District's net position decreased \$10,103,590 and \$7,700,797 as a result of operations for the years ended September 30, 2016 and 2015, respectively. Total change in net position at September 30, 2016 and 2015 was \$9,792,721 and \$7,700,797, respectively.
- The District's cash and cash equivalents balance was \$78,804,728 and \$7,879,810 at September 30, 2016 and 2015, respectively.
- The District agreed to an early payoff of the note receivable from Orlando Health, Inc. ("OHI") in April 2016. Cash received from the early payoff totaled \$144,355,916, which included a two percent (2%) prepayment premium of \$2,822,400. Total cash received on the note receivable was \$160,685,298 during the year ended September 30, 2016. Interest income earned for the years ended September 30, 2016 and 2015 related to the note receivable from OHI from the sale of the District's operations was \$6,225,607 and \$6,095,806, respectively. Current-year interest income related to the note includes the \$2,822,400 prepayment premium.
- Interest and dividend income on the District's funds related to its cash equivalents and investment portfolios was \$1,398,290 and \$516,334 for the years ended September 30, 2016 and 2015, respectively. Realized gains and losses, and the change in net unrealized gains (losses) on investments were \$745,370 and (\$2,096,810) for the years ended September 30, 2016 and 2015, respectively. During the year ended September 30, 2016, a parcel of real estate located in Winter Garden, with an appraised value of \$450,000, was donated to the District from OHI.
- During the year ended September 30, 2016, the District's Board approved and paid grant funding to the following organizations: OHI for \$14,188,887, which was comprised of \$10,193,400 specific to the emergency department expansion, and \$3,995,487 specific to the bed tower project; The Birth Place was awarded \$169,200, of which \$84,900 was paid to support expansion of access to maternity healthcare, educational support and psychosocial/mental health counseling to

Financial Highlights (Continued)

- residents of the District; UCP of Central Florida was awarded \$148,843, of which \$74,422 was paid to support programs and services to reduce obesity, improve overall health and nutrition, provide family support to improve family functioning through social services and enhance access to communication through assistive technology; The Howard Phillips Center was awarded \$137,000, of which \$17,125 was paid to support a mobile health unit providing integrated comprehensive medical, mental health, nutrition education and family-centered case management services for uninsured/underserved adolescents at Ocoee and West Orange High Schools; Quest, Inc. was awarded and paid \$15,000 to support applied behavioral therapy, communication and physical therapy to children residing in the District and to alleviate financial burden to families in need of such services; Shepherd's Hope, Inc. was awarded a matching grant of \$1,000,000, of which \$250,000 was paid to support construction of a new indigent facility located in Winter Garden.
- During the year ended September 30, 2015, the District's Board approved and paid grant funding to the following organizations: OHI for \$11,286,743, which was comprised of \$8,401,821 specific to the emergency department expansion, \$2,860,295 specific to the bed tower project and \$24,627 as final payment for OHI's School Gardens program; Shepherd's Hope for \$7,500 to provide travel and participation in the Cerner's annual industry-leading healthcare conference as presenter for model/best practice electronic medical records implementation; and the Muscular Dystrophy Association for \$8,000 to provide scholarships for 10 children between the ages of 6 to 17 years old with muscular dystrophy to attend the Muscular Dystrophy Association Summer Camp Program.
 - Operating expenses were \$751,087 and \$710,374 for the years ended September 30, 2016 and 2015, respectively.
 - During the year ended September 30, 2016, the District created 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. The total costs incurred by the District for the Initiative was \$134,884 during the year ended September 30, 2016.

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).

