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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

# ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY

## PENSACOLA, FLORIDA

## FINANCIAL STATEMENTS

## SEPTEMBER 30, 2021 AND 2020

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# PENSACOLA, FLORIDA

# FINANCIAL STATEMENTS

# SEPTEMBER 30, 2021 AND 2020

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# INDEPENDENT AUDITOR'S REPORT

Board of Directors
Escambia County Health Facilities Authority
Pensacola, Florida

## Report on the Financial Statements

We have audited the accompanying financial statements of Escambia County Health Facilities Authority (the "Authority"), as of and for the years ended September 30, 2021 and 2020, and the related notes to the financial statements, which comprise the Authority's basic financial statements, as listed in the table of contents.

## 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.

## Auditor's Responsibility

Our responsibility is to express opinions 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 opinions.

Board of Directors
Escambia County Health Facilities Authority

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Required Supplementary Information

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

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2022, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Saltmarsh Cleaveland & Gund

Pensacola, Florida
February 21, 2022

The following is a narrative overview and analysis of the Authority's significant financial activities for the fiscal years ended September 30, 2021.

## Historical Information

- The Escambia County Health Facilities Authority (the "Authority") has been in operation since 1975 after being established by resolution of the Escambia County Board of County Commissioners (the "County") under the authority granted by Chapter 154, Part III, Florida Statutes. The Authority is constituted as a public instrumentality, and the exercise by the Authority of the powers conferred upon it by Florida law is held to be the performance of an essential public function. The Authority's operations are overseen by a five-member Board of Directors and by administrative, accounting and legal personnel engaged by the Authority Board. The members of the Board serve four (4) year terms of office and are appointed by the County. The Board members annually designate four of its members to serve in the offices of Chairman, Vice Chairman, Secretary and Assistant Secretary for one-year terms coinciding with the Authority's fiscal year of October 1 - September 30.

- The Authority's primary mission is to provide health facilities within its jurisdiction with the means to assist with the development and maintenance of the public health. It accomplishes this mission by providing health care organizations with capital financing at tax exempt rates to fund the facilities and structures needed by the community. The Authority is self-supporting and receives no federal, state or local governmental funding. The Authority receives no tax revenues from any source and has no taxing power. Its operations are funded through revenues generated by its financing activities and investment earnings on its reserves. By law, the Authority must maintain its operations until all of its outstanding bonds have matured and been redeemed.

- The Authority issues tax exempt revenue bonds, notes, and leases (collectively "bonds") to finance capital projects for non-profit health care organizations under the provisions of Chapter 154 and Chapter 159, Florida Statutes; the Internal Revenue Code of 1986, as amended; and other applicable laws and regulations. The Authority is also called upon from time to time to consider and approve amendments or supplements to the financing documents associated with its outstanding bonds. The Authority is a conduit issuer which means that none of the Authority's general revenues or assets are pledged to the repayment of the bonds. The health care facilities, on whose behalf bonds are issued (the "Borrowers"), are responsible for payment of principal and interest on the bonds. All of the Authority's rights and obligations in connection with these bonds are assigned to a corporate trustee pursuant to a Trust Indenture for each issue. The Trustee receives the debt service payments from the Borrowers, makes scheduled payments to the bondholders, and performs such other duties as are set forth in the Indentures.

- Since 1975, the Authority has issued more than $1,415,000,000 in 35 series of revenue bonds, refunding bonds, or tax-exempt equipment leases, to finance or refinance projects for 12 separate health care organizations. The majority of the bond issues have benefited local hospital systems and their affiliated facilities within the State of Florida.

**Historical Information (Continued)**

- In 2004 the Authority established a Charitable Grant Program to provide a source of capital project funding to local non-profit organizations whose operations benefit the health and well-being of Escambia County residents ("Qualified Non-Profits"). In order to receive a capital grant, a Qualified Non-Profit must demonstrate that its regular funding sources are insufficient to allow them to acquire or upgrade their equipment or facilities and meet other program guidelines. The grants are not loans and do not require repayment by the recipient. During the period 2004 – 2011 the Authority awarded more than $1,500,000 in grants. In fiscal year 2012, the Authority designated $250,000 from its reserves to fund capital grants over a five-year period commencing October 1, 2013 and ending September 30, 2017. The amount of grant funds available in each of the five fiscal years was $50,000 and any amounts not awarded carried over to the following fiscal year. There were limits on the size of the grants awarded and other program requirements. The capital grant program did not award all of its designated funds by the end date, which resulted in the Authority approving the continuation of the program through fiscal year 2018 and beyond, subject to funds availability. A mini grant program was established during fiscal year 2015 to provide funds to Qualified Non-Profits for special events, services or projects not involving capital expenditures. The maximum amount of any mini grant is $2,500. The mini grant fund was capped at $25,000. See Note 7 for additional information on the charitable grant program.

