

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

FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

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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

We have audited the accompanying financial statements of West Orange Healthcare District (the "District") which comprises the statements of net position as of September 30, 2015 and 2014, 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 on the previous page present fairly, in all material respects, the financial position of the District as of September 30, 2015 and 2014, 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Requirements by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2015 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
December 22, 2015

WEST ORANGE HEALTHCARE DISTRICT
A Special District in Orange County Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended September 30, 2015 and 2014

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, 2015 and 2014. 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 \$184,052,756 and \$191,753,553 at September 30, 2015 and 2014, respectively.
- The District's net position (decreased)/increased (\$7,700,797) and \$1,728,586 as a result of operations for the years ended September 30, 2015 and 2014, respectively. During the year ended September 30, 2014, the District recorded a gain on contingency reserve of \$3,494,558, which was recorded as nonoperating income. Total change in net position at September 30, 2015 and 2014 was (\$7,700,797) and \$5,223,144, respectively.
- The District's cash and cash equivalents balance was \$7,879,810 and \$1,833,121 at September 30, 2015 and 2014, respectively.
- Investment income on the District's funds related to its cash equivalents and excess liquidity reserve earned \$516,334 and \$197,363 for the years ended September 30, 2015 and 2014, respectively, and unrealized and realized losses of (\$2,096,810) and (\$357,707), respectively. Interest income earned for the years ended September 30, 2015 and 2014 related to the note receivable from Orlando Health, Inc. ("OHI") from the sale of the District's operations was \$6,095,806 and \$6,304,231, respectively.
- 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 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 Cerner's annual industry-leading healthcare conference as presenter for model/best practice electronic medical records implementation; and 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.

Financial Highlights (Continued)

- During the year ended September 30, 2014, the District's Board approved grant funding to the following organizations: Roper YMCA of \$500,000 to be paid over the next five years for the purpose of making capital improvements to the Healthy Living Center area of the Roper YMCA. (The District made the first payment of approximately \$203,000 during the year ended September 30, 2015); The Brain Foundation for \$150,000 to purchase and renovate a home operated as "Dave's House" that will accommodate adult residents who are in recovery with mental illness; Shepherd's Hope for \$636,699 to be paid over the next three years to provide healthcare services for the medically underserved and uninsured residents of the District. (The District made payments of \$200,340 and \$231,383 during the years ended September 30, 2015 and 2014, respectively); United Cerebral Palsy of Central Florida, Inc. for \$110,403 to be used to fund capital and administrative costs for a program to provide services to children with disabilities and special healthcare needs; and Center for Change, Inc. for \$24,930 to provide colon and prostate prevention education and screening.
- The District and the State of Florida Agency for Health Care Administration (the "Agency") entered into an agreement allowing the District to participate in the Medicaid Buy-Back Program (the "Program"). The District's participation in this program resulted in increased financial support to OHCI for the care and treatment of Medicaid patients. The agreement was for the fiscal year, commencing July 1, 2014, and expiring June 30, 2015. The health grant payable of approximately \$2,798,000 at September 30, 2014 was paid during the year ended September 30, 2015.
- Operating expenses were \$710,374 and \$615,028 for the years ended September 30, 2015 and 2014, respectively.

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 Government Accounting Standards Board ("GASB"). These financial statements provide current and long-term financial information about the District's activities. The Statements of Net Position includes 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, 2015 and 2014, 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, 2015 and 2014, assets exceeded liabilities by \$184,052,756 and \$191,753,553, respectively. The following is a summary of the District's net position at September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Assets:		
Current assets	\$ 21,230,041	\$ 15,063,669
Noncurrent assets	<u>163,595,007</u>	<u>180,460,368</u>
Total Assets	<u>\$ 184,825,048</u>	<u>\$ 195,524,037</u>
Liabilities:		
Current liabilities	\$ 204,975	\$ 3,203,167
Long-term liabilities	<u>567,317</u>	<u>567,317</u>
Total Liabilities	<u>\$ 772,292</u>	<u>\$ 3,770,484</u>
Net Position:		
Net investment in capital assets	\$ 18,068	\$ 20,314
Unrestricted	<u>184,034,688</u>	<u>191,733,239</u>
Total Net Position	<u>\$ 184,052,756</u>	<u>\$ 191,753,553</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, 2015:

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
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>

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, 2014:

Interest income from note receivable	\$ 6,304,231
Interest and dividends from investments	197,363
Unrealized and realized losses on investments	<u>(357,707)</u>
Total Revenues	6,143,887
Health grant contribution	3,800,273
Payroll and related benefits	238,892
Professional fees	216,999
General and administrative	133,716
Insurance and depreciation	<u>25,421</u>
Total Expenses	<u>4,415,301</u>
Operating Income	1,728,586
Gain from adjustment on contingency reserve (nonoperating)	<u>3,494,558</u>
Change in Net Position	5,223,144
Net position - September 30, 2013	<u>186,530,409</u>
Net position - September 30, 2014	<u>\$ 191,753,553</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 7,879,810	\$ 1,833,121
Current portion of note receivable	10,350,000	10,115,000
Interest receivable	2,989,691	3,106,115
Prepaid expenses and other current assets	10,540	9,433
	<u>21,230,041</u>	<u>15,063,669</u>
TOTAL CURRENT ASSETS		
Noncurrent Assets		
Note receivable, less current portion	141,120,000	151,470,000
Investments	22,454,694	28,969,309
Capital Assets:		
Equipment, furniture and fixtures	28,998	25,587
Less: Accumulated depreciation	(10,930)	(5,273)
	<u>18,068</u>	<u>20,314</u>
TOTAL CAPITAL ASSETS		
Other noncurrent assets	2,245	745
	<u>163,595,007</u>	<u>180,460,368</u>
TOTAL NONCURRENT ASSETS		
	<u>184,825,048</u>	<u>195,524,037</u>
TOTAL ASSETS		
LIABILITIES		
Current Liabilities		
Accrued liabilities	-	322
Health grants payable	204,975	3,202,845
	<u>204,975</u>	<u>3,203,167</u>
TOTAL CURRENT LIABILITIES		
Noncurrent Liabilities		
Estimated claims payable	567,317	567,317
	<u>567,317</u>	<u>567,317</u>
TOTAL NONCURRENT LIABILITIES		
	<u>772,292</u>	<u>3,770,484</u>
TOTAL LIABILITIES		
NET POSITION		
Net investment in capital assets	18,068	20,314
Unrestricted	184,034,688	191,733,239
	<u>\$ 184,052,756</u>	<u>\$ 191,753,553</u>
TOTAL NET POSITION		

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, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Interest income from note receivable	\$ 6,095,806	\$ 6,304,231
Interest and dividends from investments	516,334	197,363
Unrealized and realized losses on investments	(2,096,810)	(357,707)
TOTAL OPERATING REVENUES	4,515,330	6,143,887
GRANTS AND OPERATING EXPENSES		
Health grant contributions	11,505,753	3,800,273
Operating Expenses:		
Salaries and wages	258,014	222,294
General and administrative	148,509	126,875
Consulting fees	125,034	80,087
Professional fees	111,602	136,912
Employee benefits	40,153	23,439
Insurance	21,405	21,277
Depreciation	5,657	4,144
TOTAL GRANTS AND OPERATING EXPENSES	12,216,127	4,415,301
OPERATING INCOME (LOSS)	(7,700,797)	1,728,586
NONOPERATING		
Gain from adjustment of contingency reserve	-	3,494,558
CHANGE IN NET POSITION	(7,700,797)	5,223,144
NET POSITION - BEGINNING OF YEAR	191,753,553	186,530,409
NET POSITION - END OF YEAR	\$ 184,052,756	\$ 191,753,553

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

WEST ORANGE HEALTHCARE DISTRICT

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received on note receivable	\$ 16,327,230	\$ 16,326,234
Other cash receipts	516,334	197,363
Cash payments for health grants	(14,503,621)	(3,491,268)
Cash payments to suppliers and vendors	(449,634)	(433,793)
Cash payments to employees	(258,014)	(222,294)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,632,295	12,376,242
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(3,411)	(10,621)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments, net	4,417,805	(11,027,076)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,046,689	1,338,545
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,833,121	494,576
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 7,879,810	\$ 1,833,121
RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net position	\$ (7,700,797)	\$ 5,223,144
Adjustments to reconcile net cash provided by operating activities:		
Depreciation expense	5,657	4,144
Gain from adjustment of contingency reserve	-	(3,494,558)
Unrealized and realized losses on investments	2,096,810	357,707
Decrease (increase) in:		
Note receivable	10,115,000	9,930,000
Interest receivable	116,424	92,002
Prepaid expenses and other assets	(2,607)	88
Increase (decrease) in:		
Accrued liabilities	(322)	(918)
Grants payable	(2,997,870)	309,004
Estimated claims payable	-	(44,371)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,632,295	\$ 12,376,242

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, 2015 and 2014

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.

