West Orange Healthcare District

Financial Statements as of and for the Years Ended September 30, 2008 and 2007, Supplementary Information for the Year Ended September 30, 2008, and Independent Auditors' Reports

WEST ORANGE HEALTHCARE DISTRICT

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INDEPENDENT AUDITORS' REPORT

Board of Trustees and Finance Committee
West Orange Healthcare District:

We have audited the accompanying balance sheets of West Orange Healthcare District (the "District") as of September 30, 2008 and 2007 and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the years ended September 30, 2008 and 2007. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Health Central Foundation, Inc. (a blended component unit), which statements reflect total assets constituting approximately $1,278,000 and $1,309,000 of the District's total assets as of September 30, 2008 and 2007, respectively, total operating income constituting $0 and $0 of the District's operating income, and total change in net assets constituting approximately $(24,000) and $871,000 of the District's total change in net assets for the years ended September 30, 2008 and 2007, respectively. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Health Central Foundation, Inc., is based solely on the report of such other auditors.

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Health Central Foundation, Inc. were not audited in accordance with *Government Auditing Standards* for the years ended September 30, 2008 and 2007. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, such 2008 and 2007 financial statements present fairly, in all material respects, the financial position of the District as of September 30, 2008 and 2007, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the District's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information, and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules contained on pages 29 and 30 are presented for purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the District's management. Such schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and (as to amounts included for Health Central Foundation, Inc.) the report of the other auditors, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2009, 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* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

January 16, 2009

WEST ORANGE HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008 AND 2007

This section of the West Orange Healthcare District (the "District") annual financial report presents management's discussion and analysis of the District's financial performance during the years ended September 30, 2008 and 2007. The purpose is to provide readers of our financial statements a narrative analysis from management's perspective on the financial activities of the District based on currently known facts, decision, and conditions. Please read it in conjunction with the District's financial statements and related footnote disclosures, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts — management's discussion and analysis, the financial statements, and supplementary information. Management's discussion and analysis provides 2006 financial data for comparative purposes.

The basic financial statements (balance sheets, statements of revenues, expenses, and changes in net assets, and statements of cash flows) present the financial position of the District as of September 30, 2008 and 2007 (the end of the fiscal year) and the results of its operations and its financial activities for the years then ended. These statements report information about the District using accounting methods similar to those used by private-sector companies.

Balance Sheet — This statement includes information on all of the District's assets and liabilities grouped into major categories with the difference between the two reported as net assets. Net assets are one way to measure financial health or position.

Statement of Revenues, Expenses, and Changes in Net Assets — This statement reflects the year's activities on the accrual basis of accounting, i.e., when services are provided or obligations are incurred, not when cash is received or paid. This statement also reports the District's net assets and how they have changed. Over time, increases or decreases in net assets are relative indicators of whether the District's financial position is improving or deteriorating.

Statement of Cash Flows — This statement provides relevant information about the District's cash receipts and cash payments during the fiscal year. In addition, it classifies them as to operating, investing, and financing activities. The direct method of cash flows is presented along with a reconciliation of operating income to net cash provided by operating activities. This statement provides an opportunity to view the flow of cash and the main components which may not be evident from just reviewing the statement of revenues, expenses and changes in net assets.

The financial statements include notes that explain information in the financial statements and provide more detailed data. The supplementary information presents information for the blended component units of the District, i.e., West Orange Healthcare District; Health Central Hospital, Non-Hospital Services which includes ExpressCare, Health Central Paramedics, Health Central Surgery Center, Wound Care Center and physician practices; Health Central Park nursing home; and West Orange Healthcare, Inc., which are all a part of the District along with Health Central Foundation, Inc.

FINANCIAL HIGHLIGHTS

	2008	2007	2006
Days of cash on hand	230	235	238
Days of revenue in patient accounts receivable	66	67	64
Net debt	($19m)	($18m)	($9m)
Maximum annual debt service coverage	2.2x	2.2x	2.5x

Management monitors a number of financial as well as operational ratios in managing the organization. The table above presents a few key indicators management believes are significant and representative of the financial position of the organization.

The days of cash on hand are an indicator of the liquidity of the District. The days of cash on hand calculation includes all unrestricted cash, cash equivalents, and investments, representing funds available to the board of trustees to be used at their discretion. (Please refer to the balance sheet for the specific items).

The days of revenue in patient accounts receivable is an indicator of how quickly the District collects cash from its receivables. Various factors inside and outside management control impact this ratio, including relative mix of patients accounts between various payors and their ability to pay.

Net debt is a measure of how much debt the organization owes relative to the cash and investments it owns. It represents the difference between outstanding debt less cash and investments. A positive number indicates the organization has more debt than cash and investments while a negative number shows the organization has more cash and investments than debt.

Maximum annual debt service shows how many times the organization could pay the maximum amount due to cover both interest and principal, as calculated under the Master Trust Indenture assumptions, from current year activity. It reflects the multiple of earnings generated from current year activity relative to debt service. The greater the number, the more the organization has earned relative in the current period to its maximum debt service obligations due in any year.

FINANCIAL ANALYSIS

This section of the Management's Discussion and Analysis focuses on the significant changes in assets, liabilities, and net assets. The required summary tables have been included within the analysis. The information included within the tables is presented for the 2008, 2007 and 2006 fiscal years.

SIGNIFICANT VARIANCES IN FINANCIAL STATEMENTS

The District concluded 2008 with an operating margin of 2.3% compared to 2.1% and 4.2% in 2007 and 2006, respectively. Revenues continued to increase due to outpatient volume growth in almost all service lines while deductions also grew due to higher number of uninsured. Additionally, investment income was a loss of $2.1 million in 2008 versus a gain of $7.7 million in 2007 and $4.7 million in 2006 all due to market conditions.

SUMMARY OF ASSETS, LIABILITIES, AND NET ASSETS

	2008	2007	2006
		(In thousands)	
Cash and cash equivalents	$ 9,866	$ 7,349	$ 8,403
Investments	59,124	61,423	55,258
Patient accounts receivable — net	25,017	24,735	22,176
Other receivables — net	505	1,582	1,913
Estimated third-party payor settlements	2,042	1,788	1,419
Supplies	663	654	349
Prepaid expenses	1,022	1,138	966
Current assets	98,239	98,669	90,484
Restricted and board designated investments	21,176	21,646	20,361
Capital assets — net	97,984	100,386	101,189
Other noncurrent assets — net	960	1,027	1,392
Total assets	$ 218,359	$ 221,728	$ 213,426
Accounts payable	$ 4,810	$ 4,201	$ 3,130
Accrued liabilities	5,313	5,682	4,967
Accrued payroll and employee costs	6,006	5,961	5,298
Bond obligations payable — current portion	2,390	2,265	2,155
Current liabilities	18,519	18,109	15,550
Bond obligations payable — net of current portion	61,947	64,276	66,481
Other noncurrent liabilities	4,600	4,173	4,297
Total liabilities	85,066	86,558	86,328
Net assets	133,293	135,170	127,098
Total liabilities and net assets	$ 218,359	$ 221,728	$ 213,426

Cash and Cash Equivalents — The balance at September 2008, of $9.9 million, reflects a $2.6 million increase over prior year as capital expenditures were reduced in the current year. September 2007 showed a decrease of $1.1 million from September 2006 due primarily to increasing patient accounts receivable.

Investments — The balance at September 2008, of $59.1 million, is a $2.3 million decrease over 2007. The investment portfolio lost 3.1% in 2008 primarily due to realized gains of $4.2 million offset by unrealized losses. The September 2007 balance of $61.4 million, reflects an increase of $6.1 million from September 2006 due to the 10.4% investment returns.