Overview of the Financial Statements (Continued)

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, 2016 and 2015, 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, 2016 and 2015, assets exceeded liabilities by \$174,260,035 and \$184,052,756, respectively. The following is a summary of the District's net position at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Assets:		
Current assets	\$ 78,818,153	\$ 21,230,041
Noncurrent assets	<u>98,922,359</u>	<u>163,595,007</u>
Total Assets	<u>\$ 177,740,512</u>	<u>\$ 184,825,048</u>
Liabilities:		
Current liabilities	\$ 2,913,160	\$ 204,975
Long-term liabilities	<u>567,317</u>	<u>567,317</u>
Total Liabilities	<u>\$ 3,480,477</u>	<u>\$ 772,292</u>
Net Position:		
Net investment in capital assets	\$ 471,549	\$ 18,068
Unrestricted	<u>173,788,486</u>	<u>184,034,688</u>
Total Net Position	<u>\$ 174,260,035</u>	<u>\$ 184,052,756</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 changes during the period. All changes in net position are reported as soon as the economic activities occur, regardless of the timing of the cash receipt or disbursement. The following is a summary of the District's statement of revenues, expenses, and changes in net position for the year ended September 30, 2016:

Operating Revenues	
Interest income from note receivable	\$ 6,225,607
Interest and dividends from investments	1,398,290
Change in net unrealized and realized gains (losses) on investments	<u>745,370</u>
Total Operating Revenues	8,369,267
Grants and Operating Expenses	
Health grant contributions	17,721,770
Payroll and related benefits	374,914
Professional fees	209,812
General and administrative	136,850
Insurance and depreciation	<u>29,511</u>
Total Grants and Operating Expenses	<u>18,472,857</u>
Operating Loss	(10,103,590)
Non-Operating Income (Expense)	
Land donation – E. Plant Street	445,753
Healthy West Orange Initiative	<u>(134,884)</u>
Total Non-Operating Income (Expense)	<u>310,869</u>
Change in Net Position	(9,792,721)
Net position - September 30, 2015	<u>184,052,756</u>
Net position - September 30, 2016	<u>\$ 174,260,035</u>

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

The following is a summary of the District's statement of revenues, expenses, and changes in net position for the year ended September 30, 2015:

Revenues		
Interest income from note receivable	\$	6,095,806
Interest and dividends from investments		516,334
Unrealized and realized losses on investments		<u>(2,096,810)</u>
	Total Revenues	4,515,330
Expenses		
Health grant contributions		11,505,753
Payroll and related benefits		298,167
Professional fees		236,636
General and administrative		148,509
Insurance and depreciation		<u>27,062</u>
	Total Expenses	<u>12,216,127</u>
	Change in Net Position	(7,700,797)
Net position - September 30, 2014		<u>191,753,553</u>
Net position - September 30, 2015		<u>\$ 184,052,756</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, 2016 and 2015

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 78,804,728	\$ 7,879,810
Current portion of note receivable	-	10,350,000
Interest receivable	-	2,989,691
Prepaid expenses and other current assets	13,425	10,540
TOTAL CURRENT ASSETS	78,818,153	21,230,041
Noncurrent Assets		
Note receivable, less current portion	-	141,120,000
Investments	98,448,565	22,454,694
Capital Assets:		
Land - E. Plant Street	451,168	-
Equipment, furniture and fixtures	37,982	28,998
Less: Accumulated depreciation	(17,601)	(10,930)
TOTAL CAPITAL ASSETS	471,549	18,068
Other noncurrent assets	2,245	2,245
TOTAL ASSETS	177,740,512	184,825,048
LIABILITIES		
Current Liabilities		
Health grants payable	2,913,160	204,975
Noncurrent Liabilities		
Estimated claims payable	567,317	567,317
TOTAL LIABILITIES	3,480,477	772,292
NET POSITION		
Net investment in capital assets	471,549	18,068
Unrestricted	173,788,486	184,034,688
TOTAL NET POSITION	\$ 174,260,035	\$ 184,052,756

