



**Industrial Development Authority Meeting
June 12, 2020 – 10:00 a.m.
TO BE CONDUCTED VIA ZOOM MEETING**

Join Zoom Meeting <https://us02web.zoom.us/j/88209969257?pwd=UmhZTGRVU1ZrQ0lwZzZsNzVMQmxPQT09>

Meeting ID: 882 0996 9257

Password: 741869

Dial by your location 1 646 558 8656 US (EDT)

Toll Free: 888 475 4499 US

- I. Call to Order and guest introductions**
- II. Approval of Minutes**
 - a. March 13, 2020
- III. Treasurer's Report**
 - a. Financials – for the period ended May 31, 2020
 - b. Invoices
 - Knott Ebelini Hart 5/8/2020 - \$5,525.10
 - Knott Ebelini Hart 5/22/2020 - \$4,384.56
- IV. Old Business**
 - a. Status report from May 29, 2020 webex meeting – Jim Humphrey
- V. New Business**
 - a. Audit proposal – Ashley, Brown & Co., 5/15/2020, \$5,475
 - b. Hold public hearing and consider adoption of inducement resolution relating to Cypress Cove at HealthPark Florida, Inc. project
- VI. Report from IDA representative to the Horizon Council**
- VII. Economic Development Office Comments**
- VIII. Adjourn**

**Next Industrial Development Authority Meeting:
August 14, 2020 - 10:00am
Lee County Admin East Building
2201 Second Street, Fifth Floor, Suite 500
Fort Myers, FL 33901**



LEE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY

March 13, 2020

Members Present: David Barton, Doug Gyure, Tom Hoolihan, Gail Markham, Robbie Roepstorff

Members Absent: Ed Bolter, Wayne Kirkwood

Staff Present: From Lee Co EDO: John Talmage, Nancy Collura, Warren Baucom, Dana Brunett; Jim Humphrey, IDA counsel; Sharon Brotherton, IDA bookkeeper

Guests Present: Dilman Thomas, Horizon Foundation fundraiser

- I. **CALL TO ORDER** – David Barton called the meeting to order at 10:02 a.m., and noted a quorum was present.
- II. **APPROVAL OF MINUTES** - A motion to approve the November 11, 2019 IDA meeting minutes was made by Tom Hoolihan, seconded by Gail Markham, and unanimously approved.
- III. **TREASURER’S REPORT** – Gail Markham reported that there is \$1.3M net available funds; not much has been going on and not many expenditures so we’re in a really good place. Robbie Roepstorff asked about the \$50,000 check that went to the Horizon Foundation and was reminded that that was the IDA’s agreed amount to support the fundraiser position. A motion to approve the report was made by Gail Markham, seconded by Robbie Roepstorff, and unanimously approved. David Barton asked for all to vote on paying the Knott-Ebelini-Hart invoice dated 2.24.2020 and that was unanimously approved.
- IV. **OLD BUSINESS** – Jim Humphrey recently went to Robbie Roepstorff’s office to finalize her reappointment to the board. Jim asked whether all the other members also needed to be sworn in and documented; he was told that everyone was sworn at the November meeting but the representatives from Jim Humphrey’s office who administered the oath did not gather the signatures on documentation that he needs for his files. (A notary from county staff was brought in to the meeting to execute these documents.)
- V. **NEW BUSINESS** – Quotes have been received from The Thompson Agency for the annual renewal of the IDA’s existing D&O insurance and general liability insurance policies. Robbie Roepstorff commented that professional liability insurance was first purchased a few years ago, but she wonders why IDA needs general liability insurance; she also questioned the ‘nonadmitted renewal’ and ‘building and premises’ items included in the packet. Doug Gyure commented that the general liability might have been needed when meetings were held at other local facilities. David Barton asked if the quotes are from the same agency that’s always been used (it is). Jim Humphrey recommended that IDA authorize renewal now and ask that EDO get more info and look for other quotes; Dilman Thomas volunteered to assist with quote gathering. A motion to approve renewal and gather information for subsequent coverage was made by Robbie Roepstorff, seconded by Gail Markham, and unanimously approved.

Dilman Thomas reported that the Foundation also wants to look at creating an Executive Director position and add an administrator position. This year’s goal is over \$500,000 and in order to continue to ramp up fundraising, a dedicated admin person to do the recordkeeping and other functions that are currently being doing by the EDO would help. Gail Markham reminded the group that they are currently providing \$75,000 in annual support to the Foundation for the fundraiser position. A motion to fund an admin position for up to \$50K including benefits, for two years, was made by Gail Markham, seconded Tom Hoolihan, and unanimously approved. Gail Markham commented that Sharon Brotherton could help set up the admin position through a payroll service so that benefits could be made available. Robbie Roepstorff asked what Dilman Thomas’s projected time frame to further increase Foundation fundraising with this additional

support; Gail Markham commented that she thinks that the Foundation would eventually fund this position on its own. Jim Humphrey recommended that this position be set up with a two-year commitment and the Foundation as the employer; he'll write an opinion for this that the Foundation still supports economic development for the county; he added that the Foundation should report to the IDA each year as a follow-up to their investment.

- VI. REPORT FROM IDA REPRESENTATIVE TO THE HORIZON COUNCIL** – Robbie Roepstorff reported that there are lots of changes, for the good, happening to get Horizon Council members reengaged, regularly attending, and reporting back to the organizations that they represent. Committees this year include bylaws, business issues, commercial corridor revitalization, outreach/marketing, transportation/MPO, sports council; healthcare and workforce development are sunsetted. The Horizon Foundation board is reviewing the bylaws and wants to move forward with complete restructuring of the organization; there should be an entire separate board for the Foundation separate from the Council, and leadership should be different too, and include several investors. They want to reevaluate the investor levels and the return investors get. Gail Markham commented that the Foundation is a 501(c)(3) organization and that's part of the reason that this movement toward keeping it a completely separate organization is important. John Talmage added that the Foundation should have a separate board, bylaws, meeting days, etc. in order to ensure that Sunshine Law requirements for the Horizon Council are met and maintained. Tom Hoolihan commented that the current structure of the Horizon Council is useful since many of the voting members are representatives of lobbying groups which need strong representation in order to advocate for their members.
- VII. ECONOMIC DEVELOPMENT DIRECTOR COMMENTS** – John Talmage reported that EDO has developed an application for organizations that want to apply for IDA funds as a grant to further economic development have an avenue to use, and there's a new upcoming project that may use this. Gail Markham reported that the local Junior Achievement organization has taken on a new project, spearheaded by local businessman Scott Fischer, as part of a national prototype program to inspire entrepreneurship, to take to all eighth graders in Lee, Charlotte and Collier counties a three-day showing of professions that the students will visit. FGCU has committed to providing the facility and the school district has committed to providing transportation and food; the program is tentatively scheduled to take place in October; this may be a good kickoff program for the 13,000 students that are eligible to attend. John Talmage had the draft application handed out to everyone in attendance; Jim Humphrey said that he should prepare an opinion that indicates that any projects be for the benefit of Lee County. John Talmage also reported that a new person will be hired for the EDO staff to serve as permitting ombudsman to help walk a new small business start-up through the development process; he also advised everyone that there are now representatives from the SBCD, PTAC, and SCORE that use office space in the Economic Development Office.
- VIII. ADJOURN** - With no further business, the meeting was adjourned at 11:22 a.m.

Next scheduled Industrial Development Authority meeting:

April 10, 2020 – 10:00 a.m.

Lee County Administration East Building

2201 2nd Street, Suite 500

Fort Myers, FL 33901

(239) 533-6800



Lee County Industrial Development Authority 2020 Meetings

Revised 5/14/2020

January 10, 2020 - 10:00 a.m. - CANCELLED

February 14, 2020 - 10:00 a.m. - CANCELLED

March 13, 2020 - 10:00 a.m.

April 10, 2020 - 10:00 a.m. – SPECIAL TELEPHONIC MTG

April 29, 2020 – 10:00 a.m. – SPECIAL TELEPHONIC MTG

May 8, 2020 – 10:00 a.m. – CANCELLED

May 19, 2020 – 10:00 a.m. – SPECIAL TELEPHONIC MTG

June 12, 2020 - 10:00 a.m.

July 2020 – NO MEETING

August 14, 2020 – 10:00 a.m.

*September 11, 2020 – 10:00 a.m.

***ANNUAL MEETING**

October 9, 2020 - 10:00 a.m.

November 6, 2020 - 10:00 a.m.

December 2020 – NO MEETING

**Unless otherwise noted, meetings will be held at the
Lee County Admin East Building, 2201 Second St., Suite 118
(239) 533-6800**



Financial Reports

Lee County Industrial Development Authority
For the period ended May 31, 2020

Prepared by
ShaBro Solutions Corp

Prepared on
June 8, 2020

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Statement of Financial Position Summary

As of May 31, 2020

Bank Accounts and Petty Cash		
Edison National Checking		100,514.22
Edison National Money Market		362,943.78
Total Bank Accounts and Petty Cash		463,458.00
Investment Accounts		
	Maturity Date	
Bank United CD	2/17/2021	245,000.00
Centennial Bank CD	12/12/2020	248,126.54
PNC Bank CD	9/21/2020	253,226.61
Regions Bank CD	7/6/2020	245,000.00
SunTrust CD (Truist)	7/9/2020	245,000.00
Synovus Bank (Formerly Florida Community Bank)	11/4/2020	251,219.89
TIAA (EverBank) CD	6/27/2020	245,881.15
Valley National Bank	7/30/2020	247,196.92
Total Investment Accounts		1,980,651.11
LESS Accounts Payable		(9,909.66)
TOTAL FUNDS AVAILABLE		\$ 2,434,199.45
Designated Non-Operating Funds		
Economic Development Programs Budget	900,000.00	
Less Expenditures	(51,027.55)	
Balance		848,972.45
Gold Key Program Budget	5,000.00	
Less Expenditures	-	
Balance		5,000.00
HF 1099 Administration Budget	125,000.00	
Less Expenditures	-	
Balance		125,000.00
Horizon Foundation Sponsorship Budget	20,000.00	
Less Expenditures	-	
Balance		20,000.00
Marketing Support Budget	200,000.00	
Less Expenditures	-	
Balance		200,000.00
Non-Operating Funds Remaining Balance		1,198,972.45
Operating Funds		
Budgeted Operating Expenses	55,600.00	
Less Expenditures	(22,541.91)	
Total Estimated to Spend		33,058.09
Net Available Funds		<u>\$ 1,202,168.91</u>

Statement of Financial Position

As of May 31, 2020

	Total
ASSETS	
Current Assets	
Bank Accounts	
Edison National Checking	100,514.22
Edison National Money Market	362,943.78
Total Bank Accounts	463,458.00
Total Current Assets	463,458.00
Other Assets	
Bank United CD #1815057021	245,000.00
Centennial Bank	248,126.54
PNC Bank CD	253,226.61
Regions Bank CD	245,000.00
SunTrust CD	245,000.00
Synovus Bank	251,219.89
TIAA (EverBank)	245,881.15
Valley National Bank	247,196.92
Total Other Assets	1,980,651.11
TOTAL ASSETS	\$2,444,109.11
LIABILITIES AND EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	9,909.66
Total Accounts Payable	9,909.66
Total Current Liabilities	9,909.66
Total Liabilities	9,909.66
Equity	
Opening Bal Equity	1,206,757.15
Retained Earnings	1,280,391.97
Net Revenue	-52,949.67
Total Equity	2,434,199.45
TOTAL LIABILITIES AND EQUITY	\$2,444,109.11

Statement of Activity

October 2019 - May 2020

	Total
REVENUE	
Bond Application Fees	1,500.00
Interest Income	19,119.79
Total Revenue	20,619.79
GROSS PROFIT	
20,619.79	
EXPENDITURES	
Designated Funds	
Designated for Eco Dev Programs	51,027.55
Total Designated Funds	51,027.55
Miscellaneous	
Other Expenses	76.00
Total Miscellaneous	76.00
Operating Expenditures	
Insurance	2,159.00
Legal Fees	17,030.91
Total Operating Expenditures	19,189.91
Professional Fees	3,276.00
Total Expenditures	73,569.46
NET OPERATING REVENUE	-52,949.67
NET REVENUE	\$ -52,949.67

General Ledger

October 2019 - May 2020

Date	Transaction Type	Num	Adj	Name	Memo/Description	Split	Amount	Balance
Edison National Checking								
	Beginning Balance							594,040.79
10/18/2019	Transfer		No			Edison National Money Market	-400,000.00	194,040.79
10/31/2019	Deposit		No			Interest Income	10.53	194,051.32
10/31/2019	Receipt	1002	No	Bonita Springs Utilities		Bond Application Fees	1,500.00	195,551.32
10/31/2019	Bill Payment (Check)	1378	No	Ashley & Brown		Accounts Payable	-5,325.00	190,226.32
10/31/2019	Bill Payment (Check)	1379	No	Knott Ebelini Hart		Accounts Payable	-6,258.68	183,967.64
10/31/2019	Bill Payment (Check)	1380	No	ShaBro Solutions Corp		Accounts Payable	-1,833.00	182,134.64
11/14/2019	Bill Payment (Check)	1382	No	Knott Ebelini Hart		Accounts Payable	-2,097.44	180,037.20
12/01/2019	Deposit		No			Interest Income	4.81	180,042.01
12/27/2019	Transfer		No			TIAA (EverBank)	8,763.28	188,805.29
12/27/2019	Bill Payment (Check)	1381	No	Horizon Foundation Inc		Accounts Payable	-50,000.00	138,805.29
12/27/2019	Bill Payment (Check)	1383	No	ShaBro Solutions Corp		Accounts Payable	-808.00	137,997.29
12/31/2019	Deposit		No			Interest Income	4.49	138,001.78
01/15/2020	Journal Entry		No			-Split-	2,781.08	140,782.86
01/31/2020	Deposit		No			Interest Income	4.39	140,787.25
02/26/2020	Journal Entry	3	No		Bank United Partial CD Withdrawal - Ck # 400149349	-Split-	12,911.14	153,698.39
02/29/2020	Deposit		No			Interest Income	3.07	153,701.46
03/05/2020	Bill Payment (Check)	1385	No	ShaBro Solutions Corp		Accounts Payable	-1,305.00	152,396.46
03/05/2020	Bill Payment (Check)	1384	No	Knott Ebelini Hart		Accounts Payable	-3,424.04	148,972.42
03/19/2020	Check	1388	No	Knott Ebelini Hart		Operating Expenditures:Legal Fees	-169.13	148,803.29
03/19/2020	Check	1386	No	Fort Myers Mighty Mussels		Designated Funds:Designated for Eco Dev Programs	-481.82	148,321.47
03/19/2020	Check	1387	No	Fort Myers Mighty Mussels		Designated Funds:Designated for Eco Dev Programs	-545.73	147,775.74
03/31/2020	Check	1389	No	The Thompson Agency		Operating Expenditures:Insurance	-2,159.00	145,616.74
03/31/2020	Deposit		No			Regions Bank CD	7,142.80	152,759.54
03/31/2020	Deposit		No			Interest Income	3.70	152,763.24
04/20/2020	Bill Payment (Check)	1391	No	ShaBro Solutions Corp		Accounts Payable	-413.00	152,350.24
04/20/2020	Bill Payment (Check)	1390	No	Knott Ebelini Hart		Accounts Payable	-1,430.64	150,919.60
04/30/2020	Deposit		No			Interest Income	3.75	150,923.35
05/11/2020	Bill Payment (Check)	1392	No	ShaBro Solutions Corp		Accounts Payable	-413.00	150,510.35
05/22/2020	Check	1393	No	Lee County Medical Society Foundation		Designated Funds:Designated for Eco Dev Programs	-50,000.00	100,510.35
05/31/2020	Deposit		No			Interest Income	3.87	100,514.22

Date	Transaction Type	Num	Adj	Name	Memo/Description	Split	Amount	Balance
Total for Edison National Checking							\$ -493,526.57	
Edison National Money Market								
Beginning Balance								207,870.67
10/18/2019	Transfer		No			Edison National Checking	400,000.00	607,870.67
10/31/2019	Deposit		No			Interest Income	9.70	607,880.37
10/31/2019	Check	1004	No	Valley National Bank	Opening CD	Valley National Bank	-245,000.00	362,880.37
12/01/2019	Deposit		No			Interest Income	9.25	362,889.62
12/31/2019	Deposit		No			Interest Income	8.94	362,898.56
01/31/2020	Deposit		No			Interest Income	9.82	362,908.38
02/29/2020	Deposit		No			Interest Income	8.33	362,916.71
03/31/2020	Deposit		No			Interest Income	8.92	362,925.63
04/30/2020	Deposit		No			Interest Income	8.93	362,934.56
05/31/2020	Deposit		No			Interest Income	9.22	362,943.78
Total for Edison National Money Market							\$155,073.11	
Bank United CD #1815057021								
Beginning Balance								251,522.48
12/31/2019	Journal Entry	INTEREST	No		Interest Earned	-Split-	5,465.71	256,988.19
02/17/2020	Journal Entry		No		Interest Income at maturity	-Split-	922.95	257,911.14
02/26/2020	Journal Entry	3	No		Bank United Partial CD Withdrawal - Ck # 400149349	-Split-	-12,911.14	245,000.00
Total for Bank United CD #1815057021							\$ -6,522.48	
Centennial Bank								
Beginning Balance								245,743.50
12/12/2019	Journal Entry	INTEREST	No		Interest Earned	-Split-	2,383.04	248,126.54
Total for Centennial Bank							\$2,383.04	
PNC Bank CD								
Beginning Balance								251,269.59
10/21/2019	Journal Entry	INTEREST	No		Interest Earned	-Split-	330.78	251,600.37
11/21/2019	Journal Entry	INTEREST	No		Interest Earned	-Split-	331.22	251,931.59
12/31/2019	Journal Entry	INTEREST	No		Interest Earned	-Split-	320.95	252,252.54
01/21/2020	Journal Entry	INTEREST	No		Interest Earned	-Split-	331.46	252,584.00
02/21/2020	Journal Entry	INTEREST	No		Interest Earned	-Split-	331.61	252,915.61
03/21/2020	Journal Entry	INTEREST	No		Interest Earned	-Split-	299.90	253,215.51
04/21/2020	Journal Entry	6	No		Interest Earned	-Split-	11.10	253,226.61
Total for PNC Bank CD							\$1,957.02	

Date	Transaction Type	Num	Adj	Name	Memo/Description	Split	Amount	Balance
Regions Bank CD								
	Beginning Balance							249,200.43
10/02/2019	Journal Entry	INTEREST	No		Interest Earned	-Split-	1,161.35	250,361.78
12/31/2019	Journal Entry	INTEREST	No		Interest Earned	-Split-	993.90	251,355.68
03/30/2020	Journal Entry	INTEREST	No		Interest Earned	-Split-	787.12	252,142.80
03/31/2020	Deposit		No		Deposit	Edison National Checking	-7,142.80	245,000.00
Total for Regions Bank CD							\$ -4,200.43	
SunTrust CD								
	Beginning Balance							247,157.40
01/09/2020	Journal Entry	2	No			-Split-	623.68	247,781.08
01/15/2020	Journal Entry		No		Withdrawn to Operating	-Split-	-2,781.08	245,000.00
Total for SunTrust CD							\$ -2,157.40	
Synovus Bank								
	Beginning Balance							250,676.80
11/04/2019	Journal Entry	INTEREST	No		Interest Income	-Split-	543.09	251,219.89
Total for Synovus Bank							\$543.09	
TIAA (EverBank)								
	Beginning Balance							252,671.14
12/27/2019	Journal Entry		No		Interest Earned	-Split-	1,092.14	253,763.28
12/27/2019	Transfer		No			Edison National Checking	-8,763.28	245,000.00
03/27/2020	Journal Entry	INTEREST	No		Interest Earned	-Split-	881.15	245,881.15
Total for TIAA (EverBank)							\$ -6,789.99	
Valley National Bank								
10/31/2019	Check	1004	No	Valley National Bank	Opening CD	Edison National Money Market	245,000.00	245,000.00
01/30/2020	Journal Entry	INTEREST	No		Interest Earned	-Split-	1,223.26	246,223.26
04/30/2020	Journal Entry	5	No		Interest Earned	-Split-	973.66	247,196.92
Total for Valley National Bank							\$247,196.92	
Accounts Payable								
	Beginning Balance							63,003.68
10/07/2019	Bill	2019327	No	ShaBro Solutions Corp		Professional Fees	413.00	63,416.68
10/31/2019	Bill Payment (Check)	1380	No	ShaBro Solutions Corp		Edison National Checking	-1,833.00	61,583.68
10/31/2019	Bill Payment (Check)	1378	No	Ashley & Brown		Edison National Checking	-5,325.00	56,258.68
10/31/2019	Bill Payment (Check)	1379	No	Knott Ebelini Hart		Edison National Checking	-6,258.68	50,000.00
11/02/2019	Bill	2019364	No	ShaBro Solutions Corp		Professional Fees	395.00	50,395.00

Date	Transaction Type	Num	Adj	Name	Memo/Description	Split	Amount	Balance
11/14/2019	Bill	418	No	Knott Ebelini Hart		Operating Expenditures:Legal Fees	2,097.44	52,492.44
11/14/2019	Bill Payment (Check)	1382	No	Knott Ebelini Hart		Edison National Checking	-2,097.44	50,395.00
12/01/2019	Bill	2019379	No	ShaBro Solutions Corp		Professional Fees	413.00	50,808.00
12/19/2019	Bill	419	No	Knott Ebelini Hart		Operating Expenditures:Legal Fees	2,891.94	53,699.94
12/27/2019	Bill Payment (Check)	1381	No	Horizon Foundation Inc		Edison National Checking	-50,000.00	3,699.94
12/27/2019	Bill Payment (Check)	1383	No	ShaBro Solutions Corp		Edison National Checking	-808.00	2,891.94
01/01/2020	Bill	2019406	No	ShaBro Solutions Corp		Professional Fees	410.00	3,301.94
01/24/2020	Bill	420	No	Knott Ebelini Hart		Operating Expenditures:Legal Fees	532.10	3,834.04
02/01/2020	Bill	2020020	No	ShaBro Solutions Corp		Professional Fees	410.00	4,244.04
03/01/2020	Bill	2020051	No	ShaBro Solutions Corp		Professional Fees	485.00	4,729.04
03/05/2020	Bill Payment (Check)	1385	No	ShaBro Solutions Corp		Edison National Checking	-1,305.00	3,424.04
03/05/2020	Bill Payment (Check)	1384	No	Knott Ebelini Hart		Edison National Checking	-3,424.04	0.00
03/17/2020	Bill	422	No	Knott Ebelini Hart		Operating Expenditures:Legal Fees	1,430.64	1,430.64
04/01/2020	Bill	2020111	No	ShaBro Solutions Corp		-Split-	413.00	1,843.64
04/20/2020	Bill Payment (Check)	1390	No	Knott Ebelini Hart		Edison National Checking	-1,430.64	413.00
04/20/2020	Bill Payment (Check)	1391	No	ShaBro Solutions Corp		Edison National Checking	-413.00	0.00
04/21/2020	Bill	2020155	No	ShaBro Solutions Corp		-Split-	413.00	413.00
05/08/2020	Bill	1	No	Knott Ebelini Hart		Operating Expenditures:Legal Fees	5,525.10	5,938.10
05/11/2020	Bill Payment (Check)	1392	No	ShaBro Solutions Corp		Edison National Checking	-413.00	5,525.10
05/22/2020	Bill	423	No	Knott Ebelini Hart		Operating Expenditures:Legal Fees	4,384.56	9,909.66
Total for Accounts Payable							\$ -53,094.02	
Opening Bal Equity								
Beginning Balance								1,206,757.15
Total for Opening Bal Equity								
Retained Earnings								
Beginning Balance								1,280,391.97
Total for Retained Earnings								
Bond Application Fees								
10/31/2019	Receipt	1002	No	Bonita Springs Utilities	Bonita Springs Utilities Project, Series 2019 Bonds Application Fee	Edison National Checking	1,500.00	1,500.00
Total for Bond Application Fees							\$1,500.00	
Interest Income								
10/02/2019	Journal Entry	INTEREST	No		Interest Earned	-Split-	1,161.35	1,161.35
10/21/2019	Journal Entry	INTEREST	No		Interest Earned	-Split-	330.78	1,492.13
10/31/2019	Deposit		No		Interest Deposit	Edison National Checking	10.53	1,502.66

Date	Transaction Type	Num	Adj	Name	Memo/Description	Split	Amount	Balance
10/31/2019	Deposit		No		Interest Deposit	Edison National Money Market	9.70	1,512.36
11/04/2019	Journal Entry	INTEREST	No			-Split-	543.09	2,055.45
11/21/2019	Journal Entry	INTEREST	No		Interest Earned	-Split-	331.22	2,386.67
12/01/2019	Deposit		No		Interest Deposit	Edison National Checking	4.81	2,391.48
12/01/2019	Deposit		No		Interest Deposit	Edison National Money Market	9.25	2,400.73
12/12/2019	Journal Entry	INTEREST	No		Interest Earned	-Split-	2,383.04	4,783.77
12/27/2019	Journal Entry		No		Interest Earned	-Split-	1,092.14	5,875.91
12/31/2019	Journal Entry	INTEREST	No		Interest Earned	-Split-	5,465.71	11,341.62
12/31/2019	Journal Entry	INTEREST	No		Interest Earned	-Split-	993.90	12,335.52
12/31/2019	Journal Entry	INTEREST	No		Interest Earned	-Split-	320.95	12,656.47
12/31/2019	Deposit		No		Interest Deposit	Edison National Money Market	8.94	12,665.41
12/31/2019	Deposit		No		Interest Deposit	Edison National Checking	4.49	12,669.90
01/09/2020	Journal Entry	2	No			-Split-	623.68	13,293.58
01/21/2020	Journal Entry	INTEREST	No		Interest Earned	-Split-	331.46	13,625.04
01/30/2020	Journal Entry	INTEREST	No		Interest Earned	-Split-	1,223.26	14,848.30
01/31/2020	Deposit		No			Edison National Checking	4.39	14,852.69
01/31/2020	Deposit		No		Interest Deposit	Edison National Money Market	9.82	14,862.51
02/17/2020	Journal Entry		No			-Split-	922.95	15,785.46
02/21/2020	Journal Entry	INTEREST	No		Interest Earned	-Split-	331.61	16,117.07
02/29/2020	Deposit		No		Interest Deposit	Edison National Money Market	8.33	16,125.40
02/29/2020	Deposit		No			Edison National Checking	3.07	16,128.47
03/21/2020	Journal Entry	INTEREST	No		Interest Earned	-Split-	299.90	16,428.37
03/27/2020	Journal Entry	INTEREST	No		Interest Earned	-Split-	881.15	17,309.52
03/30/2020	Journal Entry	INTEREST	No		Interest Earned	-Split-	787.12	18,096.64
03/31/2020	Deposit		No		Interest Deposit	Edison National Money Market	8.92	18,105.56
03/31/2020	Deposit		No		Interest Deposit	Edison National Checking	3.70	18,109.26
04/21/2020	Journal Entry	6	No		Interest Earned	-Split-	11.10	18,120.36
04/30/2020	Deposit		No		Interest Deposit	Edison National Checking	3.75	18,124.11
04/30/2020	Deposit		No		Interest Deposit	Edison National Money Market	8.93	18,133.04
04/30/2020	Journal Entry	5	No		Interest Earned	-Split-	973.66	19,106.70
05/31/2020	Deposit		No		Interest Deposit	Edison National Checking	3.87	19,110.57
05/31/2020	Deposit		No		Interest Deposit	Edison National Money Market	9.22	19,119.79