- Additional information about the Authority, its history, and operations can be found on its website at **www.echealthfinance.org.**

## Operational Highlights

- In February 2020, the Authority issued $542,660,000 in tax exempt revenue bonds and $67,645,000 in taxable revenue bonds (Series 2020A & B) for Baptist Health Care Corporation (the Obligated Group). Proceeds from the Series 2020 Bonds will be used by Baptist Health Care Corporation in part to provide financing for its new hospital and medical campus and to refinance certain debt of the borrower. See Note 5 for additional information about this bond issuance.

- On September 30, 2021, the Authority had $752,696,066 in outstanding bonds. The Authority has received no notice from a Trustee that any Borrower was in default in connection with its obligations to pay debt service payments on its outstanding bonds.

- The following table lists the Authority's outstanding bond issues, the original issue dates, maturity dates, and current amounts outstanding at the end of the fiscal year:

| Name of Issue | Issue Date | Maturity Date | Amount Outstanding on 9-30-2021 |
|---|---|---|---|
| $25,395,000 Escambia County Health FA Revenue Bonds (Azalea Trace, Inc.) Series 2003 B | 07/24/03 | 11/15/29 | $ 17,795,000 |
| Baptist Health Care Corporation Series 2020A | 02/12/20 | 08/15/50 | $ 542,660,000 |
| Baptist Health Care Corporation Series 2020B | 02/12/20 | 08/15/40 | $ 67,645,000 |
| $8,600,000 Revenue Bonds (Covenant Hospice, Inc.) Series 2005 A | 06/01/05 | 06/05/30 | $ 2,697,450 |
| $900,000 Revenue Bonds (Covenant Hospice, Inc.) Series 2005 B | 08/23/05 | 07/05/30 | $ 423,616 |
| $155,000,000 Health Care Facilities Revenue Bonds (Baptist Hospital, Inc.) Series 2010A | 02/15/10 | 08/15/36 | $ 121,475,000 |
| **TOTAL** | | | **$ 752,696,066** |

- The Authority's ongoing five-fiscal year Charitable Grant Program expired on September 30, 2017. On that date, the designated capital grant fund had a balance of $154,726, and $7,500 remained in the mini grant fund. The Authority took action at its January 23, 2018 board meeting to continue the grant program indefinitely with the same criteria, subject to funds availability. During fiscal years 2021 and 2020, no mini grant funds were awarded, leaving the balance of $1,500 for mini grants on September 30, 2021 and 2020. The Grant fund had a balance of $125,147 on September 30, 2021 and 2020.

**Operational Highlights (Continued)**

- During fiscal year 2016, the Authority received a restricted gift in the amount of $370,904 from a local non-profit organization as part of its dissolution distributions. These funds were restricted for use in providing capital grants to local non-profit organizations whose operations benefit the health and well-being of Escambia County residents. The Authority invited qualified non-profit organizations to submit proposals for capital projects to be funded with this restricted gift. Three non-profit organizations submitted proposals for capital projects which would significantly improve each organization's ability to provide services to its client group. During fiscal years 2017 and 2018, $320,212 was paid to these three organizations leaving a balance remaining in the restricted fund of $50,692 at September 30, 2018. No additional funds were awarded from this fund since fiscal year 2018. See Note 8 for additional information.

- During the fiscal year ended September 30, 2017, the Authority received substantial funds from the defeasance of its Series 2000A bonds. It has been a long-term goal of the Authority to find a way to assist the residents of Century, located in northern Escambia County, with improved access to health care services. During the 2018 fiscal year, the Authority had discussions with two Pensacola based nonprofit organizations, Lakeview Center and Community Health Northwest Florida ("CHNWF"), both of which provide limited health care related services in Century. From these discussions came a plan to increase the size of the Lakeview Center facility in Century to enable CHNWF to increase its healthcare services to residents of Century. The Authority entered into a Tri-Party Agreement with Lakeview Center and CHNWF to finance on a reimbursement basis the expansion of the Lakeview Center facility in Century (the "Century Project"). The Authority agreed to contribute an amount not exceeding $2 million dollars to Lakeview Center for this project, subject to Lakeview Center paying 10% of the final project costs, and both organizations agreeing that mental health and primary care medical and dental services would be available at the facility for not less than 10 years. Construction on the expansion of the Lakeview Center began during the summer of 2018 and was completed during fiscal year 2019. See Notes 9 and 10 for additional information.