Patient Accounts Receivable — Net — The balance at September 2008, of $25.0 million, increased $0.3 million or 1.2%, which was less than the increase in patient revenue which is why days of revenue in patient accounts receivable decreased to 66 days. The balance at September 2007, of $24.7 million, increased $2.5 million while patient revenue increased 7.4% over prior year and days of revenue in patient accounts receivable increased to 67 days from 64 in 2006.

Estimated Third-Party Payor Settlements — The balance at September 2008 is basically the same as found in prior year-end balances reflecting consistent amounts due on open Medicare cost reports.

Restricted and Board Designated Investments — The balance at September 2008, of $21.2 million, reflects a slight decrease of $0.5 million due to investment losses similar to that detailed in the investment section above. The prior year balance of $21.7 million, reflects a $1.3 million increase from September 2006. This is due to investment gains and fluctuations in the self insurance trust fund reserves.

Capital Assets — Net — The balance at September 2008, of $98 million, reflects a decrease of $2.4 million, from last year as capital purchases during the year were curtailed this year several million dollars below depreciation expense. The prior year also showed a modest decrease from 2006 of $0.8 million due to accumulated depreciation increasing more than capital purchases for 2007.

Accounts Payable — The balance at September 2008, of $4.8 million, is an increase of $0.6 million from prior year which was an increase of $1.1 million from September 2006. This is primarily due to an increase in total operating expenses, timing of year-end accounts payable payments, and extended payment terms available through the procurement card program.

Accrued Liabilities — The balance at September 2008, of $5.3 million, is down $0.4 million from prior year which was up $0.7 million from September 2006 due to normal fluctuations in operations and timing of payments.

Accrued Payroll and Employee Costs — The balance at September 2008 remained at $6.0 million which was the same as prior year as salaries expense was up .07%. The 2007 increase of $0.7 million was due to 10.8% growth in salary costs and the timing of year-end payroll.

Bond Obligations Payable — Net of Current Portion — The balance at September 2008, of $62.0 million, decreased $2.3 million from the prior year balance of $64.3 million which also decreased $2.2 million from September 2006. This resulted from the scheduled principal payment for the outstanding bonds.

Other Noncurrent Liabilities — The balance at September 2008, of $4.6 million, was an increase of $0.4 million over the prior year balance of $4.2 million. 2007 was a decrease of $0.1 million over prior year. Changes in this balance are related to timing of settlements and self-insurance liabilities actuarially determined to provide for future claims.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	2008	2007	2006
	(In thousands)		
Net patient service revenue	$ 137,626	$ 135,754	$ 126,377
Other operating revenue	4,325	3,135	3,243
Operating revenues	141,951	138,889	129,620
Salaries, wages, and employee benefits	81,448	80,032	72,213
Drugs and supplies	26,010	24,418	21,436
Depreciation and amortization	8,521	9,019	8,585
Purchased services and professional fees	16,429	16,393	13,243
Other	6,324	6,138	8,766
Operating expenses	138,732	136,000	124,243
Operating income	3,219	2,889	5,377
Nonoperating revenue (loss)	(5,096)	5,183	1,511
Change in net assets	(1,877)	8,072	6,888
Net assets — beginning of year	135,170	127,098	120,210
Net assets — end of year	$ 133,293	$ 135,170	$ 127,098

Net Patient Service Revenue — Net patient service revenue was $137.6 million for the year which was $1.9 million, or 1.4%, higher than 2007 which was 7.4%, or $9.4 million, over 2006. The additional revenue is substantially due to growth of outpatient services, primarily surgical cases and particularly orthopedics.

Other Operating Revenue — The other operating revenue for the year ended September 2008, of $4.3 million, was up $1.2 from prior year. 2007 was down slightly from the year ended September 2006. The current year improvement related to payments to our organization on rental of equipment by external parties to us, receipt of government grants, and a change to full reimbursement of school nurse program.

Salaries, Wages, and Employee Benefits — Labor expenses for the year increased just 1.8%, or $1.4 million, almost all related to increases in health insurance costs for employees. Expenses for the year ended September 2007 increased $7.8 million or 10.8% over 2006. This partially related to increased patient days and outpatient volume while the balance of the increase in 2007 is the result of salary adjustments necessary to retain staff.

Drugs and Supplies — The drugs and supplies expense for the year ended September 2008, of $26.0 million, which is $1.6 million higher than the prior year which was in addition to the $3.0 million increase over 2006. The increases for both years primarily related to the dramatic increase in the volume of implants for patients.

Nonoperating Revenue (Loss) — Due to the investment market, non-operating activity was a loss in 2008 of $5.1 million following a gain of $5.2 million in the prior year for a year-over-year decrease of $10.3 million. 2007 showed an increase of $3.7 million over 2006. Investment activity is the primary driver of the change in non-operating activity as 2008 had an investment loss of 3.1% relative to investment gains of 10.4% in 2007 and 6.4% in 2006. The entire fluctuation related to changes in investment returns, primarily equities even though they constitute a small percent of the portfolio.

DEBT

The District has outstanding bond obligations issued under its Master Trust Indenture which is available to the public. In the current year, both Standard and Poor's and Fitch reviewed the ratings on each debt series according to their periodic review schedule. Standard and Poor's affirmed their "A" rating in June while Fitch affirmed their A- rating in August. Additional information on the District's debt can be found in Note 7 of the financial statements.

OVERALL FISCAL YEAR 2008 FINANCIAL POSITION

For the year ended September 30, 2008, the District experienced a decrease in net assets of $1.9 million which represents the first decrease in net assets since before the new hospital was opened in 1993. Since operating margin actually improved in the current year relative to 2007, over 100% of the decrease was attributable to investment losses that are more representative of the current state of the economy than our organization. Rather than a gain of $7.7 million in investments the District enjoyed in 2007, 2008 produced a loss of $2.1 million, which while modest relative to other investment portfolios, represents a change of $9.8 million for the organization.

FISCAL YEAR 2009 OUTLOOK

The current financial position of the District is expected to improve in fiscal 2009. The following factors will impact the District in fiscal year 2009:

- Net patient service expansion will continue with further expansion of enhanced cardiac/vascular and orthopedic programs, including the addition of a 64 slice CT for cardiac imaging, introduction of endovascular procedures and a second Catheterization Lab allowing for interventional procedures.
- Expansion of obstetrics service line with opening of mid-wifery program and recruitment of additional providers to reach volume required to open Level II neonatal unit.
- Revenue Cycle re-design is expected to generate significant improvement in operating margin.
- The groundbreaking for expansion on campus to include a new campus loop road and 5-story, 75,000 square foot medical office building.
- Continued progress toward Computerized Physician Order Entry and Electronic Health Record.
- Recruitment of needed physician specialties in rapidly growing areas of our community while deepening and broadening relationships with existing physicians.
- Achieve superior quality and operational excellence with the implementation of National Patient Safety Goals and improvements in Core Measures.
- Economic conditions and State of Florida Medicaid policies will continue to influence the level of uninsured patients.
- Federal and State healthcare reimbursement rules and regulations can change at any time.
- Costs of supplies, pharmaceuticals, and technology are subject to economic variations in current and new patient services.

CONTACTING THE DISTRICT FOR ADDITIONAL FINANCIAL INFORMATION

This financial report is intended to provide our citizens, customers, and creditors with a general overview of the District's finances and to demonstrate West Orange Healthcare District's accountability for those finances. If you have any questions regarding this report or need additional information, contact the District's Accounting and Finance Department at (407) 296-1000.