Total for Interest Income

\$19,119.79

Designated Funds

Designated for Eco Dev Programs

03/19/2020	Check	1386	No	Fort Myers Mighty Mussels	Attainable Housing Event - 2/26/2020	Edison National Checking	481.82	481.82
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Date	Transaction Type	Num	Adj	Name	Memo/Description	Split	Amount	Balance
03/19/2020	Check	1387	No	Fort Myers Mighty Mussels	3/3/2020 Tech Partnership Group Event	Edison National Checking	545.73	1,027.55
05/22/2020	Check	1393	No	Lee County Medical Society Foundation	Emergency Grant Funds - PPE purchase	Edison National Checking	50,000.00	51,027.55
Total for Designated for Eco Dev Programs							\$51,027.55	
Total for Designated Funds							\$51,027.55	
Miscellaneous								
Other Expenses								
04/01/2020	Bill	2020111	No	ShaBro Solutions Corp	QBO Subscription - March 2020	Accounts Payable	38.00	38.00
04/21/2020	Bill	2020155	No	ShaBro Solutions Corp	QBO Subscription - April 2020	Accounts Payable	38.00	76.00
Total for Other Expenses							\$76.00	
Total for Miscellaneous							\$76.00	
Operating Expenditures								
Insurance								
03/31/2020	Check	1389	No	The Thompson Agency	NPP & Gen Liab Policy Renewals	Edison National Checking	2,159.00	2,159.00
Total for Insurance							\$2,159.00	
Legal Fees								
11/14/2019	Bill	418	No	Knott Ebelini Hart	4/19 - 10/29/19 Legal Services	Accounts Payable	2,097.44	2,097.44
12/19/2019	Bill	419	No	Knott Ebelini Hart	10/21/19 - 11/19/19 Legal Services	Accounts Payable	2,891.94	4,989.38
01/24/2020	Bill	420	No	Knott Ebelini Hart	12/02/19 - 12/19/19 Legal Services	Accounts Payable	532.10	5,521.48
03/17/2020	Bill	422	No	Knott Ebelini Hart	February 2020 Legal Services billed 3/17/2020	Accounts Payable	1,430.64	6,952.12
03/19/2020	Check	1388	No	Knott Ebelini Hart	INV 421 - Jan 2020 Services	Edison National Checking	169.13	7,121.25
05/08/2020	Bill	1	No	Knott Ebelini Hart	April 2020 Legal Services billed 5/08/2020 - COVID-19 Special Advisory	Accounts Payable	5,525.10	12,646.35
05/22/2020	Bill	423	No	Knott Ebelini Hart	April 2020 Legal Services billed 5/22/2020	Accounts Payable	4,384.56	17,030.91
Total for Legal Fees							\$17,030.91	
Total for Operating Expenditures							\$19,189.91	
Professional Fees								
10/07/2019	Bill	2019327	No	ShaBro Solutions Corp	Bookkeeping Services - October 2019	Accounts Payable	413.00	413.00
11/02/2019	Bill	2019364	No	ShaBro Solutions Corp	Bookkeeping - November 2019	Accounts Payable	395.00	808.00
12/01/2019	Bill	2019379	No	ShaBro Solutions Corp	Bookkeeping - December 2019	Accounts Payable	413.00	1,221.00
01/01/2020	Bill	2019406	No	ShaBro Solutions Corp	Bookkeeping - January 2020	Accounts Payable	410.00	1,631.00
02/01/2020	Bill	2020020	No	ShaBro Solutions Corp	Bookkeeping - February 2020	Accounts Payable	410.00	2,041.00
03/01/2020	Bill	2020051	No	ShaBro Solutions Corp	Bookkeeping - March 2020	Accounts Payable	485.00	2,526.00

Date	Transaction Type	Num	Adj	Name	Memo/Description	Split	Amount	Balance
04/01/2020	Bill	2020111	No	ShaBro Solutions Corp	March 2020 Activities reconciled in April 2020	Accounts Payable	375.00	2,901.00
04/21/2020	Bill	2020155	No	ShaBro Solutions Corp	April 2020 Activities reconciled in May 2020	Accounts Payable	375.00	3,276.00
Total for Professional Fees							\$3,276.00	

**Lee County Industrial Development Authority
Horizon Foundation Assistance 2015 - 2019**

	<u>Date</u>	<u>Name</u>	<u>Memo/Description</u>	<u>Account</u>	<u>Amount</u>
Non-Operating Expenditures					
HF 1099 Administration					
	09/24/2018	Horizon Foundation Inc		Non-Operating Expenditures:HF 1099 Administration	33,333.28
	09/30/2019	Horizon Foundation Inc	Reimbursement for Chief Marketing/Fundraising Services (October 2018 - September 2019)	Non-Operating Expenditures:HF 1099 Administration	50,000.00
					\$ 83,333.28
Total for HF 1099 Administration					
Horizon Foundation Sponsorship					
	03/11/2015	Horizon Foundation Inc	Investor Contribution for 2015	Non-Operating Expenditures:Horizon Foundation Sponsorship	20,000.00
	11/17/2015	Horizon Foundation Inc	HF Sponsorship	Non-Operating Expenditures:Horizon Foundation Sponsorship	20,000.00
	01/05/2017	Horizon Foundation Inc	2017 Investors Contribution	Non-Operating Expenditures:Horizon Foundation Sponsorship	20,000.00
	02/06/2018	Horizon Foundation	2018 Investors Contribution	Non-Operating Expenditures:Horizon Foundation Sponsorship	20,000.00
	03/04/2019	Horizon Foundation Inc	2019 Investors Contribution	Non-Operating Expenditures:Horizon Foundation Sponsorship	20,000.00
					\$ 100,000.00
Total for Horizon Foundation					
TOTAL					
					\$ 183,333.28

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Lee County Industrial Development Authority
Attn: Gail Markham, Treasurer
Markham-Norton, P.A.
8961 Conference - Suite 1
Fort Myers, FL 33919

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05/08/2020

ACCOUNT #: 472-100
INVOICE # 1

Re: General

INVOICE

REVISED STATEMENT AS OF 6/8/20

			HOURS	
04/05/2020	GHK	Telephone calls with counsel to IDA; telephone calls with paralegal; review of statutes and Executive Orders; preparation of Notice for Special Meeting-COVID-19; preparation of electronic protocol for Chairman; preparation of electronic protocol to Authority Members.	2.20	495.00
04/06/2020	LAD	Technologist - Schedule and arrange Zoom meeting for board members that can host up to 100 participants.	0.30	67.50
	GHK	Telephone call with IDA counsel; finalized electronic outline for Chairman; finalized meeting notice; finalized electronic meeting protocol.	1.80	405.00
	GHK	Participate in conference call.	0.50	112.50
	GHK	Exchange of emails with staff; email to paralegal.	0.20	45.00
04/07/2020	LAD	Email copy of notice of special meeting to Sarah Owen, Carolyn Rogers, and John Talmage.	0.30	25.50
	GHK	Receipt and review of email addresses for special meeting participants; email to participants providing zoom dial-in information; telephone call with Authority Counsel.	0.60	135.00
04/08/2020	GHK	Receipt and review of Economic Development Director; preparation of memo to Economic Development Director; conference with Authority Counsel.	0.60	135.00
	GHK	Telephone call with Authority Counsel; letter to Director of Economic Development; telephone call with Authority Counsel.	0.90	202.50
	GHK	Telephone call with Authority Counsel; receipt and review of emails from Economic Development Director.	0.60	135.00
	LAD	Draft and prepare 2 memorandums in response to John Talmage's inquiries;		

General

			HOURS	
	LAD	Scan and save same; Email copies of same to Talmage and board members.	2.00	170.00
	LAD	Technologist: Discussions regarding setting up equipment for virtual meeting; Create test meeting for same.	0.60	51.00
04/09/2020	GHK	Telephone call with Authority Counsel; exchange of emails with Economic Development Director; exchange of email with Board Member.	0.60	135.00
	GHK	Reviewed statutes; conference call with Counsel for Authority.	0.80	180.00
	GHK	Preparation for IDA Special Meeting.	0.80	180.00
	GHK	Review of Governor's Executive Orders; review of proposed Emergency Resolution; revisions to Resolution; telephone call with Authority Counsel; email to Authority Counsel.	1.10	247.50
	GHK	Preparation for special meeting.	0.70	157.50
04/10/2020	LAD	Technologist: Set up virtual meeting; Connect all users and ensure meeting operated correctly.	2.00	170.00
	LAD	Emails with court reporter to request copy of transcript.	0.10	8.50
	GHK	Prepared for and attended meeting of Lee County Development Authority; telephone call with Authority Counsel.	3.10	697.50
04/17/2020	LAD	Technologist: Schedule new virtual meeting for special meeting of IDA authority; Confirm information is correct on the Notice of Special Meeting.	0.30	25.50
	GHK	Telephone call with Authority Counsel; preparation and publication of public notice of Special Meeting; memo to Authority Members from counsel for Authority.	1.10	247.50
	GHK	Receipt and review of Sarah Owens memorandum and instructions to paralegal.	0.30	67.50
04/21/2020	LMO	Correspondence to The Authority Re Special Meeting on April 29, 2020 with enclosures.	0.30	25.50
04/27/2020	LMO	Sent correspondence to David Barton Re: Meeting on April 29, 2020; Sent correspondence to J. Talmage Re Meeting on April 29, 2020	0.40	34.00
	LAD	Draft and prepare letter to Lisa Sgarlata regarding joining virtual meeting; Email to Lisa regarding same; Emails with Sherri Parmar regarding virtual meeting information.	1.20	102.00
	GHK	Telephone call with authority counsel; instruction to paralegal regarding electronic participation of hospital representatives.	0.30	67.50
04/28/2020	LAD	Emails with court reporter to confirm virtual special meeting; Emails with all attendees to confirm virtual meeting; Draft and prepare new letter containing virtual meeting information for joining same to all board members; Scan and save same with interactive hyperlink; Email same to all board members.	1.50	127.50
	GHK	Telephone call with paralegal and authority counsel RE: special meeting; telephone call with authority member.	0.60	135.00
	GHK	Letter to authority members RE: special meeting; instructions to paralegal RE: special meeting.	0.50	112.50
	GHK	Telephone call from authority counsel RE: electronic meeting.	0.20	45.00
04/29/2020	LAD	Technologist: Set up, host and attend virtual meeting to ensure connection and operations.	2.20	187.00
	GHK	Telephone call with counsel for authority and board member.	0.50	112.50
	GHK	Preparation for and attendance at IDA meeting.	3.10	697.50

General

		HOURS	
	GHK Telephone call with General Counsel.	0.20	45.00
04/30/2020	LAD Receive and print copies of virtual meeting transcript; Print and arrange for delivery to attorneys for review.	0.30	25.50
	GHK Telephone call from Authority Counsel.	0.20	45.00
	GHK Communications with Authority Members; communications with Authority Counsel; review of Executive Orders 20-111 and 20-112.	1.10	247.50
	FOR SERVICES RENDERED	34.10	6,104.50
05/01/2020	JTH COVID 19 PANDEMIC 20% DISCOUNT		-1,220.90
	TOTAL CREDITS FOR FEES		-1,220.90
			REDUCED BALANCE: 4,883.60
04/24/2020	U.S. Legal Support - Transcript of Lee County IDA Committee Meeting		597.00
04/29/2020	The Breeze Legals - Publication of Special Meeting Notice April 29th, 2020		44.50
	TOTAL ADVANCES		641.50
	TOTAL CURRENT WORK AND COSTS		5,525.10

services rendered through 05/01/2020.

** A finance charge of 1% per month will be assessed on all accounts past due 30 days.**

Please indicate acct. # on checks

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Lee County Industrial Development Authority
Attn: Gail Markham, Treasurer
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Fort Myers, FL 33919

PAGE: 1

05/22/2020

ACCOUNT #: 472-080

INVOICE # 423

Re:General

INVOICE

REVISED STATEMENT AS OF 6/08/2020

			HOURS	
04/01/2020	JTH	Reviewed Ex Order; Prepared for April 10 meeting; Telephone call to community leader; Several phone calls re: April 10 meeting; Telephone conference with David Barton re: Grant Idea	1.60	360.00
04/02/2020	JTH	Special phone calls to authority members, reviewed material in prep for April 10 meeting; Reviewed Executive Orders from Governors office.	1.60	360.00
04/03/2020	JTH	Review of materials and Executive Orders Re Notice Requirements and procedures for telephone conferences COVID-19. Preparation for telephone conference with Chair person Review issue of Advisory body.	1.40	315.00
04/04/2020	JTH	Continued reviewing material in preparation for April 10th IDA Meeting	1.30	292.50
04/06/2020	JTH	Several telephone conferences with Authority Members and George H. Knott; Reviewed Meeting Notice and worked on changes; Telephone conference with Chairman in preparation of meeting; Prepared and participated in conference call, Reviewed e-mails and protocol for meeting reviewed Governors Orders.	1.50	337.50
04/08/2020	JTH	Worked on Memo to the Director of Economic Dev.; Prepare for meeting on April 10th; Review of e-mails; conference with Authority members.	0.70	157.50
04/09/2020	LMO	Drafted correspondence about presentation; Correspondence to Carolyn and Sarah about IDA meeting; Correspondence RE IDA meeting opening statement for Chairman; Drafted and prepared Correspondence for James T. Humphrey discussion for IDA Meeting	1.00	85.00
04/10/2020	JTH	Prepared for and attended meeting of IDA; had Court Reporter present several		

General

			HOURS	
		phone calls with staff and with chairman. Meeting after Authority meeting, just with staff. Reviewed Ch 159 Part 3	2.60	585.00
04/11/2020	JTH	Followed up with the IDA meeting on the 10th; Several E-mails, Telephone conference with with Court Reporter RE Transcript	0.60	135.00
04/13/2020	JTH	Several telephone calls with presenters; Telephone conference with Sara and Carolyn; Reviewed Decision of the Authority; Worked on file and decision of Authority, Instructions to staff	0.80	180.00
04/14/2020	JTH	Worked on placing actions of Authority in writing; Requested and reviewed transcript; Worked on draft Resolution; Telephone conference with Authority Member.	1.40	315.00
04/16/2020	LMO	Drafted Memo Re Two Motions	0.30	25.50
	JTH	Completed my review of transcript of the meeting; Contacted people referenced during meeting	0.40	90.00
04/17/2020	JTH	Prepared and sent out the materials in preparation for the meeting.; Reviewed memo from Sara Owen and from Carolyn Rogers- instructed staff re required documents.	0.60	135.00
04/18/2020	JTH	Telephone calls to and from the parties preparing for the meeting, gathered data and materials.	1.20	270.00
04/22/2020	JTH	Reviewed the anticipated issues to come before the Authority; Reviewed Ch 189 FS as to Special Districts; Reviewed Federal Act and issue of funding; Telephone conference with member; Telephone conference with interested party as to possible grants.	1.60	360.00
04/28/2020	JTH	Several telephone calls to members and interested parties; Telephone conference with John; Review of procedure; Several telephone conferences with members following up with up coming meeting.	2.00	450.00
04/29/2020	JTH	Prepared for meeting; Confirmed notice and agenda had been sent; Ensured phones were set up for meeting; Attended meeting by conference call	0.80	180.00
04/30/2020	JTH	Followed up with phone calls and e-mails; communication with Authority members; reviewed Governors Executive Orders.	1.20	270.00
		FOR SERVICES RENDERED	22.60	4,903.00
05/01/2020	JTH	COVID 19 PANDEMIC 20% DISCOUNT		-980.60
		TOTAL CREDITS FOR FEES		-980.60
			REDUCED BALANCE:	3,922.40
04/08/2020		News Press - Notice of Special Meeting of Lee County Industrial Development Authority April 10th, 2020		208.64
04/10/2020		The Breeze Legals - Notice of Special Meeting of Lee County Industrial Development Authority April 10th, 2020		37.50
04/20/2020		News Press - Notice of Special Meeting of Lee County Industrial Development		

General

Authority April 29th, 2020	
TOTAL ADVANCES	<u>216.02</u>
TOTAL CURRENT WORK AND COSTS	462.16
	4,384.56

Statement reflects services rendered through 05/01/2020.

** A finance charge of 1% per month will be assessed on all accounts past due 30 days.**

Please indicate acct. # on checks

Ashley, Brown & Company
Certified Public Accountants

Proposal to Provide Audit Services To
Lee County Industrial
Development Authority

May 15, 2020

Submitted By

Ashley, Brown & Company
Certified Public Accountants
366 E. Olympia Avenue
Punta Gorda, Florida 33950
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jeff@ashleybrowncpas.com

Contact Person: Jeff Brown

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366 East Olympia Avenue
Punta Gorda, Florida 33950
Phone: 941.639.6600
Fax: 941.639.6115

May 15, 2020

Board of Directors
Lee County Industrial Development Authority
Fort Myers, Florida

Ladies and Gentlemen:

Providing high quality and responsive service to local governments is an increasingly complex and demanding process. Success in this process requires a level of understanding that can only be obtained through practical experience and knowledge of the local environment.

Our objective in this proposal is to demonstrate why it is in Lee County Industrial Development Authority's (the "IDA") best interest to select us as your auditor and advisor. We believe there are several areas where we clearly provide a level of added value. Specifically these areas are:

Experience

Having professionals with extensive expertise in governmental accounting is a definite advantage. Staff members to be assigned to this engagement are all experienced governmental auditors, including working on the IDA. We believe that you should expect from us the highest level of responsiveness, efficiency, and understanding of your operations and issues.

The Importance of Continuity

IDA management is charged with managing a diversity of responsibilities, including, complying with state and federal requirements, ensuring fiscal responsibility and meeting financial reporting deadlines. Our experienced service team is uniquely prepared to begin working on the 2019 audit without having to take your time learning about IDA records, employee duties and current issues.

Our planning is in place, and we are ready to begin fieldwork immediately upon selection. Changing auditors carries with it a number of risk factors such as:

- Inefficient use of IDA staff time
- Disruption of daily operations
- Potential for mistakes and misstatements
- No assurance you will receive comparable levels of service

An Efficient Approach

We understand and commit to meeting all of your requirements and performance specifications. Our audit approach is designed to produce results that will comply with each of the professional requirements in an integrated, cost-effective manner. We commit to you that we will perform the scope of work within your timeline and we will work with you on an ongoing basis to identify opportunities to streamline and accelerate it.

Our Commitment

Service is an area where you will benefit directly from selecting us. We promise to maintain excellent communication with you and your staff. We clearly understand the work to be done and what is required under governmental auditing standards generally accepted in the United States of America, the standards set forth for financial audits by the United States General Accounting Office's *Government Auditing Standards*, the requirements prescribed by Florida Statutes, regulations of the State of Florida Department of Financial Services, and the Rules of the Auditor General of the State of Florida.

Thank you for the opportunity to propose to serve you as your auditors and advisors. Underlying our written response, we hope you sense the pride and enthusiasm we have in our commitment to provide you with quality services.

Any questions regarding this proposal should be directed to Jeff Brown at (941) 639-6600 or 366 E. Olympia Ave., Punta Gorda, FL 33950 or jeff@ashleybrowncpas.com.



Ashley, Brown & Company
Certified Public Accountants

Firm Qualifications and Experience

We are an established firm and possess a wealth of experience and technical knowledge. We are a group of seasoned professionals who have united for a sole purpose – *the delivery of a quality and timely service to our clients.*

Jeff Brown, Teresa DaCosta, Tony Smith, and Jamie Barnes are professionals who bring a wide variety of experience in accounting, auditing and tax matters serving a wide range of clients. These individuals have been assigned to numerous governmental audits in the past, including the IDA. Enclosed in this proposal are resumes for all members of the engagement team. Jeff Brown, who is licensed to practice as a certified public accountant in Florida and has completed all CPE's required by the AICPA and State of Florida for audits of governmental units, will serve as partner on this engagement.

Our firm has never been subjected to any federal or state desk reviews or field reviews of its audits. In addition, there has been no disciplinary action taken or pending against the firm with state regulatory bodies or professional organizations, as well as no pending litigation or accounts of federal indictments for any civil or criminal matters for which the firm has been charged. The firm does not have a record of substandard audit work. The firm meets independence standards as established by the GAGAS, AICPA and the State of Florida.

The firm is properly licensed as a certified public accounting firm in the State of Florida and has always remained in good standing. A copy of our license, downloaded from the state's website, is enclosed in this proposal.

Professional development is a high priority of the firm. Staff members are encouraged to exceed the minimum required levels of continuing professional education in order to comply with the State Board of Accountancy's requirements applicable to audits of Florida local governments. All personnel to be assigned to this engagement are in compliance with the State Board of Accountancy and the General Accounting Office of the federal government's requirements. Each member's continuing education hours are represented on their enclosed resumes.

The firm is dedicated to providing high quality service to each and every client in part by ensuring that all staff are educated and abide by the firm's quality control requirements. All audit staff are committed to preventing ethical violations. Their dedication ensures the success of our clients, firm, and profession.

Our most recent peer review report is enclosed and is dated November 14, 2017. This report indicates that for the year ended March 31, 2017, our firm received the rating of **PASS**, which is the highest possible rating. Further, the peer review states, "as required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*", thus including reviews of local government client activities. Our firm is an active member of the AICPA, FICPA, and FGFOA and we receive constant updates from each.

Although we offer a full range of accounting, auditing and tax services, the predominant part of our practice is devoted to the governmental arena. *Auditing local governments is not a sideline – it is the cornerstone of our local practice.*

Specific Audit Approach

Our firm is capable of meeting all of the audit requirements in an efficient and cost effective manner.

Our audit approach guarantees getting the basics right. It focuses on key organizational elements and key accounts or groups of accounts to bring you, on time, an audit of the highest quality and maximum economy. It is a proven approach that has been applied many times, and it permits flexibility and adaptability to meet your needs.

Our audit strategy contains the following critical elements:

- **Knowledge of Your Operations** - We come to the engagement with a solid understanding of the environment in which you operate and with highly experienced auditors. Due to governmental auditing being the cornerstone of our practice, we understand the laws and regulations required to be subjected to audit test work as well as how to evaluate and report on compliance. All of the engagement team members have been assigned to governmental audits in the past, including the IDA.
- **Management Involvement** - Deciding on audit strategies requires seasoned judgment. Jeff Brown will be heavily involved in all phases of the audit.
- **Continuous Risk Assessment and Planning** - Our audit approach emphasizes the use of professional judgment. We continually monitor client operations and adapt our audit strategy based on risk assessment.
- **Focus on Controls** - Our systems approach to auditing evaluates the accounting and management controls which are of most importance to you. This enables us to reduce the level of substantive auditing in well-controlled environments and facilitate timely external reporting.
- **Exploiting Technology** - We use state-of-the-art computer systems technology in all aspects of the audit. Our staff members bring a wealth of practical experience and training to this phase of the engagement.
- **Effective, Timely Communication** – We know there is no value to be derived from audit information unless it is communicated to you in an effective and timely manner. We represent to you that we will work with you and your staff to streamline and accelerate the audit process. Additionally, in the event we become aware of any irregularities, illegal acts, or indications of illegal acts we will make an immediate written report to the Chairman of the Board.
- **Technical Issues Resolution** – The cornerstone of our philosophy is continual involvement with our clients. This interaction, coupled with a full understanding of the governmental environment, fosters timely identification and resolution of technical issues.

Specific Audit Approach, continued

- **Cost Effectiveness** – We provide added value to our clients with the cost effectiveness of our professional services. We can maintain a commitment to a reasonable and fair fee because of fundamental efficiency and economy inherent in our overall audit philosophy.
- **Internal Control** – We will begin our audit of the IDA by carefully evaluating the effectiveness of both the manual and computerized internal accounting control systems as required under generally accepted auditing standards, as well as selected operating controls. Our audit approach is system-based. It is designed to determine the effectiveness and reliability of control systems, balanced with procedures designed to verify critical assets, liabilities and transactions reflected in the financial statements. Our examinations of systems involve a thorough study of accounting and financial managing procedures. We will document your procedures, evaluate effectiveness of the controls inherent in the systems, and test the operation of the control by examining transactions following through the systems. We will utilize the IDA’s organizational chart, accounting manuals and documented internal control procedures and programs, budgets and financial reports to develop our audit work plan.
- **Analytical Procedures** – We utilize analytical procedures in all aspects of the engagement from the initial planning phases to performing final fluctuation analysis. We also utilize these procedures during the testing of specific account balances, when it is deemed to be effective and efficient. We often use analytical procedures as an additional verification to back-up and see if something makes sense, does it pass the often referred to “smell test.”
- **Sample Sizes** – We utilize various audit techniques to develop sample sizes applicable to the audit procedure. The size of the sample is determined based on analytical procedures and is modified based on the results of the testing. We will work with IDA staff to keep sample sizes to a minimal level to ensure efficient use of IDA staff.
- **Good Business Intelligence** - We are interested in the efficient operations of the IDA. To ensure this, we will meet with management at as many levels as possible. Your staff will know where to turn when they have questions or need to draw on our experience and resources. The result is that you receive a steady stream of information that, in many cases, is vital to informed decision making. We will be your sounding board for ideas, issues, current developments and suggestions to help run your operations better – not just at year-end, but also year round.
- **Proposed timeline and budget for the audit** – We are flexible and it is ultimately up to the IDA’s staff as to dates of fieldwork and other aspects of the audit. Upon our selection as your auditors, we will immediately begin planning the audit and schedule fieldwork.

Location

Our office is located in Punta Gorda and is approximately 25 minutes from your office and are always only a phone call or email away to provide assistance. Additionally, we are accustomed to servicing out-of-town clients and distance has yet to be a detriment to responding to client needs. We currently service numerous clients in Sarasota, DeSoto, Lee, Charlotte, Hendry, Polk and Collier Counties, including governmental, not-for-profit and commercial entities.

Fee

Our all-inclusive price to complete the IDA's audit, including all variable, direct and indirect costs for the fiscal year ending September 30, 2019 is \$5,475. This is a 2.74% increase from our fee for the prior year audit.

Jeff Brown, CPA

Professional Experience

- Over twenty years of governmental audit experience since joining the firm
- Governmental audit engagements undertaken include: City of Punta Gorda; Charlotte County; City of Bonita Springs; City of Everglades City; DeSoto County; Hendry County; Bonita Springs Fire Control and Rescue District; Tice Fire Protection and Rescue Service District; Bayshore Fire Protection and Rescue Service District; Lee County Industrial Development Authority; Lee County Mosquito Control District; Lee County Hyacinth Control District; Collier Mosquito Control District; Fort Myers Beach Mosquito Control District; Fort Myers Beach Library District; Charlotte County Housing Finance Authority; Captiva Erosion Prevention Control District; East Charlotte Drainage District; Joshua Water Control District; County Line Drainage District; Estates at Cherry Lake Community Development District; Upper Captiva Fire Protection and Rescue Service District; Estero Fire District; Fort Myers Beach Fire Control District
- Non-Profit Expending Federal and State Grant Awards: Early Learning Coalition of Florida's Heartland, Inc.

Professional and Civic Affiliations

- Member, Florida Institute of Certified Public Accountants
- Associate Member of Florida and Southwest Florida Chapters of GFOA
- Board of Directors, Charlotte County Industrial Development Authority
- Past Treasurer, Charlotte County Chamber of Commerce
- Board of Directors, Charlotte Behavioral Health Care (formerly Charlotte Mental Health Services)
- Alumnus, Leadership Charlotte County
- Member, Charlotte County Young Professionals

Education and Licenses

- Certified Public Accountant – State of Florida - February 2006
- Masters of Accountancy and Taxation - Florida Gulf Coast University – Fall 2003
- Bachelor of Science with major in Accounting - West Virginia Wesleyan College – Spring 1998

Specialized Government and Audit Training

- 127 hours of Continuing Professional Education credits in the last three years, of which 121 hours were specific to governmental accounting and auditing.