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, 2015 and 2014 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 reported at fair value. Fair value is determined using quoted closing or latest bid prices. Realized gains and losses are included in investment income and are calculated based on proceeds received less carrying value. The cost of securities sold is based on the specific-identification method. Changes in net unrealized gains and losses are included in investment income and represent the change in the fair value of investment holdings during the period. Interest is included in investment income in the period earned.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

Investments include trustee-held funds related to general and professional liability arising from events and occurrences during the period that the District owned and operated the Hospital and the Park. Trustee-held funds are invested primarily in fixed income mutual funds, with the remaining amounts invested in money market accounts.

Capital Assets

Capital assets are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of 3 to 10 years for equipment and furniture.

The cost of maintenance, repairs, and minor replacements are charged to expense as incurred. Capital purchases with a cost basis greater than \$1,000 are capitalized.

Liabilities

Current liabilities consist of health grants payable to Shepherd's Hope at September 30, 2015 and to the State of Florida Medicaid Program at September 30, 2014 (see Note 6).

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, 2015 and 2014. The claims are recorded based upon estimates developed with advice of legal counsel considering historical payment levels and claims data (see Note 6).

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. 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 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 82% and 83% of the District's total assets at September 30, 2015 and 2014, respectively, and interest income from the note receivable represented 98% and 97% of the District's operating revenue for the years ended September 30, 2015 and 2014, respectively.

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.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

At September 30, 2015 and 2014, 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 \$7,880,000 and \$1,833,000, 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, 2015 and 2014 consists of the following:

	<u>2015</u>	<u>2014</u>
Cash	\$ 77,137	\$ 40,950
Money market funds	<u>7,802,673</u>	<u>1,792,171</u>
Total cash and cash equivalents	<u>\$ 7,879,810</u>	<u>\$ 1,833,121</u>

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

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (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 as of September 30, 2015 and 2014:

- Mutual fund securities of approximately \$22 million and \$27 million are valued using quoted market prices (Level 1 inputs)

The composition of the District's investments at September 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Cash and money market funds	\$ 27,300	\$ 1,894,777
Mutual funds (Level 1)	<u>22,427,394</u>	<u>27,074,532</u>
Total investments	<u>\$ 22,454,694</u>	<u>\$ 28,969,309</u>

Investment Income (Loss)

The composition of the District's investment income (loss) for the years ended September 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividends from investments	\$ 516,334	\$ 197,363
Unrealized and realized losses on investments	<u>(2,096,810)</u>	<u>(357,707)</u>
Total net investment loss	<u>\$ (1,580,476)</u>	<u>\$ (160,344)</u>

Mutual Funds and Credit Risk

Fixed income securities consist of various mutual funds, with various average maturities, managed by an external investment management company. These funds do not currently contain restrictions on the District's ability to liquidate its investments. The District can redeem its investments at any time. Accordingly, interest rate risk is not considered significant.

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 is 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 bears 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 receivable is presented in the statements of financial position at September 30, 2015 and 2014 as follows:

	<u>2015</u>	<u>2014</u>
Note receivable	\$ 151,470,000	\$ 161,585,000
Less current portion	(10,350,000)	(10,115,000)
Long-term portion	<u>\$ 141,120,000</u>	<u>\$ 151,470,000</u>

Maturities of the note receivable for each of the next five years and thereafter are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2016	\$ 10,350,000
2017	10,600,000
2018	10,930,000
2019	11,320,000
2020	11,675,000
Thereafter	<u>96,595,000</u>
	<u>\$ 151,470,000</u>

The semiannual interest payments due on October 1, 2015 and 2014 of approximately \$2,990,000 and \$3,106,000 have been recorded as interest receivable on the statements of financial position at September 30, 2015 and 2014, respectively. The District received the respective interest payments on October 1, 2015 and 2014. The District also received principal payments of \$10,115,000 and \$9,930,000 on April 1, 2015 and 2014, respectively.