WEST ORANGE HEALTHCARE DISTRICT

BALANCE SHEETS
AS OF SEPTEMBER 30, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 9,866,455	$ 7,349,024
Investments	59,123,458	61,423,423
Patient accounts receivable — less allowance for doubtful accounts of approximately $23,192,000 and $21,796,000 in 2008 and 2007	25,017,250	24,735,451
Other receivables	504,447	1,582,090
Estimated third-party payor settlements	2,041,682	1,787,601
Supplies	663,316	653,595
Prepaid expenses	1,022,455	1,138,141
Total current assets	98,239,063	98,669,325
NONCURRENT ASSETS:		
Restricted and board-designated investments	21,175,818	21,646,294
Capital assets — net	97,984,025	100,386,428
Other assets	959,908	1,026,535
Total noncurrent assets	120,119,751	123,059,257
TOTAL	$ 218,358,814	$ 221,728,582
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 4,809,352	$ 4,200,479
Accrued liabilities	5,313,304	5,682,267
Accrued payroll and employee costs	6,005,960	5,961,350
Bond obligations payable — current portion	2,390,000	2,265,000
Total current liabilities	18,518,616	18,109,096
NONCURRENT LIABILITIES:		
Bond obligations payable — net of current portion	61,947,024	64,276,367
Other noncurrent liabilities	4,600,000	4,173,000
Total noncurrent liabilities	66,547,024	68,449,367
Total liabilities	85,065,640	86,558,463
COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)		
NET ASSETS:		
Invested in capital assets — net of related debt	36,947,745	37,607,868
Restricted — nonexpendable	40,000	40,000
Restricted — expendable	657,714	716,394
Unrestricted	95,647,715	96,805,857
Total net assets	133,293,174	135,170,119
TOTAL	$ 218,358,814	$ 221,728,582

See notes to financial statements.

WEST ORANGE HEALTHCARE DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES:		
Net patient service revenue	$ 137,625,535	$ 135,753,561
Other revenue	4,324,937	3,135,879
Total operating revenues	141,950,472	138,889,440
OPERATING EXPENSES:		
Salaries and wages	66,642,593	66,201,796
Employee benefits	14,805,024	13,830,287
Drugs and supplies	26,010,442	24,418,185
Depreciation and amortization	8,521,729	9,018,948
Professional fees	1,216,641	1,921,685
Purchased services	15,211,809	14,470,843
Insurance	1,422,377	616,259
Utilities	3,343,844	3,145,881
Other	1,556,659	2,375,810
Total operating expenses	138,731,118	135,999,694
OPERATING INCOME	3,219,354	2,889,746
NONOPERATING REVENUE (EXPENSES):		
Investment (loss) income	(2,089,344)	7,716,726
Interest expense	(3,047,951)	(3,290,209)
Contributions made	(133,809)	(111,867)
Net other nonoperating revenue	174,805	868,104
Total nonoperating (expense) revenue	(5,096,299)	5,182,754
CHANGE IN NET ASSETS	(1,876,945)	8,072,500
NET ASSETS — Beginning of year	135,170,119	127,097,619
NET ASSETS — End of year	$ 133,293,174	$ 135,170,119

See notes to financial statements.

WEST ORANGE HEALTHCARE DISTRICT

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from patients and third-party payors	$ 137,089,655	$ 132,825,755
Other cash receipts	6,543,462	5,329,472
Cash payments to suppliers and vendors	(63,892,597)	(62,167,747)
Cash payments to employees	(65,499,308)	(62,965,940)
Net cash provided by operating activities	14,241,212	13,021,540
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal paid on bond obligations payable	(2,265,000)	(2,155,000)
Interest paid on bond obligations payable	(3,047,951)	(3,290,209)
Acquisition of capital assets	(7,091,927)	(8,897,081)
Net cash used in capital and related financing activities	(12,404,878)	(14,342,290)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income — net	4,188,346	7,716,726
Net decrease in investments	(3,507,249)	(7,450,418)
Net cash provided by investing activities	681,097	266,308
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,517,431	(1,054,442)
CASH AND CASH EQUIVALENTS — Beginning of year	7,349,024	8,403,466
CASH AND CASH EQUIVALENTS — End of year	$ 9,866,455	$ 7,349,024
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 3,219,354	$ 2,889,746
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	8,521,729	9,018,948
Net rental and other receipts classified as nonoperating income	1,140,881	1,862,676
Provision for bad debts	28,410,703	32,657,316
(Increase) decrease in:		
Patient accounts receivable	(28,692,502)	(35,216,696)
Other receivables	1,077,643	330,917
Estimated third-party payor settlements	(254,081)	(368,426)
Supplies	(9,721)	(304,814)
Prepaid expenses	115,686	(172,357)
Increase (decrease) in:		
Accounts payable	608,873	1,070,182
Accrued liabilities	(368,963)	714,912
Accrued payroll and employee costs	44,610	663,070
Other long-term liabilities	427,000	(123,934)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 14,241,212	$ 13,021,540

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity — West Orange Healthcare District (the "District") was created by an act of the Florida Legislature (the "Act") dated May 26, 1949, for the primary purpose of establishing and operating a hospital and other health facilities and providing healthcare services as are necessary for the use of the people of the District. The District is governed by a board of trustees (the "Board"), which is empowered by the Act to establish, construct, operate, and maintain such health facilities in the District's area and to levy taxes and issue bonds to finance such operations. Prior to October 1, 2000, the District received tax monies assessed and levied against the real, personal, and taxable property within the West Orange Healthcare 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.

The District operates: Health Central (the "Hospital"), a 171-bed short-term acute care hospital in Ocoee, Florida; Health Central Park (the "Park"), formerly West Orange Manor, a 228-bed nursing home in Winter Garden, Florida; ExpressCare Center (the "Center"); Health Central Paramedic (HCP); Health Central Surgery Center (HCSC); physician practices; a wound care center; West Orange Healthcare, Inc. (WOHI), a 501(c)(3) corporation, currently dormant; and Health Central Foundation, Inc. ("Foundation"). All are treated as blended component units of the District in accordance with Governmental Accounting Standard Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

The Center operates as a walk-in treatment center and is located in Ocoee, Florida. HCP is located at the Center, Universal Studios Orlando, and Windermere and provides paramedic ambulance services primarily throughout West Orange County. HCSC, which was purchased in August of 2001, provides ambulatory surgery services in Ocoee, Florida.

The Hospital facility includes an approximately 87,000 square foot medical office building (MOB) within its structure. The Hospital and the MOB are operated under the name Health Central.

Basis of Accounting and Presentation — The District's financial statements are prepared utilizing the economic resources measurement focus and the accrual basis of accounting in accordance with standards established by the GASB and certain provisions in the Health Care Organizations and State and Local Governments audit and accounting guides published by the American Institute of Certified Public Accountants (AICPA). All balances and transactions between the District and blended component units have been eliminated.

The District follows GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, *as amended*, GASB Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus — an amendment of GASB Statements No. 21 and No. 34*, *and* GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*

GASB Statements No. 34, 37, and 38 established standards for external financial reporting for all state and local governmental entities. As the District has determined that it is an entity with business type activities as defined in GASB Statement No. 34, the required financial reporting includes a statement of net assets or balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. GASB Statement No. 34 also requires the classification of net assets into three components — invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt — consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt and related other assets and liabilities that are attributable to the acquisition of those assets.

- Restricted — 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 — consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents — Cash and cash equivalents are defined as highly liquid investments with original maturities of three months or less when purchased and consist of amounts held as bank deposits and funds invested in overnight repurchase agreements.

Investments — Investments in debt securities, equity securities, and mutual funds are carried at fair value. Interest and dividends on investments, and increases (decreases) in the fair value of investments in debt securities, equity securities, and limited partnerships are included in investment income in the statements of revenues, expenses, and changes in net assets.

Investments in limited partnerships are carried at estimated fair value as determined by the general partner of the partnership using the latest available information at the valuation date. Factors considered in valuing individual securities include the financial condition and operating results of the portfolio, changes in the circumstances and prospects of the portfolio, and any other factors the general partner considers to be relevant. The methods used by the general partner to estimate fair value are consistent with the AICPA *Audit and Accounting Guide on Audits of Investment Companies*. Due to the inherent uncertainty of valuing these types of investments, the general partners' estimates of fair value may differ significantly from the values that would have been used had a ready market existed for the securities, and the difference could be material.