Tony Smith, CPA

Professional Experience

- Participation in several county, municipal and special district audits for the 9 years employed by the firm
- Skilled in computer applications
- Various accounting, auditing and taxation experience
- Governmental audit engagements undertaken include: City of Punta Gorda; Charlotte County Sheriff; Charlotte County Tax Collector; Charlotte County Clerk of Courts; Charlotte County Supervisor of Elections; Charlotte County Property Appraiser; City of Bonita Springs; City of Everglades City; Hendry County; Bonita Springs Fire Control and Rescue District; Tice Fire Protection and Rescue Service District; Bayshore Fire Protection and Rescue Service District; Lee County Industrial Development Authority; Lee County Mosquito Control District; Lee County Hyacinth Control District; Fort Myers Beach Mosquito Control District; Fort Myers Beach Library District; East Charlotte Drainage District; Joshua Water Control District; County Line Drainage District; Upper Captiva Fire Protection and Rescue Service District; Estero Fire District; Fort Myers Beach Fire Control District
- Non-Profit Expending Federal and State Grant Awards: Early Learning Coalition of Florida's Heartland, Inc.

Professional and Civic Affiliations

- Associate Member of Florida and Southwest Florida Chapters of GFOA
- Associate Member of Florida Institutes of Certified Public Accountants
- Alumnus, Leadership Charlotte County
- President-elect, Charlotte County Chamber of Commerce

Education and Licenses

- Certified Public Accountant – State of Florida – February 2020
- Masters of Accountancy and Taxation – Florida Gulf Coast University – 2015
- Bachelor of Science in Accounting – Florida Gulf Coast University – 2011

Prior Work Experience

- United States Navy, Aviation Electrician, Active Duty, February 2003 – March 2007 – Honorable Discharge

Specialized Government & Auditing Training

- 125 hours of Continuing Professional Education credits in the last three years, of which 100 hours were specific to governmental accounting and auditing.

Jamie Barnes, CPA

Professional Experience

- Participation in several county, municipal, non-profits and special district audits for the 5 years employed by the firm.
- Skilled in computer applications and tax preparation
- Various accounting, taxation, general ledger and payroll experience
- Governmental audit engagements undertaken include: City of Punta Gorda; Charlotte County Sheriff; Charlotte County Tax Collector; Charlotte County Clerk of Courts; Charlotte County Supervisor of Elections; Charlotte County Property Appraiser; City of Bonita Springs; City of Everglades City; Hendry County; Bonita Springs Fire Control and Rescue District; Tice Fire Protection and Rescue Service District; Bayshore Fire Protection and Rescue Service District; Lee County Industrial Development Authority; Lee County Mosquito Control District; Lee County Hyacinth Control District; Fort Myers Beach Mosquito Control District; Fort Myers Beach Library District; East Charlotte Drainage District; Joshua Water Control District; County Line Drainage District; East Mulloch Drainage District; Upper Captiva Fire Protection and Rescue Service District; Estero Fire District; Fort Myers Beach Fire Control District
- Non-Profit Expending Federal and State Grant Awards: Early Learning Coalition of Florida's Heartland, Inc.

Professional and Civic Affiliations

- Member, Florida Institutes of Certified Public Accountants
- Associate Member of Florida and Southwest Florida Chapters of GFOA
- Member, American Institute of Certified Public Accountants

Education and Licenses

- Certified Public Accountant – State of Florida – March 2017
- Masters of Accountancy and Taxation – University of Central Florida - 2012
- Bachelor of Arts Degree in Accounting – Florida Gulf Coast University - 2003

Specialized Government & Auditing Training

- 123 hours of Continuing Professional Education credits in the last two years, of which 106 hours were specific to governmental accounting and auditing.

Teresa DaCosta

Professional Experience

- Participation in several county, municipal, non-profits and special district audits for the 5 years employed by the firm.
- Skilled in computer applications and tax preparation
- Various accounting, taxation, general ledger and payroll experience
- Governmental audit engagements undertaken include: City of Punta Gorda; Charlotte County Sheriff; Charlotte County Tax Collector; Charlotte County Clerk of Courts; Charlotte County Supervisor of Elections; Charlotte County Property Appraiser; City of Bonita Springs; City of Everglades City; Hendry County; Bonita Springs Fire Control and Rescue District; Tice Fire Protection and Rescue Service District; Bayshore Fire Protection and Rescue Service District; Lee County Industrial Development Authority; Lee County Mosquito Control District; Lee County Hyacinth Control District; Fort Myers Beach Mosquito Control District; Fort Myers Beach Library District; East Charlotte Drainage District; Joshua Water Control District; County Line Drainage District; East Mulloch Drainage District; Upper Captiva Fire Protection and Rescue Service District; Estero Fire District; Fort Myers Beach Fire Control District
- Non-Profit Expending Federal and State Grant Awards: Early Learning Coalition of Florida's Heartland, Inc.

Professional and Civic Affiliations

- Associate Member of Florida Institutes of Certified Public Accountants
- Associate Member of Florida and Southwest Florida Chapters of GFOA

Education and Licenses

- Masters of Accountancy and Taxation - Florida Gulf Coast University - Spring 2017
- Bachelor of Science in Accounting - Florida Gulf Coast University - Fall 2014

Specialized Government & Auditing Training

- 125 hours of Continuing Professional Education credits in the last three years, of which 110 hours were specific to governmental accounting and auditing.

References

Chief Larry Nisbet
Bayshore Fire Protection & Rescue Service District
17350 Nalle Road
North Fort Myers, Florida 33917
(239) 543-3443

Ms. Lisa Gendron, Finance Director
Bonita Springs Fire Control & Rescue District
27701 Bonita Grande Drive
Bonita Springs, FL 34135
(239) 390-7953

Ms. Anne Wright, Finance Director
City of Bonita Springs
9101 Bonita Beach Road
Bonita Springs, Florida 34135
Phone - (239) 949-6262

Ms. Kristin Simeone, Director of Finance
City of Punta Gorda
326 W. Marion Ave.
Punta Gorda, Florida 33950
(941) 575-3318

Chief Ted Ross
Tice Fire & Rescue District
9351 Workmen Way
Fort Myers, Florida 33905
(239) 694-2380

We pride ourselves in being your year-round advisors and not just the year-end auditors. We encourage you to contact the professionals listed above and inquire about the level of responsiveness and quality of service that we provide. Additional references can be provided upon request.

Licensee Details

Licensee Information

Name: **ASHLEY, BROWN & COMPANY, CPA'S (Primary Name)**
Main Address: **366 E OLYMPIA AVENUE
PUNTA GORDA Florida 33950**
County: **CHARLOTTE**

License Mailing:

LicenseLocation: **366 E OLYMPIA AVENUE
PUNTA GORDA FL 33950**
County: **CHARLOTTE**

License Information

License Type: **FIRM**
Rank: **CPA Firms**
License Number: **AD0019377**
Status: **Current**
Licensure Date: **12/07/1999**
Expires: **12/31/2021**

Special Qualifications **Qualification Effective**
Corporation

Alternate Names

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However email addresses are public record. If you do not wish to supply a personal address, please provide the Department with an email address which can be made available to the public.

Report on the Firm's System of Quality Control

November 14, 2017

To the Owner of Ashley, Brown & Company, CPAs
and the FICPA Peer Review Committee

I have reviewed the system of quality control for the accounting and auditing practice of Ashley, Brown & Company, CPAs (the firm) in effect for the year ended March 31, 2017. My peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

My responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on my review.

Required Selections and Considerations

Engagements selected for review include engagements performed under *Government Auditing Standards*, including a compliance audit under the Single Audit Act.

As a part of my peer review, I considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of my procedures.

Opinion

In my opinion, the system of quality control for the accounting and auditing practice of Ashley, Brown & Company, CPAs in effect for the year ended March 31, 2017, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Ashley, Brown & Company, CPAs has received a peer review rating of *pass*.

David R. Ramona, CPA

AN INDUCEMENT RESOLUTION OF THE LEE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY RELATIVE TO THE PROPOSED ISSUANCE OF HEALTHCARE FACILITIES REFUNDING REVENUE BONDS FOR THE PRINCIPAL PURPOSES OF REFUNDING CERTAIN OUTSTANDING OBLIGATIONS OF THE AUTHORITY AND THE BORROWER AND FINANCING (OR PROVIDING FOR REIMBURSEMENT OF) CERTAIN CAPITAL IMPROVEMENT COSTS INCURRED OR TO BE INCURRED BY THE BORROWER TO ITS EXISTING SENIOR CARE FACILITIES; PROVIDING FOR THE PRELIMINARY APPROVAL BY THE AUTHORITY FOR THE ISSUANCE OF NOT EXCEEDING \$112,000,000 OF SUCH BONDS IN ONE OR MORE SERIES OF TAXABLE AND TAX-EXEMPT BONDS; PROVIDING FOR CERTAIN RELATED MATTERS IN CONNECTION THEREWITH AND FOR AN EFFECTIVE DATE.

WHEREAS, Cypress Cove at HealthPark Florida, Inc. (the "Borrower"), as representative of an obligated group presently consisting of itself, has heretofore applied to the Lee County Industrial Development Authority (the "Authority"), to issue healthcare facilities refunding revenue bonds in one or more series in an initial aggregate principal amount not to exceed \$112,000,000 (the "Series 2020 Bonds"); and

WHEREAS, the proceeds of the Series 2020 Bonds will be loaned to the Borrower for the principal purposes of (1) refunding all or a portion of the Authority's outstanding Healthcare Facilities Refunding Revenue Bonds (Cypress Cove at HealthPark Florida, Inc. Project), Series 2012, (2) refunding all or a portion of the Authority's outstanding Healthcare Facilities Revenue Bonds (Cypress Cove at HealthPark Florida, Inc. Memory Care Project), Series 2014, (3) refunding all or a portion of the Borrower's outstanding Taxable Master Note, Series 2017A (the bonds and note so refunded being herein collectively referred to as the "Refunded Bonds"), the proceeds of which Refunded Bonds were loaned to the Borrower for the purposes of financing and refinancing a portion of the costs of the acquisition of certain real property and certain capital improvements to the Borrower's healthcare facilities owned, operated and located at 10200 Cypress Cove Drive in Lee County, Florida ("Cypress Cove"), (4) funding all or a portion of the costs (including reimbursement for prior related expenditures) related to capital improvement projects related to Cypress Cove (the "Project"), (5) funding any necessary reserves for the Series 2020 Bonds, and (6) paying costs related to issuance of the Series 2020 Bonds; and

WHEREAS, the Borrower has requested that the Authority loan the proceeds of the Series 2020 Bonds to the Borrower pursuant to Chapter 159, Parts II and III, Florida Statutes, and such other provision or provisions of Florida law as the Authority may determine advisable (the "Act") in order to accomplish the foregoing; and

WHEREAS, the issuance of the Series 2020 Bonds under the Act in one or more series of healthcare facilities refunding revenue bonds not exceeding an aggregate principal amount of \$112,000,000 and the loaning of the proceeds thereof to refund the Refunded Bonds, finance the costs of the Project, finance any necessary reserves and pay costs related to the issuance of the Series 2020 Bonds as described above under a loan agreement and other financing agreements which will provide that payments thereunder be at least sufficient to pay the principal of and interest and redemption premium, if any, on such Series 2020 Bonds and such other costs in connection therewith as may be incurred by the Authority, will assist the Borrower and promote the public purposes provided in the Act; and

WHEREAS, in order to satisfy certain requirements of Section 147(f) of the Internal Revenue Code of 1986, as amended (the "Code") and in reliance on Internal Revenue Service Rev. Proc. 2020-21, the Authority held a telephonic hearing on the proposed issuance of the Series 2020 Bonds for the purposes herein stated on the date hereof, which date is more than 7 days following the first publication of notice of such public hearing in a newspaper of general circulation in Lee County, Florida (the "County") (a true and accurate copy of the affidavit of publication of such notice is attached hereto as EXHIBIT A), which public hearing was conducted in a manner that provided a reasonable opportunity for persons with differing views to be heard, both orally and in writing, on the issuance of such Series 2020 Bonds, the refunding of the Refunded Bonds and the location and nature of the Project and was held in a manner which, under the facts and circumstances, was convenient for the residents of the County, such notice was reasonably designed to inform residents of the County of the proposed issue, stated that the Authority would be the issuer of the Series 2020 Bonds, stated the time and manner in which the hearing would occur and generally contained the information required by Section 147(f) of the Code and applicable regulations thereunder; and such 7 days were adequate for notice to be brought to the attention of all interested persons, exceeds the normal periods for notice of public hearings conducted by the Authority and provided sufficient time for interested persons to prepare for and to express their views at such hearing; and

WHEREAS, the Borrower has agreed to execute and deliver to the Authority the Memorandum of Agreement for Issuance of Private Activity Revenue Bonds (the "Memorandum of Agreement") relating to the issuance of the Series 2020 Bonds, attached hereto as EXHIBIT B; and

WHEREAS, it is intended that this Resolution shall constitute official action toward the issuance of the Series 2020 Bonds within the meaning of the applicable United States Treasury Regulations and, specifically, to satisfy the requirements of Treasury

Regulations Section 1.150-2 and to be a declaration of official intent under such Section; and

IT IS, THEREFORE, DETERMINED AND RESOLVED BY THE LEE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY, THAT:

SECTION 1. AUTHORITY FOR THIS RESOLUTION. This resolution, hereinafter called "Resolution" is adopted pursuant to the provisions of the Act and other applicable provisions of law.

SECTION 2. PRELIMINARY STATEMENT. This Resolution is entered into to permit the Borrower to proceed with additional commitments for the refunding of the Refunded Bonds and financing of the costs of the Project, to provide a limited expression of intention by the Authority prior to the issuance of the Series 2020 Bonds, to issue and sell the Series 2020 Bonds and make the proceeds thereof available to refund the Refunded Bonds and finance all or part of the costs of the Project, all in accordance with and subject to the provisions of the Constitution and other laws of the State of Florida, the Code and this Resolution, but subject in all respects to the terms of the Memorandum of Agreement.

SECTION 3. APPROVAL OF REFUNDING OF REFUNDED BONDS AND FINANCING OF THE PROJECT. Based on information provided to the Authority by the Borrower, the refunding of the Refunded Bonds and the financing of the Project as described in the notice of public hearing attached hereto as EXHIBIT A, through the issuance of the Series 2020 Bonds, pursuant to the Act, will promote the economic development and health and welfare of the citizens of the County, will continue to provide residents of the County with access to senior care/healthcare facilities, will promote the general economic structure of the County, will thereby serve the public purposes of the Act and is hereby preliminarily approved, subject, however, in all respects to the Borrower meeting the conditions set forth in the Memorandum of Agreement to the sole satisfaction of the Authority.

SECTION 4. EXECUTION AND DELIVERY OF MEMORANDUM OF AGREEMENT. The Chairman or the Vice-Chairman and the Secretary and any Assistant Secretary of the Authority are hereby authorized and directed to execute, for and on behalf of the Authority, the Memorandum of Agreement attached hereto as EXHIBIT B between the Authority and the Borrower providing understandings relative to the proposed issuance of the Series 2020 Bonds by the Authority to finance the costs of the Project and refund the Refunded Bonds in an initial aggregate principal amount not to exceed the lesser of (a) \$112,000,000, or (b) the amount determined by the Authority and the Borrower to be necessary to accomplish the foregoing.

SECTION 5. AUTHORIZATION OF THE SERIES 2020 BONDS.

There is hereby authorized to be issued and the Authority hereby determines to issue the Series 2020 Bonds, if so requested by the Borrower and subject to the conditions set forth in the Memorandum of Agreement attached hereto, in one or more series of tax-exempt and taxable healthcare facilities revenue bonds in an aggregate principal amount not to exceed \$112,000,000 for the principal purposes of refunding the Refunded Bonds, financing the costs of the Project, financing any necessary reserves and paying costs related to the issuance of the Series 2020 Bonds. The rate of interest payable on the Series 2020 Bonds shall not exceed the maximum rate permitted by law.

SECTION 6. RECOMMENDATION FOR APPROVAL TO BOARD OF COUNTY COMMISSIONERS. The Authority hereby recommends the issuance of the Series 2020 Bonds and financing of the Project for approval to the Board of County Commissioners of Lee County (the "Board"). The Authority hereby directs the Chairman or Vice-Chairman, Authority Counsel and Bond Counsel, either alone or jointly, at the expense of the Borrower, to cooperate in seeking approval for the issuance of the Series 2020 Bonds, the refunding of the Refunded Bonds and the financing of the Project by the Board as the applicable elected representatives of the County under and pursuant to the Act and Section 147(f) of the Code.

SECTION 7. APPOINTMENT OF BOND COUNSEL. The firm of Nabors, Giblin & Nickerson, P.A., Tampa, Florida, is hereby appointed by the Authority to act as bond counsel to the Authority and the County in connection with the issuance by the Authority of the Series 2020 Bonds.

SECTION 8. GENERAL AUTHORIZATION. The Chairman, the Vice-Chairman and the Secretary and any Assistant Secretary are hereby further authorized to proceed with the undertakings on the part of the Authority and are further authorized to take such steps and actions as may be required or necessary in order to cause the Authority to issue the Series 2020 Bonds subject in all respects to the terms and conditions set forth herein and in the Memorandum of Agreement.

SECTION 9. AFFIRMATIVE ACTION. This resolution is an affirmative action of the Authority toward the issuance of the Series 2020 Bonds, as contemplated in the Memorandum of Agreement, in accordance with the purposes of the laws of the State of Florida and the applicable United States Treasury Regulations.

SECTION 10. LIMITED OBLIGATIONS. The Series 2020 Bonds and the interest thereon shall not constitute an indebtedness or pledge of the general credit or taxing power of the County, the State of Florida or any political subdivision or agency thereof but shall be payable solely from the revenues pledged therefor pursuant to a loan agreement or other financing agreement entered into by and between the Authority and the Borrower prior to or contemporaneously with the issuance of the Series 2020 Bonds.

SECTION 11. LIMITED APPROVAL. The approval given herein shall not be construed as an approval of any necessary rezoning applications nor for any other regulatory permits relating to the Project and the Authority shall not be construed by reason of its adoption of this resolution to (a) attest to the Borrower's ability to repay the indebtedness represented by the Series 2020 Bonds, (b) a recommendation to prospective purchasers of the Series 2020 Bonds to purchase the same, or (c) have waived any right of the County or stopping the County from asserting any rights or responsibilities it may have in that regard.

SECTION 12. EFFECTIVE DATE. This Resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED this 12th day of June, 2020.

(SEAL)

**LEE COUNTY INDUSTRIAL
DEVELOPMENT AUTHORITY**

By: _____
Chairman

ATTEST:

Secretary

EXHIBIT A

**AFFIDAVIT OF PUBLICATION OF
NOTICE OF PUBLIC HEARING**

EXHIBIT B

MEMORANDUM OF AGREEMENT FOR ISSUANCE OF PRIVATE ACTIVITY REVENUE BONDS

This Memorandum of Agreement for Issuance of Private Activity Revenue Bonds (the "Agreement") is between the Lee County Industrial Development Authority, a public body corporate and politic (the "Authority") and Cypress Cove at HealthPark Florida, Inc. (the "Borrower").

WITNESSETH:

1. Preliminary Statement. Among the matters of mutual understanding and inducement which have resulted in the execution of this Agreement are the following:

(a) Whereas Chapter 159, Parts II and III, Florida Statutes, (the "Act") provides that the Authority may issue taxable and tax-exempt revenue bonds and loan the proceeds thereof to one or more persons, firms or private corporations, or use such proceeds, to defray the cost of acquiring, by purchase or by construction, certain qualifying health care and continuing care retirement facilities.

(b) The Borrower is requesting the Authority to issue one or more series of bonds for primary purposes of: (1) refunding all or a portion of the Authority's outstanding Healthcare Facilities Refunding Revenue Bonds (Cypress Cove at HealthPark Florida, Inc. Project), Series 2012, (2) refunding all or a portion of the Authority's outstanding Healthcare Facilities Revenue Bonds (Cypress Cove at HealthPark Florida, Inc. Memory Care Project), Series 2014, (3) refunding all or a portion of the Borrower's outstanding Taxable Master Note, Series 2017A (the bonds and note so refunded being herein collectively referred to as the "Refunded Bonds") the proceeds of which Refunded Bonds were loaned to the Borrower for the purposes of financing and refinancing a portion of the costs of the acquisition of certain real property and certain capital improvements to the Borrower's healthcare facilities owned, operated and located at 10200 Cypress Cove Drive in Lee County, Florida ("Cypress Cove"), (4) funding all or a portion of the costs (including reimbursement for prior related expenditures) related to capital improvement projects related to Cypress Cove (the "Project"), (5) funding any necessary reserves for the Series 2020 Bonds, and (6) paying costs related to issuance of the Series 2020 Bonds.

(c) The Authority intends this Agreement to constitute its official binding commitment, subject to the terms hereof, to issue its bonds in one or more tax-exempt and taxable series (the "Series 2020 Bonds") pursuant to a plan of finance and the Act in the amount to be agreed upon by the Authority and the Borrower and to loan the proceeds thereof to the Borrower, or to use such proceeds, to refund the Refunded Bonds and to finance the costs of the Project, including funding any necessary reserves for the Series 2020 Bonds and paying all costs incurred in connection with the issuance of the Series

2020 Bonds by the Authority and the Borrower, up to an initial aggregate principal amount not to exceed \$112,000,000.

(d) The Authority considers the issuance and sale of the Series 2020 Bonds, for the purposes hereinabove set forth, consistent with the objectives of the Act. This commitment is an affirmative official action of the Authority toward the issuance of the Series 2020 Bonds as herein contemplated in accordance with the purposes of both the Act and the applicable United States Treasury Regulations.

2. Undertakings on the Part of the Authority. Subject to the terms hereof, the Authority agrees as follows:

(a) Subject to the Borrower providing the Authority with sufficient evidence to enable the Authority to make the findings set forth in Section 159.29 of the Act, the Authority will, subject to Section 4(f) hereof, authorize the issuance of the Series 2020 Bonds, in one or more series or issues, in the aggregate principal amount necessary and sufficient to refund the Refunded Bonds and finance all or a portion of the costs of the Project, as the Authority and the Borrower shall agree in writing, but in all events, the principal amount of such Series 2020 Bonds shall not exceed the lesser of (a) \$112,000,000, or (b) the amount determined by the Authority and the Borrower to be necessary to accomplish the foregoing.

(b) The Authority will cooperate with the Borrower and with the underwriters, placement agents or purchasers of the Series 2020 Bonds and the bond counsel of the Authority with respect to the issuance and sale of the Series 2020 Bonds and will take such further action and authorize the execution of such documents as shall be mutually satisfactory to the Authority and the Borrower for the authorization, issuance and sale of such Series 2020 Bonds and the use of the proceeds thereof to refund the Refunded Bonds and finance the costs of the Project.

(c) Such actions and documents may permit the issuance from time to time in the future of additional bonds on terms which shall be set forth therein, whether pari passu with other series of bonds or otherwise, for the purpose of defraying the cost of completion, enlargements, improvements and expansions of the Project, or any segment thereof.

(d) The loan agreement, trust indenture, mortgage and other financing documents (collectively, the "Financing Agreements") between the Authority and the Borrower and/or other entities required by the terms of the commitments of the financial institutions shall, under terms agreed upon by the parties, provide for payments to be made by the Borrower in such sums as shall be necessary to pay the amounts required under the Act, including the principal of and interest and redemption premium, if any, on the Series 2020 Bonds, as and when the same shall become due and payable.

(e) The Series 2020 Bonds shall specifically provide that they are payable solely from the revenues derived pursuant to the Financing Agreements between the Authority

and the Borrower or other agreements approved by the Authority, except to the extent payable out of amounts attributable to bond proceeds. The Series 2020 Bonds and the interest thereon shall not constitute an indebtedness or pledge of the general credit of the County, the State of Florida or any political subdivision or agency thereof, and such fact shall be plainly stated on the face of the Series 2020 Bonds.

(f) Issuance of the Series 2020 Bonds by the Authority shall be contingent upon compliance with all provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder, including the ability of and desirability by the Authority to issue obligations to refund the Refunded Bonds and fund the costs of the Project and the approval thereof by the Authority and the Board of County Commissioners of Lee County in accordance with the provisions of Section 147(f) of the Code.

3. Undertakings on the Part of the Borrower. Subject to the terms hereof, the Borrower agrees as follows:

(a) The Borrower will use reasonable efforts to ensure that the Series 2020 Bonds in the aggregate principal amount as stated above are sold; provided, however, that the terms of such Series 2020 Bonds and the sale and delivery thereof shall be mutually satisfactory to the Authority and the Borrower.

(b) Prior to the issuance of the Series 2020 Bonds in the principal amount stated above, in one or more series or issues from time to time as the Authority and the Borrower shall agree in writing, the Borrower will enter into the Financing Agreements with the Authority, the terms of which shall be mutually agreeable to the Authority and Borrower, providing for the loan or use of the proceeds of the Series 2020 Bonds to refund the Refunded Bonds and finance the costs of the Project. Such Financing Agreements will provide that the Borrower will be obligated to pay the Authority (or the trustee for holders of the Series 2020 Bonds on behalf of the Authority, as the case may be) sums sufficient in the aggregate to enable the Authority to pay the principal of and interest and redemption premium, if any, on the Series 2020 Bonds, as and when the same shall become due and payable, and all other expenses related to the issuance and delivery of the Series 2020 Bonds.

(c) The Borrower shall, in addition to paying the amounts set forth in the Financing Agreements, pay all costs of operation, maintenance, taxes, governmental and other charges which may be assessed or levied against or with respect to the Project.

(d) To the extent not otherwise paid from bond proceeds as part of the costs of the Project, the Borrower hereby agrees to pay all of the out of pocket expenses of officials and representatives of the Authority reasonably incurred in connection with the issuance of the Series 2020 Bonds and will pay all reasonable fees and expenses of the Authority in accordance with its guidelines, of Knott Ebelini Hart, Attorneys at Law, Counsel to the Authority, and of Nabors, Giblin & Nickerson, P.A., Bond Counsel.

(e) The Borrower will hold the Authority and the County free and harmless from any loss or damage and from any taxes or other charges levied or assessed by reason of any mortgaging or other disposition of the Project.

(f) The Borrower agrees to indemnify and defend the Authority and the County and hold the Authority and the County harmless against any and all claims, losses, liabilities or damages to property or any injury or death of any person or persons occurring in connection with the financing of the costs of the Project or the issuance of the Series 2020 Bonds and the Borrower's undertaking thereof, or in any way growing out of or resulting from this Agreement including, without limitation, all costs and expenses of the Authority and reasonable attorneys' and legal assistants' fees incurred in the enforcement of any agreement of the Borrower contained herein. In the event that the Series 2020 Bonds are not issued and delivered, this indemnity shall survive the termination of this Agreement.

(g) The Borrower will take such further action as may be required to implement its aforesaid undertakings and as it may deem appropriate in pursuance thereof.

4. General Provisions. All commitments of the Authority under Section 2 hereof and of the Borrower under Section 3 hereof are subject to the conditions that all of the following events shall have occurred not later than June 12, 2021, or such other date as shall be mutually satisfactory to the Authority and Borrower.

(a) The Authority shall be lawfully entitled to issue the Series 2020 Bonds as herein contemplated.

(b) The Authority and Borrower shall have agreed on mutually acceptable terms for the Series 2020 Bonds and the sale and delivery thereof and mutually acceptable terms and conditions of any trust instrument or instruments in respect thereto and any Financing Agreements or other agreements incidental to the financing or referred to in Sections 2 and 3 hereof.

(c) Such other rulings, approvals, consents, certificates of compliance, opinions of counsel and other instruments and proceedings satisfactory to the Borrower and to the Authority as to such matters with respect to the Series 2020 Bonds, refunding the Refunded Bonds, financing of the costs of the Project, the Financing Agreements and any other trust instrument or instruments, as shall be specified by the Borrower or the Authority, shall have been obtained from such governmental, as well as non-governmental, agencies and entities as may have or assert competent jurisdiction over or interest in matters pertinent thereto and shall be in full force and effect at the time of issuance of the Series 2020 Bonds.

(d) Compliance with all applicable provisions of Chapters 159, 189, 215 and 218, Florida Statutes, relating to the issuance of the Series 2020 Bonds, the interest rate thereon, the type of purchasers of the Series 2020 Bonds and the terms on which the Series 2020 Bonds may otherwise be issued.