- The Authority also desired to use some of the funds from the Series 2000A bond defeasance to improve health care services to residents of the county as a whole. Because the Authority's primary mission is to provide funds for capital projects, the Authority entered into a Memorandum of Agreement ("MOA") with the County to contribute a total of $500,000 to the County over a five (5) year period for appropriation to nonprofit human health service organizations providing services to residents in the County, as authorized under Section 154.209(14), Florida Statutes. Under this statutory provision, there are no restrictions on how the recipient organizations can utilize these funds. The Memorandum of Agreement also guarantees certain annual funding to the Council on Aging of West Florida to assist that organization in obtaining the significant state/federal matching funds it needs to fund ongoing operations. The Authority has paid a total of $400,000 as of September 30, 2021, or four annual installments under this agreement. See Note 10 for additional information.

**Operational Highlights (Continued)**

- Currently, the Authority funds its operations through bond issuance fees, annual fees derived from past financings, the earnings on its investments, and from funds held in its operating reserve. The Authority adopted an investment policy in accordance with Florida law, and primarily invests its funds in a managed custodial investment account, and in Florida PRIME, the Local Government Surplus Funds Trust Fund operated by the Florida State Board of Administration. At September 30, 2021, 53% of the Authority's investments were in money market mutual funds and the Florida PRIME, while the remaining 47% were in U.S. Government Obligations, federal agency mortgage-backed securities and corporate bonds held in the managed custodial account.

- At the end of fiscal year 2021, the Authority had net position of $4,219,229, of which $50,692 is the balance of the restricted gift for charitable capital improvement grants. The majority of the remaining funds are designated as reserved for specific purposes. A reserve of $2,000,000 was set aside in a prior year to ensure funds for operating expenses of the Authority over the long term (the "Operating Reserve"). The Operating Reserve balance is $1,919,812 as of September 30, 2021. A reserve fund of $100,000 is maintained for bond issue contingency funding. The ongoing Grant Program reserve is $125,147 for capital grants, and $1,500 for mini grants, for a total of $126,647. A reserve in the amount of $100,000 is the balance due under the MOA with Escambia County; and the remaining fund balance of $1,921,043 is classified as undesignated. The Authority determines the levels of these reserves on an annual basis.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. They are: 1) entity-wide financial statements and 2) notes to the financial statements.

Entity-wide financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private-sector business. The Statements of Financial Position present information on all the Authority's assets and liabilities, with the difference between the two reported as net position. The Statements of Revenues, Expenses, and Changes in Financial Position present information showing how the Authority's net position has changed during the most recent fiscal year end. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the entity-wide financial statements. The notes to the financial statements begin on page 14 of this report.

## Summary of Financial Condition

### Escambia County Health Facilities Authority's Net Position

| | 2021 | 2020 |
|---|---|---|
| **Current Assets** | $ 4,218,086 | $ 4,375,702 |
| **Non-Current Assets:** | | |
| Capital assets | 1,035 | 1,331 |
| Deposits | 450 | 450 |
| | 1,485 | 1,781 |
| **Total Assets** | $ 4,219,571 | $ 4,377,483 |
| **Current Liabilities** | $ 342 | $ 467 |
| **Net Position:** | | |
| Net investment in capital assets | 1,035 | 1,331 |
| Restricted | 50,692 | 50,692 |
| Designated | 2,246,459 | 2,346,459 |
| Undesignated | 1,921,043 | 1,978,534 |
| | 4,219,229 | 4,377,016 |
| **Total Liabilities and Net Position** | $ 4,219,571 | $ 4,377,483 |

**Summary of Financial Condition (Continued)**

**Escambia County Health Facilities Authority's Revenues, Expenses, and Changes in Net Position**

| | 2021 | 2020 |
|---|---|---|
| Operating Revenues | $ 33,898 | $ 656,563 |
| Operating Expenses | (101,061) | (95,303) |
| Nonoperating Revenues | 9,376 | 63,612 |
| Nonoperating Expenses | (100,000) | (119,904) |
| Change in Net Position | (157,787) | 504,968 |
| Net Position - Beginning of Year | 4,377,016 | 3,872,048 |
| Net Position - End of Year | $ 4,219,229 | $ 4,377,016 |

At the end of the fiscal year, the Authority had net position of $4,219,229 which is a decrease of $157,787 from the prior fiscal year. The total operating expenses for the fiscal year were $101,061. The total nonoperating expenses for the year were $100,000, all of which were for charitable grant purposes which are not considered part of regular operation expenses. The total nonoperating revenues for the year consisted of investment income.

Total investment income decreased 85% from the prior fiscal year. In 2021 and 2020, interest income and realized and unrealized gains from investments exceeded realized and unrealized losses, fees, and other investment costs by $9,376 and $63,612, respectively.

**Requests for Information**

Questions concerning any of the information provided in this report may be directed to the following mailing address or through the Contact Us section of the Authority's website at www.echealthfinance.org.