Revenue Recognition and Contractual Agreements With Third-Party Payors — Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

The Hospital and Park have contractual agreements with various third-party payors (primarily Medicare and Medicaid) that provide for payment for prospectively determined rates and, for certain costs, tentative reimbursement at rates which are subject to retroactive adjustment as a result of subsequent cost determination and audits by third-party payors. In addition, the Hospital and Park have entered into contractual agreements with other third-party payors that provide for payment of prospectively determined rates or discounts from established rates. The differences between the established rates and amounts received from third-party payors are accounted for as contractual adjustments, a component of net patient service revenue.

Supplies — Supplies, consisting principally of medical and pharmaceutical supplies, are stated at the lower of cost or market value. Cost is determined on the basis of the most recent purchase price, which approximates the FIFO (first in-first out) method.

Board Designated and Restricted Investments — The District maintains a board designated depreciation reserve fund for the purpose of future asset replacement. Depreciation reserve funds are invested primarily in mutual funds and limited partnerships at September 30, 2008 and 2007. All investments of the Foundation are also considered board designated as the board of the Foundation must decide how to expend those assets. Earnings on these investments are recorded as investment income in the accompanying statements of revenues, expenses, and changes in net assets.

Restricted investments include (1) trustee held funds, which consist primarily of amounts held for accrued interest on the Series 1999A Revenue Bonds, (2) amounts held related to the Series 2001A bonds issued for the hospital expansion, (3) amounts held in the endowment by the Foundation, and (4) trustee held funds related to general and professional liability. Trustee held funds are invested primarily in the United States Treasury and Agency securities with the remaining amounts invested in money market accounts.

Capital Assets — Capital assets, including betterments of existing facilities, are recorded at cost. Capital purchases in excess of $500 are capitalized. Donated property and equipment are recorded at fair market value at the time of the donation. Maintenance, repairs, and minor replacements are charged to expense as incurred. Interest costs incurred during the construction period on borrowings for specified construction projects, net of investment income on bond proceeds, is capitalized. Interest costs are also capitalized on certain construction in progress funded by internal funds using the District's average borrowing rate of outstanding long-term debt.

Depreciation is provided using the straight-line method over the following estimated useful lives, which approximate the American Hospital Association guidelines for useful lives:

	Years
Land improvements	10–23
Buildings	15–38
Equipment	5–23

Loan Acquisition Costs — Loan acquisition costs are deferred and amortized over the term of the related agreements utilizing the effective interest method and are included in other assets in the accompanying balance sheets.

Other Receivable and Accrued Liabilities — GASB Statement No. 38 requires disclosure on the composition of other receivable and payable categories not detailed on the balance sheets. Other receivables consist primarily of receivables from physicians, suppliers, and insurance claims. Accrued liabilities consist primarily of accrued Public Medical Assistance Trust Fund assessments, health insurance claims, accrued workers' compensation claims, and estimates of other liabilities to be paid subsequent to year end.

Other Noncurrent Liabilities — Other noncurrent liabilities consist primarily of self-insurance reserves. Self-insurance reserves for unpaid and incurred but not reported professional liability claims of approximately $4,600,000 and $4,173,000 for 2008 and 2007, respectively, are recorded based upon estimates prepared utilizing historical payment levels and claims data which have been subject to an independent actuarial review.

Bond Discounts and Refunding of Long-Term Debt — Bond discounts are being amortized using the effective interest method over the life of the related debt. Amortization of bond discounts is included in interest expense in the statements of revenues, expenses, and changes in net assets.

During 1999, the District had a defeasance of long-term debt which redeemed all defeased bonds. For current and advance refundings resulting in the defeasance of long-term debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense using a method which approximates the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter. The difference in these amounts, to the extent unamortized, is accounted for as an element of the carrying cost of the related long-term debt.

Impairment of Long-Lived Assets — Management evaluates whether there have been any significant, unexpected declines in the utility of a capital asset that could indicate an impairment in the capital asset. If there is an indication that the asset may be impaired, the District follows GASB Statement No. 42, *Accounting and Financial reporting for Impairment of Capital Assets and for Insurance Recoveries*, to determine if the impairment loss should be recognized. The amount of impairment loss, if any, is determined by comparing the historical carrying value of the asset to the valuation method that most appropriately reflects the decline in service utility of the capital asset. The District has concluded that no impairments existed as of September 30, 2008 and 2007.

Statements of Revenues, Expenses, and Changes in Net Assets — For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and expenses. All other transactions are reported as nonoperating revenues (expenses) in the accompanying statements of revenues, expenses, and changes in net assets.

Management is of the opinion that revenues and expenses relating to the operation of the MOB are not operating revenues and expenses of the District. As such, these revenues and expenses are included in nonoperating revenues (expenses) in the accompanying financial statements. Net revenues and expenses on the operation of the MOB amounted to approximately $1,876,000 and $1,674,000, respectively, in 2008 and $1,759,000 and $1,663,000, respectively, in 2007.

Gifts, Grants, and Bequests — Gifts, grants, and bequests that are restricted for operating activities are recorded as operating revenues. All other gifts, grants, and bequests are recorded as nonoperating revenues. Gifts, grants, and bequests with donor restrictions are reflected as restricted net assets until the donor restriction has been satisfied.

Income Taxes — The District is organized as a political subdivision of the state of Florida. All of its entities are not-for-profit corporations as described in section 501(c)(3) of the Internal Revenue Code (IRC), and are exempt from federal and state income taxes pursuant to section 501(a) of the IRC and chapter 220.13 of the Florida Statutes, respectively.

Use of Estimates — 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 of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial statement period. Areas subject to management estimates include estimated third-party payor settlements, reserves for professional liability, workers' compensation, and health insurance claims and allowances for patient accounts receivable. Actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

At September 30, 2008 and 2007, the carrying amounts of the District's bank deposits were $9,784,781 and $7,205,525, respectively. The bank balances are held in banking institutions approved by the state of Florida Treasurer (the "State Treasurer") to hold public funds.

The District makes investments in securities and limited partnerships in accordance with its investment policy, which has been approved by the Board of Trustees of the District. These investments are permitted as the investment policy has been approved by the Board of Trustees which is a permissible option under Florida statutes related to the investments of public funds rather than accepting the default restrictions. The investment policy allows investments in the following general types of investments: 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 primary objective of the investment policy is to assure that investments are of investment grade quality. The second criterion is the assurance of liquidity in public markets, and the third consideration is yield or return. The target asset allocation is 33% fixed income, 17% equities, 20% limited partnerships, and 30% cash and cash equivalents.

The composition of the respective investment accounts at September 30, 2008 and 2007, are as follows:

	2008	2007
Investments — current consist of:		
Cash and cash equivalents	$ 1,345	$ 5,024
Mutual funds — fixed income	38,114,175	35,920,469
Mutual funds — equity	8,788,220	11,857,844
Insurance contracts		7,647,934
Limited partnerships	12,219,718	5,992,152
Total investments — current	$ 59,123,458	$ 61,423,423
Restricted investments — trustee held funds consist of:		
Cash and cash equivalents	$ 3,302,822	$ 404,833
Federal National Mortgage Association note		3,358,958
Mutual funds — fixed income	4,958,076	4,877,560
Total restricted investments	8,260,898	8,641,351
Board designated investments fund consists of:		
Cash and cash equivalents	3,787	150
Mutual funds — fixed income	8,245,723	7,609,531
Mutual funds — equity	2,060,896	2,488,027
Insurance contracts		1,630,085
Limited partnership	2,604,514	1,277,150
Total board designated investments	12,914,920	13,004,943
Total restricted and board designated investments	$ 21,175,818	$ 21,646,294

Mutual Funds — Fixed income consists of mutual funds with various average maturities managed by an external investment management company. Mutual funds — equity consists of mutual funds invested in equity securities, which are managed by separate external investment management companies. The insurance contracts consisted of investments in annuity contracts structured for underlying real estate investments. In 2008, the structure of the investment vehicle was modified and the underlying assets are now held within a limited liability company and represented in the table above within limited partnerships. The limited partnership investment also includes a limited partnership managed by a general partner, and invests in various other limited partnerships, which contain publicly traded equity securities as the underlying assets of the limited partnerships.