(e) The Series 2020 Bonds shall be in such denominations as shall be agreed to in writing by the Authority at the time final approval is provided for the sale of the Series 2020 Bonds and shall otherwise comply with the requirements of Section 189.4085, Florida Statutes.

(f) Receipt by the Borrower of all licenses and necessary approvals from the Florida Department of Insurance any other applicable governmental authorities.

If the events set forth in this Section 4 do not take place within the time set forth or any extension thereof, the Borrower agrees that it will annually reimburse the Authority for all the reasonable and necessary direct or indirect expenses which the Authority may incur at the Borrower's request arising from the execution of this Agreement and the performance by the Authority of its obligations hereunder, including all reasonable legal fees for counsel to the Authority and expenses of bond counsel.

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5. Binding Effect. All covenants and agreements herein contained by or on behalf of the Authority and the Borrower shall bind and inure to the benefit of the respective successors and assigns of the Authority and the Borrower whether so expressed or not.

IN WITNESS WHEREOF, the parties hereto have entered into this Agreement by their officers thereunder duly authorized as of the 12th day of June, 2020.

(SEAL)

**LEE COUNTY INDUSTRIAL
DEVELOPMENT AUTHORITY**

By: _____
Chairman

ATTEST:

Secretary

**CYPRESS COVE AT HEALTHPARK
FLORIDA, INC.**

By: _____
Authorized Signatory



May 27, 2020

Board of Directors
Lee County Industrial Development Authority 2201 Second Street, Suite 500
Fort Myers, Florida 33901

Re. **Lee County Industrial Development Authority
Healthcare Facilities Refunding Revenue Bonds
(Cypress Cove at HealthPark Florida, Inc. Project), Series 2020**

Dear Board of Directors:

Enclosed please find an original and three (3) copies of an Application filed on behalf of Cypress Cove at HealthPark Florida, Inc. ("Cypress Cove") for an issuance projected not to exceed \$112,000,000 Lee County Industrial Development Authority, Healthcare Facilities Refunding Revenue Bonds (Cypress Cove at HealthPark Florida, Inc. Project), Series 2020.

Also enclosed is an application fee in the amount of \$2,500.

Cypress Cove is a Florida not-for-profit corporation established to own and operate a continuing care retirement community in Fort Myers and to serve the population of Lee County. The community consists of 333 independent living apartments and 44 independent living villas, 44 assisted living units, 44 memory care units, and 64 skilled nursing units. Currently, Cypress Cove serves over 400 residents in the independent living apartments and villas, 40 residents in assisted living and 41 residents in memory care units, and 56 residents in skilled nursing.

The proceeds of the proposed debt issue will (i) refinance the existing Series 2012/2014 Tax-Exempt Bonds and the Series 2017A Taxable Loan, and (ii) fund planned capital improvements, which are projected to cost approximately \$10,000,000. This project will help the organization reduce its annual debt service requirements and provide improved cash flows to better serve the residents on our campus as well as a growing number of older adults within Lee County.

It is anticipated that the Series 2020 Bonds will be sold as both taxable bonds that would convert to tax-exempt bonds upon satisfaction of certain tax-related conditions (the "Cinderella Bonds") and tax-exempt fixed rate bonds (collectively, the "Bonds"). The organization has engaged B.C. Ziegler & Company ("Ziegler") as the Placement Agent for the Bonds. The Series 2020 Bonds will be issued as three series of bonds which will be privately placed to one, or more, commercial banks. If this application meets with your approval, we would request that the preliminary consideration for this project be added to the Authority's June meeting agenda.

Should you have any questions regarding the enclosed, please feel free to call.

Sincerely,

Matthew J. Lux
Authorized Representative

10200 Cypress Cove Drive
Fort Myers, FL 33908

239-415-5100 | (Fax) 239-415-1840



Lee County Industrial Development Authority

2201 Second Street, Suite 500, Fort Myers, FL 33901 • Telephone: (239) 338-3161

PRE-APPLICATION FOR BUSINESS LOAN

PROJECT NUMBER:

To determine the best financing for the proposed venture, the following information is needed. Complete to the extent available.

Name of Company: **Cypress Cove at HealthPark Florida, Inc.**

Address: **10200 Cypress Cove Drive**

City: **Fort Myers** State: **FL** Zip: **33908**

Phone Number: **239-415-5100** Fax Number: **239-415-1840**

Contact Person: **Matthew J. Lux** Title: **Authorized Representative (239) 489-0023**

TYPE OF BUSINESS:

Manufacturing (Specify product): **N.A.I.C.S.**

Service (Specify product): **N.A.I.C.S.**

Other (Specify product): **Continuing Care Retirement Community (CCRC)**
N.A.I.C.S. 623311

TYPE OF BUSINESS ORGANIZATION:

Profit Partnership
 Nonprofit Proprietorship
 Corporation

AVERAGE NET PROFIT AFTER TAX FOR PREVIOUS TWO YEARS:

New business organization
 \$2 Million or Less
 More than \$2 Million

PROJECT DESCRIPTION:

Purchase Land \$0
Purchase Building \$0
New Construction **\$10,000,000**
Rehabilitate Building \$0
Machinery & Equipment \$0
Furniture & Fixtures \$0
Leasehold Improvement **\$(included in construction costs above)**
Site Improvement \$0
Debt Refinance **\$98,123,859**
Acquisition of Business \$0
Inventory \$0
Debt Reserve, COI, Int **\$5,864,466**
Total Project Cost **\$113,988,325**

Estimate number of jobs to be created/retained as a result of this project.

Created: 0 Retained: 387

Number of acres to be financed: 0 – Leasehold Property

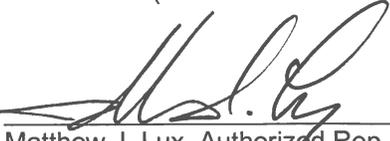
PROPOSED FINANCING OF PROJECT:

Source: Tax-Exempt Bonds Source: Internal Funding (Existing Debt Reserves)

Amount: **\$18,495,000** No. of Yrs: **30** Amount: **\$5,763,325**

EQUITY AVAILABLE: \$0 FINANCING NEEDED: **\$108,225,000**

INCLUDE FINANCIAL STATEMENTS (INCOME AND BALANCE SHEET) FOR THE PAST THREE YEARS.

Completed and signed by  Date 05/27/2020
Matthew J. Lux, Authorized Rep

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

AUDITED FINANCIAL STATEMENTS

Years Ended September 30, 2017 and 2016

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To the Board of Directors of
Cypress Cove at HealthPark Florida, Inc.

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Cypress Cove at HealthPark Florida, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities and changes in net assets 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 from material misstatement, whether due to fraud or error.

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cypress Cove at HealthPark Florida, Inc. as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hughes Snell & Co., P.A.
HUGHES, SNELL & CO., P.A.

Fort Myers, Florida
February 7, 2018

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Statements of Financial Position
September 30, 2017 and 2016

	<u>ASSETS</u>	
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,766,077	\$ 6,063,859
Managed investment accounts	9,894,187	6,733,188
Accounts receivable, net	1,371,826	833,743
Notes receivable, residents	1,385,069	3,180,120
Inventories	153,328	159,357
Prepaid expenses	1,128,354	1,133,528
Current portion of assets whose use is limited	3,436,657	2,809,965
Total Current Assets	<u>22,135,498</u>	<u>20,913,760</u>
 Assets whose use is limited, noncurrent		
Held by Trustee under Bond Indenture		
Series 2012 Bond Interest Payment	1,841,032	2,024,934
Series 2012 Debt Service Reserve	4,493,255	4,513,889
Series 2012 Principal Payment	815,000	785,031
Series 2014 Bond Interest Payment	494,424	523,503
Series 2014 Principal Payment	286,201	-
Series 2014 Project Fund	-	1,765,129
Series 2014 Debt Service Reserve	1,288,354	1,281,696
Held in the Continuing Care Escrow under Florida Statutes		
Deposit and Initial Entrance Fee Account	1,676,383	674,020
Statutory Debt Service Reserve Account	891,017	858,241
Statutory Operating Reserve Escrow Account	3,548,464	3,465,010
Statutory Renewal and Replacement Reserve Account	3,548,531	3,455,450
	<u>18,882,661</u>	<u>19,346,903</u>
Less current portion	<u>(3,436,657)</u>	<u>(2,809,965)</u>
	<u>15,446,004</u>	<u>16,536,938</u>
 PROPERTY AND EQUIPMENT, net	 <u>91,874,978</u>	 <u>88,488,170</u>
 OTHER ASSETS		
Security and utility deposits	179,501	198,098
Capitalized financing and marketing costs, net	4,957,322	5,208,797
	<u>5,136,823</u>	<u>5,406,895</u>
Total Assets	<u>\$ 134,593,303</u>	<u>\$ 131,345,763</u>

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

LIABILITIES AND NET ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Current portion of debt		
Insurance note	\$ 420,847	\$ 512,502
Notes payable Series 2012 and 2014	1,100,000	785,000
Current portion of deferred refunds	129,094	431,844
Accounts payable	1,434,895	1,569,683
Accrued expenses	1,714,395	1,930,379
Accrued interest notes payable	2,329,544	2,344,117
Total Current Liabilities	<u>7,128,775</u>	<u>7,573,525</u>
LONG-TERM LIABILITIES		
Deferred refunds	-	182,560
Refundable deposits	1,498,563	837,219
Deferred revenue from entrance fees	46,078,717	45,489,480
Refundable entrance fees	21,027,197	18,906,457
Notes payable - Series 2012 Bonds, less amortized issuance costs	61,586,826	62,334,252
Notes payable - Series 2014 Bonds, less amortized issuance costs	19,065,394	19,341,974
Notes payable - Series 2017, less amortized issuance costs	2,376,986	-
Subordinated deferred ground lease	5,184,305	5,353,874
Total Long-Term Liabilities	<u>156,817,988</u>	<u>152,445,816</u>
Total Liabilities	<u>163,946,763</u>	<u>160,019,341</u>
NET ASSETS		
Unrestricted	(29,781,092)	(29,679,550)
Temporarily restricted	427,632	1,005,972
Total Net Assets	<u>(29,353,460)</u>	<u>(28,673,578)</u>
Total Liabilities and Net Assets	<u>\$ 134,593,303</u>	<u>\$ 131,345,763</u>

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

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Statements of Activities and Changes in Net Assets

Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS		
Unrestricted revenues		
Independent living, net of contractual adjustments	\$ 16,404,549	\$ 16,315,876
Assisted living, net of contractual adjustments	2,136,184	2,072,584
Memory care	2,460,080	82,797
Skilled nursing, net of contractual adjustments	7,141,651	6,813,933
Home health services, net of contractual adjustments	1,163,311	1,501,218
Net Resident Service Revenue	<u>29,305,775</u>	<u>26,786,408</u>
Investment income	1,008,354	1,077,981
Earned entrance fees	7,464,546	5,855,685
Unrestricted contributions	-	100
Net assets released from restriction	745,644	426,818
Total Revenues	<u>38,524,319</u>	<u>34,146,992</u>
Expenses		
Administrative	2,934,137	3,238,501
Marketing	821,665	801,777
Philanthropy	189,454	124,163
Housekeeping and laundry services	1,256,040	1,110,373
Resident services	879,975	762,128
Dining services	5,394,361	5,014,229
Assisted living	948,067	1,298,281
Memory care	1,663,328	178,540
Skilled nursing services	5,852,288	5,475,349
Home health services	1,151,369	1,343,920
Facility costs	2,462,542	2,654,494
Insurance, taxes, CAM and utilities	3,825,438	3,138,420
Ground lease	1,152,060	1,053,636
Depreciation	4,555,677	3,633,649
Amortization of capitalized financing and marketing costs	251,325	126,425
Interest expense on subordinated deferred ground lease and subordinated note	276,795	276,345
Interest expense on Series 2012 Bonds	3,748,414	3,770,236
Interest expense on Series 2014 Bonds	1,006,258	67,856
Interest other	12,916	7,900
Expenses released from restriction	14,394	62,057
Total Expenses	<u>38,396,503</u>	<u>34,138,279</u>
Operating Income	127,816	8,713
Non Operating		
Capital expenditures released from restriction	-	2,057,074
Loss on disposal of fixed assets	(229,358)	(132,037)
Total Non Operating	<u>(229,358)</u>	<u>1,925,037</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(101,542)	1,933,750
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	167,304	108,840
Net assets released from restriction used for operations	(745,644)	(426,818)
Net assets released from restriction used for capital expenditures	-	(2,057,074)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>(578,340)</u>	<u>(2,375,052)</u>
INCREASE (DECREASE) IN NET ASSETS	(679,882)	(441,302)
NET ASSETS - BEGINNING OF YEAR	<u>(28,673,578)</u>	<u>(28,232,276)</u>
NET ASSETS - END OF YEAR	<u>\$ (29,353,460)</u>	<u>\$ (28,673,578)</u>

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

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (679,882)	\$ (441,302)
Adjustments to reconcile change in net assets to net cash Provided by (Used in) operating activities		
Depreciation expense	4,555,677	3,633,649
Provision for bad debt expense	128,838	65,713
Amortization of capitalized financing and marketing costs	251,325	126,424
Amortization of entrance fees	(7,464,546)	(5,855,685)
Amortization of bond premium	(54,903)	(35,360)
Amortization of bond discount	63,631	56,969
Amortization of debt issuance costs	67,266	67,266
Unrealized (gain) loss on managed investment account	(691,949)	(275,492)
Unrealized (gain) loss on assets whose use is limited	62,370	(256,648)
Realized (gain) loss on managed investment account	75,063	113,833
Realized (gain) loss on assets whose use is limited	26,036	(21,097)
Loss on disposal of fixed assets	229,358	132,037
(Increase) decrease in assets		
Accounts receivable	(666,921)	1,534
Notes receivable, residents	1,795,051	(1,681,491)
Inventories	6,029	(12,809)
Prepaid assets	5,174	62,142
Security and utility deposits	18,597	(6,000)
Increase (decrease) in liabilities		
Accounts payable	(134,788)	361,905
Accrued expenses	(215,984)	98,534
Accrued interest	(14,573)	(14,957)
Subordinated deferred ground lease and accrued interest	1,428,855	1,329,981
Temporarily restricted contributions	(167,304)	(108,840)
Net Cash Provided by (Used in) Operating Activities	<u>(1,377,580)</u>	<u>(2,659,694)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(8,159,727)	(15,734,827)
Purchase of investments in managed investment account	(8,514,861)	(955,792)
Proceeds of investments in managed investment account	5,970,748	727,730
Purchase of investments in assets whose use is limited	(22,744,359)	(20,751,287)
Proceeds of investments in assets whose use is limited	23,120,195	34,129,000
Net Cash Provided by (Used in) Investing Activities	<u>(10,328,004)</u>	<u>(2,585,176)</u>

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

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Entrance fees and resident deposits received	\$ 13,637,094	\$ 10,525,563
Refund of entrance fees	(3,947,881)	(3,112,570)
Escrowed entrance fee deposits	661,344	(29,176)
Borrowings on insurance note	697,009	726,677
Repayment of insurance note	(788,664)	(652,321)
Capitalized loan costs	-	(2,138,133)
Repayment of deferred ground lease payable	(1,598,424)	(2,000,000)
Repayment on notes payable - Series 2012	(785,000)	(755,000)
Borrowings on Notes Payable - Series 2017	2,365,020	-
Temporarily restricted contributions	167,304	108,840
Net Cash Provided by (Used in) Financing Activities	<u>10,407,802</u>	<u>2,673,880</u>
Net Increase (decrease) in cash and cash equivalents	(1,297,782)	(2,570,990)
CASH AND CASH EQUIVALENTS, beginning of year	<u>6,063,859</u>	<u>8,634,849</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 4,766,077</u>	<u>\$ 6,063,859</u>
 Supplemental Disclosures of cash flow information:		
Interest Paid	<u>\$ 4,970,546</u>	<u>\$ 4,963,492</u>

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

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2017 and 2016

NOTE A – ORGANIZATION

Organization

Cypress Cove at HealthPark Florida, Inc. (Cypress Cove) is a not-for-profit entity that was incorporated in August 1995 to develop and own a continuing care retirement community. Cypress Cove is controlled by Lee Memorial Hospital, Inc. d/b/a Lee Healthcare Resources (LHR) through the powers of appointing the Board of Directors. LHR is a not-for-profit organization whose general purpose is to serve as a support organization for Lee Health and Cypress Cove.

Operations

Cypress Cove consists of 333 independent living apartments, 30 villas, 88 assisted living units (which includes the 44-unit memory care facility) and a 64-unit skilled nursing facility, together with appropriate common and amenity areas. The community is situated on 48 acres of the HealthPark Florida campus, located in Lee County, Florida.

The community offers programs geared toward the delivery of residential and health care services for the elderly and derives its revenues primarily from continuing care retirement plans such as Life Care (*Type A*), Continuing Care (*Type B*), and Fees for Service (*Type C*). All plans require an initial entrance fee and monthly service fee to be paid. The community also receives private pay revenues for services provided by its home health agency, assisted living and skilled nursing facilities. The skilled nursing facility is also Medicare-certified where revenues are received from third-party insurers on behalf of residents to provide skilled nursing care services.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Cypress Cove reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Unrestricted resources are those on which no restrictions exist or that arise as a result of operations of Cypress Cove for its stated purposes. Funds subject to time restrictions are classified as temporarily restricted net assets.

Cash and Cash Equivalents

For the purposes of reporting cash flows, Cypress Cove includes its cash, money market accounts and temporary investments with an original maturity of ninety days or less from managed investments as cash and cash equivalents, this includes undesignated, board designated, and temporarily restricted cash and cash equivalents on the statement of financial position. For the fiscal years ended September 30, 2017 and 2016 the Board of Directors of Cypress Cove elected to set aside certain assets as reserve funds for the operation of the 44-unit memory care facility (“MCAL”) in the amount of \$1,700,000. Once the facility reaches stabilization, the board may at its discretion, reserve any remaining funds for other programs or services.

Investments

Cypress Cove carries its investments in marketable securities with readily determinable fair values and all investments in debt securities at their market values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities within investment income. Investment income is recorded as operating revenue.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2017 and 2016

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

Accounts receivable are recorded at the estimated net realizable amount from residents, patients, third-party payers and others for services rendered. Accounts receivable is net of an allowance for doubtful accounts for potential credit losses. Management determines the amount of potential credit losses by calculating aged receivables over 150 days. Management reviews the allowance for doubtful accounts on a monthly basis. The allowance for doubtful accounts at September 30, 2017 and 2016 is \$289,237 and \$220,709, respectively. Interest is not charged on accounts receivable.

Notes Receivable, residents

Notes receivable are granted for new residents for entrance fees due. The note is issued and payable at the earlier of 90 days or the sale of the residents' home. Notes receivable are reported at their outstanding principal balance. Based on historical collections of notes receivable, management considers these notes to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary. In making that determination, management evaluates the financial condition of the borrower and considers current economic conditions as a condition of extending credit.

Inventories

Inventories are stated at the lower of cost or market, utilizing the first-in, first-out method. Inventory is composed of food items and supplies.

Assets Whose Use is Limited

Assets whose use is limited consists of cash and cash equivalents and investments differentiated by the use for which it is limited under contractual arrangement. Assets whose use is limited are recorded as such on the balance sheet. The current portion of assets whose use is limited is comprised of the current portion due for the Series 2012 and 2014 bond interest and principal amounts at September 30, 2017. No current portion is reflected for the Series 2014 bonds at September 30, 2016 because interest due during the construction period was funded as a part of the bond proceeds and capitalized into total project costs associated with the construction of the MCAL. There was no interest expense capitalized during 2017. Interest expense capitalized as part of the MCAL project during 2016 amounted to \$939,308.

Property and Equipment

Property and equipment with a stated cost of \$1,000 or more are capitalized. Depreciation is being recorded using the straight-line method over the respective estimated useful lives of the assets (ranging from 3 years to 39.5 years).

Deferred Revenue from Entrance Fees

Fees paid by a resident upon entering into a continuing care contract, net of the portion thereof that is refundable to the resident, are recorded as deferred revenue. Depending on the type of contract selected by a resident and the terms under which refunds are to be paid, the deferred revenue portion is amortized to income using the straight-line method over the estimated remaining life expectancy of the resident as determined by actuarial tables.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2017 and 2016

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Refundable Deposits

Refundable deposits represent unit reservation deposits and wait list deposits of future residents and the receipt of entrance fees from current residents whose funds are held minimally in escrow for seven days after executing a continuing care contract in order to comply with Florida statutes.

Deferred Refunds

Deferred refunds represent fees paid by a resident upon entering into a life care or continuing care contract that are refundable upon termination of that contract and are currently refundable because the contract has been terminated. The current portion of deferred refunds represents fees that are refundable within one year of the statement of financial position.

Refundable Entrance Fees

Refundable entrance fees represent fees paid by a resident upon entering into a life care or continuing care contract that are refundable upon termination based on specific conditions stated within the contract. Refundable entrance fees include amounts that are contingent upon re-occupancy of a subsequent resident.

Obligation to Provide Future Services

Cypress Cove calculates the present value of the net costs of future services and the use of facilities to be provided to residents under the Residency and Services Contract and compares that amount with the balance of deferred revenues from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded with the corresponding charge to income. There was no liability for obligation to provide future services and use of the facilities recorded for the years ended September 30, 2017 and 2016.

Capitalized Financing and Marketing Costs

Capitalized financing costs are amortized over the life of the related assets. Capitalized marketing costs are direct response advertising costs and are amortized over its expected period of future benefits.

Income Taxes

Cypress Cove is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3), which requires taxation of unrelated business income under certain circumstances. Cypress Cove reports no unrelated business taxable income; however, such status is subject to final determination upon examination of the related income tax returns by the appropriate taxing authorities.

Currently, the last three tax years are open and subject to examination by the Internal Revenue Service. However, Cypress Cove is not currently under audit nor has Cypress Cove been contacted by any tax jurisdiction.

Based on an evaluation of Cypress Cove's tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions have been recorded.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2017 and 2016

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Resident Service Revenue

Cypress Cove provides a variety of accommodations and services including licensed health care services through its home health agency, assisted living, memory care and skilled nursing facilities. Net resident service revenue is reported at the estimated net realizable amounts from residents, nonresidents, and third-party payers for services rendered. The net realizable amount includes adjustments from income for bad debt, contractual adjustments with third-party payers and charity care for residents formally approved by senior management for financial assistance. Contractual adjustments amounted to \$2,536,939 and \$2,607,722 for the years ended September 30, 2017 and 2016, respectively. Bad debt amounted to expense of \$128,838 and \$65,713 for the years ended September 30, 2017 and 2016, respectively.

Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and an adjustment to patient receivables. Revenue under third party payer agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payer settlements, if any, are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Advertising Costs

Cypress Cove expenses advertising costs as they are incurred except for direct response advertising costs. Advertising expense amounted to \$259,372 and \$246,199 for the years ended September 30, 2017 and 2016, respectively.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the financial statements and during the reporting period. Accordingly, actual results could differ from those estimates.

Date of Management's Review

Cypress Cove has evaluated subsequent events through February 7, 2018, the date which the financial statements were available to be issued.

Reclassifications

Certain items in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2017 and 2016

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

In April 2015, The Financial Accounting Board (“FASB”) issued *Accounting Standards Update (“ASU”) No. 2015-03, Interest-Imputation of Interest (“ASU 2015-03”)*, which simplified the presentation of debt issuance costs. The ASU was issued as a part of the FASB initiative to reduce complexity in accounting standards. To simplify presentation of debt issuance costs, the amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015. An Organization should apply this update retrospectively for all financial statements presented. The adoption of ASU 2015-03 has resulted in the reclassification of debt issuance costs and accumulated amortization from Intangible Assets to the related Note Payable. In addition, Amortization expense has been reclassified to Interest Expense for the related Note.

NOTE C – INVESTMENTS

Managed investment accounts consisted of the following as of September 30:

	<u>2017</u>	<u>2016</u>
Mutual funds	\$ 8,211,880	\$ 6,733,188
Fixed income securities	1,682,307	-
Total managed investments	<u>9,894,187</u>	<u>6,733,188</u>
Money market funds (included in cash equivalents)	43,830	-
	<u>\$ 9,938,017</u>	<u>\$ 6,733,188</u>

Assets whose use is limited consisted of the following as of September 30:

	<u>2017</u>	<u>2016</u>
Cash	\$ 1,676,383	\$ 834,105
Money market funds	3,903,533	5,098,595
Mutual funds	1,141,841	1,141,377
Fixed income securities	12,160,904	12,272,826
	<u>\$ 18,882,661</u>	<u>\$ 19,346,903</u>

The components of total investment income from all investments for 2017 and 2016 are reflected below:

	<u>2017</u>	<u>2016</u>
Dividends and interest	\$ 561,023	\$ 638,577
Net realized and unrealized gains and (losses)	528,480	439,404
Investment fees	<u>(81,149)</u>	<u>-</u>
Total investment income	<u>\$ 1,008,354</u>	<u>\$ 1,077,981</u>

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2017 and 2016

NOTE D – FAIR VALUE MEASUREMENTS

Professional accounting standards establish a framework for measuring fair value and disclosures about fair value measurements under generally accepted accounting principles. This framework provides a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three (3) broad levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The three levels of the fair value hierarchy under professional accounting standards are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Cypress Cove has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value.

Money Market Funds: Valued at the net asset value (“NAV”) of the shares held at year end as a readily determinable market value.

Mutual Funds: Valued at the net asset value (“NAV”) of the shares held at year end as a readily determinable market value.

Fixed Income Securities: Valued using the market approach, which uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources.

While Cypress Cove believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at September 30, 2017.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2017 and 2016

NOTE D – FAIR VALUE MEASUREMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, Cypress Cove’s assets at fair value as of September 30, 2017:

	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ -	\$ 3,947,363	\$ -	\$ 3,947,363
Mutual Funds				
Fixed income	3,433,270	-	-	3,433,270
Large cap	3,224,051	-	-	3,224,051
Mid cap	513,478	-	-	513,478
Small cap	552,406	-	-	552,406
Alternative	297,788	-	-	297,788
International equity	1,332,728	-	-	1,332,728
Fixed Income Securities				
US government	3,805,431	-	-	3,805,431
Foreign agency	-	789,704	-	789,704
Corporate	-	7,653,561	-	7,653,561
Mortgage-back	-	1,594,515	-	1,594,515
Total assets at fair value	<u>\$ 13,159,152</u>	<u>\$ 13,985,143</u>	<u>\$ -</u>	<u>\$ 27,144,295</u>

The following table sets forth by level, within the fair value hierarchy, Cypress Cove’s assets at fair value as of September 30, 2016:

	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ -	\$ 5,098,595	\$ -	\$ 5,098,595
Mutual Funds				
Global bonds	921,541	-	-	921,541
High yield	218,239	-	-	218,239
Intermediate fixed income	2,470,127	-	-	2,470,127
Large cap	558,587	-	-	558,587
Mid cap	208,699	-	-	208,699
Small cap	368,338	-	-	368,338
Asset allocation fund	76,978	-	-	76,978
Long/short equity	311,433	-	-	311,433
International equity	750,458	-	-	750,458
Large value	523,876	-	-	523,876
Large cap core	324,912	-	-	324,912
Index fund	1,141,377	-	-	1,141,377
Fixed Income Securities				
US government	6,352,632	-	-	6,352,632
US agency	-	1,156,450	-	1,156,450
Corporate	-	2,675,831	-	2,675,831
Mortgage-back	-	2,087,913	-	2,087,913
Total assets at fair value	<u>\$ 14,227,197</u>	<u>\$ 11,018,789</u>	<u>\$ -</u>	<u>\$ 25,245,986</u>

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2017 and 2016

NOTE E – ASSETS WHOSE USE IS LIMITED

Series 2012 Bonds

Cypress Cove originally obtained debt financing for the development of the facilities from the issuance of Lee County Industrial Development Authority Healthcare Facilities Revenue Bonds. The proceeds of the Series 2012 Bonds were used to refund the original bonds. They were also used for the acquisition of equipment and renovation/improvements of existing independent living and healthcare facilities located at the Community, fund any necessary reserves, and pay costs related to issuance of the Bonds.