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, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Interest income from note receivable	\$ 6,225,607	\$ 6,095,806
Interest and dividends from investments	1,398,290	516,334
Change in net unrealized/realized gains (losses) on investments	745,370	(2,096,810)
TOTAL OPERATING REVENUES	8,369,267	4,515,330
GRANTS AND OPERATING EXPENSES		
Health grant contributions	17,721,770	11,505,753
Operating Expenses:		
Salaries and wages	310,416	258,014
Professional fees	196,519	162,366
General and administrative	135,383	148,509
Employee benefits	64,498	40,153
Insurance	22,840	21,405
Depreciation	6,671	5,657
Consulting fees	14,760	74,270
TOTAL OPERATING EXPENSES	751,087	710,374
TOTAL GRANTS AND OPERATING EXPENSES	18,472,857	12,216,127
OPERATING LOSS	(10,103,590)	(7,700,797)
NON-OPERATING INCOME (EXPENSE)		
Land donation - E. Plant Street	445,753	-
Healthy West Orange Initiative	(134,884)	-
TOTAL NON-OPERATING INCOME (EXPENSE)	310,869	-
CHANGE IN NET POSITION	(9,792,721)	(7,700,797)
NET POSITION - BEGINNING OF YEAR	184,052,756	191,753,553
NET POSITION - END OF YEAR	\$ 174,260,035	\$ 184,052,756

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

WEST ORANGE HEALTHCARE DISTRICT

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received on note receivable	\$ 160,685,298	\$ 16,327,230
Other cash receipts	1,398,290	516,334
Cash payments for health grants	(15,013,585)	(14,503,621)
Cash payments to suppliers and vendors	(571,768)	(449,634)
Cash payments to employees	(310,416)	(258,014)
NET CASH PROVIDED BY OPERATING ACTIVITIES	146,187,819	1,632,295
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(14,400)	(3,411)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments, net	(75,248,501)	4,417,805
NET INCREASE IN CASH AND CASH EQUIVALENTS	70,924,918	6,046,689
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	7,879,810	1,833,121
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 78,804,728	\$ 7,879,810
RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net position	\$ (9,792,721)	\$ (7,700,797)
Adjustments to reconcile net cash provided by operating activities:		
Depreciation expense	6,671	5,657
Change in net unrealized/realized (gains) losses on investments	(745,370)	2,096,810
Contribution of land from Orlando Health Central, Inc.	(445,752)	-
Decrease (increase) in:		
Note receivable	151,470,000	10,115,000
Interest receivable	2,989,691	116,424
Prepaid expenses and other assets	(2,885)	(2,607)
Increase (decrease) in:		
Accrued liabilities	-	(322)
Grants payable	2,708,185	(2,997,870)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 146,187,819	\$ 1,632,295
SUPPLEMENTAL CASH FLOW INFORMATION:		
Noncash capital and related financing activities:		
Contribution of land from Orlando Health Central, Inc.	\$ 445,752	\$ -

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, 2016 and 2015

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 medically indigent persons 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 (see Note 3).

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 plus a 2% prepayment premium (see Note 5).

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

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

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

The District's Board adopted operating budgets. The budgets for the years ended September 30, 2016 and 2015 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 Assets - 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 or enabling legislation, reduced by any liabilities to be paid from these assets.

Unrestricted Net Assets - 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, unrestricted investments with original maturities of three months or less when purchased and consist of amounts held as bank deposits and money market funds.

Investments

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, including real estate, with an acquisition value in excess of \$1,000 are recorded at cost or, if donated, at estimated fair market 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 OHCI, The Birth Place, UCP and The Howard Phillips Center at September 30, 2016 and to Shepherd's Hope at September 30, 2015 (see Note 7).

Noncurrent liabilities consist primarily of self-insurance reserves. Self-insurance reserves for unpaid and incurred but not reported professional liability claims were approximately \$567,000 at September 30, 2016 and 2015. The claims are recorded based upon estimates developed with the advice of legal counsel considering historical payment levels and claims data (see Note 9).

Operating Revenues and Expenses

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

Estimates and Assumptions

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

Concentrations and Credit Risk

Financial instruments, which potentially subject the District to concentrations of credit risk, consist principally of the note receivable (see Note 5), cash and cash equivalents, and investments.