The fixed income investments of the District as of September 30, 2008 and 2007, consist of the following:

			2008			
Investment Type	**Type**	**Fair Value Method**	**Fair Value**	**<1 year**	**1–5 years**	**6–10 years**
Mutual funds — fixed income*	Short term	quoted price	$16,929,188	$16,929,188	$ -	$ -
Mutual funds — fixed income*	Low duration	quoted price	13,307,854		13,307,854	
Mutual funds — fixed income*	Total return	quoted price	24,221,061			24,221,061
			$54,458,103	$16,929,188	$13,307,854	$24,221,061

			2007			
Investment Type	**Type**	**Fair Value Method**	**Fair Value**	**<1 year**	**1–5 years**	**6–10 years**
Mutual funds — fixed income**	Short term	quoted price	$11,747,130	$11,747,130	$ -	$ -
Mutual funds — fixed income**	Low duration	quoted price	13,742,912		13,742,912	
Federal National Mortgage Associate Note		quoted price	3,358,958	3,358,958		
Mutual funds — fixed income**	Total return	quoted price	22,917,113			22,917,113
			$51,766,113	$15,106,088	$13,742,912	$22,917,113

* The short-term mutual funds had a weighted average maturity of 0.4 years. The low duration mutual funds had a weighted average maturity of 2.7 years. The total return mutual fund had a weighted average maturity of 6.1 years.

** The short-term mutual funds had a weighted average maturity of 0.7 years. The low duration mutual funds had a weighted average maturity of 1.2 years. The total return mutual fund had a weighted average maturity of 6.6 years.

Interest Rate Risk — As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment portfolio maturities for investments subject to interest rate risk are limited as follows:

Maturity	**Maximum Investment (as a %)**
One to five years	30%
Six to ten years	33
No stated maturity	37

Credit Risk — All demand and time deposits, including money market accounts, are insured and collateralized in accordance with Chapter 280, Florida Statutes, which established the Public Deposit Security Trust Fund, a multiple financial institution collateral pool. Florida Statutes Section 280.08 provides for assessments against the members of the pool or on a pro rata basis in the event that the collateral pool is insufficient to cover the losses of a member financial institution that fails. As such, all deposits covered by this collateral pool are considered to be fully insured.

The District holds a position in the Blue Rock Capital Fund, LP of $7,100,000 as of September 30, 2008 which represents a greater than 5% allocation of the investment portfolio. However, Blue Rock Capital Fund, LP invests in other funds and at September 30, 2008 was diversified amongst 18 fund managers, none of which managed more than 12% of the portfolio and no family of funds managed more than 32%.

The District also enters into overnight repurchase agreements with a local banking institution. On any given banking day, the District authorizes the bank to "sweep" their account for the purpose of entering into prepurchase agreements and other investments. The next day ,the same account is credited for the principal amount of the previous day's sweep, plus interest earned. As such, the balance is included as part of the cash and cash equivalents total for purposes of financial statement presentation. The amounts are fully collateralized, normally by U.S. Government Treasury and/or Agency Securities. The principal amounts of outstanding repurchase amounts on September 30, 2008 and 2007, were approximately $8,582,000 and $6,362,000, respectively, and have been included in cash and cash equivalents in the accompanying balance sheets.

In an effort to limit credit risk, the District's investment policy identifies the following eligible cash or fixed income investments:

(1) Treasury Bills, Notes, and Bonds; (2) Agency Notes and Bonds; (3) Repurchase Agreements; (4) Certificates of Deposit of $100,000 or less; (5) Fully Collateralized Certificates of Deposit over $100,000 — (Banks rated A+ or better); (6) Commercial Paper (A1, P1, or better); (7) Time Deposits; (8) Cash Mutual Funds (Money Market) — (A average credit quality or better); (9) Domestic Corporate Notes and Bonds (BBB or better); (10) Mortgage-Backed Securities (AA or better); (11) Adjustable Rate Mortgages (AA or better); (12) Eurodollar Certificates of Deposit and Time Deposits; (13) Investment Grade Yankee Bonds (BBB or better); (14) Collateralized Mortgage Obligations (AA or better); (15) Asset Backed Securities (AA or better); (16) Fixed Income Mutual Funds — (Average credit quality AA or better); (17) Eurodollar Bonds; (18) Foreign Government Bonds; (19) Foreign Corporate Bonds; and (20) Insurance Contracts.

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 or collateral securities 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 held in safekeeping by the bank's trust department.

In order to effectively and efficiently implement the District's investment program, it retains a custodian for security safekeeping and transaction reporting. The District may not use a brokerage firm for this purpose.

3. NET PATIENT SERVICE REVENUE

The Hospital, including the accounts of HCSC, HCP and physician practices, and the Park have agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangement with major third-party payors is as follows:

Hospital

Medicare — Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicare outpatient services are paid based upon Ambulatory Payment Classifications (APCs). A portion of the reimbursement is provided on an interim basis, primarily disproportionate share hospital payments, which, along with pass-through reimbursement for qualifying bad debts, are finally determined after annual cost reports are filed and audited by the fiscal intermediary.

Medicaid — Inpatient services rendered to Medicaid program beneficiaries are reimbursed at a per diem rate, which is based upon provider costs subject to cost limits. Outpatient services are reimbursed on a per line item basis, which is based upon provider costs subject to cost limits.

Park

Medicare — The Balanced Budget Act of 1997 mandates a per diem prospective payment system for skilled nursing facilities (SNF), covering allowed costs (routine, ancillary, and capital) of covered SNF services, furnished to beneficiaries under Part A of the Medicare program subject to Medicare limits.

Medicaid — Resident services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology subject to certain limits. The Park is reimbursed at a tentative per diem rate with final settlement determined after submission of annual cost reports by the Park and audit thereof by the Medicaid program.

Cost reports through the year ended September 30, 2005 for the Hospital and Park have been audited and final settlement has been determined. The cost reports for the years ended September 30, 2006 and 2007, have been filed with the fiscal intermediary, but have not been audited and cost reports for the year ended September 30, 2008 has not been filed. Estimated third-party settlements include estimates for anticipated retroactive adjustments under other third-party agreements. It is management's opinion that the settlements on the unaudited cost reports, when reached, will not vary significantly from the estimated amounts recorded in the accompanying financial statements. However, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates associated with these programs will change by a material amount in the near term. In 2008 and 2007, the District recorded an increase to net patient service revenue of approximately $505,891 and $629,000, respectively, relating to prior year third-party settlement and other payment issues.

The components of net patient service revenue for the years ended September 30, 2008 and 2007, is summarized as follows:

2008	Hospital	Non-Hospital	Park	Total
Gross patient service revenue	$ 427,770,511	$ 50,118,450	$21,475,395	$ 499,364,356
Deductions from revenue:				
Contractual adjustments	(275,060,158)	(28,686,608)	(3,716,674)	(307,463,440)
Charity	(25,711,141)	(153,537)		(25,864,678)
Provision for bad debts	(23,915,459)	(4,091,500)	(403,744)	(28,410,703)
	(324,686,758)	(32,931,645)	(4,120,418)	(361,738,821)
Net patient service revenue	$ 103,083,753	$ 17,186,805	$17,354,977	$ 137,625,535

2007	Hospital	Non-Hospital	Park	Total
Gross patient service revenue	$ 414,110,939	$ 50,689,461	$19,576,989	$ 484,377,389
Deductions from revenue:				
Contractual adjustments	(258,986,321)	(29,058,110)	(2,477,613)	(290,522,044)
Charity	(25,444,468)			(25,444,468)
Provision for bad debts	(27,651,990)	(4,435,329)	(569,997)	(32,657,316)
	(312,082,779)	(33,493,439)	(3,047,610)	(348,623,828)
Net patient service revenue	$ 102,028,160	$ 17,196,022	$16,529,379	$ 135,753,561

4. CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges for services and supplies furnished under their charity care policies. Charges foregone, based on established rates, due to the provision of care to charity patients amounted to approximately $25,865,000 and $25,444,000 for the years ended September 30, 2008 and 2007, respectively.