The Trustee for the Series 2012 Bonds maintained the following funds and accounts under the terms of the related Bond Trust Indenture (“the Indenture”).

Series 2012 Bond Payment Funds – Consist of two separate accounts maintained by the Bond Trustee designated as the Principal Account and the Interest Account. The Principal Account is used to pay the principal and premium, if any, on the Bonds when due and payable. The Interest Account is used to pay interest on the Bonds.

Series 2012 Debt Service Reserve – Account funded at bond closing to provide a reserve for the payment of the principal and interest on the Bonds, with an amount equal to the Maximum Annual Debt Service on the Bonds outstanding, except principal of the Bonds in the final year.

Series 2014 Bonds

The proceeds of the 2014 Bonds were used to fund the costs related to equipping and constructing the new 44-unit memory care assisted living residence and related common areas which are located on a parcel adjacent to and on the campus of Cypress Cove’s existing continuing care retirement community.

The Trustee for the Series 2014 Bonds maintained the following funds and accounts under the terms of the related Bond Trust Indenture (“the Indenture”).

Series 2014 Bond Payment Funds – Consist of two separate accounts maintained by the Bond Trustee designated as the Principal Account and the Interest Account. The Principal Account will be used to pay the principal and premium, if any, on the Bonds when due and payable. The first principal payment is due October 1, 2017. The Interest Account is used to pay interest on the Bonds.

Series 2014 Project Fund – Account funded at bond closing to be used to reimburse or pay for capital expenditures associated with the construction of MCAL. Uses of funds are time-sensitive and must follow Income Tax Regulations. In addition, the remaining funds shall be added to the Series 2014 Bond Interest Payment fund.

Series 2014 Debt Service Reserve – Account funded at bond closing to provide a reserve for the payment of the principal and interest on the Bonds, with an amount equal to the Maximum Annual Debt Service on the Bonds outstanding, except the principal portion due on the Bonds in the final year.

Additional Required Accounts

Additional accounts are required to be established and maintained by Florida Statutes in accordance with a Continuing Care Escrow Agreement between the Florida Office of Insurance Regulation and Cypress Cove.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2017 and 2016

NOTE E – ASSETS WHOSE USE IS LIMITED (continued)

Additional Required Accounts (continued)

These funds are not subject to lien of the Indenture. They are as follows:

Deposit and Initial Entrance Fee Account – This account contains refundable deposits for unit reservations and wait list by future residents and the receipt of entrance fees from current residents whose funds are held minimally in escrow for seven days after executing a continuing care contract.

The Statutory Debt Service Reserve Account – This account in combination with the bond required Debt Service Reserve Funds noted above is maintained at an amount approximately equal to one year’s principal, interest, property taxes, insurance, leasehold payments and all costs related to such payments.

The Statutory Operating Reserve Escrow Account – As required by Florida Statutes, this account is required to equal at least 15 percent of the average total operating expenses for Cypress Cove over the preceding three-year period as reported.

Statutory Renewal and Replacement Reserve Account – As required by Florida Statutes, this account is required to equal at least 15 percent of the accumulated depreciation, not to exceed 15 percent of Cypress Cove’s average operating expenses during the preceding three-year period as reported.

NOTE F – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30:

		2017		2016
Land and land improvements	\$	2,989,011	\$	2,887,694
Buildings and improvements		116,739,374		117,326,701
Furniture, fixtures, and equipment		12,914,192		11,529,747
Construction in progress		7,524,289		2,612,965
Total Property and Equipment		140,166,866		134,357,107
Less: Accumulated Depreciation		(48,291,888)		(45,868,937)
Total Property and Equipment, Net	\$	91,874,978	\$	88,488,170

NOTE G – INTANGIBLE ASSETS

Intangible assets included in Other assets consisted of the following at September 30:

	2017		2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Capitalized financing costs	\$ 6,899,112	\$ 2,119,885	\$ 6,899,112	\$ 1,927,925
Marketing costs	237,460	59,365	237,610	-
Total intangible assets	\$ 7,136,572	\$ 2,179,250	\$ 7,136,722	\$ 1,927,925

Estimated amortization expense is approximately \$251,325 for each of the next five fiscal years. Cypress Cove’s future cash flows are not materially impacted by its ability to extend or renew agreements related to its amortizable intangible assets.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2017 and 2016

NOTE H – INSURANCE NOTE PAYABLE

Cypress Cove financed annual insurance premiums of \$697,009 over a 10-month period beginning in July 2017. The financing agreement requires monthly payments of \$68,713 including interest at 3.15%. The outstanding balance payable at September 30, 2017 was \$420,847.

Cypress Cove financed annual insurance premiums of \$726,833 over a 10-month period beginning in July 2016. The financing agreement requires monthly payments of \$73,985 including interest at 3.15%. The outstanding balance payable at September 30, 2016 was \$512,502.

NOTE I – LINE OF CREDIT

In August 2014, Cypress Cove obtained a line of credit with FineMark National Bank & Trust secured with financial assets owned by LHR. The line of credit is for the principal borrowing amount up to \$2,000,000. At September 30, 2017 and 2016 there was no outstanding balance. Interest on any outstanding balance accrues based on the London Interbank Offered Rate (LIBOR) index plus 1.8%. The line of credit matures August 7, 2018. Cypress Cove did not draw on the line of credit and did not incur any interest expense associated with the line of credit during the fiscal years ending September 30, 2017 and 2016.

NOTE J– NOTES PAYABLE SERIES 2017 A and 2017 B

On May 1, 2017 Cypress Cove entered into a financing agreement with FineMark National Bank & Trust to finance the costs of capital improvements for their senior healthcare and housing facilities. A promissory note in the form of a Taxable Master Note, Series 2017A was issued dated May 12, 2017. The note is secured under the terms and conditions of a Master Trust Indenture, dated as of September 1, 2012, between Cypress Cove and The Bank of New York Mellon Trust Company, N.A. The interest rate per annum is equal to the sum of one-month Libor and 2.30% per annum, adjusted monthly. Under the terms of the agreement Cypress Cove may make advances against the note as needed for the capital improvements. The final advance date is June 30, 2018 and the maximum principal amount is \$7,500,000. The entire principal balance outstanding with any accrued and unpaid interest shall be due and payable in full on May 1, 2027 including a principal balloon payment of \$2,312,500. Monthly principal payments begin June 1, 2020 in the amount of \$62,500. As of September 30, 2017, \$2,084,461 was outstanding on the Notes Payable Series 2017A promissory note, shown on the statements of financial position less debt issuance costs and amortization in the amount of \$107,202.

On July 1, 2017 Cypress Cove entered into a financing agreement with FineMark National Bank & Trust to finance the costs of construction for 14 new villa units. A promissory note in the form of a Taxable Master Note, Series 2017B was issued dated July 27, 2017. The note is secured under the terms and conditions of a Master Trust Indenture, dated as of September 1, 2012, between Cypress Cove and The Bank of New York Mellon Trust Company, N.A. The interest rate per annum is equal to the sum of one-month Libor and 1.75% per annum, adjusted monthly. Under the terms of the agreement Cypress Cove may make advances against the note as need for the construction of the villa units. The maximum principal amount is \$7,500,000. The entire principal balance outstanding with any accrued and unpaid interest shall be due and payable in full on January 27, 2020. Prior to maturity, accrued and unpaid interest shall be due and payable on the first day of each month beginning August 1, 2017. As of September 30, 2017, \$524,368 was outstanding on the Notes Payable Series 2017B promissory note, shown on the statements of financial position less debt issuance costs and amortization in the amount of \$124,641.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2017 and 2016

NOTE K– BOND NOTES PAYABLE SERIES 2012 AND 2014

Series 2012 Bonds

On September 1, 2012, the Lee County Industrial Development Authority issued \$66,550,000 in tax-exempt bonds for Cypress Cove. The proceeds of the Bonds were loaned to Cypress Cove, pursuant to a Loan Agreement also dated September 1, 2012. The loan proceeds were used to refund all the outstanding Healthcare Facilities Revenue Bonds (Series 1997A, Series 1997B and Series 2002A, which were used for initial construction of the building and equip Phase I and Phase II of the continuing care community). In addition, proceeds were used to finance and refinance a portion of the costs relating to the acquisition of equipment for and renovation/improvement of existing independent living and healthcare facilities located at the Community, fund any necessary reserves, and pay costs related to issuance of the Bonds.

The bonds are payable from payments made by Cypress Cove pursuant to the Loan Agreement dated September 1, 2012, issued to and entitled to the benefit and security of a Master Trust Indenture, between the Bank of New York Mellon Trust Company and Cypress Cove. Under the Loan Agreement, Cypress Cove agreed to make loan payments sufficient, among other things, to pay in full when due all principal of, premium, if any, and interest on the Bonds and the administrative fees of the Bond Trustee, and to make payments as required to restore any deficiencies in the debt service reserve fund.

The Series 2012 loan is secured by a lien on and security interest in the Mortgaged Property, pursuant to a Leasehold Mortgage and Security Agreement, and a security interest in the Gross Revenues of Cypress Cove, as defined by the Master Trust Indenture.

Estimated Annual Debt Service Requirements on Series 2012 Bonds

Estimated annual debt service requirements on the Series 2012 Bonds for the next five years as described above are as follows:

Series 2012 Bonds				
Due Date	Interest	Principal	Total	
10/1/17	\$ 3,673,225	\$ 815,000	\$	4,488,225
10/1/18	3,642,663	845,000		4,487,663
10/1/19	3,602,525	885,000		4,487,525
10/1/20	3,560,487	925,000		4,485,487
10/1/21	3,516,550	970,000		4,486,550
Thereafter	61,989,175	59,155,000		121,144,175

Series 2014 Bonds

On October 1, 2014, the Lee County Industrial Development Authority issued \$19,470,000 in tax-exempt bonds for Cypress Cove. The proceeds of the Bonds were loaned to Cypress Cove, pursuant to a Loan Agreement also dated October 1, 2014.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2017 and 2016

NOTE K – BOND NOTES PAYABLE (continued)

Series 2014 Bonds (continued)

The loan proceeds were used to fund the costs related to equipping and constructing the 44-unit memory care assisted living residence and related common areas to be located on a parcel adjacent to and on the campus of Cypress Coves existing continuing care retirement community.

The bonds are payable from payments made by Cypress Cove pursuant to the Loan Agreement dated October 1, 2014, issued to and entitled to the benefit and security of a Master Trust Indenture, between the Bank of New York Mellon Trust Company and Cypress Cove. Under the Loan Agreement, Cypress Cove agreed to make loan payments sufficient, among other things, to pay in full when due all principal of, premium, if any, and interest on the Bonds and the administrative fees of the Bond Trustee, and to make payments as required to restore any deficiencies in the debt service reserve fund.

The Series 2014 loan is secured by a lien on and security interest in the Mortgaged Property, pursuant to a Leasehold Mortgage and Security Agreement, and a security interest in the Gross Revenues of Cypress Cove, as defined by the Master Trust Indenture.

Estimated Annual Debt Service Requirements on Series 2014 Bonds

Estimated annual debt service requirements on the Series 2014 Bonds for the next five years as described above are as follows:

Series 2014 Bonds						
Due Date		Interest		Principal		Total
10/1/17	\$	985,863	\$	285,000	\$	1,270,863
10/1/18		977,313		295,000		1,272,313
10/1/19		968,463		305,000		1,273,463
10/1/20		959,313		315,000		1,274,313
10/1/21		946,713		325,000		1,271,713
Thereafter		16,398,510		17,945,000		34,343,510

Series 2012 and 2014 Bond Covenants

The Series 2012 and 2014 Bond Covenants require a Debt Service Coverage ratio of at least 1.20 commencing with the first quarter after the issuance of the Bonds, in accordance with the Master Trust Indenture. In addition, the Master Trust Indenture requires the calculation for the Days Cash on Hand as of March 31 and September 30 of each Fiscal year, commencing on September 30, 2012.

The Days Cash on Hand is required to be no less than 150 Days Cash on Hand (the “Liquidity Requirement”) as of those dates.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2017 and 2016

NOTE K – BOND NOTES PAYABLE (continued)

Series 2012 and 2014 Bond Covenants (continued)

The Series 2012 and 2014 Bond covenants also have requirements for seeking an annual investment grade rating on the related bonds and completing periodic actuarial studies and periodic financial reporting and disclosure requirements. Cypress Cove received affirmation of its BB+ credit rating on the Series 2012 and 2014 Bonds.

At September 30, 2017, the Debt Service Coverage ratio was 2.76 and Days Cash on Hand was 257 of which both ratio calculations were in compliance with the Series 2012 Bond covenants. At September 30, 2016 the Debt Service Coverage ratio was 2.24 and Days Cash on Hand was 275 of which both ratio calculations were in compliance with the Series 2012 Bond covenants.

NOTE L – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Temporarily Restricted Net Assets:		
Memory Care Project	\$ 170,102	\$ 787,023
Community Enhancements	50,540	37,659
Staff Scholarships	28,636	3,435
Benevolence Care	<u>178,354</u>	<u>177,855</u>
Total Temporarily Restricted Net Assets:	<u>\$ 427,632</u>	<u>\$ 1,005,972</u>

NOTE M – RELATED PARTY TRANSACTIONS

Cypress Cove amended its original and supplemented terms of the ground lease with LHR on September 27, 2012 to the later of January 1, 2048 or the date upon which none of the obligations for the Series 2012 and 2014 Bonds are outstanding. Rent was \$2,237 for each residential, nursing, and assisted living unit during the years ended September 2017 and 2016.

During the year ended September 30, 2017, Cypress Cove accrued \$1,152,060 payable to LHR for the ground lease. During the year ended September 30, 2016, Cypress Cove accrued \$1,053,636 payable to LHR for the ground lease.

In addition, \$276,795 and \$276,345, respectively for 2017 and 2016, of interest was accrued on the amount outstanding on the ground lease. Cypress Cove paid LHR \$1,598,424 and \$2,000,000 on the unpaid ground lease and accrued interest during 2017 and 2016, respectively.

During both 2017 and 2016, LHR provided its unconditional guarantee and pledged financial assets as collateral for Cypress Cove's line of credit. Cypress Cove paid a fee of \$30,000 during 2017 and 2016 for the unconditional guarantee and pledge. The fee is determined monthly and is based on the pledge amount of \$2,000,000.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2017 and 2016

NOTE M – RELATED PARTY TRANSACTIONS (continued)

During the year ended September 30, 2017 LHR made contributions \$103,548 to Cypress Cove. The contribution was unrestricted but designated by the board of directors for the operation of the MCAL.

During each of the years ended September 30, 2017 and 2016, Cypress Cove paid LHR rent for office space in the amount of \$20,919 and \$20,508, respectively.

During each of the years ended September 30, 2017 and 2016, Cypress Cove paid Lee FP, Inc., (a wholly owned subsidiary of LHR) a professional service fee of \$709,068 and \$688,545, respectively. Also, during the years ended September 30, 2017 and 2016, Cypress Cove reimbursed Lee FP, Inc. for services including employee costs totaling \$462,290 and \$216,691, respectively.

NOTE N – CONCENTRATIONS

Cypress Cove, at times, has cash deposits which exceed \$250,000 in an individual bank. The Federal Deposit Insurance Corporation (FDIC) insures only the first \$250,000 of funds at member banks. Cypress Cove has not experienced any loss in such accounts.

Investments and cash held in Cypress Coves' operating, managed investment and project fund accounts are insured by the Securities Investor Protection Corporation ("SIPC") with a total up to \$500,000, including claims of cash up to \$250,000, held in accounts for the purpose of, or as a result of, securities transactions. Each account is protected for the net equity of securities and cash positions, but not protected against market fluctuations. In the normal course of operations, Cypress Cove has cash deposits in excess of \$250,000 and investments in excess of \$500,000 under SIPC protection in financial services brokerage accounts. Cypress Cove has not experienced any loss in such accounts.

Cypress Cove grants credit without collateral to its residents and patients, most of whom reside at the facility year-round and are insured under third-party payor agreements. Accounts receivable at September 30, 2017 and 2016 represent balances due from residents and Medicare billings.

The mix of receivables from residents, patients and Medicare at September 30, 2017 and 2016, was as follows:

	<u>2017</u>		<u>2016</u>	
Medicare	57	%	46	%
Residents, Patients and Insurance	43		54	
	<u>100</u>	%	<u>100</u>	%

Further, Cypress Cove grants credit in the form of notes receivable to some residents who have signed a continuing care contract, minimally paid a deposit and agreed to pay monthly services fees in accordance with their contract. These notes are non-interest bearing and have a maturity of up to ninety days. Notes receivable were \$1,385,069 and \$3,180,120 as of September 30, 2017 and 2016, respectively.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2017 and 2016

NOTE O – RETIREMENT PLAN

Cypress Cove has a defined contribution plan covering substantially all employees. Costs for plan benefits funded were \$279,325 and \$260,911 for September 30, 2017 and 2016, respectively.

NOTE P – COMMITMENTS AND CONTINGENCIES

Cypress Cove has entered into annual service and maintenance contracts with various outside vendors as part of maintaining the facilities. These contracts relate primarily to maintenance of various equipment, the swimming pool, landscaping, and common area maintenance. Generally, the contracts allow either party to terminate their agreement upon thirty to ninety days written notice to the other party.

The Company has litigation and claims arising from the normal course of business. In management's opinion, the outcome of any such litigation or claim will not materially affect Cypress Cove's financial condition.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

AUDITED FINANCIAL STATEMENTS

Years Ended September 30, 2019 and 2018

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To the Board of Directors of
Cypress Cove at HealthPark Florida, Inc.

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Cypress Cove at HealthPark Florida, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year ended September 30, 2019 and the related notes and the statement of financial position as of September 30, 2018 and the related statements of activities and changes in net assets and cash flows for the year ended September 30, 2018 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 from material misstatement, whether due to fraud or error.

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cypress Cove at HealthPark Florida, Inc. as of September 30, 2019, and 2018, and the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note B to the financial statements, as of and for the year ended September 30, 2019, Cypress Cove adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented with the exception of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

As discussed in Note B to the financial statements, as of and for the year ended September 30, 2019, Cypress Cove adopted FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU has been applied using a modified retrospective transition approach in the year of adoption. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Hughes, Snell & Co., P.A.".

HUGHES, SNELL & CO., P.A.

Fort Myers, Florida
February 5, 2020

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Statements of Financial Position
September 30, 2019 and 2018

	<u>ASSETS</u>	
	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,451,310	\$ 5,890,240
Managed investment accounts	11,019,511	10,989,721
Accounts receivable, net	1,103,357	1,001,769
Accounts receivable, other	357,747	-
Notes receivable, residents	2,239,890	4,654,600
Inventories	136,120	149,010
Prepaid expenses	1,119,887	1,041,236
Current portion of assets whose use is limited	3,496,202	3,530,670
Total Current Assets	<u>30,924,024</u>	<u>27,257,246</u>
 Assets whose use is limited, noncurrent		
Held by Trustee under Bond Indenture		
Series 2012 Bond Interest Payment	1,814,493	1,884,334
Series 2012 Debt Service Reserve	4,635,260	4,486,678
Series 2012 Principal Payment	884,971	848,790
Series 2014 Bond Interest Payment	489,799	500,670
Series 2014 Principal Payment	306,939	296,876
Series 2014 Debt Service Reserve	1,312,293	1,289,118
Held in the Continuing Care Escrow under Florida Statutes		
Deposit and Initial Entrance Fee Account	766,841	929,631
Statutory Debt Service Reserve Account	959,199	918,459
Statutory Operating Reserve Escrow Account	3,891,718	3,657,256
Statutory Renewal and Replacement Reserve Account	3,894,611	3,658,746
	<u>18,956,124</u>	<u>18,470,558</u>
Less current portion	<u>(3,496,202)</u>	<u>(3,530,670)</u>
	<u>15,459,922</u>	<u>14,939,888</u>
 PROPERTY AND EQUIPMENT, net	 <u>97,348,918</u>	 <u>99,831,911</u>
 OTHER ASSETS		
Security and utility deposits	19,948	180,701
Capitalized financing costs, net	4,521,954	4,835,948
	<u>4,541,902</u>	<u>5,016,649</u>
Total Assets	<u>\$ 148,274,766</u>	<u>\$ 147,045,694</u>

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

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Statements of Financial Position
September 30, 2019 and 2018

LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES		
Current portion of debt		
Insurance note	\$ 525,992	\$ 522,953
Notes payable	1,368,812	1,140,000
Current portion of deferred refunds	295,646	48,161
Accounts payable	1,555,700	1,160,172
Accrued expenses	2,171,995	1,955,478
Accrued interest notes payable	2,313,507	2,338,682
Total Current Liabilities	<u>8,231,652</u>	<u>7,165,446</u>
LONG-TERM LIABILITIES		
Deferred refunds	1,138,566	317,944
Refundable deposits	626,839	724,767
Deferred revenue from entrance fees	50,358,869	52,263,325
Refundable entrance fees	28,428,961	25,532,035
Notes payable - Series 2012 Bonds, less unamortized issuance costs	60,009,255	60,804,100
Notes payable - Series 2014 Bonds, less unamortized issuance costs	18,516,417	18,778,814
Notes payable - Series 2017, less unamortized issuance costs	7,164,851	7,400,149
Notes payable - Lee Healthcare Resources	733,772	-
Subordinated deferred ground lease	4,299,531	4,720,333
Total Long-Term Liabilities	<u>171,277,061</u>	<u>170,541,467</u>
Total Liabilities	<u>179,508,713</u>	<u>177,706,913</u>
NET ASSETS		
Without donor restrictions	(32,166,151)	(31,368,825)
With donor restrictions	932,204	707,606
Total Net Assets	<u>(31,233,947)</u>	<u>(30,661,219)</u>
Total Liabilities and Net Assets	<u>\$ 148,274,766</u>	<u>\$ 147,045,694</u>

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

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.
Statements of Activities and Changes in Net Assets
Years Ended September 30, 2019 and 2018

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and Other Support		
Independent living	\$ 18,521,906	\$ 17,361,735
Assisted living	2,461,257	2,448,089
Memory care	2,991,782	2,918,655
Skilled nursing	7,237,938	6,903,176
Home health	1,157,929	1,116,066
Earned entrance fees	9,017,871	7,913,638
Investment income, net	671,377	865,690
Net assets released from restrictions used for operations	227,473	46,172
Total Revenue and Other Support	42,287,533	39,573,221
Expenses		
Administrative	3,245,237	3,185,184
Marketing	1,349,043	1,313,742
Philanthropy	231,213	223,447
Housekeeping and laundry services	1,298,436	1,268,824
Resident services	1,013,469	951,916
Dining services	5,525,147	5,434,069
Assisted living	1,045,254	1,008,423
Memory care	1,949,815	1,814,547
Skilled nursing services	6,088,956	5,933,538
Home health services	1,050,478	967,081
Facility costs	2,515,633	2,568,581
Insurance, taxes, CAM and utilities	4,241,164	4,075,218
Ground lease	1,360,884	1,333,876
Depreciation	6,276,756	5,126,050
Amortization of capitalized financing costs	313,993	251,876
Interest expense on subordinated deferred ground lease and subordinated note	331,507	315,345
Interest expense on Series 2012 Bonds	4,017,467	3,859,814
Interest expense on Series 2014 Bonds	984,234	984,181
Interest other	19,792	12,120
Expenses released from restriction	54,037	46,172
Total Expenses	42,912,515	40,674,004
Operating Income (Loss)	(624,982)	(1,100,783)
Non - Operating Income (Expense)		
Loss on disposal of fixed assets	(172,344)	(486,950)
Total Non - Operating Income (Expense)	(172,344)	(486,950)
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(797,326)	(1,587,733)
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	452,071	326,146
Net assets released from restrictions used for operations	(227,473)	(46,172)
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	224,598	279,974
INCREASE (DECREASE) IN NET ASSETS	(572,728)	(1,307,759)
NET ASSETS - BEGINNING OF YEAR	(30,661,219)	(29,353,460)
NET ASSETS - END OF YEAR	\$ (31,233,947)	\$ (30,661,219)

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

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Statement of Functional Expenses
Year Ended September 30, 2019

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total Expenses</u>
	Senior Living Services	General and Administrative	Philanthropy	
Ancillary expense and supplies	\$ 1,521,678	\$ -	\$ -	\$ 1,521,678
Bank fees	-	66,649	-	66,649
Building, grounds maint. and supplies	1,374,470	3,874	-	1,378,344
Community funding & scholarships	54,037	-	-	54,037
Consulting fees and contract services	16,022	70,765	-	86,787
Contract labor	148,440	-	-	148,440
Department supplies	448,870	-	4,885	453,755
Depreciation and amortization	6,557,136	33,613	-	6,590,749
Dietary supplies	18,197	-	-	18,197
Dues, publications & subscriptions	54,952	15,122	4,317	74,391
Employee costs	97,824	49,698	-	147,522
Equipment leases	26,247	4,247	-	30,494
Food and beverage	2,085,738	-	-	2,085,738
Ground lease	1,360,884	-	-	1,360,884
Insurance	1,430,330	6,580	2,461	1,439,371
Interest	5,325,700	27,300	-	5,353,000
IT & telecommunications	424,093	169,966	-	594,059
Legal and professional fees	529,394	352,930	-	882,324
Marketing and advertising	670,466	339,376	-	1,009,842
Medical supplies	205,273	-	-	205,273
Miscellaneous expenses	7,799	1,691	985	10,475
Office expense	106,470	59,320	3,399	169,189
Payroll taxes and fringe benefits	2,502,946	170,689	34,569	2,708,204
Provision for doubtful accounts	12,712	-	-	12,712
Real estate taxes	584,261	2,995	-	587,256
Repairs and maintenance	353,663	-	-	353,663
Resident activities	124,716	-	-	124,716
Salaries and wages	12,857,378	620,542	176,953	13,654,873
Training and development	46,270	20,462	1,381	68,113
Travel and meals	22,778	32,151	2,263	57,192
Utilities	1,656,099	8,489	-	1,664,588
	<u>\$ 40,624,843</u>	<u>\$ 2,056,459</u>	<u>\$ 231,213</u>	<u>\$ 42,912,515</u>

The accompanying notes are an integral part of this financial statement.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (572,728)	\$ (1,307,759)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation expense	6,276,756	5,126,050
Provision for doubtful accounts	12,712	43,480
Amortization of capitalized financing and marketing costs	313,993	251,875
Amortization of entrance fees	(9,017,871)	(7,913,638)
Amortization of bond premium	(54,903)	(54,903)
Amortization of bond discount	56,557	58,333
Amortization of debt issuance costs	74,617	74,615
Unrealized (gain) loss on managed investment account	311,171	528,454
Unrealized (gain) loss on assets whose use is limited	(339,187)	69,901
Realized (gain) loss on managed investment account	(139,188)	(899,937)
Realized (gain) loss on assets whose use is limited	39,127	(56,094)
Loss on disposal of fixed assets	172,344	486,950
Loss on disposal of loan costs	-	124,641
(Increase) decrease in assets		
Accounts receivable	(114,300)	326,577
Notes receivable, residents	2,414,710	(3,269,531)
Inventories	12,890	4,318
Prepaid assets	(78,651)	87,118
Security and utility deposits	160,753	(1,200)
Increase (decrease) in liabilities		
Accounts payable	395,528	(274,723)
Accrued expenses	216,517	241,083
Accrued interest	(25,175)	9,138
Subordinated deferred ground lease and accrued interest	1,692,391	1,649,221
Temporarily restricted contributions	452,071	326,146
Net Cash Provided by (Used in) Operating Activities	2,260,134	(4,369,885)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(4,103,956)	(13,700,434)
Proceeds from sale of property and equipment	137,851	-
Purchase of investments in managed investment account	(6,138,004)	(15,117,701)
Proceeds of investments in managed investment account	5,936,231	14,393,650
Purchase of investments in assets whose use is limited	(18,197,066)	(16,539,451)
Proceeds of investments in assets whose use is limited	18,011,560	16,937,747
Net Cash Provided by (Used in) Investing Activities	(4,353,384)	(14,026,189)

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

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Entrance fees and resident deposits received	\$ 14,188,900	\$ 24,311,079
Refund of entrance fees	(3,110,452)	(5,470,984)
Escrowed entrance fee deposits	(97,928)	(773,796)
Borrowings on insurance note	869,630	1,206,098
Repayment of insurance note	(866,591)	(1,103,992)
Repayment of deferred ground lease payable	(2,113,193)	(2,113,193)
Repayment on notes payable - Series 2012	(845,000)	(815,000)
Repayment on notes payable - Series 2014	(295,000)	(285,000)
Borrowings on Notes Payable - Series 2017	-	11,496,283
Repayment on Notes Payable - Series 2017	-	(6,605,112)
Borrowings on Notes Payable - Lee Healthcare Resources	376,025	-
Temporarily restricted contributions	(452,071)	(326,146)
Net Cash Provided by (Used in) Financing Activities	<u>7,654,320</u>	<u>19,520,237</u>
Net Increase (decrease) in cash and cash equivalents	5,561,070	1,124,163
CASH AND CASH EQUIVALENTS, beginning of year	<u>5,890,240</u>	<u>4,766,077</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 11,451,310</u>	<u>\$ 5,890,240</u>
Supplemental disclosures of cash flow information:		
Interest Paid	<u>\$ 5,284,743</u>	<u>\$ 5,054,628</u>

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

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE A – ORGANIZATION

Organization

Cypress Cove at HealthPark Florida, Inc. (Cypress Cove) is a not-for-profit entity that was incorporated in August 1995 to develop and own a continuing care retirement community. Cypress Cove is controlled by Lee Memorial Hospital, Inc. d/b/a Lee Healthcare Resources (LHR) through the powers of appointing the Board of Directors. LHR is a not-for-profit organization whose general purpose is to serve as a support organization for Lee Health and Cypress Cove.