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

NOTE 5 - NOTE RECEIVABLE (Continued)

On October 22, 2013, Moody's downgraded the rating of OHI from A2 to A3, affecting its approximately \$865 million in debt (which includes the amount due to the District). This action was prompted by OHI's material downturn in financial performance through the nine months of FY 2013, decline in combined same-store inpatient admissions and observation stays, loss of market share, and declines in liquidity. During October 2014, there was no change in Moody's rating. As of January 22, 2015, Moody's has affirmed the A3 rating and revised OHI's outlook to stable. Management of the District deems the Note fully collectible and has not recorded an allowance related to the collectibility of the Note.

NOTE 6 - HEALTH CARE GRANTS

The District and the State of Florida Agency for Health Care Administration (the "Agency") entered into agreements allowing the District to participate in the Medicaid Buy-Back Program (the "Program"). The Program's purpose was to restore the Medicaid funding to the Hospital to a level that approximated funding before recent drastic cuts. The District and Agency agreed that those funds would only be used to increase the provision of Medicaid-funded health services to the people of the District and the state of Florida at large. The increased provision of Medicaid-funded health services would be accomplished through the removal of inpatient and outpatient reimbursement ceilings for certain hospitals.

On July 22, 2014, the District and the Agency entered into an agreement allowing the District to participate in the Program. The agreement was for one year, commencing July 1, 2014, and expiring June 30, 2015. The District agreed to fund approximately \$2.8 million for this Program, which is included in health grant contributions for the year ended September 30, 2014. The amount is included in health grants payable recorded on the statements of financial position as current liabilities at September 30, 2014. The grant was paid during the year ended September 30, 2015. No new agreements have been entered into for the period July 1, 2015 through June 30, 2016.

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. The final payment of \$204,975 will be paid on or before January 31, 2016, and is the balance recorded in grants payable at September 30, 2015.

NOTE 7 - 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 and \$12,000 for the years ended September 30, 2015 and 2014, 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. The estimated claims incurred amount at September 30, 2013 was estimated by an independent actuary, with particular reliance on sovereign immunity.

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 amounted to approximately \$567,000 as of September 30, 2015 and 2014, which 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, 2015 and 2014 is approximately as follows:

	<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>
	<u>Liabilities at September 30, 2013</u>	<u>Payments/ Adjustments</u>	<u>Liabilities at September 30, 2014</u>
Estimated claims payable	<u>\$4,106,000</u>	<u>(\$3,539,000)</u>	<u>\$567,000</u>

On January 31, 2014, the District reduced its estimated claims liability at that date from approximately \$4,095,000 to \$600,000, as this amount was considered to be reasonable to fund any future claims per recommendation from the District's legal counsel. Any future legal expenses related to such claims will be recorded as period costs. As a result of the reduction in estimated claims payable, the District recorded a gain from adjustment of contingency reserve of approximately \$3,500,000, which has been recorded as non-operating income on the statement of revenues, expenses, and changes in net position for the year ended September 30, 2014.

NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Retirement and FSA Plans

The District sponsors both a defined contribution retirement plan and a Flexible Spending Account plan (the “Plans”) for its employees. The District does not make any contributions to the Plans and has incurred no liabilities at September 30, 2015 and 2014.

Conditional Grants

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 first payment of approximately \$203,000 was made during the year ended September 30, 2015.

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 year ended September 30, 2015, the District reimbursed OHCI approximately \$8,402,000 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 seventy-five percent (75%) of grant funding for construction of a 40-bed tower, not to exceed \$13.8 million. OHCI will be responsible for the remaining twenty-five percent (25%). Funds will be paid over the next four years, not to exceed \$3.45 million per year. 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 seventy-five percent (75%) commitment of construction costs.

During the year ended September 30, 2015, the District reimbursed OHCI approximately \$2,860,000 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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 22, 2015.

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.

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

MOORE STEPHENS LOVELACE, P.A.

Certified Public Accountants

Orlando, Florida
December 22, 2015



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, 2015. 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, 2015.

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

MOORE STEPHENS LOVELACE, P.A.

Certified Public Accountants

Orlando, Florida
December 22, 2015



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, 2015, and have issued our report thereon dated December 22, 2015.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States 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 December 22, 2015, 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

Section 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

Section 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, 2015, 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, 2015. 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
December 22, 2015