5. CONCENTRATION OF CREDIT RISK

The District grants credit without collateral to its patients, most of whom are local residents and may be insured under third-party payor agreements. Accounts receivable, net of contractual adjustments, from patients and third-party payors at September 30, 2008 and 2007, is comprised of the following components:

	2008	2007
Medicare	28 %	24 %
Medicaid	26	21
Other third-party payors	38	45
Self-pay	8	10
	100 %	100 %

All balances net of related contractual adjustments and collectibility allowances are expected to be collected within the subsequent fiscal year.

6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008, is summarized as follows:

	September 30, 2007	Additions	Deletions	Transfers	September 30, 2008
Nondepreciable capital assets:					
Land	$ 17,781,850	$ 222,272	$ -	$ -	$ 18,004,122
Construction in progress	5,432,173	5,391,783		(7,036,485)	3,787,471
Total nondepreciable capital assets	23,214,023	5,614,055	-	(7,036,485)	21,791,593
Depreciable capital assets:					
Land improvements	9,006,283			(11,963)	8,994,320
Buildings	78,153,835	184,849			78,338,684
Equipment	77,546,016	1,293,023	(758,387)	7,048,448	85,129,100
Total depreciable capital assets	164,706,134	1,477,872	(758,387)	7,036,485	172,462,104
Total capital assets	187,920,157	7,091,927	(758,387)	-	194,253,697
Less accumulated depreciation	(87,533,729)	(9,486,090)	750,147		(96,269,672)
Capital assets — net	$ 100,386,428	$ (2,394,163)	$ (8,240)	$ -	$ 97,984,025

Capital asset activity for the year ended September 30, 2007, is summarized as follows:

	September 30, 2006	Additions	Deletions	Transfers	September 30, 2007
Nondepreciable capital assets:					
Land	$ 17,781,850	$ -	$ -	$ -	$ 17,781,850
Construction in progress	1,334,864	6,425,260		(2,327,951)	5,432,173
Total nondepreciable capital assets	19,116,714	6,425,260	-	(2,327,951)	23,214,023
Depreciable capital assets:					
Land improvements	8,978,188	28,095			9,006,283
Buildings	77,958,263	144,539		51,033	78,153,835
Equipment	74,329,225	2,299,187	(1,359,314)	2,276,918	77,546,016
Total depreciable capital assets	161,265,676	2,471,821	(1,359,314)	2,327,951	164,706,134
Total capital assets	180,382,390	8,897,081	(1,359,314)	-	187,920,157
Less accumulated depreciation	(79,193,880)	(9,653,607)	1,313,758		(87,533,729)
Capital assets — net	$ 101,188,510	$ (756,526)	$ (45,556)	$ -	$ 100,386,428

Capital assets include nonoperating property relating to the MOB with costs of approximately $18,701,000 and $17,808,000 and accumulated depreciation of approximately $11,035,000 and $9,864,000 at September 30, 2008 and 2007, respectively. Depreciation in the above capital asset activity include approximately $983,000 and $963,000 in 2008 and 2007, respectively, of depreciation for the MOB, which is included in nonoperating revenues (expenses) in the accompanying statements of revenues, expenses, and changes in net assets.

Land includes property purchased for future development. Some of that land is adjacent to the Hospital and other parcels are located within the District, which may or may not be near current areas of operation.

Amounts included in construction in progress at September 30, 2008 and 2007, represent various ongoing information systems and other projects at the Hospital, the Park, and the MOB.

7. BOND OBLIGATIONS PAYABLE

A summary of bond obligations payable at September 30, 2008 and 2007, is as follows:

	2008	2007
West Orange Healthcare District Revenue Bonds — Series 1999A	$ 4,915,000	$ 7,180,000
West Orange Healthcare District Revenue Bonds — Series 1999B	26,800,000	26,800,000
West Orange Healthcare District Revenue Bonds — Series 2001A	33,000,000	33,000,000
	64,715,000	66,980,000
Less unamortized discount on Series 1999A Bonds	(8,336)	(14,508)
Less unamortized discount on Series 2001A Bonds	(100,989)	(109,454)
Less unamortized deferred amount on refunding	(268,651)	(314,671)
	64,337,024	66,541,367
Less current portion	(2,390,000)	(2,265,000)
	$61,947,024	$64,276,367

Bond obligations payable activity for the year ended September 30, 2008, were as follows:

	Bonds Payable September 30, 2007	Principal Payments	Bonds Payable September 30, 2008	Current Portion September 30, 2008
West Orange Healthcare District Revenue Bonds — Series 1999A	$ 7,180,000	$(2,265,000)	$ 4,915,000	$2,390,000
West Orange Healthcare District Revenue Bonds — Series 1999B	26,800,000		26,800,000	
West Orange Healthcare District Revenue Bonds — Series 2001A	33,000,000		33,000,000	
Total	$66,980,000	$(2,265,000)	$64,715,000	$2,390,000

Bond obligations payable activity for the year ended September 30, 2007, were as follows:

	Bonds Payable September 30, 2006	Principal Payments	Bonds Payable September 30, 2007	Current Portion September 30, 2007
West Orange Healthcare District Revenue Bonds — Series 1999A	$ 9,335,000	$(2,155,000)	$ 7,180,000	$2,265,000
West Orange Healthcare District Revenue Bonds — Series 1999B	26,800,000		26,800,000	
West Orange Healthcare District Revenue Bonds — Series 2001A	33,000,000		33,000,000	
Total	$69,135,000	$(2,155,000)	$66,980,000	$2,265,000

In June 2001, the District issued West Orange Healthcare District Revenue Bonds Series 2001A in the original amount of $20,845,000 bearing interest of 5.65% maturing in February 2022 and $12,155,000 bearing interest of 5.80% maturing in February 2031. The Series 2001 Bonds were issued to provide financing for the Hospital expansion project. The estimated fair value of the outstanding principal of Series 2001 Fixed Rate Revenue Bonds at September 30, 2008 and 2007 was approximately $32,267,000 and $34,716,000, respectively.

In September 1999, the District issued West Orange Healthcare District Revenue Bonds Series 1999A in the original amount of $21,515,000 and West Orange Healthcare District Variable Rate Demand Revenue Bonds, Series 1999B in the original amount of $26,800,000. The Series 1999 Bonds were issued (i) to provide current refunding on a portion of the District's $28,000,000 West Orange Memorial Hospital Tax District Revenue Bonds, Subseries 1991A-1 and $28,000,000 West Orange Memorial Hospital Tax District Revenue Bonds, Subseries 1991A-2 (collectively, the Refunded Bonds) and (ii) pay all or a portion of the expense incurred in connection with the issuance of the Series 1999 Bonds.

The Series 1999A bonds were issued at a fixed rate of interest ranging between 4.1% and 5.5% and mature in various years beginning February 1, 2000 through February 1, 2010. The Series 1999B bonds were issued in a variable rate mode with an interest rate that fluctuates on a weekly basis. At September 30, 2008 and 2007, the variable interest rate on the Series 1999B bonds was approximately 8.50% and 3.80%, respectively. The Series 1999B Bonds have a final maturity date of February 1, 2022. The estimated fair value of the outstanding principal of Series 1999A Fixed Rate Revenue Bonds and the 1999B Variable Rate Revenue Bonds at September 30, 2008, was approximately $5,042,000 and $26,800,000, respectively. The estimated fair value of the outstanding principal of Series 1999A Fixed Rate Revenue Bonds and the 1999B Variable Rate Revenue Bonds at September 30, 2007, was approximately $7,380,000 and $26,800,000, respectively.