Escambia County Health Facilities Authority
Attn: Administrator
P.O. Box 2667
Pensacola, FL 32513-2667

# ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
# STATEMENTS OF FINANCIAL POSITION
# SEPTEMBER 30, 2021 AND 2020

## ASSETS

| | 2021 | 2020 |
|---|---|---|
| **Current Assets:** | | |
| Cash and cash equivalents | $ 2,284,305 | $ 2,457,241 |
| Investments | 1,931,095 | 1,917,903 |
| Accounts receivable | 2,500 | - |
| Prepaid insurance | 186 | 558 |
| Total current assets | 4,218,086 | 4,375,702 |
| **Non-Current Assets:** | | |
| Capital assets, net of accumulated depreciation | 1,035 | 1,331 |
| Deposits | 450 | 450 |
| Total non-current assets | 1,485 | 1,781 |
| **Total Assets** | $ 4,219,571 | $ 4,377,483 |

## LIABILITIES AND NET POSITION

| | | |
|---|---|---|
| **Liabilities:** | | |
| Accounts payable | $ 88 | $ 217 |
| Accrued expenses | 254 | 250 |
| Total liabilities | 342 | 467 |
| **Net Position:** | | |
| Net investment in capital assets | 1,035 | 1,331 |
| Restricted for charitable capital improvement grants | 50,692 | 50,692 |
| Unrestricted: | | |
| Designated for future operations | 1,919,812 | 1,919,812 |
| Designated for bond issue contingencies | 100,000 | 100,000 |
| Designated for mini grants | 1,500 | 1,500 |
| Designated for charitable grants | 125,147 | 125,147 |
| Designated for Escambia County MOA | 100,000 | 200,000 |
| Undesignated | 1,921,043 | 1,978,534 |
| Total unrestricted net position | 4,167,502 | 4,324,993 |
| Total net position | 4,219,229 | 4,377,016 |
| **Total Liabilities and Net Position** | $ 4,219,571 | $ 4,377,483 |

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

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY**
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**
**YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

| | 2021 | 2020 |
|---|---|---|
| **Operating Revenues:** | | |
| Fees - | | |
| Annual bond fees | $ 22,500 | $ 39,715 |
| Bond issuance fees | 8,898 | 610,305 |
| Bond transaction fees | 2,500 | 6,543 |
| Total operating revenues | 33,898 | 656,563 |
| **Operating Expenses:** | | |
| Accounting and auditing | 11,875 | 11,875 |
| Bond issuance | - | 1,640 |
| Contract labor | 56,030 | 54,316 |
| Depreciation | 296 | 148 |
| Dues and subscriptions | 1,675 | 1,695 |
| Office expense | 10,428 | 11,061 |
| Rent | 14,494 | 14,282 |
| Seminars, training, and travel | 6,263 | 286 |
| Total operating expenses | 101,061 | 95,303 |
| **Operating (Loss) Income** | (67,163) | 561,260 |
| **Nonoperating Revenues (Expenses):** | | |
| Investment income | 9,376 | 63,612 |
| Grants | (100,000) | (119,904) |
| Total nonoperating expenses, net | (90,624) | (56,292) |
| **Change in Net Position** | (157,787) | 504,968 |
| **Net Position - Beginning of Year** | 4,377,016 | 3,872,048 |
| **Net Position - End of Year** | $ 4,219,229 | $ 4,377,016 |

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

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY**
**STATEMENTS OF CASH FLOWS**
**YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

| | 2021 | 2020 |
|---|---|---|
| **Cash Flows (Used In) Provided By Operating Activities:** | | |
| Receipts from health facilities and others | $ 31,398 | $ 656,563 |
| Payments to vendors | (100,518) | (101,802) |
| Net cash (used in) provided by operating activities | (69,120) | 554,761 |
| **Cash Flows Used In Noncapital Financing Activities:** | | |
| Grant payments to other organizations | (100,000) | (2,119,904) |
| Net cash used in noncapital financing activities | (100,000) | (2,119,904) |
| **Cash Flows Used In Investing Activities:** | | |
| Purchases of investments | (2,389,743) | (1,816,103) |
| Sales and maturities of investments | 2,350,540 | 1,228,742 |
| Purchase of capital assets | - | (1,479) |
| Receipts from investment income | 35,387 | 73,992 |
| Net cash used in investing activities | (3,816) | (514,848) |
| **Net Decrease in Cash and Cash Equivalents** | (172,936) | (2,079,991) |
| **Cash and Cash Equivalents, Beginning of Year** | 2,457,241 | 4,537,232 |
| **Cash and Cash Equivalents, End of Year** | $ 2,284,305 | $ 2,457,241 |
| **Reconciliation of Operating (Loss) Income to Net Cash (Used In) Provided By Operating Activities:** | | |
| Operating (loss) income | $ (67,163) | $ 561,260 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Depreciation | 296 | 148 |
| Changes in: | | |
| Accounts receivable | (2,500) | - |
| Prepaid insurance | 372 | 373 |
| Accounts payable | (125) | (7,020) |
| Net cash (used in) provided by operating activities | $ (69,120) | $ 554,761 |

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

# NOTES TO FINANCIAL STATEMENTS

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*The Reporting Entity:*

The Escambia County Health Facilities Authority (the "Authority") was created on March 6, 1975 by resolution of the Escambia County Board of County Commissioners (the "County"). The Authority members are appointed by the County, with the operation and administration of the Authority governed by Chapter 154 Part III, Chapter 159 Part II, and Chapters 163 and 189 of the Florida Statutes. The Authority is self-supporting and generates revenues by providing financing for governmental and non-profit health care facilities within and outside of the State of Florida. There are no other component units which form the reporting entity.