The note receivable represented 0% and 82% of the District's total assets at September 30, 2016 and 2015, respectively, and interest income from the note receivable represented 75% and 98% of the District's operating revenue for the years ended September 30, 2016 and 2015, respectively.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations and Credit Risk (Continued)

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.

Subsequent Events

The District's management has evaluated subsequent events for potential recognition or disclosure through January 3, 2017, which is the date the financial statements were issued.

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

At September 30, 2016 and 2015, 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 \$78,805,000 and \$7,880,000, 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, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Cash	\$ 64,284	\$ 77,137
Money market funds	<u>78,740,444</u>	<u>7,802,673</u>
Total cash and cash equivalents	<u>\$ 78,804,728</u>	<u>\$ 7,879,810</u>

On October 17, 2016, the District transferred \$35,000,000 from its money market fund to its long-term investment account.

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

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.

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

The District has the following recurring fair value measurements at September 30, 2016:

- Money market funds, mutual funds, equity securities, U.S. Government securities, and corporate debt obligations of \$95,849,906 are valued using quoted market prices (Level 1 inputs).
- Marketable real estate investments of \$2,598,659 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, 2016:

	September 30, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments by fair value level</u>				
Cash and cash equivalents	\$ 816,306	\$ 816,306	\$ -	\$ -
<u>Debt securities</u>				
Corporate debt obligations	48,316,136	48,316,136	-	-
Government agency obligations	18,326,421	18,326,421	-	-
Foreign debt obligations	5,964,227	5,964,227	-	-
Municipal debt obligations	1,056,435	1,056,435	-	-
Total debt securities	73,663,219	73,663,219	-	-
<u>Equity securities</u>				
Mutual funds	21,370,381	21,370,381	-	-
Marketable real estate investments	2,598,659	-	2,598,659	-
Total equity securities	23,969,040	21,370,381	2,598,659	-
Total investments by fair value level	\$ 98,448,565	\$ 95,849,906	\$ 2,598,659	\$ -

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

The following table sets forth the District's measurement of its investments at fair value as of September 30, 2015:

	September 30, 2015	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments by fair value level</u>				
Cash and cash equivalents	\$ 27,300	\$ 27,300	\$ -	\$ -
<u>Equity securities</u>				
Mutual funds	22,427,394	22,427,394	-	-
Total equity securities	22,427,394	22,427,394	-	-
Total investments by fair value level	\$ 22,454,964	\$ 22,454,964	\$ -	\$ -

Investment Income (Loss)

The composition of the District's investment income (loss) for the years ended September 30, 2016 and 2015 is as follows:

	2016	2015
Interest and dividends from investments	\$ 1,398,290	\$ 516,334
Net realized gains (losses)	(1,693,453)	62,831
Change in net unrealized losses	2,438,823	(2,159,641)
Total investment income (loss), net	\$ 2,143,660	\$ (1,580,476)

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 5 - NOTE RECEIVABLE

In connection with the purchase of substantially all of the District's assets and the assumption of substantially all of its liabilities by OHCI on April 1, 2012, OHCI delivered to the District a note for \$181,300,000 (the "Note"). The Note was payable over a 15-year period, with annual principal payments due on April 1 and semiannual interest payments due on April 1 and October 1. The Note paid interest at rates at which OHCI could borrow in the fixed rate, taxable and tax-exempt public bond market (assuming ratings of A2/A.A or better), ranging from 1.492% to 4.680% at time of closing.

The Note from OHCI was collateralized by a guaranty agreement from OHI that ranked on parity with all other indebtedness of OHI under a master trust indenture. Any default under the Note would constitute a default under the guaranty agreement, which would then trigger a default under the master trust indenture. The master trust indenture was collateralized by a claim on all of the general assets of OHI and by a mortgage on its real estate.