The principal and interest payments on the Series 1999B Bonds are secured by an irrevocable letter of credit totaling approximately $27,241,000 with a bank expiring September 9, 2010, unless otherwise terminated or extended at the sole discretion of the bank. The District is required to pay an annual commitment fee on the available letter of credit balance.

The master trust agreement and related documents for the Series 2001A, 1999A, and 1999B Bonds contains certain covenants and restrictions with which the District is required to comply. Additionally, the District is required to maintain a specified long-term debt service coverage ratio, debt service coverage ratio, and debt to capitalization ratio. Noncompliance with any of these covenants or the occurrence of any other event of default, if not waived or corrected, could accelerate the maturity of the borrowings outstanding under the indenture. At September 30, 2008 and 2007, the District was in compliance with all such covenants.

Principal maturities and interest to maturity of bonds payable at September 30, 2008, are as follows:

Year	Principal (1)	Interest (2)	Total Debt Service
2009	$ 2,390,000	$ 4,365,333	$ 6,755,333
2010	2,525,000	4,230,171	6,755,171
2011	3,000,000	4,050,333	7,050,333
2012	3,290,000	3,819,915	7,109,915
2013	3,280,000	3,580,163	6,860,163
2014–2018	19,090,000	13,970,871	33,060,871
2019–2023	20,030,000	6,290,315	26,320,315
2024–2028	6,360,000	2,330,150	8,690,150
2029–2031	4,750,000	426,010	5,176,010
	$ 64,715,000	$ 43,063,261	$ 107,778,261

(1) Although the 1999B and 2001A bonds are term bonds with fixed maturities, the debt service schedule reflects the principal sinking fund payments to be made in order to present the principal payments due through maturity.

(2) The interest rate to maturity on the variable rate 1999B bonds was assumed to be the interest rate at September 30, 2008, of 8.5%. Alternatively, a 3.8% rate which approximates a long-term average of variable debt rates (District's five-year average is approximately 3%) would calculate interest through maturity of $32,408,361, or $10,654,900 less than presented above.

8. RETIREMENT PLAN

Effective October 2, 1994, the employees of the District were transferred to WOHI. Until January 1, 2002, WOHI leased the services of its employees to the Hospital and the Park under a management agreement. In connection with this transfer, the employees ceased participation in the Florida Retirement System (the "System") and are now participating in a defined contribution plan, the Health Central Employee Retirement Savings Plan (the "Plan"). Effective January 1, 2002, the employees were transferred back to the Hospital, but the employees continue to participate in the Plan. The Plan covers qualifying employees and provides for employer contributions of between 5% and 8% of salary. The Plan is administered by the Hospital and the plan provisions have been established and may be amended by the Board of Trustees. Employees may contribute a percentage of their salary up to limits imposed by the Internal Revenue Service. Employees eligible under the Plan have reached the age of 21 and have completed one year of continuous employment with the District (with at least 1,000 hours worked).

Employer contributions are vested to the participant after five years of continuous employment (5,000 hours worked). There were 1,633 and 1,625 participating employees at September 30, 2008 and 2007, respectively. No amounts were payable to the Plan as of September 30, 2008 and 2007. Retirement expense approximated $3,329,000 and $3,001,000 for the years ended September 30, 2008 and 2007, respectively, and are included in the accompanying statements of revenues, expenses, and changes in net assets. Employee contributions amounted to approximately $3,115,506 and $3,037,000 for the years ended September 30, 2008 and 2007, respectively.

9. COMMITMENTS AND CONTINGENT LIABILITIES

Professional Liability Claims — Effective December 1, 2001, the District became self-insured for professional liability up to the established sovereign immunity principal limits. The District has 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 September 30, 2008 and 2007. 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 estimated by the independent actuary includes losses within the sovereign immunity limits only. There is no provision for the possibility that losses may exceed such limits. Claims in excess of sovereign immunity limits require legislative approval as established in Florida Statutes, Chapter 768. The liabilities for potential professional liability claims amounted to approximately $4,600,000 and $4,173,000 at September 30, 2008 and 2007, respectively, which have been included in other noncurrent liabilities, as these matters are generally not expected to be settled during the following year. See below for current activity related to the professional liability accrual.

	Noncurrent Liabilities September 30, 2007	Insurance Expense	Payments	Noncurrent Liabilities September 30, 2008
Professional liability	$4,173,000	$ 913,201	$ 486,201	$4,600,000

	Noncurrent Liabilities September 30, 2006	Insurance Expense	Payments	Noncurrent Liabilities September 30, 2007
Professional liability	$4,296,934	$ 653,335	$ 777,269	$4,173,000

Health and Dental Claims — The District is self-insured for group health and dental claims. In addition, the deductible requirement is waived if services are provided at the Hospital. The District maintains reinsurance though a commercial excess coverage policy, which covers annual individual employee and aggregate claims paid, in excess of the minimum aggregate retention amount of approximately $6,726,000 and $6,858,000 for the years ended September 30, 2008 and 2007, respectively. Reimbursement under this policy is subject to a $110,000 deductible per individual employee and limited to a lifetime maximum of $1,000,000 per individual employee and $1,000,000 annually above the aggregate retention amount. In addition, a second group aggregate of $100,000 was effective in 2007 before stop loss reimbursement was available.

Services provided by the Hospital under the health insurance program are recorded as revenue and a deduction from revenue by the Hospital with an offsetting amount of the allowed revenue recorded as an employee benefit expense, as incurred and approximated $1,361,000 and $1,008,000 for the years ended September 30, 2008 and 2007, respectively. Services provided by physicians and other outside providers are included in employee benefits in the accompanying financial statements and approximated $5,183,000 and $4,382,000 for the years ended September 30, 2008 and 2007, respectively. Approximately $745,000 and $470,000 were recorded as accrued liabilities in the accompanying financial statements as of September 30, 2008 and 2007, respectively.

Workers' Compensation — The District is self-insured for workers' compensation claims. Approximately $782,000 and $878,000 are recorded as accrued liabilities in the accompanying balance sheets as of September 30, 2008 and 2007, respectively. The District maintains reinsurance through a commercial excess coverage policy, which covers claims above the self-insured retention of $600,000 and $750,000 per occurrence during the years ended September 30, 2008 and 2007, respectively. Policies do not contain an aggregate limit. See below for current years' activity related to the health and dental and workers' compensation accruals.

	Self-Insured Liabilities September 30, 2007	Employee Benefits Expense	Payments	Self-Insured Liabilities September 30, 2008
Health and dental	$ 470,030	$ 6,819,194	$ 6,543,849	$ 745,375
Workers' compensation	878,000	452,320	548,320	782,000
Total	$ 1,348,030	$ 7,271,514	$ 7,092,169	$ 1,527,375

	Self-Insured Liabilities September 30, 2006	Employee Benefits Expense	Payments	Self-Insured Liabilities September 30, 2007
Health and dental	$ 662,141	$ 5,037,366	$ 5,229,477	$ 470,030
Workers' compensation	1,145,000	668,596	935,596	878,000
Total	$ 1,807,141	$ 5,705,962	$ 6,165,073	$ 1,348,030

Medical Office Building Leases — Included in other nonoperating revenue (expense) are revenues of approximately $1,876,000 and $1,759,000 in 2008 and 2007, respectively, which represent lease payments under agreements with physicians and other health care providers for space in the MOB. These lease agreements are generally for a period of five years and include rental payments, which include annual increases based upon changes in the consumer price index.