*Measurement Focus, Basis of Accounting and Financial Statement Presentation:*

The Authority has adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments* and Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*.

The financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Authority distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation. All other revenues and expenses are reported as nonoperating.

The Authority applies all applicable Governmental Accounting Standards Board ("GASB") pronouncements. Additionally, the Authority applies pronouncements of the Financial Accounting Standards Board ("FASB") and its predecessor bodies, issued on or before November 30, 1989, unless those pronouncements contradict or conflict with GASB pronouncements.

*Use of Estimates*:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Cash and Cash Equivalents:*

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents, including investments in the Local Government Surplus Funds Trust Fund Investment Pool. Maturities and reinvestments of invested funds are shown as purchases and sales and maturities of investments in the statement of cash flows.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Capital Assets:*

Capital assets are recorded at cost and are depreciated over the estimated useful lives of individual assets. Estimated useful life is management's estimate of the length of time that the asset is expected to meet service demands. The straight-line method of depreciation is used based on an estimated useful life of five years.

*Restricted and Unrestricted Resources:*

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

*Upcoming Accounting Pronouncements:*

In June 2017, the GASB issued Statement No. 87, *Leases* ("GASB 87"), which addresses accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that are currently classified as operating leases and recognized as inflows of resources or outflows of resources. GASB 87 establishes the lessee's requirement to recognize a lease liability and an intangible right-to-use lease asset. GASB 87 will be effective for the Authority for the fiscal year ending September 30, 2023. The Authority is currently assessing the impact of GASB 87 on its financial statements.

## NOTE 2 - DEPOSITS AND INVESTMENTS

*Deposits:*

At September 30, 2021, the carrying amount of the Authority's deposits was $107,314 and the bank balance was $114,575, which was held by qualified public depositories under Chapter 280, Florida Statutes. Accordingly, these deposits are considered to be fully insured.

*Concentration of Credit Risk:*

The Authority's investment policy provides that except for U.S. Treasury securities, U.S. Government Agency securities, the Local Government Surplus Funds Trust Fund ("Florida PRIME"), investments insured by the Federal Deposit Insurance Corporation ("FDIC"), and certain money market funds, no more than 6% of the assets of the portfolio may be invested in the securities of any single issuer.

As of September 30, 2021, 53% of the Authority's cash and equivalents and investments were in money market mutual funds and the Florida PRIME, which are exempt from the concentration risk policy, while the remaining 47% of investments were in U.S. Government obligations, mortgage-backed securities and corporate bonds through a custodial account. At September 30, 2021, no assets subject to the concentration risk policy represented 6% or more invested in the securities of any single issuer.

## NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

*Custodial Credit Risk:*

The Authority's investment policy requires securities to be held with a third-party custodian; and all securities purchased by, and all collateral obtained by the Authority to be properly designated as an asset of the Authority. The securities must be held in an account separate from the assets of the financial institution.

*Credit Risk:*

The investment of surplus funds and restricted reserve funds is governed by the provisions of Section 218.415, Florida Statutes, and Subsection 16 as to the types of investments that can be made. Pursuant to the provisions of this statute, the Authority has a comprehensive written investment policy which authorizes investments in the following securities:

(a) Debt Obligations of the U.S. Treasury.
(b) Government Agency Notes and Bonds.
(c) Mortgage Backed Securities - U.S. Government Agencies and Federal Instrumentalities (U.S. Government Sponsored Agencies).
(d) Corporate Bonds (Rated single A or better at time of purchase by at least one nationally recognized statistical rating organization "NRSRO").
(e) Commercial paper (Rated A-1/P-1 or better by at least one NRSRO).
(f) Interest Bearing Time Deposits, Checking and Savings Accounts (from financial institutions qualified under Section 280.02, Florida Statutes, unless exempted therefrom as provided in the Statute).
(g) Bankers Acceptances (Rated A-1/P-1 or better by at least one NRSRO).
(h) Taxable Municipal Bonds (Rated single A or better by at least one NRSRO).
(i) Tax Exempt Municipal Bonds (Rated single A or better by at least one NRSRO).
(j) Money Market Funds (Rated "AAAm" by Standard & Poor's or the equivalent by another rating agency), and other forms of investments which qualify under the following definition: Securities of, or other investments in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.
(k) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
(l) Florida PRIME or any governmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Section 163.01, Florida Statutes having a rating of "AAAm" by Standard & Poor's or the equivalent by another rating agency.
(m) Investments authorized under Section 218.415 (16) and (17), Florida Statutes, as the same may be amended from time to time, which may not be specifically listed.
(n) Other investments or securities which may be specifically approved from time to time by action of the Authority at a public meeting.

## NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

*Credit Risk (Continued):*

The Authority's investment policy states that a credit a rating of "AAAm" by Standard & Poor's or the equivalent by another rating agency is required for its investment in the Florida PRIME. Standard and Poor's Ratings Services assigned its "AAAm" principal stability fund rating to the Florida PRIME as of September 30, 2021. The Florida PRIME is an external 2a7-like investment pool, in which the fair value of the Authority's position in the pool is the same as the value of the pool shares.

Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

The Authority's investment policy states that a credit quality rating of single A or better from a nationally recognized rating agency is required at the time of purchase for its investments in corporate bonds. Moody's Investor Services assigned rates ranging from the "Aa2" (Standard & Poor's equivalent of "AA") rating to the "A3" (Standard & Poor's equivalent of "A-") rating to the Authority's investments in corporate bonds as of September 30, 2021.

The Authority's investment policy states that a credit quality rating of single "AAAm" by Standard & Poor's or the equivalent is required for its investments in money market funds. Standard & Poor's assigned the rate of "AAAm" to the Authority's investments in money market funds as of September 30, 2021.

*Interest Rate Risk:*

The Authority's investment policy is structured to ensure appropriate diversification of investments as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Investments:*

As of September 30, 2021 and 2020, the Authority had the following investments:

| Investment | Maturities | 2021 | 2020 |
|---|---|---|---|
| Money market mutual funds | Average of less than 60 days | $ 33,117 | $ 37,609 |
| Local government surplus funds trust fund | Average of 49 days | 2,143,874 | 2,290,315 |
| U.S. government obligations | Average of 1.39 years | 924,120 | 957,037 |
| Mortgage-backed securities | Average of 1.63 years | 21 | 691 |
| Corporate bonds | Average of 0.85 years | 1,006,954 | 960,175 |
| | | $ 4,108,086 | $ 4,245,827 |

## NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

*Fair Value of Investments:*

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The following table presents assets carried at fair value at September 30, 2021:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money market mutual funds | $ 33,117 | $ - | $ - | $ 33,117 |
| U.S. government obligations | - | 924,120 | - | 924,120 |
| Mortgage-backed securities | - | 21 | - | 21 |
| Corporate bonds | - | 1,006,954 | - | 1,006,954 |
| Total investments | $ 33,117 | $ 1,931,095 | $ - | $ 1,964,212 |

The following table presents assets carried at fair value at September 30, 2020:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money market mutual funds | $ 37,609 | $ - | $ - | $ 37,609 |
| U.S. government obligations | - | 957,037 | - | 957,037 |
| Mortgage-backed securities | - | 691 | - | 691 |
| Corporate bonds | - | 960,175 | - | 960,175 |
| Total investments | $ 37,609 | $ 1,917,903 | $ - | $ 1,955,512 |

Securities classified in Level 1 are valued using the following approaches:

- Money market mutual funds: published fair value per share (unit) for each fund.

Securities classified in Level 2 are valued using the following approaches:

- U.S. Government obligations and mortgage-backed securities: quoted prices for identical securities in markets that are not active;
- Corporate bonds: quoted prices for similar securities in active markets.

The Local Government Surplus Funds Trust Fund is measured at cost and excluded from the fair value hierarchy disclosure.

## NOTE 3 - CAPITAL ASSETS

Changes in capital assets were as follows:

| | Beginning Balance | Additions | Disposals | Ending Balance |
|---|---|---|---|---|
| Office equipment | $ 12,424 | $ - | $ - | $ 12,424 |
| Less accumulated depreciation | (11,093) | (296) | - | (11,389) |
| | $ 1,331 | $ (296) | $ - | $ 1,035 |

## NOTE 4 - RISK MANAGEMENT

The Authority is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority carries insurance against certain of these risks and has other protections under Florida law for its public officers and employees for non-intentional tort liability, and financial liability connected with the issuance of its bonds. The Authority carries General Commercial Liability; Commercial Property with wind (hurricane coverage); and a Commercial Crime Policy and additional endorsements for Computer and Funds Transfer Fraud; Forgery and Alteration; and Credit, Debit or Charge Card Forgery. The Authority has implemented financial policies and procedures to establish a system of internal controls to minimize exposure to uninsured risks, including the engagement of a certified public accountant to provide extensive financial management and oversight services on a continuous basis. There have been no losses for these risks in any of the prior three fiscal years, and the Authority is not aware of any liabilities related to these risks as of September 30, 2021.