The note receivable, which was repaid in full during April 2016, is presented in the statements of net position at September 30, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
Note receivable	\$ -	\$ 151,470,000
Less current portion	-	(10,350,000)
Long-term portion	<u>\$ -</u>	<u>\$ 141,120,000</u>

The semiannual interest payments due on October 1, 2015 and April 1, 2016 of approximately \$2,990,000 were received on those respective dates. The District also received principal payments of \$10,350,000 and \$10,115,000 on April 1, 2016 and 2015, respectively.

On April 18, 2016, the District and OHCI entered into a determination for payoff agreement where both parties agreed to an early payoff of the Note on or before May 1, 2016, plus a 2% prepayment premium. On April 27, 2016, the Note was paid in full and the District received a total of \$144,355,916, which consisted of the following:

Principal amount due as of April 1, 2016	\$ 141,120,000
Interest due from April 1, 2016 through April 27, 2016	413,516
Prepayment premium – 2% of principal balance	<u>2,822,400</u>
Total proceeds received on April 27, 2016	<u>\$ 144,355,916</u>

NOTE 6 - CAPITAL ASSET – LAND DONATION

On February 3, 2016, the District entered into a land donation agreement with OHCI to receive a parcel of real estate located on E. Plant Street in Winter Garden, Florida. On November 18, 2015, an independent inspection of the land was completed and appraised at \$450,000. The District recorded the contribution at approximately \$446,000 as non-operating income on the statement of revenue, expenses, and changes in net position for the year ended September 30, 2016. The District paid additional fees for closing costs, property taxes and surveying and mapping.

NOTE 7 - HEALTH CARE GRANTS

In August 2016, the District entered into an agreement with Shepherd's Hope, Inc. (the "Grantee") with a matching grant of up to \$1,000,000 for the sole purpose of assisting the Grantee in constructing an indigent care facility in Winter Garden, Florida. During the year ended September 30, 2016, the District paid \$250,000 in matching funds per the agreement.

In January 2016, the District entered into agreements with The Birth Place for \$169,200; UCP for \$148,843; and the Howard Phillips Center for \$137,000. These grants will be paid over several years for the sole purpose of providing healthcare services for the medically underserved and uninsured residents in the District of West Orange County. During the year ended September 30, 2016, The Birth Place received payments of \$84,900; UCP received payments of \$74,422; and The Howard Phillips Center received payments of \$17,125.

In March 2014, the District entered into an agreement with Shepherd's Hope, Inc. (the "Grantee") for \$636,699, which is to be paid over three years for the sole purpose of providing healthcare services for the medically underserved and uninsured residents in the District of West Orange County. The first payment of \$231,383 was paid to the Grantee during the year ended September 30, 2014; the second payment of \$200,340 was paid during the year ended September 30, 2015; and the final payment of \$204,976 was paid during the year ended September 30, 2016.

Health grants payable presented in the statements of net position at September 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Orlando Health Central, Inc.	\$ 2,634,564	\$ -
The Howard Phillips Center	119,875	-
The Birth Place	84,300	-
UCP	74,421	-
Shepherd's Hope	-	204,975
	<u> </u>	<u> </u>
Health grants payable	<u>\$ 2,913,160</u>	<u>\$ 204,975</u>

NOTE 8 - HEALTHY WEST ORANGE INITIATIVE

In December 2015, the District started an initiative program called Healthy West Orange ("Healthy West") in concert with Orlando Health Central Hospital and Observer/West Orange Times (the "Observer"). Healthy West is 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 in West Orange. In addition, Healthy West 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 (4) areas of focus: nutrition, lifestyle, fitness and health status.

NOTE 8 - HEALTHY WEST ORANGE INITIATIVE (Continued)

During the year ended September 30, 2016, 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, including all health and wellness events, through advertising with the Observer. Total costs related to the Healthy West was approximately \$135,000 and is reported as non-operating expense on the statement of revenues, expenses, and changes in net position for the year ended September 30, 2016.

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES

Operating Lease

The District entered into a month-to-month lease with OHCI for use of office space. The lease can be terminated by either party at will. Rent expense was approximately \$13,000 for the years ended September 30, 2016 and 2015.