The District's future minimum lease payments to be received under leases in effect as of September 30, 2008, are as follows:

2009	$ 1,544,307
2010	748,347
2011	397,593
2012	369,576
	$ 3,059,823

As of September 30, 2008, substantially all of the available leasable space in the MOB was under lease contracts.

Grants and Contracts — The District participates in various federal and state assisted grant programs that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability of the District. It is management's opinion that the results of these audits will have no material adverse effect on the District's financial position or result of operations.

Litigation — Certain matters of litigation against the District have arisen during the normal course of business. It is the opinion of management that the ultimate liability, if any, resulting from these matters will not have a material adverse effect on the District's financial statements.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of financial instruments as reported in the accompanying balance sheets:

- Investments in 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 are carried at fair value as of September 30, 2008 and 2007 as described in Note 1 to the accompanying financial statements.

- Patient accounts receivable are reported at carrying value, which approximates fair value based on its short-term nature as of September 30, 2008 and 2007.

- Current liabilities are reported at carrying value, which approximates fair value based on its short-term nature as of September 30, 2008 and 2007.

* * * * * *

SUPPLEMENTARY INFORMATION

WEST ORANGE HEALTHCARE DISTRICT

COMBINING BALANCE SHEET INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	District	Health Central	Health Central Park	Non-Hospital Health Services *	West Orange Healthcare, Inc.	West Orange Healthcare, District	Health Central Foundation, Inc.	Elimination Entry	Combined
ASSETS									
CURRENT ASSETS:									
Cash and cash equivalents	$ -	$ 7,801,246	$ 1,238,160	$ -	$ -	$ 9,039,406	$ 827,049	$ -	$ 9,866,455
Investments	46,066,685		13,056,773			59,123,458			59,123,458
Patient accounts receivable — net		22,307,327	2,709,923			25,017,250			25,017,250
Other receivables		967,485	(546,905)			420,580	83,867		504,447
Estimated third-party payor settlements		1,918,549	123,133			2,041,682			2,041,682
Supplies		637,839	25,477			663,316			663,316
Prepaid expenses		984,815	23,956			1,008,771	13,684		1,022,455
Total current assets	46,066,685	34,617,261	16,630,517	-	-	97,314,463	924,600	-	98,239,063
RESTRICTED INVESTMENTS		8,220,898				8,220,898	40,000		8,260,898
BOARD OF DESIGNATED INVESTMENTS		12,601,591				12,601,591	313,329		12,914,920
CAPITAL ASSETS — Net		95,223,810	2,760,215			97,984,025			97,984,025
OTHER ASSETS		945,588	14,320			959,908			959,908
INTRA-DISTRICT RECEIVABLE	10,309,662		10,725,266			21,034,928		(21,034,928)	-
TOTAL	$56,376,347	$151,609,148	$30,130,318	$ -	$ -	$238,115,813	$1,277,929	$(21,034,928)	$218,358,814
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES:									
Accounts payable	$ -	$ 4,287,829	$ 521,523	$ -	$ -	$ 4,809,352	$ -	$ -	$ 4,809,352
Accrued liabilities		4,818,417	481,887			5,300,304	13,000		5,313,304
Accrued payroll and employee costs		5,983,611	22,349			6,005,960			6,005,960
Bond obligations payable — current		2,217,800	172,200			2,390,000			2,390,000
Total current liabilities	-	17,307,657	1,197,959	-	-	18,505,616	13,000	-	18,518,616
BOND OBLIGATIONS PAYABLE — Net of current portion		59,857,325	2,089,699			61,947,024			61,947,024
OTHER NONCURRENT LIABILITIES		2,600,000	2,000,000			4,600,000			4,600,000
INTRA-DISTRICT PAYABLE		21,034,928				21,034,928		(21,034,928)	-
Total liabilities	-	100,799,910	5,287,658	-	-	106,087,568	13,000	(21,034,928)	85,065,640
NET ASSETS:									
Invested in capital assets — net of related debt		36,449,429	498,316			36,947,745			36,947,745
Restricted — nonexpendable						-	40,000		40,000
Restricted — expendable						-	657,714		657,714
Unrestricted	56,376,347	14,359,809	24,344,344			95,080,500	567,215		95,647,715
Total net assets	56,376,347	50,809,238	24,842,660	-	-	132,028,245	1,264,929	-	133,293,174
TOTAL	$56,376,347	$151,609,148	$30,130,318	$ -	$ -	$238,115,813	$1,277,929	$(21,034,928)	$218,358,814

* Express Care Center, the Health Central Surgery Center, Health Central Paramedic, and physician practices.

See accompanying independent auditors' report.

WEST ORANGE HEALTHCARE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	District	Health Central	Health Central Park	West Orange Healthcare, Inc.	Non-Hospital Health Services *	West Orange Healthcare District	Health Central Foundation, Inc.	Elimination Entry	Combined
OPERATING REVENUES:									
Net patient service revenue	$ -	$ 103,083,753	$17,354,977	$ -	$17,186,805	$ 137,625,535	$ -	$ -	$ 137,625,535
Other revenue		3,291,633	42,399		990,905	4,324,937	807,699	(807,699)	4,324,937
Total operating revenues	-	106,375,386	17,397,376	-	18,177,710	141,950,472	807,699	(807,699)	141,950,472
OPERATING EXPENSES:									
Salaries and wages		48,720,515	8,322,461		9,599,617	66,642,593			66,642,593
Employee benefits		11,002,976	2,097,436		1,704,612	14,805,024			14,805,024
Drugs and supplies		21,804,196	2,038,621		2,167,625	26,010,442			26,010,442
Depreciation and amortization		7,168,355	407,192		946,182	8,521,729			8,521,729
Professional fees		508,860	374,251		333,530	1,216,641			1,216,641
Purchased services		11,022,176	2,220,457		1,969,176	15,211,809			15,211,809
Insurance		378,220	378,511		665,646	1,422,377			1,422,377
Utilities		2,825,823	398,199		119,822	3,343,844			3,343,844
Other		1,367,415	74,478		114,766	1,556,659			1,556,659
Total operating expenses	-	104,798,536	16,311,606	-	17,620,976	138,731,118	-	-	138,731,118
Operating income	-	1,576,850	1,085,770	-	556,734	3,219,354	807,699	(807,699)	3,219,354
NONOPERATING REVENUE (EXPENSES):									
Investment income	(1,479,420)	(161,564)	(421,012)			(2,061,996)	(27,348)		(2,089,344)
Interest expense		(2,963,925)	(84,026)			(3,047,951)			(3,047,951)
Contributions made							(941,508)	807,699	(133,809)
Other nonoperating revenue		37,236				37,236	137,569		174,805
Total nonoperating revenue (expenses)	(1,479,420)	(3,088,253)	(505,038)	-	-	(5,072,711)	(831,287)	807,699	(5,096,299)
CHANGE IN NET ASSETS	(1,479,420)	(1,511,403)	580,732	-	556,734	(1,853,357)	(23,588)	-	(1,876,945)
Transfer of net assets		556,734			(556,734)	-			-
NET ASSETS — Beginning of year	57,855,767	51,763,907	24,261,928			133,881,602	1,288,517		135,170,119
NET ASSETS — End of year	$56,376,347	$ 50,809,238	$24,842,660	$ -	$ -	$ 132,028,245	$1,264,929	$ -	$ 133,293,174

* Express Care Center, the Health Central Surgery Center, Health Central Paramedic, and physician practices.

See accompanying independent auditors' report.

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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*

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

We have audited the financial statements of West Orange Healthcare District (the "District") as of and for the year ended September 30, 2008, and have issued our report thereon dated January 16, 2009. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of Health Central Foundation, Inc. (the "Foundation"), as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* for the year ended September 30, 2008.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

We noted certain matters that we reported to management of the District in a separate letter dated January 16, 2009.

This report is intended solely for the information and use of the Board of Trustees, Finance Committee, management of the District, and the Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

January 16, 2009