## NOTE 5 - CONDUIT DEBT OBLIGATIONS

The Authority is a conduit issuer of tax-exempt bonds and lease financing transactions (collectively "revenue bonds") to fund capital projects for qualified private sector non-profit health care organizations (the "conduit debt borrowers"). As a conduit issuer, the Authority has no obligation to repay the revenue bonds from its general revenues. The Authority undertakes its financing activities pursuant to the provisions of Chapter 154, Part III and Chapter 159, Part II, Florida Statutes and applicable federal tax and securities regulations. The revenue bonds are limited obligations of the Authority payable only from funds made available by the conduit debt borrowers under the terms of financing documents for each issue.

The Authority has no taxing power and the revenue bonds do not constitute a debt or pledge of the full faith and credit of the Authority, Escambia County, the State of Florida or any political subdivision thereof. Accordingly, the revenue bonds are not reported as liabilities in the accompanying financial statements.

The outstanding balance of conduit debt obligations issued by the Authority was $752,696,066 and $754,754,186 at September 30, 2021 and 2020, respectively.

## NOTE 5 - CONDUIT DEBT OBLIGATIONS (Continued)

*Bond Issuance:*

On February 12, 2020, the Authority issued $542,660,000 Health Care Facilities Revenue Bonds, Series 2020A, and $67,645,000 Health Care Facilities Taxable Revenue Bonds, Series 2020B (collectively the "Series 2020 Bonds") for Baptist Health Care Corporation ("BHCC"), which is the obligated Group. The Series 2020 Bonds were issued to provide financing for the benefit of Baptist Health Care Corporation and certain affiliated entities (together known as the borrowers). Proceeds of the Series 2020 Bonds were to be used by the borrowers to 1) pay or reimburse BHCC for the costs of acquiring, constructing, expanding, renovating, rehabilitating and equipping certain healthcare facilities; (2) refinance certain debt of the borrowers; (3) pay a portion of the interest on the Series 2020 Bonds; (4) pay the premium for an insurance policy or policies insuring payment, when due, of amounts due on the insured bonds; and (5) pay certain expenses incurred in connection with the issuance of the Series 2020 Bonds.

Each series of the Series 2020 Bonds were issued pursuant to a separate Bond Trust Indenture, dated February 1, 2020, between the Authority and Regions Bank, as Bond Trustee.

The Series 2020 Bonds are limited obligations of the Authority, payable solely from payments received by the Bond Trustee from BHCC. The Series 2020 bonds do not constitute an indebtedness, liability or obligation, or a pledge of the faith, credit, or taxing power of the State of Florida, Escambia County or any other political subdivision of the State of Florida within the meaning of any charter, constitutional or statutory provisions of limitations.

For more information concerning the Series 2020A and 2020B bonds, please see the Official Statement. The Authority received fees of $615,305 for issuing these bonds.

A portion of the proceeds of the Series 2020 Bonds was used to refund the outstanding Authority Health Care Facilities Revenue Bond Series 2009A (Baptist Hospital, Inc. Project).

## NOTE 6 - OPERATING LEASE

The Authority leases office space under an operating lease which expires on September 30, 2024. Rent expense for the facility lease amounted to approximately $14,000 for each of the years ended September 30, 2021 and 2020. The annual minimum future rental payments are approximately $14,000 for the fiscal years ending September 30, 2022, 2023 and 2024.

## NOTE 7 - CHARITABLE GRANT PROGRAM

The Authority reinstated its Charitable Grant Program during fiscal year 2013 to improve health care related services to residents of Escambia County, Florida. At that time, the Authority designated $250,000 to fund the Charitable Grant Program over five fiscal years (2013 - 2017). Under the program, funds for lower cost capital expenditures were made available to selected Escambia County non-profit organizations meeting certain requirements. The grants were not loans and did not require repayment by the recipient. The amount of grant funds available in each of the five fiscal years is $50,000 and any amounts not awarded carry over to the following fiscal year. There were limits on the size of the grants awarded, the types of project eligible for funding, and other program requirements. A copy of the capital grant program guidelines can be found on the Authority's website. A mini grant program was established during fiscal year 2015 at $25,000 to provide funds to local non-profits for special events, services or projects not involving capital expenditures. The maximum amount of any mini grant is $2,500. In January 2018, the Authority extended both grant programs indefinitely, subject to funds availability.

During the year ended September 30, 2021 and 2020, no amounts were expended for mini grants. At September 30, 2021 and 2020, $1,500 was available for funding mini grants.