Operations

Cypress Cove consists of 333 independent living apartments, 44 villas, 88 assisted living units (which includes the 44-unit memory care facility (MCAL)) and a 64-unit skilled nursing facility, together with appropriate common and amenity areas. The community is situated on 48 acres of the HealthPark Florida campus, located in Lee County, Florida.

The community offers programs geared toward the delivery of residential and health care services for the elderly and derives its revenues primarily from continuing care retirement plans such as Life Care (*Type A*), Continuing Care (*Type B*), and Fees for Service (*Type C*). All plans require an initial entrance fee and monthly service fee to be paid. The community also receives private pay revenues for services provided by its home health agency, assisted living and skilled nursing facilities. The skilled nursing facility is Medicare-certified where revenues are received from third-party insurers on behalf of residents to provide skilled nursing care services.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Include net assets available for use in general operations and not subject to donor restrictions. At times, the governing Board of Directors of Cypress Cove can designate, from net assets without donor restrictions, net assets for a board-designated purpose. As of September 30, 2019 and 2018, the Board designated \$1,700,000 which is included in cash and cash equivalents, to build a strategic fund to assure that Cypress Cove can continue to provide its core services to the residents.

Net Assets With Donor Restrictions – Include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

Management reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, or when the purpose of the restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For the purposes of reporting cash flows, Cypress Cove includes its cash, money market accounts and temporary investments with an original maturity of ninety days or less from managed investments as cash and cash equivalents.

Investments

Cypress Cove investments consist of money markets, mutual funds, equities, and fixed income securities. All investments are carried at fair value on the statement of financial position, with the change in fair value included in the statement of activities and changes in net assets. Net investment income which includes interest, dividends, gains and losses and investment fees, is recognized as revenue in the period in which it is earned or occurred.

Accounts Receivable

Accounts receivable are recorded at the estimated net realizable amount from residents, patients, third-party payers and others for services rendered. Accounts receivable is net of an allowance for doubtful accounts for potential credit losses. Management determines the amount of potential credit losses by calculating aged receivables over 150 days. Management reviews the allowance for doubtful accounts on a monthly basis. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts at September 30, 2019 and 2018 is \$58,481 and \$128,472, respectively. Interest is not charged on accounts receivable.

Notes Receivable, residents

Notes receivable are granted for new residents for entrance fees due. The note is issued and payable at the earlier of 90 days or the sale of the residents' home. Notes receivable are reported at their outstanding principal balance. Based on historical collections of notes receivable, management considers these notes to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary. In making that determination, management evaluates the financial condition of the borrower and considers current economic conditions as a condition of extending credit.

Inventories

Inventories are stated at the lower of cost or net realizable value, utilizing the first-in, first-out method. Inventory is comprised of food items and supplies.

Assets Whose Use is Limited

Assets whose use is limited consists of cash and cash equivalents and investments differentiated by the use for which it is limited under contractual arrangement. Assets whose use is limited are recorded as such on the statement of financial position. The current portion of assets whose use is limited is comprised of the current portion due for the Series 2012 and 2014 bond interest and principal amounts at September 30, 2019 and 2018.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are stated at cost if purchased and at fair value at the date of contribution of assets donated. Cypress Cove capitalizes additions of property and equipment in excess of \$1,000 cost or fair value, if donated. Depreciation is being recorded using the straight-line method over the respective estimated useful lives of the assets (ranging from 3 years to 39.5 years).

Refundable Deposits

Refundable deposits represent unit reservation deposits and wait list deposits of future residents and the receipt of entrance fees from current residents whose funds are held minimally in escrow for seven days after executing a continuing care contract in order to comply with Florida statutes.

Deferred Refunds

Deferred refunds represent fees paid by a resident upon entering into a life care or continuing care contract that are refundable upon termination of that contract and are currently refundable because the contract has been terminated. The current portion of deferred refunds represents fees that are refundable within one year of the statement of financial position.

Refundable Entrance Fees

Refundable entrance fees represent fees paid by a resident upon entering into a life care or continuing care contract that are refundable upon termination based on specific conditions stated within the contract. Refundable entrance fees include amounts that are contingent upon re-occupancy of a subsequent resident.

Obligation to Provide Future Services

Cypress Cove calculates the present value of the net costs of future services and the use of facilities to be provided to residents under the Residency and Services Contract and compares that amount with the balance of deferred revenues from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded with the corresponding charge to income. There was no liability for obligation to provide future services and use of the facilities recorded for the years ended September 30, 2019 and 2018.

Capitalized Financing Costs

Capitalized financing costs are amortized over the life of the related assets.

Income Taxes

Cypress Cove is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3), as well as exempt from state income taxes as Cypress Cove is a not-for-profit Florida corporation. However, income from certain activities not directly related to Cypress Cove's tax-exempt purpose is subject to taxation as unrelated business income. Cypress Cove does not have unrelated business income for the years ended September 30, 2019 and 2018. Accordingly, no provision for income taxes has been recognized. Cypress Cove is not considered a private foundation within the meaning of Section 509(a) of the Code.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

Management has evaluated Cypress Cove's tax positions and believes that all positions taken are well documented and supported and there are no uncertain tax positions that are material to the financial statements. Therefore, no provision for uncertain tax positions has been recorded.

Charity Care

Cypress Cove has estimated its direct and indirect costs of providing charity care under its financial assistance policy. In order to estimate the cost of providing such care, management calculated a cost-to-charge ratio by comparing the average cost of services provided in 2019 and 2018 to Cypress Cove's gross bill rate. The cost-to-charge ratio is applied to the charity care charges foregone to calculate the estimated direct and indirect cost of providing charity care. Using this methodology, Cypress Cove has estimated the aggregated costs of services and supplies furnished under their financial assistance policy to be \$173,436 and \$106,029 for the years September 30, 2019 and 2018, respectively.

Advertising Costs

Cypress Cove expenses advertising costs as they are incurred. Advertising expense amounted to \$439,937 and \$413,958 for the years ended September 30, 2019 and 2018, respectively.

Functional Expense Classification

Functional expenses are those expenses incurred by Cypress Cove in the accomplishment of its stated mission. Such expenses are further categorized as:

- (a) program services which include senior living services;
- (b) supporting services which include administrative support and philanthropy costs.

The financial statements report categories of costs attributable to programs and supporting services. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to program and supporting services based upon estimates of time spent on each of the activities for personnel expenses and by square footage for occupancy expenses.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the financial statements and during the reporting period. Accordingly, actual results could differ from those estimates.

Date of Management's Review

Cypress Cove has evaluated subsequent events through February 5, 2020, the date which the financial statements were available to be issued.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncement – ASU 2016-14

During the year ended September 30, 2019, Cypress Cove adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The adoption of this accounting standard changes the presentation of various classifications and disclosures within the financial statements. The ASU has been applied retrospectively to all periods presented with the exception of certain information as permitted by the ASU. The adoption did not have an impact on Cypress Cove's financial position or changes in its net assets.

New Accounting Pronouncement – ASU 2014-09

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The guidance requires Cypress Cove to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which Cypress Cove expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and change in judgments, and assets recognized from the costs to obtain or fulfill a contract.

ASU 2014-09 requires Cypress Cove to exercise more judgment and recognize revenue using a five-step process. Cypress Cove adopted ASU 2014-09 using the modified retrospective method for all contracts effective October 1, 2018 and is using a portfolio approach to group contracts with similar characteristics and analyze historical cash collection trends. Modified retrospective adoption requires entities to apply the standard retrospectively to the most current period presented in the financial statements, requiring the cumulative effect of the retrospective application as an adjustment to the opening balance of net assets at the date of initial application. Prior periods have not been adjusted. No cumulative-effect adjustment in net assets was recorded as the adoption of ASU 2014-09 did not significantly impact Cypress Cove's reported historical revenue. In addition, retrospective application of ASU 2014-09 would not have resulted in a change in gross revenue as previously presented. Bad debt expense was reclassified from net revenue to general and administrative expense for both years presented. The adoption of ASU 2014-09 has no impact on Cypress Cove's accounts receivable as it was historically recorded net of allowance for doubtful accounts and contractual adjustment. The adoption of ASU 2014-09 did have an impact on capitalized marketing costs. Historical direct response advertising relating to the sale of newly constructed units was capitalized on the statement of financial position as an asset and amortized over its expected period of future benefits. Capitalized marketing costs were written off as of October 1, 2018 to amortization expense.

Reclassifications

Certain reclassifications have been made to the 2018 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE C – REVENUE RECOGNITION

Resident service fees and health services revenue are reported at the amount that reflects the consideration to which Cypress Cove expects to be entitled in exchange for providing resident service and care. These amounts are due from residents, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, Cypress Cove bills the residents and third-party payors several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by Cypress Cove. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. Cypress Cove believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residents in the facility receiving skilled nursing services or independent living and assisted living residents receiving services in the facility.

Cypress Cove considers daily services provided to residents of the skilled nursing facility, and monthly service fees for independent and assisted living services as separate performance obligations. Monthly service fees are measured on a monthly basis, or upon move-out within the month, whichever is shorter. Nonrefundable entrance fees are considered to contain a material right associated with access to future services, which is the related performance obligation. Revenue from nonrefundable entrance fees is recognized ratably in the future period covering a resident's life expectancy using a time-based measurement similar to the output method.

Because all of its performance obligations relate to contracts with a duration of less than one year, Cypress Cove has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

Cypress Cove determines the transaction prices based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with Cypress Cove's policy and/or implicit price concessions provided to residents. Cypress Cove determines its estimates of contractual adjustments based on contractual agreements, its policies, and historical experience. Cypress Cove determines its estimate of implicit price concessions based on its historical collection experience.

Independent Living and Home Health Services

Monthly service fees paid by residents for independent living occupancy rights, maintenance, meals, nursing supplies, security, transportation, and other services are assessed monthly and are recognized as revenue in the period services are rendered.

Deferred Revenue from Entrance Fees

Nonrefundable fees paid by a resident upon entering into a residency agreement are recorded as deferred revenue from entrance fees and are amortized to income using the straight-line method over the actuarial remaining life expectancy of the residents, adjusted annually. The refundable portion of the entrance fees is recorded as a liability at the time of purchase and any payments of refunds are charged against the resident's unamortized entrance fee. Any gain is included in earned entrance fees.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE C – REVENUE RECOGNITION (continued)

Cypress Cove provides nonrefundable, 100% refundable, 90% refundable, and 75% refundable residency agreements.

Continuing Care Nonrefundable: In the event of move out, the obligated group will retain 4% upon entry and 2% of the total entrance fee for each month of residency. There will be no refund after forty-eight months of residence.

Life Care Nonrefundable: In the event of move out, the obligated group will retain 4% upon entry and 2% of the total entrance fee for each month of residency. There will be no refund after forty-eight months of residence.

Life Care 75% Refundable: In the event of move out, the obligated group will retain 4% upon entry and 1% of the total entrance fee for each month of residency. After twenty months of residence the refund would be equal to 75%.

Life Care 90% Refundable: In the event of move out, the obligated group will retain 4% upon entry and 1% of the total entrance fee for each month of residency. After six months of residence the refund would be equal to 90%.

Flex plan: In the event of move out, the obligated group will refund 100% of the entrance fee paid.

Expected contractual refund obligations at September 30, 2019 and 2018 are \$1,434,212 and \$366,105, respectively, and are based on the projected deaths and move outs times the expected amounts due per the contract provisions in the year death or move out is projected.

Assisted living, memory care, and skilled nursing

Assisted living, memory care, and skilled nursing revenue is reported at the estimated net realizable amounts receivable from residents, third-party payors, and others at the time services are rendered.

Revenues include resident service fees paid by residents for assisted living occupancy rights, maintenance meals, nursing supplies, security, transportation, and other services. Resident service fees are assessed monthly and are recognized as revenue in the period services are rendered.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangement with major third-party payors follows:

Medicare

The licensed skilled nursing facility participates in the Medicare program. This Federal program is administered by the Centers for Medicare and Medicaid Services. The skilled nursing facility is paid under the Medicare prospective payment system and the outpatient rehabilitation program is reimbursed by Medicare based on the Medicare Physician Fee Schedule.

Other

Payment agreements with certain commercial insurance carriers and preferred provider organizations provide for payment using prospectively determined daily rates.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE C – REVENUE RECOGNITION (continued)

Assisted living, memory care, and skilled nursing (continued)

These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and Cypress Cove’s historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations. Adjustments rising from a change in an implicit price concession impacting transaction price are not significant in 2019 and 2018.

Generally, residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Cypress Cove estimates the transaction price for residents with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to revenue in the period of the change. Additional revenue recognized for changes in its estimates of implicit prices concessions, discounts, and contractual adjustments are not considered material for the years ended September 30, 2019 and 2018. Subsequent changes that are determined to result of an adverse change in the resident’s ability to pay are recorded as provision for bad debts.

Cypress Cove has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service line, method of reimbursement, and timing of when revenue is recognized. All resident service fees and health services revenue for Cypress Cove are provided at one campus located in Fort Myers, Florida. The method of reimbursement is prospective payments and the timing of revenue recognition for resident service fees and health services is transferred over time.

The composition of resident service fees and health services revenue by primary payor for the years ended September 30, 2019 and 2018, are as follows:

	2019	2018
Medicare	\$ 4,781,548	\$ 4,856,792
Private Pay and Other	36,607,135	33,804,567
Total	\$ <u>41,388,683</u>	\$ <u>38,661,359</u>

Revenue from residents’ deductibles and coinsurance are included in the categories presented above based on the primary payor.

Financing Component

Cypress Cove has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from residents and third-party payors for the effects of a significant financing component due to Cypress Cove’s expectation that the period between the time the service is provided to a resident and the time that the resident or a third-party payor pays for that service will be one year or less.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE C – REVENUE RECOGNITION (continued)

Contract Costs

Cypress Cove has elected to apply the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that Cypress Cove otherwise would have recognized is one year or less in duration.

NOTE D – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2019	2018
Financial assets at year-end		
Cash and cash equivalents	\$ 11,451,310	\$ 5,890,240
Managed investments	11,019,511	10,989,721
Accounts receivables, net	1,103,357	1,001,769
Accounts receivable - other	357,747	-
Notes receivable, residents	2,239,890	4,654,600
Current portion of assets whose use is limited	3,496,202	3,530,670
Total financial assets	29,668,017	26,067,000
Less amounts not available to be used within one year:		
Board-designated – Strategic Fund	1,700,000	1,700,000
Donor restricted funds	932,204	707,606
Total financial assets available to meet cash needs for operating expenditures within one year	\$ 27,035,813	\$ 23,659,394

Cypress Cove has other assets limited as to use that represent funds internally designated for a strategic fund as well as funds externally designated. Funds externally designated consist of investments that are required to be maintained by (1) Florida Statutes, (2) contractual obligations, (3) debt service. These assets limited as to use, which are more fully described in Note G, are not available for general expenditure within the next year and are not reflected in the amounts above. However, the Board of Directors retains control over internally designated funds and may, at its discretion, use the funds for other purposes. As part of Cypress Cove’s liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds.

NOTE E – INVESTMENTS

Managed investment accounts consisted of the following as of September 30:

	2019	2018
Equities	\$ 4,158,434	\$ 4,281,975
Mutual funds	3,563,360	3,862,738
Fixed income securities	3,297,717	2,845,008
Total managed investments	11,019,511	10,989,721
Money market funds (included in cash equivalents)	774,458	452,610
	\$ 11,793,969	\$ 11,442,331

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE E – INVESTMENTS (continued)

Assets whose use is limited consisted of the following as of September 30:

	2019	2018
Cash	\$ 847,580	\$ 925,589
Money market funds	3,782,862	3,906,354
Mutual funds	1,085,964	1,067,285
Fixed income securities	13,239,718	12,571,330
	<u>\$ 18,956,124</u>	<u>\$ 18,470,558</u>

The components of net investment income from all investments for 2019 and 2018 are reflected below:

	2019	2018
Dividends and interest	\$ 623,719	\$ 588,671
Net realized and unrealized gains and (losses)	128,077	357,676
Investment fees	(80,419)	(80,657)
Total investment income, net	<u>\$ 671,377</u>	<u>\$ 865,690</u>

NOTE F – FAIR VALUE MEASUREMENTS

Professional accounting standards establish a framework for measuring fair value and disclosures about fair value measurements under generally accepted accounting principles. This framework provides a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three (3) broad levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The three levels of the fair value hierarchy under professional accounting standards are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Cypress Cove has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value.

Money Market Funds: Valued at the net asset value (“NAV”) of the shares held at year end as a readily determinable market value.

Equities: Valued at quoted prices in an exchange market.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE F – FAIR VALUE MEASUREMENTS (continued)

Mutual Funds: Valued at the net asset value (“NAV”) of the shares held at year end as a readily determinable market value.

Fixed Income Securities: Valued using the market approach, which uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources.

While Cypress Cove believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at September 30, 2019.

The following table sets forth by level, within the fair value hierarchy, Cypress Cove’s assets at fair value as of September 30, 2019:

	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 4,557,320	\$ -	\$ -	\$ 4,557,320
Equities				
U.S. equities	4,024,429	-	-	4,024,429
Foreign equities	134,005	-	-	134,005
Mutual Funds				
U.S. equity	1,085,964	-	-	1,085,964
Fixed income	1,380,514	-	-	1,380,514
International equity	2,182,846	-	-	2,182,846
Fixed Income Securities				
US government	-	10,092,19	-	10,092,198
Foreign agency	-	42,400	-	42,400
Corporate	-	6,057,856	-	6,057,856
Taxable municipal issues	-	344,981	-	344,981
Total assets at fair value	<u>\$ 13,365,07</u>	<u>\$ 16,537,43</u>	<u>\$ -</u>	29,902,513
Cash included in assets whose use is not included in the fair value hierarchy				<u>847,580</u>
				<u>\$ 30,750,093</u>

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE F – FAIR VALUE MEASUREMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, Cypress Cove’s assets at fair value as of September 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 4,358,964	\$ -	\$ -	\$ 4,358,964
Equities				
U.S. equities	4,108,231	-	-	4,108,231
Foreign equities	173,744	-	-	173,744
Mutual Funds				
U.S. equity	1,067,285	-	-	1,067,285
Fixed income	1,917,478	-	-	1,917,478
International equity	1,945,260	-	-	1,945,260
Fixed Income Securities				
US government	-	6,986,004	-	6,986,004
Foreign agency	-	7,931,245	-	7,931,245
Corporate	-	325,867	-	325,867
Mortgage-back	-	173,222	-	173,222
Total assets at fair value	<u>\$ 13,570,96</u>	<u>\$ 15,416,33</u>	<u>\$ -</u>	<u>28,987,30</u>
Cash included in assets whose use is not included in the fair value hierarchy				925,589
				<u>\$ 29,912,88</u>

NOTE G – ASSETS WHOSE USE IS LIMITED

Series 2012 Bonds

Cypress Cove originally obtained debt financing for the development of the facilities from the issuance of Lee County Industrial Development Authority Healthcare Facilities Revenue Bonds. The proceeds of the Series 2012 Bonds were used to refund the original bonds. They were also used for the acquisition of equipment and renovation/improvements of existing independent living and healthcare facilities located at the Community, fund any necessary reserves, and pay costs related to issuance of the Bonds.

The Trustee for the Series 2012 Bonds maintained the following funds and accounts under the terms of the related Bond Trust Indenture (“the Indenture”).

Series 2012 Bond Payment Funds – Consist of two separate accounts maintained by the Bond Trustee designated as the Principal Account and the Interest Account. The Principal Account is used to pay the principal and premium, if any, on the Bonds when due and payable. The Interest Account is used to pay interest on the Bonds.

Series 2012 Debt Service Reserve – Account funded at bond closing to provide a reserve for the payment of the principal and interest on the Bonds, with an amount equal to the Maximum Annual Debt Service on the Bonds outstanding, except principal of the Bonds in the final year.

Series 2014 Bonds

The proceeds of the 2014 Bonds were used to fund the costs related to equipping and constructing the 44-unit memory care assisted living residence and related common areas which are located on a parcel adjacent to and on the campus of Cypress Cove’s existing continuing care retirement community.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE G – ASSETS WHOSE USE IS LIMITED (continued)

The Trustee for the Series 2014 Bonds maintained the following funds and accounts under the terms of the related Bond Trust Indenture (“the Indenture”).

Series 2014 Bond Payment Funds – Consist of two separate accounts maintained by the Bond Trustee designated as the Principal Account and the Interest Account. The Principal Account will be used to pay the principal and premium, if any, on the Bonds when due and payable. The first principal payment was made October 1, 2017. The Interest Account is used to pay interest on the Bonds.

Series 2014 Project Fund – Account funded at bond closing to be used to reimburse or pay for capital expenditures associated with the construction of MCAL. Uses of funds are time-sensitive and must follow Income Tax Regulations. In addition, the remaining funds shall be added to the Series 2014 Bond Interest Payment fund.

Series 2014 Debt Service Reserve – Account funded at bond closing to provide a reserve for the payment of the principal and interest on the Bonds, with an amount equal to the Maximum Annual Debt Service on the Bonds outstanding, except the principal portion due on the Bonds in the final year.

Additional Required Accounts

Additional accounts are required to be established and maintained by Florida Statutes in accordance with a Continuing Care Escrow Agreement between the Florida Office of Insurance Regulation and Cypress Cove.

The following funds are not subject to lien of the Indenture:

Deposit and Initial Entrance Fee Account – This account contains refundable deposits for unit reservations and wait list by future residents and the receipt of entrance fees from current residents whose funds are held minimally in escrow for seven days after executing a continuing care contract.

The Statutory Debt Service Reserve Account – This account in combination with the bond required Debt Service Reserve Funds noted above is maintained at an amount approximately equal to one year’s principal, interest, property taxes, insurance, leasehold payments and all costs related to such payments.

The Statutory Operating Reserve Escrow Account – As required by Florida Statutes, this account is required to equal at least 15 percent of the average total operating expenses for Cypress Cove over the preceding three-year period as reported.

Statutory Renewal and Replacement Reserve Account – As required by Florida Statutes, this account is required to equal at least 15 percent of the accumulated depreciation, not to exceed 15 percent of Cypress Cove’s average operating expenses during the preceding three-year period as reported.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE H – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30:

	2019	2018
Land and land improvements	\$ 5,218,592	\$ 4,499,788
Buildings and improvements	133,649,766	131,703,184
Furniture, fixtures, and equipment	13,832,777	13,116,139
Construction in progress	907,266	671,400
Total Property and Equipment	153,608,401	149,990,511
Less: Accumulated depreciation	(56,259,483)	(50,158,600)
Total Property and Equipment, Net	\$ 97,348,918	\$ 99,831,911

NOTE I – INTANGIBLE ASSETS

Intangible assets included in other assets consisted of the following at September 30:

	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Capitalized financing costs	\$ 7,029,613	\$ 2,507,659	\$ 7,029,613	\$ 2,312,395
Marketing costs	-	-	237,460	118,730
Total intangible assets	\$ 7,029,613	\$ 2,507,659	\$ 7,267,073	\$ 2,431,125

During the fiscal year ended September 30, 2018, \$130,501 of interest expense relating to the Notes payable – Series 2017 was capitalized into construction in progress as part of the new villa unit construction project. Capitalized marketing costs were written off as of October 1, 2018 to amortization expense as part of implementing ASU 2014-09. Estimated amortization expense is approximately \$200,000 for each of the next five fiscal years. Cypress Cove’s future cash flows are not materially impacted by its ability to extend or renew agreements related to its amortizable intangible assets.

NOTE J – INSURANCE NOTE PAYABLE

Cypress Cove financed annual insurance premiums of \$869,630 over a 10-month period beginning in July 2019. The financing agreement requires monthly payments of \$88,913 including interest at 4.863%. The outstanding balance payable at September 30, 2019 was \$525,992.

Cypress Cove financed annual insurance premiums of \$740,515 over a 10-month period beginning in July 2018. The financing agreement requires monthly payments of \$75,819 including interest at 4.445%. The outstanding balance payable at September 30, 2018 was \$522,953.

NOTE K – LINE OF CREDIT

In August 2014, Cypress Cove obtained a line of credit with FineMark National Bank & Trust secured with financial assets owned by LHR. The line of credit is for the principal borrowing amount up to \$2,000,000. At September 30, 2019 and 2018 there was no outstanding balance. Interest on any outstanding balance accrues based on the London Interbank Offered Rate (LIBOR) index plus 1.8%. The line of credit expires August 7, 2022. Cypress Cove did not draw on the line of credit and did not incur any interest expense associated with the line of credit during the fiscal years ended September 30, 2019 and 2018.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE L – NOTES PAYABLE SERIES 2017 A and 2017 B

On May 1, 2017, Cypress Cove entered into a financing agreement with FineMark National Bank & Trust to finance the costs of capital improvements for their senior healthcare and housing facilities. A promissory note in the form of a Taxable Master Note, Series 2017A was issued dated May 12, 2017. The note is secured under the terms and conditions of a Master Trust Indenture, dated as of September 1, 2012, between Cypress Cove and The Bank of New York Mellon Trust Company, N.A. The interest rate per annum is equal to the sum of one-month LIBOR and 2.30% per annum, adjusted monthly. Under the terms of the agreement Cypress Cove may take advances against the note as needed for the capital improvements. The final advance date was June 30, 2018 and the maximum principal amount is \$7,500,000. The entire principal balance outstanding with any accrued and unpaid interest shall be due and payable in full on May 1, 2027 including a principal balloon payment of \$2,312,500. Monthly principal payments begin June 1, 2020 in the amount of \$62,500.

As of September 30, 2019, \$7,500,000 was outstanding on the Notes Payable Series 2017A promissory note, shown on the statements of financial position less current portion of \$242,649 and debt issuance costs and amortization in the amount of \$92,500. As of September 30, 2018, \$7,500,000 was outstanding on the Notes Payable Series 2017A promissory note, shown on the statements of financial position less debt issuance costs and amortization in the amount of \$99,851.