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 \$567,000 as of September 30, 2016 and 2015. The accrual has been included in noncurrent 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, 2016 and 2015 is approximately as follows:

	<u>Liabilities at September 30, 2015</u>	<u>Payments/ Adjustments</u>	<u>Liabilities at September 30, 2016</u>
Estimated claims payable	<u>\$567,000</u>	<u>\$ -</u>	<u>\$567,000</u>
	<u>Liabilities at September 30, 2014</u>	<u>Payments/ Adjustments</u>	<u>Liabilities at September 30, 2015</u>
Estimated claims payable	<u>\$567,000</u>	<u>\$ -</u>	<u>\$567,000</u>

NOTE 9 - 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 \$34,000 and \$18,000 for the years ended September 30, 2016 and 2015, respectively. The District makes no contributions to the FSA plan. The District’s contributions to the 401(k) retirement plan were approximately \$8,000 for each of the years ended September 30, 2016 and 2015.

Conditional Grants

On February 3, 2016, the District and OHCI entered into a conditional grant agreement for the District, among other things, to provide 70% of grant funding for construction of an estimated \$35 million skilled nursing facility (the “Project”), 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 the next five years. If OHCI fails to perform or break ground on or before September 30, 2017, the District may elect to require OHCI to repay some or all grant funds paid through that date and shall entitle the District to cease further future payments for the Project.

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, 70,000 square foot building on the Health and Wellness Campus in Horizons West (the “Project”), 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 the next three years. If OHCI fails to perform or break ground on or before December 31, 2016, the District may elect to require OHCI to repay some or all grant funds paid through that date and shall entitle the District to cease further future payments for the Project.

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, 30,000 square foot cancer treatment center to be located on the Orlando Health Central Campus (the “Project”), 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 the next five years. If OHCI fails to perform or break ground on or before June 30, 2017, the District may elect to require OHCI to repay some or all grant funds paid through that date and shall entitle the District to cease further future payments for the Project.

Total conditional grant funding to be provided by the District for the Projects described above is \$75.2 million.

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Conditional Grants (Continued)

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 then it will be reimbursed by the District through the grant funding allocated. The District reimbursed the YMCA approximately \$176,000 and \$203,000 during the years ended September 30, 2016 and 2015, respectively.

During the year ended September 30, 2013, the District entered into a conditional grant agreement to provide OHCI \$25 million for the purpose of expanding the emergency department at Orlando Health Central. The conditions of the grant, among other things, require OHCI to outlay all costs as construction progresses, and then it will be reimbursed by the District through the grant funding allocated.

During the years ended September 30, 2016 and 2015, the District reimbursed OHCI approximately \$10,193,000 and \$8,402,000, respectively, in grant funding, which represents construction costs incurred through that date.

On December 5, 2014, the District and OHCI entered into an agreement for the District, among other things, to provide 75% of grant funding for construction of a 40-bed tower, not to exceed \$13.8 million. OHCI will be responsible for the remaining 25%. Funds will be paid over the next four years. If actual construction costs are less than \$13.8 million, OHCI agrees to repay the District those excess funds that would cause the District to exceed its 75% commitment of construction costs.

During the years ended September 30, 2016 and 2015, the District reimbursed OHCI approximately \$3,995,000 and \$2,860,000, respectively, in grant funding, which represents construction costs incurred through that date.



MOORE STEPHENS
LOVELACE, P.A.

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 3, 2017.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
January 3, 2017



MOORE STEPHENS
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the compliance of West Orange Healthcare District (the "District") with the requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2016. 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, 2016.

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

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
January 3, 2017



MOORE STEPHENS
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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, 2016, and have issued our report thereon dated January 3, 2017.

Auditor's Responsibility

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

Other Reports

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated January 3, 2017, 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.

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 condition(s) 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.

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

Financial Condition (Continued)

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, 2016, 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, 2016. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

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

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

Purpose of this Letter

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



MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
January 3, 2017