During the year ended September 30, 2020, the Authority expended $19,904 in funding for capital grants. No amounts were expended for capital grants during the year ended September 30, 2021. At September 30, 2021 and 2020, $125,147, was available for additional capital grants.

## NOTE 8 - RESTRICTED CONTRIBUTION

During a prior year, the Authority received a contribution of $370,904 from a local non-profit corporation, subject to the Authority agreeing to restrict the funds for use as capital grants to assist local non-profit organizations providing services which improve the health and wellbeing of residents of Escambia County. The Authority did not expense any funding for grants from the restricted contribution during the years ended September 30, 2021 and 2020. At September 30, 2021 and 2020, $50,692 was available for funding additional capital grants and is presented as restricted net position.

## NOTE 9 - NET PROCEEDS FROM BOND DEFEASANCE

During the fiscal year ended September 30, 2017, the Authority received $3,289,397 in net proceeds from the Series 2000A Loan Program bonds, which was recognized as non-operating revenues for the year ended September 30, 2017. The Authority awarded up to $2,000,000 of these proceeds as a capital grant to assist two local non-profit organizations to jointly expand their existing health care facility in Century, Florida, subject to certain conditions. The Authority also agreed to contribute $500,000 of these proceeds over a period of five (5) years to the Escambia County (FL) Board of County Commissioners, subject to certain conditions. See Note 10 for additional details.

## NOTE 10 - COMMITMENTS

*Escambia County, Florida:*

During the year ended September 30, 2018, the Authority entered into a Memorandum of Agreement with the County wherein the Authority agreed to provide the County $500,000 of its surplus funds, payable in five annual installments of $100,000, to be redistributed to qualified nonprofit human health service agencies providing health care related services in Escambia County. The County's receipt of the annual contribution is contingent upon the County appropriating an amount not less than $41,000 per year to the nonprofit organization, Council on Aging of West Florida, Inc., (the "Council") to ensure the Council receives its significant state/federal matching fund contributions. The Authority paid to the County its first annual installment of $100,000 in September 2018, its second annual installment of $100,000 in September 2019, its third annual installment of $100,000 in September 2020, and its fourth annual installment of $100,000 in September 2021. This amount is included in grant expenses on the statement of revenues, expenses, and changes in net position. At September 30, 2021, the Authority's remaining commitment to the County totaled $100,000.

## NOTE 11 - IMPACT OF CORONAVIRUS DISEASE 2019

In March 2020, the World Health Organization declared the outbreak of Coronavirus Disease 2019 ("COVID-19") to be a global pandemic. During this time, the Authority continued operations, and the pandemic did not have a material effect on the financial statements. The Authority is continually monitoring the potential impacts of the COVID-19 pandemic and its effects on the financial statements. The extent to which the COVID-19 pandemic impacts the Authority going forward will depend on numerous evolving factors, which the Authority cannot reliably predict.

# OTHER REPORTS

# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Escambia County Health Facilities Authority
Pensacola, Florida

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Escambia County Health Facilities Authority (the "Authority") as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 21, 2022.

## Internal Control Over Financial Reporting

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

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

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

Board of Directors
Escambia County Health Facilities Authority

**Compliance and Other Matters**

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

**Purpose of Report**

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

Saltmarsh Cleaveland & Gund

Pensacola, Florida
February 21, 2022

## INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES

Board of Directors
Escambia County Health Facilities Authority
Pensacola, Florida

We have examined the Escambia County Health Facilities Authority's (the "Authority's") compliance with Section 218.415, Florida Statutes, regarding the investment of public funds during the year ended September 30, 2021. Management is responsible for the Authority's compliance with those requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2021.

This report is intended solely for the information and use of the Authority and the Auditor General, State of Florida, and is not intended and should not be used by anyone other than these specified parties.

Saltmarsh Cleaveland & Gund

Pensacola, Florida
February 21, 2022

# MANAGEMENT LETTER

Board of Directors
Escambia County Health Facilities Authority
Pensacola, Florida

## Report on the Financial Statements

We have audited the financial statements of Escambia County Health Facilities Authority (the "Authority") as of and for the fiscal year ended September 30, 2021, and have issued our report thereon dated February 21, 2022.

## Auditor's Responsibility

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

## Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards,* and our Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards,* AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated February 21, 2022, should be considered in conjunction with this management letter.

## Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. No findings or recommendations were made in the preceding annual financial audit report.

Board of Directors
Escambia County Health Facilities Authority

**Official Title and Legal Authority**

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. This information is included in the notes to the financial statements. There are no component units.

**Financial Condition and Management**

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether or not the Authority has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Authority did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Section 10.554(1)(i)5.b. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the Authority. It is management's responsibility to monitor the Authority's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

**Additional Matters**

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

**Purpose of this Letter**

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

Saltmarsh Cleveland & Gund

Pensacola, Florida
February 21, 2022