On July 1, 2017 Cypress Cove entered into a financing agreement with FineMark National Bank & Trust to finance the costs of construction for 14 new villa units. A promissory note in the form of a Taxable Master Note, Series 2017B was issued dated July 27, 2017. The note is secured under the terms and conditions of a Master Trust Indenture, dated as of September 1, 2012, between Cypress Cove and The Bank of New York Mellon Trust Company, N.A. The interest rate per annum is equal to the sum of one-month LIBOR and 1.75% per annum, adjusted monthly.

During the year ended September 30, 2018 the promissory note was paid in full and amortization costs were fully expensed.

NOTE M – BOND NOTES PAYABLE SERIES 2012 AND 2014

Series 2012 Bonds

On September 1, 2012, the Lee County Industrial Development Authority issued \$66,550,000 in tax-exempt bonds for Cypress Cove. The proceeds of the Bonds were loaned to Cypress Cove, pursuant to a Loan Agreement also dated September 1, 2012. The loan proceeds were used to refund all the outstanding Healthcare Facilities Revenue Bonds (Series 1997A, Series 1997B and Series 2002A, which were used for initial construction of the building and equip Phase I and Phase II of the continuing care community). In addition, proceeds were used to finance and refinance a portion of the costs relating to the acquisition of equipment for and renovation/improvement of existing independent living and healthcare facilities located at the Community, fund any necessary reserves, and pay costs related to issuance of the Bonds.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE M – BOND NOTES PAYABLE SERIES 2012 AND 2014 (continued)

Series 2012 Bonds (continued)

The bonds are payable from payments made by Cypress Cove pursuant to the Loan Agreement dated September 1, 2012, issued to and entitled to the benefit and security of a Master Trust Indenture, between the Bank of New York Mellon Trust Company and Cypress Cove. Under the Loan Agreement, Cypress Cove agreed to make loan payments sufficient, among other things, to pay in full when due all principal of, premium, if any, and interest on the Bonds and the administrative fees of the Bond Trustee, and to make payments as required to restore any deficiencies in the debt service reserve fund.

The Series 2012 loan is secured by a lien on and security interest in the Mortgaged Property, pursuant to a Leasehold Mortgage and Security Agreement, and a security interest in the Gross Revenues of Cypress Cove, as defined by the Master Trust Indenture.

Estimated Annual Debt Service Requirements on Series 2012 Bonds

Estimated annual debt service requirements on the Series 2012 Bonds for the next five years as described above are as follows:

Series 2012 Bonds				
Due Date		Interest	Principal	Total
10/1/19	\$	3,602,525	\$ 885,000	\$ 4,487,525
10/1/20		3,560,487	925,000	4,485,487
10/1/21		3,516,550	970,000	4,486,550
10/1/22		3,470,475	1,015,000	4,485,475
10/1/23		3,422,263	1,065,000	4,487,263
Thereafter		55,096,437	57,075,000	112,171,437

Series 2014 Bonds

On October 1, 2014, the Lee County Industrial Development Authority issued \$19,470,000 in tax-exempt bonds for Cypress Cove. The proceeds of the Bonds were loaned to Cypress Cove, pursuant to a Loan Agreement also dated October 1, 2014.

The loan proceeds were used to fund the costs related to equipping and constructing the 44-unit memory care assisted living residence and related common areas to be located on a parcel adjacent to and on the campus of Cypress Coves existing continuing care retirement community.

The bonds are payable from payments made by Cypress Cove pursuant to the Loan Agreement dated October 1, 2014, issued to and entitled to the benefit and security of a Master Trust Indenture, between the Bank of New York Mellon Trust Company and Cypress Cove. Under the Loan Agreement, Cypress Cove agreed to make loan payments sufficient, among other things, to pay in full when due all principal of, premium, if any, and interest on the Bonds and the administrative fees of the Bond Trustee, and to make payments as required to restore any deficiencies in the debt service reserve fund.

The Series 2014 loan is secured by a lien on and security interest in the Mortgaged Property, pursuant to a Leasehold Mortgage and Security Agreement, and a security interest in the Gross Revenues of Cypress Cove, as defined by the Master Trust Indenture.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE M – BOND NOTES PAYABLE SERIES 2012 AND 2014 (continued)

Estimated Annual Debt Service Requirements on Series 2014 Bonds

Estimated annual debt service requirements on the Series 2014 Bonds for the next five years as described above are as follows:

Series 2014 Bonds				
Due Date	Interest	Principal	Total	
10/1/19	\$ 968,463	\$ 305,000	\$ 1,273,463	
10/1/20	959,313	315,000	1,274,313	
10/1/21	946,713	325,000	1,271,713	
10/1/22	933,713	340,000	1,273,713	
10/1/23	920,113	350,000	1,270,113	
Thereafter	14,544,684	17,255,000	31,799,684	

Series 2012 and 2014 Bond Covenants

The Series 2012 and 2014 Bond Covenants require a Debt Service Coverage ratio of at least 1.20 commencing with the first quarter after the issuance of the Bonds, in accordance with the Master Trust Indenture. In addition, the Master Trust Indenture requires the calculation for the Days Cash on Hand as of March 31 and September 30 of each fiscal year, commencing on September 30, 2012.

The Days Cash on Hand is required to be no less than 150 Days Cash on Hand (the “Liquidity Requirement”) as of those dates.

At September 30, 2019 the Debt Service Coverage ratio was 2.19 and Days Cash on Hand was 327 of which both ratio calculations were in compliance with the Series 2012 Bond covenants. At September 30, 2018 the Debt Service Coverage ratio was 2.53 and Days Cash on Hand was 302 of which both ratio calculations were in compliance with the Series 2012 Bond covenants.

The Series 2012 and 2014 Bond covenants also have requirements for seeking an annual investment grade rating on the related bonds and completing periodic actuarial studies and periodic financial reporting and disclosure requirements. Cypress Cove received affirmation of its BB+ credit rating on the Series 2012 and 2014 Bonds.

NOTE N – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes as of September 30:

	2019	2018
Subject to expenditure for specific purpose:		
Memory Care Project	\$ 516,214	\$ 320,804
Community Enhancements	31,532	68,245
Staff Scholarships	311,982	86,238
Benevolence Care	72,476	232,319
Total net assets with donor restrictions:	<u>\$ 932,204</u>	<u>\$ 707,606</u>

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE N – NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors as follows for the years ended September 30:

	2019	2018
Purpose restrictions accomplished:		
Memory Care Project	\$ 13,037	\$ -
Community Enhancements	-	7,641
Staff Scholarships	41,000	38,531
Benevolence Care	173,436	-
Total net assets released from restrictions	\$ 227,473	\$ 46,172

NOTE O – RELATED PARTY TRANSACTIONS

Cypress Cove amended its original and supplemented terms of the ground lease with LHR on September 27, 2012 to the later of January 1, 2048 or the date upon which none of the obligations for the Series 2012 and 2014 Bonds are outstanding. Rent was \$2,573 for each residential, nursing, and assisted living unit during the years ended September 2019 and 2018, respectively. During the year ended September 30, 2019, Cypress Cove accrued \$1,247,691 payable to LHR for the ground lease.

During the year ended September 30, 2018, Cypress Cove accrued \$1,220,683 payable to LHR for the ground lease. In addition, \$331,507 and \$315,345, respectively for 2019 and 2018, of interest was accrued on the amount outstanding on the ground lease. Cypress Cove paid LHR \$2,113,193 and \$2,113,193 on the unpaid ground lease and accrued interest during 2019 and 2018, respectively.

During both 2019 and 2018, LHR provided its unconditional guarantee and pledged financial assets as collateral for Cypress Cove's line of credit. Cypress Cove paid a fee of \$30,000 during 2019 and 2018 for the unconditional guarantee and pledge. The fee is determined monthly and is based on the pledge amount of \$2,000,000.

During the years ended September 30, 2019 and 2018 LHR made contributions to Cypress Cove in the amount of \$118,393 and \$118,623, respectively. The contributions are without donor restrictions but \$113,193 are designated by the Board of Directors for the operation of the MCAL for the years ended September 30, 2019 and 2018, respectively.

During the year ended September 30, 2018, Cypress Cove paid LHR rent for office space in the amount of \$11,144. During the year ended September 30, 2019, Cypress Cove did not pay LHR rent for office space.

During 2019 Cypress Cove entered into a promissory note with LHR to fund pre-construction costs for a potential new capital project. The note matures January 31, 2021 and interest shall not be accrued on funds advanced under the note. The principal balance outstanding was \$733,772 as of September 30, 2019. Cypress Cove had a receivable for reimbursement of costs for the project as of September 30, 2019 in the amount of \$357,747.

During each of the years ended September 30, 2019 and 2018, Cypress Cove paid Lee FP, Inc., (a wholly owned subsidiary of LHR) a professional service fee of \$752,250 and \$730,340, respectively.

Also, during the years ended September 30, 2019 and 2018, Cypress Cove reimbursed Lee FP, Inc. for services including employee costs totaling \$123,946 and \$414,435, respectively.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE P – CONCENTRATIONS

Cypress Cove, at times, has cash deposits which exceed \$250,000 in an individual bank. The Federal Deposit Insurance Corporation (FDIC) insures only the first \$250,000 of funds at member banks. Cypress Cove has not experienced any loss in such accounts.

Investments and cash held in Cypress Coves' operating, managed investment and project fund accounts are insured by the Securities Investor Protection Corporation ("SIPC") with a total up to \$500,000, including claims of cash up to \$250,000, held in accounts for the purpose of, or as a result of, securities transactions. Each account is protected for the net equity of securities and cash positions, but not protected against market fluctuations. In the normal course of operations, Cypress Cove has cash deposits in excess of \$250,000 and investments in excess of \$500,000 under SIPC protection in financial services brokerage accounts. Cypress Cove has not experienced any loss resulting from balances in excess of insured amounts in such accounts.

Cypress Cove grants credit without collateral to its residents and patients, most of whom reside at the facility year-round and are insured under third-party payor agreements. Accounts receivable at September 30, 2019 and 2018 represent balances due from residents and Medicare billings. Cypress Cove defines major customers with respect to accounts receivable as those that comprise 10% or more of the balance at year end. The mix of receivables from residents, patients and Medicare at September 30, 2019 and 2018, was as follows:

	<u>2019</u>		<u>2018</u>	
Medicare	55	%	50	%
Residents, Patients and Insurance	45		50	
	<u>100</u>	%	<u>100</u>	%

Cypress Cove defines major customers with respect to revenue as those that comprise 10% as a customer generating 10% or more of annual net patient service revenue. During the year ended September 30, 2019 Medicare revenue was approximately 12% of annual net patient service revenue. During the year ended September 30, 2018 Medicare revenue was approximately 13% of annual net patient service revenue.

Further, Cypress Cove grants credit in the form of notes receivable to some residents who have signed a continuing care contract, minimally paid a deposit and agreed to pay monthly services fees in accordance with their contract. These notes are non-interest bearing and have a maturity of up to ninety days. Notes receivable were \$2,239,890 and \$4,654,600 as of September 30, 2019 and 2018, respectively.

NOTE Q – RETIREMENT PLAN

Cypress Cove has a defined contribution plan covering substantially all employees. Costs for plan benefits funded were \$463,123 and \$294,840 for the years ended September 30, 2019 and 2018, respectively.

NOTE R – COMMITMENTS AND CONTINGENCIES

Maintenance Contracts

Cypress Cove has entered into annual service and maintenance contracts with various outside vendors as part of maintaining the facilities. These contracts relate primarily to maintenance of various equipment, the swimming pool, landscaping, and common area maintenance. Generally, the contracts allow either party to terminate their agreement upon thirty to ninety days written notice to the other party.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2019 and 2018

NOTE R – COMMITMENTS AND CONTINGENCIES (continued)

General and Professional Liability

Cypress Cove is insured under occurrence general and professional liability insurance policy. Under this policy, Cypress Cove has retention of \$25,000 per event and a maximum coverage of \$1,000,000 per claim, with a \$3,000,000 annual aggregate. In addition, Cypress Cove is insured under an umbrella liability policy with a maximum coverage of \$5,000,000. As of September 30, 2019, and 2018, Cypress Cove believes there are no significant general and professional liabilities claims to be accrued.

Health Care

The health industry is subject to numerous laws and regulation by federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient care, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violation of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties as well as significant repayments for patient services previously billed.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

AUDITED FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

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To the Board of Directors of
Cypress Cove at HealthPark Florida, Inc.

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Cypress Cove at HealthPark Florida, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities and changes in net assets 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 from material misstatement, whether due to fraud or error.

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cypress Cove at HealthPark Florida, Inc. as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

HUGHES, SNELL & CO., P.A.

Fort Myers, Florida
February 7, 2019

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Statements of Financial Position
September 30, 2018 and 2017

	<u>ASSETS</u>	
	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,890,240	\$ 4,766,077
Managed investment accounts	10,989,721	9,894,187
Accounts receivable, net	1,001,769	1,371,826
Notes receivable, residents	4,654,600	1,385,069
Inventories	149,010	153,328
Prepaid expenses	1,041,236	1,128,354
Current portion of assets whose use is limited	3,530,670	3,436,657
Total Current Assets	<u>27,257,246</u>	<u>22,135,498</u>
 Assets whose use is limited, noncurrent		
Held by Trustee under Bond Indenture		
Series 2012 Bond Interest Payment	1,884,334	1,841,032
Series 2012 Debt Service Reserve	4,486,678	4,493,255
Series 2012 Principal Payment	848,790	815,000
Series 2014 Bond Interest Payment	500,670	494,424
Series 2014 Principal Payment	296,876	286,201
Series 2014 Debt Service Reserve	1,289,118	1,288,354
Held in the Continuing Care Escrow under Florida Statutes		
Deposit and Initial Entrance Fee Account	929,631	1,676,383
Statutory Debt Service Reserve Account	918,459	891,017
Statutory Operating Reserve Escrow Account	3,657,256	3,548,464
Statutory Renewal and Replacement Reserve Account	3,658,746	3,548,531
	<u>18,470,558</u>	<u>18,882,661</u>
Less current portion	<u>(3,530,670)</u>	<u>(3,436,657)</u>
	<u>14,939,888</u>	<u>15,446,004</u>
 PROPERTY AND EQUIPMENT, net	<u>99,831,911</u>	<u>91,874,978</u>
 OTHER ASSETS		
Security and utility deposits	180,701	179,501
Capitalized financing and marketing costs, net	4,835,948	4,957,322
	<u>5,016,649</u>	<u>5,136,823</u>
Total Assets	<u>\$ 147,045,694</u>	<u>\$ 134,593,303</u>

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

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Current portion of debt		
Insurance note	\$ 522,953	\$ 420,847
Notes payable Series 2012 and 2014	1,140,000	1,100,000
Current portion of deferred refunds	48,161	129,094
Accounts payable	1,160,172	1,434,895
Accrued expenses	1,955,478	1,714,395
Accrued interest notes payable	2,338,682	2,329,544
Total Current Liabilities	<u>7,165,446</u>	<u>7,128,775</u>
LONG-TERM LIABILITIES		
Deferred refunds	317,944	-
Refundable deposits	724,767	1,498,563
Deferred revenue from entrance fees	52,263,325	46,078,717
Refundable entrance fees	25,532,035	21,027,197
Notes payable - Series 2012 Bonds, less amortized issuance costs	60,804,100	61,586,826
Notes payable - Series 2014 Bonds, less amortized issuance costs	18,778,814	19,065,394
Notes payable - Series 2017, less amortized issuance costs	7,400,149	2,376,986
Subordinated deferred ground lease	4,720,333	5,184,305
Total Long-Term Liabilities	<u>170,541,467</u>	<u>156,817,988</u>
Total Liabilities	<u>177,706,913</u>	<u>163,946,763</u>
NET ASSETS		
Unrestricted	(31,368,825)	(29,781,092)
Temporarily restricted	707,606	427,632
Total Net Assets	<u>(30,661,219)</u>	<u>(29,353,460)</u>
Total Liabilities and Net Assets	<u>\$ 147,045,694</u>	<u>\$ 134,593,303</u>

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

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.
 Statements of Activities and Changes in Net Assets
 Years Ended September 30, 2018 and 2017

	2018	2017
UNRESTRICTED NET ASSETS		
Unrestricted revenues		
Independent living, net of contractual adjustments	\$ 17,356,644	\$ 16,404,549
Assisted living, net of contractual adjustments	2,447,259	2,136,184
Memory care	2,902,490	2,460,080
Skilled nursing, net of contractual adjustments	6,788,138	7,141,651
Home health services, net of contractual adjustments	1,139,583	1,163,311
Net Resident Service Revenue	30,634,114	29,305,775
Investment income	865,690	1,008,354
Earned entrance fees	7,913,638	7,464,546
Net assets released from restriction	46,172	745,644
Total Revenues	39,459,614	38,524,319
Expenses		
Administrative	3,071,577	2,934,137
Marketing	1,313,742	821,665
Philanthropy	223,447	189,454
Housekeeping and laundry services	1,268,824	1,256,040
Resident services	951,916	879,975
Dining services	5,434,069	5,394,361
Assisted living	1,008,423	948,067
Memory care	1,814,547	1,663,328
Skilled nursing services	5,933,538	5,852,288
Home health services	967,081	1,151,369
Facility costs	2,568,581	2,462,542
Insurance, taxes, CAM and utilities	4,075,218	3,825,438
Ground lease	1,333,876	1,152,060
Depreciation	5,126,050	4,555,677
Amortization of capitalized financing and marketing costs	251,876	251,325
Interest expense on subordinated deferred ground lease and subordinated note	315,345	276,795
Interest expense on Series 2012 Bonds	3,859,814	3,748,414
Interest expense on Series 2014 Bonds	984,181	1,006,258
Interest other	12,120	12,916
Expenses released from restriction	46,172	14,394
Total Expenses	40,560,397	38,396,503
Operating Income (Loss)	(1,100,783)	127,816
Non Operating Income (Expense)		
Loss on disposal of fixed assets	(486,950)	(229,358)
Total Non Operating Income (Expense)	(486,950)	(229,358)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(1,587,733)	(101,542)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	326,146	167,304
Net assets released from restriction used for operations	(46,172)	(745,644)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	279,974	(578,340)
INCREASE (DECREASE) IN NET ASSETS	(1,307,759)	(679,882)
NET ASSETS - BEGINNING OF YEAR	(29,353,460)	(28,673,578)
NET ASSETS - END OF YEAR	\$ (30,661,219)	\$ (29,353,460)

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

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,307,759)	\$ (679,882)
Adjustments to reconcile change in net assets to net cash Provided by (Used in) operating activities		
Depreciation expense	5,126,050	4,555,677
Provision for bad debt expense	43,480	128,838
Amortization of capitalized financing and marketing costs	251,875	251,325
Amortization of entrance fees	(7,913,638)	(7,464,546)
Amortization of bond premium	(54,903)	(54,903)
Amortization of bond discount	58,333	63,631
Amortization of debt issuance costs	74,615	67,266
Unrealized (gain) loss on managed investment account	528,454	(691,949)
Unrealized (gain) loss on assets whose use is limited	69,901	62,370
Realized (gain) loss on managed investment account	(899,937)	75,063
Realized (gain) loss on assets whose use is limited	(56,094)	26,036
Loss on disposal of fixed assets	486,950	229,358
Loss on disposal of loan costs	124,641	-
(Increase) decrease in assets		
Accounts receivable	326,577	(666,921)
Notes receivable, residents	(3,269,531)	1,795,051
Inventories	4,318	6,029
Prepaid assets	87,118	5,174
Security and utility deposits	(1,200)	18,597
Increase (decrease) in liabilities		
Accounts payable	(274,723)	(134,788)
Accrued expenses	241,083	(215,984)
Accrued interest	9,138	(14,573)
Subordinated deferred ground lease and accrued interest	1,649,221	1,428,855
Temporarily restricted contributions	(326,146)	(167,304)
Net Cash Provided by (Used in) Operating Activities	(5,022,177)	(1,377,580)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(13,700,434)	(8,159,727)
Purchase of investments in managed investment account	(15,117,701)	(8,514,861)
Proceeds of investments in managed investment account	14,393,650	5,970,748
Purchase of investments in assets whose use is limited	(16,539,451)	(22,744,359)
Proceeds of investments in assets whose use is limited	16,937,747	23,120,195
Net Cash Provided by (Used in) Investing Activities	(14,026,189)	(10,328,004)

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

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Entrance fees and resident deposits received	\$ 24,311,079	\$ 13,637,094
Refund of entrance fees	(5,470,984)	(3,947,881)
Escrowed entrance fee deposits	(773,796)	661,344
Borrowings on insurance note	1,206,098	697,009
Repayment of insurance note	(1,103,992)	(788,664)
Repayment of deferred ground lease payable	(2,113,193)	(1,598,424)
Repayment on notes payable - Series 2012	(815,000)	(785,000)
Repayment on notes payable - Series 2014	(285,000)	-
Borrowings on Notes Payable - Series 2017	11,496,283	2,365,020
Repayment on Notes Payable - Series 2017	(6,605,112)	-
Temporarily restricted contributions	326,146	167,304
Net Cash Provided by (Used in) Financing Activities	<u>20,172,529</u>	<u>10,407,802</u>
Net Increase (decrease) in cash and cash equivalents	1,124,163	(1,297,782)
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,766,077</u>	<u>6,063,859</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 5,890,240</u>	<u>\$ 4,766,077</u>
 Supplemental Disclosures of cash flow information:		
Interest Paid	<u>\$ 5,054,628</u>	<u>\$ 4,970,546</u>

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

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2018 and 2017

NOTE A – ORGANIZATION

Organization

Cypress Cove at HealthPark Florida, Inc. (Cypress Cove) is a not-for-profit entity that was incorporated in August 1995 to develop and own a continuing care retirement community. Cypress Cove is controlled by Lee Memorial Hospital, Inc. d/b/a Lee Healthcare Resources (LHR) through the powers of appointing the Board of Directors. LHR is a not-for-profit organization whose general purpose is to serve as a support organization for Lee Health and Cypress Cove.

Operations

Cypress Cove consists of 333 independent living apartments, 44 villas, 88 assisted living units (which includes the 44-unit memory care facility) and a 64-unit skilled nursing facility, together with appropriate common and amenity areas. The community is situated on 48 acres of the HealthPark Florida campus, located in Lee County, Florida.

The community offers programs geared toward the delivery of residential and health care services for the elderly and derives its revenues primarily from continuing care retirement plans such as Life Care (*Type A*), Continuing Care (*Type B*), and Fees for Service (*Type C*). All plans require an initial entrance fee and monthly service fee to be paid. The community also receives private pay revenues for services provided by its home health agency, assisted living and skilled nursing facilities. The skilled nursing facility is Medicare-certified where revenues are received from third-party insurers on behalf of residents to provide skilled nursing care services.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Cypress Cove reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Unrestricted resources are those on which no restrictions exist or that arise as a result of operations of Cypress Cove for its stated purposes. Funds subject to time restrictions are classified as temporarily restricted net assets.

Cash and Cash Equivalents

For the purposes of reporting cash flows, Cypress Cove includes its cash, money market accounts and temporary investments with an original maturity of ninety days or less from managed investments as cash and cash equivalents, this includes undesignated, board designated, and temporarily restricted cash and cash equivalents on the statement of financial position. For the fiscal year ended September 30, 2017 the Board of Directors of Cypress Cove elected to set aside certain assets as reserve funds for the operation of the 44-unit memory care facility (“MCAL”) in the amount of \$1,700,000. For the fiscal year ended September 30, 2018 MCAL reached stabilization and the Board designated the \$1,700,000 to build a strategic fund to assure that Cypress Cove can continue to provide its core services to the residents.

Investments

Cypress Cove carries its investments in marketable securities with readily determinable fair values and all investments in debt securities at their market values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities within investment income. Investment income is recorded as operating revenue.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2018 and 2017

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

Accounts receivable are recorded at the estimated net realizable amount from residents, patients, third-party payers and others for services rendered. Accounts receivable is net of an allowance for doubtful accounts for potential credit losses. Management determines the amount of potential credit losses by calculating aged receivables over 150 days. Management reviews the allowance for doubtful accounts on a monthly basis. The allowance for doubtful accounts at September 30, 2018 and 2017 is \$128,472 and \$289,237, respectively. Interest is not charged on accounts receivable.

Notes Receivable, residents

Notes receivable are granted for new residents for entrance fees due. The note is issued and payable at the earlier of 90 days or the sale of the residents' home. Notes receivable are reported at their outstanding principal balance. Based on historical collections of notes receivable, management considers these notes to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary. In making that determination, management evaluates the financial condition of the borrower and considers current economic conditions as a condition of extending credit.

Inventories

Inventories are stated at the lower of cost or net realizable value, utilizing the first-in, first-out method. Inventory is composed of food items and supplies.

Assets Whose Use is Limited

Assets whose use is limited consists of cash and cash equivalents and investments differentiated by the use for which it is limited under contractual arrangement. Assets whose use is limited are recorded as such on the balance sheet. The current portion of assets whose use is limited is comprised of the current portion due for the Series 2012 and 2014 bond interest and principal amounts at September 30, 2018 and 2017.

Property and Equipment

Property and equipment with a stated cost of \$2,000 or more are capitalized. Depreciation is being recorded using the straight-line method over the respective estimated useful lives of the assets (ranging from 3 years to 39.5 years).

Deferred Revenue from Entrance Fees

Fees paid by a resident upon entering into a continuing care contract, net of the portion thereof that is refundable to the resident, are recorded as deferred revenue. Depending on the type of contract selected by a resident and the terms under which refunds are to be paid, the deferred revenue portion is amortized to income using the straight-line method over the estimated remaining life expectancy of the resident as determined by actuarial tables.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2018 and 2017

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Refundable Deposits

Refundable deposits represent unit reservation deposits and wait list deposits of future residents and the receipt of entrance fees from current residents whose funds are held minimally in escrow for seven days after executing a continuing care contract in order to comply with Florida statutes.

Deferred Refunds

Deferred refunds represent fees paid by a resident upon entering into a life care or continuing care contract that are refundable upon termination of that contract and are currently refundable because the contract has been terminated. The current portion of deferred refunds represents fees that are refundable within one year of the statement of financial position.

Refundable Entrance Fees

Refundable entrance fees represent fees paid by a resident upon entering into a life care or continuing care contract that are refundable upon termination based on specific conditions stated within the contract. Refundable entrance fees include amounts that are contingent upon re-occupancy of a subsequent resident.

Obligation to Provide Future Services

Cypress Cove calculates the present value of the net costs of future services and the use of facilities to be provided to residents under the Residency and Services Contract and compares that amount with the balance of deferred revenues from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded with the corresponding charge to income. There was no liability for obligation to provide future services and use of the facilities recorded for the years ended September 30, 2018 and 2017.

Capitalized Financing and Marketing Costs

Capitalized financing costs are amortized over the life of the related assets. Capitalized marketing costs are direct response advertising costs and are amortized over its expected period of future benefits.

Income Taxes

Cypress Cove is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3), which requires taxation of unrelated business income under certain circumstances. Cypress Cove reports no unrelated business taxable income; however, such status is subject to final determination upon examination of the related income tax returns by the appropriate taxing authorities.

Currently, the last three tax years are open and subject to examination by the Internal Revenue Service. However, Cypress Cove is not currently under audit nor has Cypress Cove been contacted by any tax jurisdiction.

Based on an evaluation of Cypress Cove's tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions have been recorded.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2018 and 2017

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Resident Service Revenue

Cypress Cove provides a variety of accommodations and services including licensed health care services through its home health agency, assisted living, memory care and skilled nursing facilities. Net resident service revenue is reported at the estimated net realizable amounts from residents, nonresidents, and third-party payers for services rendered. The net realizable amount includes adjustments from income for bad debt, contractual adjustments with third-party payers and charity care for residents formally approved by senior management for financial assistance. Contractual adjustments amounted to \$2,790,451 and \$2,536,939 for the years ended September 30, 2018 and 2017, respectively. Bad debt amounted to expense of \$113,607 and \$132,992 for the years ended September 30, 2018 and 2017, respectively.

Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and an adjustment to patient receivables. Revenue under third party payer agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payer settlements, if any, are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Advertising Costs

Cypress Cove expenses advertising costs as they are incurred except for direct response advertising costs. Advertising expense amounted to \$413,958 and \$253,787 for the years ended September 30, 2018 and 2017, respectively.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the financial statements and during the reporting period. Accordingly, actual results could differ from those estimates.

Date of Management's Review

Cypress Cove has evaluated subsequent events through February 7, 2019, the date which the financial statements were available to be issued.

New Accounting Pronouncement

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2015-11, *Inventory-Simplifying the Measurement of Inventory* (ASU 2015-11) which requires inventory measured using all methods other than the last-in, first-out or retail methods to be measured at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2017. In accordance with GAAP ASU 2015-11 has been applied prospectively. There was no impact on the Statement of Financial Position as of September 30, 2018 and the statement of Activities and Changes in Net Assets for the year ending September 30, 2018 resulting from the implementation of ASU 2015-11.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2018 and 2017

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncement (continued)

In May 2015, the FASB issued Accounting Standards Update 2015-07, *Fair Value Measurements* (ASU 2015-07) which requires information sufficient to permit reconciliation of the fair value measurement disclosures for various classes of assets and liabilities to the line items in the statement of financial position. In accordance with GAAP ASU 2015-07 has been applied retrospectively applied.

NOTE C – INVESTMENTS

Managed investment accounts consisted of the following as of September 30:

	2018	2017
Equities	\$ 4,281,975	\$ -
Mutual funds	3,862,738	8,211,880
Fixed income securities	<u>2,845,008</u>	<u>1,682,307</u>
Total managed investments	10,989,721	9,894,187
Money market funds (included in cash equivalents)	<u>452,610</u>	<u>43,830</u>
	<u>\$ 11,442,331</u>	<u>\$ 9,938,017</u>

Assets whose use is limited consisted of the following as of September 30:

	2018	2017
Cash	\$ 925,589	\$ 1,676,383
Money market funds	3,906,354	3,903,533
Mutual funds	1,067,285	1,141,841
Fixed income securities	<u>12,571,330</u>	<u>12,160,904</u>
	<u>\$ 18,470,558</u>	<u>\$ 18,882,661</u>

The components of total investment income from all investments for 2018 and 2017 are reflected below:

	2018	2017
Dividends and interest	\$ 588,671	\$ 561,023
Net realized and unrealized gains and (losses)	357,676	528,480
Investment fees	<u>(80,657)</u>	<u>(81,149)</u>
Total investment income	<u>\$ 865,690</u>	<u>\$ 1,008,354</u>

NOTE D – FAIR VALUE MEASUREMENTS

Professional accounting standards establish a framework for measuring fair value and disclosures about fair value measurements under generally accepted accounting principles. This framework provides a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three (3) broad levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2018 and 2017

NOTE D – FAIR VALUE MEASUREMENTS (continued)

The three levels of the fair value hierarchy under professional accounting standards are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Cypress Cove has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value.

Money Market Funds: Valued at the net asset value (“NAV”) of the shares held at year end as a readily determinable market value.

Equities: Valued at quoted prices in an exchange market.

Mutual Funds: Valued at the net asset value (“NAV”) of the shares held at year end as a readily determinable market value.

Fixed Income Securities: Valued using the market approach, which uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources.

While Cypress Cove believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at September 30, 2018.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2018 and 2017

NOTE D – FAIR VALUE MEASUREMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, Cypress Cove’s assets at fair value as of September 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 4,358,964	\$ -	\$ -	\$ 4,358,964
Equities				
U.S. equities	4,108,231	-	-	4,108,231
Foreign equities	173,744	-	-	173,744
Mutual Funds				
U.S. equity	1,067,285	-	-	1,067,285
Fixed income	1,917,478	-	-	1,917,478
International equity	1,945,260	-	-	1,945,260
Fixed Income Securities				
US government	6,986,004	-	-	6,986,004
Foreign agency	-	7,931,245	-	7,931,245
Corporate	-	325,867	-	325,867
Mortgage-back	-	173,222	-	173,222
Total assets at fair value	<u>\$ 20,556,966</u>	<u>\$ 8,430,334</u>	<u>\$ -</u>	<u>28,987,300</u>
Cash included in Project funds not included in the fair value hierarchy				925,589
				<u>\$ 29,912,889</u>

The following table sets forth by level, within the fair value hierarchy, Cypress Cove’s assets at fair value as of September 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ -	\$ 3,947,363	\$ -	\$ 3,947,363
Mutual Funds				
Fixed income	3,433,270	-	-	3,433,270
Large cap	3,224,051	-	-	3,224,051
Mid cap	513,478	-	-	513,478
Small cap	552,406	-	-	552,406
Alternative	297,788	-	-	297,788
International equity	1,332,728	-	-	1,332,728
Fixed Income Securities				
US government	3,805,431	-	-	3,805,431
Foreign agency	-	789,704	-	789,704
Corporate	-	7,653,561	-	7,653,561
Mortgage-back	-	1,594,515	-	1,594,515
Total assets at fair value	<u>\$ 13,159,152</u>	<u>\$ 13,985,143</u>	<u>\$ -</u>	<u>27,144,295</u>
Cash included in Project funds included in the fair value				1,676,383
				<u>\$ 28,820,678</u>

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2018 and 2017

NOTE E – ASSETS WHOSE USE IS LIMITED

Series 2012 Bonds

Cypress Cove originally obtained debt financing for the development of the facilities from the issuance of Lee County Industrial Development Authority Healthcare Facilities Revenue Bonds. The proceeds of the Series 2012 Bonds were used to refund the original bonds.

They were also used for the acquisition of equipment and renovation/improvements of existing independent living and healthcare facilities located at the Community, fund any necessary reserves, and pay costs related to issuance of the Bonds.

The Trustee for the Series 2012 Bonds maintained the following funds and accounts under the terms of the related Bond Trust Indenture (“the Indenture”).

Series 2012 Bond Payment Funds – Consist of two separate accounts maintained by the Bond Trustee designated as the Principal Account and the Interest Account. The Principal Account is used to pay the principal and premium, if any, on the Bonds when due and payable. The Interest Account is used to pay interest on the Bonds.

Series 2012 Debt Service Reserve – Account funded at bond closing to provide a reserve for the payment of the principal and interest on the Bonds, with an amount equal to the Maximum Annual Debt Service on the Bonds outstanding, except principal of the Bonds in the final year.

Series 2014 Bonds

The proceeds of the 2014 Bonds were used to fund the costs related to equipping and constructing the new 44-unit memory care assisted living residence and related common areas which are located on a parcel adjacent to and on the campus of Cypress Cove’s existing continuing care retirement community.

The Trustee for the Series 2014 Bonds maintained the following funds and accounts under the terms of the related Bond Trust Indenture (“the Indenture”).

Series 2014 Bond Payment Funds – Consist of two separate accounts maintained by the Bond Trustee designated as the Principal Account and the Interest Account. The Principal Account will be used to pay the principal and premium, if any, on the Bonds when due and payable. The first principal payment was made October 1, 2017. The Interest Account is used to pay interest on the Bonds.

Series 2014 Project Fund – Account funded at bond closing to be used to reimburse or pay for capital expenditures associated with the construction of MCAL. Uses of funds are time-sensitive and must follow Income Tax Regulations. In addition, the remaining funds shall be added to the Series 2014 Bond Interest Payment fund.

Series 2014 Debt Service Reserve – Account funded at bond closing to provide a reserve for the payment of the principal and interest on the Bonds, with an amount equal to the Maximum Annual Debt Service on the Bonds outstanding, except the principal portion due on the Bonds in the final year.

Additional Required Accounts

Additional accounts are required to be established and maintained by Florida Statutes in accordance with a Continuing Care Escrow Agreement between the Florida Office of Insurance Regulation and Cypress Cove.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2018 and 2017

NOTE E – ASSETS WHOSE USE IS LIMITED (continued)

These funds are not subject to lien of the Indenture. They are as follows:

Deposit and Initial Entrance Fee Account – This account contains refundable deposits for unit reservations and wait list by future residents and the receipt of entrance fees from current residents whose funds are held minimally in escrow for seven days after executing a continuing care contract.

The Statutory Debt Service Reserve Account – This account in combination with the bond required Debt Service Reserve Funds noted above is maintained at an amount approximately equal to one year’s principal, interest, property taxes, insurance, leasehold payments and all costs related to such payments.

The Statutory Operating Reserve Escrow Account – As required by Florida Statutes, this account is required to equal at least 15 percent of the average total operating expenses for Cypress Cove over the preceding three-year period as reported.

Statutory Renewal and Replacement Reserve Account – As required by Florida Statutes, this account is required to equal at least 15 percent of the accumulated depreciation, not to exceed 15 percent of Cypress Cove’s average operating expenses during the preceding three-year period as reported.

NOTE F – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30:

	2018	2017
Land and land improvements	\$ 4,499,788	\$ 2,989,011
Buildings and improvements	131,703,184	116,739,374
Furniture, fixtures, and equipment	13,116,139	12,914,192
Construction in progress	671,400	7,524,289
Total Property and Equipment	149,990,511	140,166,866
Less: Accumulated Depreciation	(50,158,600)	(48,291,888)
Total Property and Equipment, Net	\$ 99,831,911	\$ 91,874,978

NOTE G – INTANGIBLE ASSETS

Intangible assets included in Other assets consisted of the following at September 30:

	2018		2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Capitalized financing costs	\$ 7,029,613	\$ 2,312,395	\$ 6,899,112	\$ 2,119,885
Marketing costs	237,460	118,730	237,460	59,365
Total intangible assets	\$ 7,267,073	\$ 2,431,125	\$ 7,136,572	\$ 2,179,250

During the fiscal year ended 2018, \$130,501 of interest expense relating to the Notes payable – Series 2017 was capitalized into Construction in progress as part of the new villa unit construction project.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2018 and 2017

NOTE G – INTANGIBLE ASSETS (continued)

Estimated amortization expense is approximately \$255,000 for each of the next five fiscal years. Cypress Cove's future cash flows are not materially impacted by its ability to extend or renew agreements related to its amortizable intangible assets.

NOTE H – INSURANCE NOTE PAYABLE

Cypress Cove financed annual insurance premiums of \$740,515 over a 10-month period beginning in July 2018. The financing agreement requires monthly payments of \$75,819 including interest at 4.445%. The outstanding balance payable at September 30, 2018 was \$522,953.

Cypress Cove financed annual insurance premiums of \$697,009 over a 10-month period beginning in July 2017. The financing agreement requires monthly payments of \$68,713 including interest at 3.15%. The outstanding balance payable at September 30, 2017 was \$420,847.

NOTE I – LINE OF CREDIT

In August 2014, Cypress Cove obtained a line of credit with FineMark National Bank & Trust secured with financial assets owned by LHR. The line of credit is for the principal borrowing amount up to \$2,000,000. At September 30, 2018 and 2017 there was no outstanding balance. Interest on any outstanding balance accrues based on the London Interbank Offered Rate (LIBOR) index plus 1.8%. The line of credit matures August 7, 2022. Cypress Cove did not draw on the line of credit and did not incur any interest expense associated with the line of credit during the fiscal years ending September 30, 2018 and 2017.

NOTE J – NOTES PAYABLE SERIES 2017 A and 2017 B

On May 1, 2017, Cypress Cove entered into a financing agreement with FineMark National Bank & Trust to finance the costs of capital improvements for their senior healthcare and housing facilities. A promissory note in the form of a Taxable Master Note, Series 2017A was issued dated May 12, 2017. The note is secured under the terms and conditions of a Master Trust Indenture, dated as of September 1, 2012, between Cypress Cove and The Bank of New York Mellon Trust Company, N.A. The interest rate per annum is equal to the sum of one-month Libor and 2.30% per annum, adjusted monthly. Under the terms of the agreement Cypress Cove may take advances against the note as needed for the capital improvements. The final advance date is June 30, 2018 and the maximum principal amount is \$7,500,000. The entire principal balance outstanding with any accrued and unpaid interest shall be due and payable in full on May 1, 2027 including a principal balloon payment of \$2,312,500. Monthly principal payments begin June 1, 2020 in the amount of \$62,500. As of September 30, 2018, \$7,500,000 was outstanding on the Notes Payable Series 2017A promissory note, shown on the statements of financial position less debt issuance costs and amortization in the amount of \$99,851. As of September 30, 2017, \$2,084,461 was outstanding on the Notes Payable Series 2017A promissory note, shown on the statements of financial position less debt issuance costs and amortization in the amount of \$107,202.

On July 1, 2017 Cypress Cove entered into a financing agreement with FineMark National Bank & Trust to finance the costs of construction for 14 new villa units. A promissory note in the form of a Taxable Master Note, Series 2017B was issued dated July 27, 2017. The note is secured under the terms and conditions of a Master Trust Indenture, dated as of September 1, 2012, between Cypress Cove and The Bank of New York Mellon Trust Company, N.A. The interest rate per annum is equal to the sum of one-month Libor and 1.75% per annum, adjusted monthly.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2018 and 2017

NOTE J– NOTES PAYABLE SERIES 2017 A and 2017 B

Under the terms of the agreement Cypress Cove may make advances against the note as need for the construction of the villa units. The maximum principal amount is \$7,500,000. The entire principal balance outstanding with any accrued and unpaid interest shall be due and payable in full on January 27, 2020. Prior to maturity, accrued and unpaid interest shall be due and payable on the first day of each month beginning August 1, 2017. During the year ended September 30, 2018 the promissory note was paid in full and amortization costs were fully expensed. As of September 30, 2017, \$524,368 was outstanding on the Notes Payable Series 2017B promissory note, shown on the statements of financial position less debt issuance costs and amortization in the amount of \$124,641.

NOTE K– BOND NOTES PAYABLE SERIES 2012 AND 2014

Series 2012 Bonds

On September 1, 2012, the Lee County Industrial Development Authority issued \$66,550,000 in tax-exempt bonds for Cypress Cove. The proceeds of the Bonds were loaned to Cypress Cove, pursuant to a Loan Agreement also dated September 1, 2012. The loan proceeds were used to refund all the outstanding Healthcare Facilities Revenue Bonds (Series 1997A, Series 1997B and Series 2002A, which were used for initial construction of the building and equip Phase I and Phase II of the continuing care community). In addition, proceeds were used to finance and refinance a portion of the costs relating to the acquisition of equipment for and renovation/improvement of existing independent living and healthcare facilities located at the Community, fund any necessary reserves, and pay costs related to issuance of the Bonds.

The bonds are payable from payments made by Cypress Cove pursuant to the Loan Agreement dated September 1, 2012, issued to and entitled to the benefit and security of a Master Trust Indenture, between the Bank of New York Mellon Trust Company and Cypress Cove. Under the Loan Agreement, Cypress

Cove agreed to make loan payments sufficient, among other things, to pay in full when due all principal of, premium, if any, and interest on the Bonds and the administrative fees of the Bond Trustee, and to make payments as required to restore any deficiencies in the debt service reserve fund.

The Series 2012 loan is secured by a lien on and security interest in the Mortgaged Property, pursuant to a Leasehold Mortgage and Security Agreement, and a security interest in the Gross Revenues of Cypress Cove, as defined by the Master Trust Indenture.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2018 and 2017

NOTE K – BOND NOTES PAYABLE (continued)

Estimated Annual Debt Service Requirements on Series 2012 Bonds

Estimated annual debt service requirements on the Series 2012 Bonds for the next five years as described above are as follows:

Series 2012 Bonds						
Due Date		Interest		Principal		Total
10/1/18	\$	3,642,663	\$	845,000	\$	4,487,663
10/1/19		3,602,525		885,000		4,487,525
10/1/20		3,560,487		925,000		4,485,487
10/1/21		3,516,550		970,000		4,486,550
10/1/22		3,470,475		1,015,000		4,485,475
Thereafter		58,518,700		58,140,000		116,658,700

Series 2014 Bonds

On October 1, 2014, the Lee County Industrial Development Authority issued \$19,470,000 in tax-exempt bonds for Cypress Cove. The proceeds of the Bonds were loaned to Cypress Cove, pursuant to a Loan Agreement also dated October 1, 2014.

The loan proceeds were used to fund the costs related to equipping and constructing the 44-unit memory care assisted living residence and related common areas to be located on a parcel adjacent to and on the campus of Cypress Coves existing continuing care retirement community.

The bonds are payable from payments made by Cypress Cove pursuant to the Loan Agreement dated October 1, 2014, issued to and entitled to the benefit and security of a Master Trust Indenture, between the Bank of New York Mellon Trust Company and Cypress Cove. Under the Loan Agreement, Cypress Cove agreed to make loan payments sufficient, among other things, to pay in full when due all principal of, premium, if any, and interest on the Bonds and the administrative fees of the Bond Trustee, and to make payments as required to restore any deficiencies in the debt service reserve fund.

The Series 2014 loan is secured by a lien on and security interest in the Mortgaged Property, pursuant to a Leasehold Mortgage and Security Agreement, and a security interest in the Gross Revenues of Cypress Cove, as defined by the Master Trust Indenture.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2018 and 2017

NOTE K – BOND NOTES PAYABLE (continued)

Estimated Annual Debt Service Requirements on Series 2014 Bonds

Estimated annual debt service requirements on the Series 2014 Bonds for the next five years as described above are as follows:

Series 2014 Bonds			
Due Date	Interest	Principal	Total
10/1/18	\$ 977,313	\$ 295,000	\$ 1,272,313
10/1/19	968,463	305,000	1,273,463
10/1/20	959,313	315,000	1,274,313
10/1/21	946,713	325,000	1,271,713
10/1/22	933,713	340,000	1,273,713
Thereafter	15,464,797	17,605,000	33,069,797

Series 2012 and 2014 Bond Covenants

The Series 2012 and 2014 Bond Covenants require a Debt Service Coverage ratio of at least 1.20 commencing with the first quarter after the issuance of the Bonds, in accordance with the Master Trust Indenture. In addition, the Master Trust Indenture requires the calculation for the Days Cash on Hand as of March 31 and September 30 of each Fiscal year, commencing on September 30, 2012.

The Days Cash on Hand is required to be no less than 150 Days Cash on Hand (the “Liquidity Requirement”) as of those dates.

At September 30, 2018 the Debt Service Coverage ratio was 2.53 and Days Cash on Hand was 302 of which both ratio calculations were in compliance with the Series 2012 Bond covenants. At September 30, 2017, the Debt Service Coverage ratio was 2.76 and Days Cash on Hand was 257 of which both ratio calculations were in compliance with the Series 2012 Bond covenants.

The Series 2012 and 2014 Bond covenants also have requirements for seeking an annual investment grade rating on the related bonds and completing periodic actuarial studies and periodic financial reporting and disclosure requirements. Cypress Cove received affirmation of its BB+ credit rating on the Series 2012 and 2014 Bonds.

NOTE L – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2018 and 2017 consisted of the following:

	2018	2017
Temporarily Restricted Net Assets:		
Memory Care Project	\$ 320,804	\$ 170,102
Community Enhancements	68,245	50,540
Staff Scholarships	86,238	28,636
Benevolence Care	232,319	178,354
Total Temporarily Restricted Net Assets:	\$ 707,606	\$ 427,632

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2018 and 2017

NOTE M – RELATED PARTY TRANSACTIONS

Cypress Cove amended its original and supplemented terms of the ground lease with LHR on September 27, 2012 to the later of January 1, 2048 or the date upon which none of the obligations for the Series 2012 and 2014 Bonds are outstanding. Rent was \$2,573 and \$2,237 for each residential, nursing, and assisted living unit during the years ended September 2018 and 2017, respectively.

During the year ended September 30, 2018, Cypress Cove accrued \$1,220,683 payable to LHR for the ground lease. During the year ended September 30, 2017 Cypress Cove accrued \$1,152,060 payable to LHR for the ground lease.

In addition, \$315,345 and \$276,795, respectively for 2018 and 2017, of interest was accrued on the amount outstanding on the ground lease. Cypress Cove paid LHR \$2,113,193 and \$1,598,424 on the unpaid ground lease and accrued interest during 2018 and 2017, respectively.

During both 2018 and 2017, LHR provided its unconditional guarantee and pledged financial assets as collateral for Cypress Cove's line of credit. Cypress Cove paid a fee of \$30,000 during 2018 and 2017 for the unconditional guarantee and pledge. The fee is determined monthly and is based on the pledge amount of \$2,000,000.

During the years ended September 30, 2018 and 2017 LHR made contributions to Cypress Cove in the amount of \$118,623 and \$103,548, respectively. The contributions are unrestricted but \$113,193 and \$103,548 are designated by the board of directors for the operation of the MCAL for the years ended September 30, 2018 and 2017, respectively.

During each of the years ended September 30, 2018 and 2017, Cypress Cove paid LHR rent for office space in the amount of \$11,144 and \$20,919, respectively.

During each of the years ended September 30, 2018 and 2017, Cypress Cove paid Lee FP, Inc., (a wholly owned subsidiary of LHR) a professional service fee of \$730,340 and \$709,068, respectively. Also, during the years ended September 30, 2018 and 2017, Cypress Cove reimbursed Lee FP, Inc. for services including employee costs totaling \$414,435 and \$462,290, respectively.

NOTE N – CONCENTRATIONS

Cypress Cove, at times, has cash deposits which exceed \$250,000 in an individual bank. The Federal Deposit Insurance Corporation (FDIC) insures only the first \$250,000 of funds at member banks. Cypress Cove has not experienced any loss in such accounts.

Investments and cash held in Cypress Coves' operating, managed investment and project fund accounts are insured by the Securities Investor Protection Corporation ("SIPC") with a total up to \$500,000, including claims of cash up to \$250,000, held in accounts for the purpose of, or as a result of, securities transactions. Each account is protected for the net equity of securities and cash positions, but not protected against market fluctuations. In the normal course of operations, Cypress Cove has cash deposits in excess of \$250,000 and investments in excess of \$500,000 under SIPC protection in financial services brokerage accounts. Cypress Cove has not experienced any loss resulting from balances in excess of insured amounts in such accounts.

CYPRESS COVE AT HEALTHPARK FLORIDA, INC.

Notes to Financial Statements
September 30, 2018 and 2017

NOTE N – CONCENTRATIONS (continued)

Cypress Cove grants credit without collateral to its residents and patients, most of whom reside at the facility year-round and are insured under third-party payor agreements. Accounts receivable at September 30, 2018 and 2017 represent balances due from residents and Medicare billings.

Cypress Cove defines major customers with respect to accounts receivable as those that comprise 10% or more of the balance at year end. The mix of receivables from residents, patients and Medicare at September 30, 2018 and 2017, was as follows:

	<u>2018</u>		<u>2017</u>	
Medicare	50	%	57	%
Residents, Patients and Insurance	50		43	
	<u>100</u>	%	<u>100</u>	%

Cypress Cove defines major customers with respect to revenue as those that comprise 10% as a customer generating 10% or more of annual net patient service revenue. During the year ending September 30, 2018 Medicare revenue was approximately 16% of annual net patient service revenue. During the year ending September 30, 2017 Cypress Cove did not have any customers generating 10% or more of annual net patient service revenue.

Further, Cypress Cove grants credit in the form of notes receivable to some residents who have signed a continuing care contract, minimally paid a deposit and agreed to pay monthly services fees in accordance with their contract. These notes are non-interest bearing and have a maturity of up to ninety days. Notes receivable were \$4,654,600 and \$1,385,069 as of September 30, 2018 and 2017, respectively.

NOTE O – RETIREMENT PLAN

Cypress Cove has a defined contribution plan covering substantially all employees. Costs for plan benefits funded were \$294,840 and \$279,325 for September 30, 2018 and 2017, respectively.

NOTE P – COMMITMENTS AND CONTINGENCIES

Cypress Cove has entered into annual service and maintenance contracts with various outside vendors as part of maintaining the facilities. These contracts relate primarily to maintenance of various equipment, the swimming pool, landscaping, and common area maintenance. Generally, the contracts allow either party to terminate their agreement upon thirty to ninety days written notice to the other party.

The Company has litigation and claims arising from the normal course of business. In management's opinion, the outcome of any such litigation or claim will not materially affect Cypress Cove's financial condition.

NOTICE OF PUBLIC HEARING

The Lee County Industrial Development Authority (the "Authority") will hold a public hearing on June 12, 2020 at 10:00 A.M., or as soon thereafter as the matter can be heard, at the Authority's offices located at 2201 Second Street, Suite 500, Fort Myers, Florida. The purpose of the meeting will be to conduct a public hearing and consider adoption of a resolution providing for the approval of the issuance by the Authority of not exceeding \$112,000,000 of its Healthcare Facilities Refunding Revenue Bonds (Cypress Cove at HealthPark Florida, Inc. Project), Series 2020 (the "Series 2020 Bonds") to be issued in one or more series. The proceeds of the Series 2020 Bonds will be loaned to Cypress Cove at HealthPark Florida, Inc., as representative of an obligated group (collectively, the "Obligated Group") for the principal purposes of (1) refunding all or a portion of the Authority's outstanding Healthcare Facilities Refunding Revenue Bonds (Cypress Cove at HealthPark Florida, Inc. Project), Series 2012, (2) refunding all or a portion of the Authority's outstanding Healthcare Facilities Revenue Bonds (Cypress Cove at HealthPark Florida, Inc. Memory Care Project), Series 2014, (3) refunding all or a portion of the Obligated Group's outstanding Taxable Master Note, Series 2017A, the proceeds of which obligations were loaned to the Obligated Group for the purposes of financing and refinancing a portion of the costs of the acquisition of certain real property and certain capital improvements to the Obligated Group's healthcare facilities owned, operated and located at 10200 Cypress Cove Drive in Lee County, Florida (the "Facilities"), (4) funding all or a portion of the costs (including reimbursement for prior related expenditures) related to capital improvement projects related to the Obligated Group's Facilities (the "Project"), (5) funding any necessary reserves for the Series 2020 Bonds, and (6) paying costs related to issuance of the Series 2020 Bonds. The Project will be owned and managed by the Obligated Group.

The Series 2020 Bonds shall be payable solely from the revenues derived by the Authority from a loan agreement, mortgage and security agreement and other financing documents entered into by and between the Authority and the Obligated Group prior to or contemporaneously with the issuance of the Series 2020 Bonds. Such Series 2020 Bonds and the interest thereon shall not constitute an indebtedness or pledge of the general credit or taxing power of Lee County, the State of Florida or any political subdivision or agency thereof. Issuance of the Series 2020 Bonds shall be subject to several conditions including satisfactory documentation, the approval by bond counsel as to the tax-exempt status of the interest on all or a portion of the Series 2020 Bonds and receipt of necessary approvals for the financing. The aforementioned meeting shall be a public meeting and all persons who may be interested will be given an opportunity to be heard concerning the same. [Participants may also access the meetings via telephone at () - () (conference room number:) and will be given an opportunity to provide verbal comments.] Written comments may also be submitted to the Lee County Industrial

Development Authority prior to the hearing at 2201 Second Street, Suite 500, Fort Myers, Florida 33901, Attention: John Talmage, Executive Director, jtalmage@leegov.com.

ALL PERSONS FOR OR AGAINST SAID APPROVAL CAN BE HEARD AT SAID TIME AND PLACE. IF A PERSON DECIDES TO APPEAL ANY DECISION MADE BY THE AUTHORITY WITH RESPECT TO SUCH HEARING OR MEETING, (S)HE WILL NEED TO ENSURE THAT A VERBATIM RECORD OF SUCH HEARING OR MEETING IS MADE, WHICH RECORD INCLUDES THE TESTIMONY AND EVIDENCE UPON WHICH THE APPEAL IS BASED.

In accordance with the Americans with Disabilities Act persons needing a special accommodation to participate in this proceeding should contact the individual or agency publishing this notice no later than seven days prior to the proceeding at the address given in this notice. Telephone: (239) 338-3161.

By order of the Lee County Industrial Development Authority.

**LEE COUNTY INDUSTRIAL
DEVELOPMENT AUTHORITY**

/s/ David Barton

Chairman