

ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY

PENSACOLA, FLORIDA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY

PENSACOLA, FLORIDA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

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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, 2018 and 2017, 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.

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, 2018 and 2017, 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, the Schedule of Proportionate Share of Net Pension Liability - Florida Retirement System Pension Plan, the Schedule of Proportionate Share of Net Pension Liability - Health Insurance Subsidy Program, the Schedule of Contributions - Florida Retirement System Pension Plan, and the Schedule of Contributions - Health Insurance Subsidy Program 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 May 13, 2019, 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.



Pensacola, Florida
May 13, 2019

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018 AND 2017
UNAUDITED**

The following is a narrative overview and analysis of the Authority's significant financial activities for the fiscal year ended September 30, 2018.

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 \$805,000,000 in 33 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.

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018 AND 2017
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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. Funds remained in the mini grant program as of the end of fiscal year 2018. See Note 9 for additional information on the charitable grant program.
- The 2018 fiscal year brought changes to the Authority’s employment of in house administrative and legal staff. In November 2017, the Authority’s Executive Director and General Counsel, Ms. Paula Drummond, retired from her employment with the Authority under the Florida Retirement System DROP program (see Note 7). At that time, the Authority determined it was in its best interest to engage independent contractors to provide administrative and legal services going forward. Financial management and oversight services have been continuously provided since 2003 by a certified public accountant (CPA) engaged as an independent contractor. In December 2018, the Authority engaged Ms. Drummond to provide administrative and legal services pursuant to an independent contractor agreement with her law firm which was approved by the Florida Department of Management Services. The Authority and Ms. Drummond mutually agreed to a limited term to allow Ms. Drummond to retire not later than December 31, 2018 and to provide the Authority with a transition period to engage and train new administrative and legal service providers to start on January 1, 2019.
- Additional information about the Authority, its history, and operations can be found on its website at www.ehealthfinance.org.

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Operational Highlights

- During the 2018 fiscal year, the Authority Board and its contractors developed a transition plan for the future operation of the Authority to commence following the end of Ms. Drummond's contract on December 31, 2018. The transition plan provided for the engagement of the Authority's long time CPA pursuant to an independent contractor agreement with her accounting firm to provide part time services as the Authority's Administrator and CPA, commencing January 1, 2019. In addition, the Authority entered into an engagement agreement with a qualified local attorney to provide general counsel services to the Authority commencing on January 1, 2019.
- On September 30, 2018, the Authority had \$171,694,360 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.
- No new bonds were issued during fiscal year 2018. In March 2017, the Authority redeemed all but \$1,345,000 of its outstanding Series 2000A Loan Program bonds. This was made possible when the one outstanding loan under the Loan Program was paid in full by the borrower. From funds remaining in the trust accounts, the Authority was able to defease the remaining \$1,345,000 in bonds to their maturity date of July 1, 2020. Upon defeasance of the remaining bonds, the Authority received the balance of funds in the Series 2000A trust accounts in accordance with provisions in the Trust Indenture. See Note 11 for additional information about this transaction.
- 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 9-30-2018
\$25,395,000 Escambia County Health FA Revenue Bonds (Azalea Trace, Inc.) Series 2003 B	07/24/03	11/15/29	\$22,525,000
\$154,515,000 Revenue Bonds (Florida Health Care Facility Loan Program) Series 2000 A (Defeased to maturity)	07/25/00	07/01/20	\$1,345,000
\$8,600,000 Revenue Bonds (Covenant Hospice, Inc.) Series 2005 A	06/01/05	06/05/30	\$5,124,339
\$900,000 Revenue Bonds (Covenant Hospice, Inc.) Series 2005 B	08/23/05	07/05/30	\$539,500
\$15,000,000 Revenue Bond (Baptist Hospital, Inc.) Series 2009	12/09/09	01/01/24	\$7,105,521
\$155,000,000 Health Care Facilities Revenue Bonds (Baptist Hospital, Inc.) Series 2010A	02/15/10	08/15/36	\$135,055,000

- The Authority's ongoing five fiscal year Charitable Grant Program expired on September 30, 2017 after \$94,274 in capital grants were awarded, and \$17,500 in mini grants. 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 year 2018, two mini grants were awarded for a total of \$4,000, leaving a balance of \$3,500 for mini grants on September 30, 2018. No new capital grants were awarded during the fiscal year, leaving a balance in that grant fund at \$154,726 on September 30, 2018.

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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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 five qualified non-profit organizations to submit proposals for capital projects to be funded with this restricted gift. Three non-profit organizations submitted proposals and projects totaling \$315,641 were approved. The grants funded capital projects which significantly improved each organization's ability to provide services to its client group. The Authority recognized expenses totaling \$291,749 for these projects in fiscal year 2017, leaving \$79,155 in the restricted fund balance as of September 30, 2017, with \$54,359 of this amount available for future grants. The final project for which grant funding was approved in fiscal year 2017 in the amount of \$20,692 was completed and expensed during fiscal year 2018. One of the original grant recipients from fiscal year 2017 had a financial emergency during fiscal year 2018 and applied to the Authority for funding to repair crucial equipment needed for its operations. The Authority awarded additional funding from the restricted gift to this organization which resulted in a balance remaining in the restricted fund of \$50,692 at September 30, 2018. It is anticipated that the balance of the restricted fund will be awarded to one or more qualified grant recipients during fiscal year 2019.
- As more fully described in Note 11, the Authority received substantial funds from the defeasance of its Series 2000A bonds in fiscal year 2017. 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 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 is expected to be completed before the end of fiscal year 2019. See Note 13 for additional information.
- Currently, the Authority funds its operations through its 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, 2018, 65% of the Authority's investments were in money market mutual funds and the Florida PRIME, while the remaining 35% were in U.S. Government Obligations, federal agency mortgage-backed securities and corporate bonds held in the managed custodial account.

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Operational Highlights (Continued)

- The Authority also wished 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 made its first annual contribution of \$100,000 to the County prior to September 30, 2018. See Note 13 for additional information.
- At the end of fiscal year 2018, the Authority had net position of \$5,301,688, 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 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, 2018. A reserve fund of \$100,000 is maintained for bond issue contingency funding. The ongoing Grant Program reserve is \$154,726 for capital grants, and \$3,500 for mini grants, for a total of \$158,226. The amount of \$1,402,925 remains reserved for the Century Project; a reserve in the amount of \$400,000 is the balance due under the MOA with Escambia County; and the remaining fund balance of \$1,269,715 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.

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018 AND 2017
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Summary of Financial Condition

Escambia County Health Facilities Authority's Net Position

	<u>2018</u>	<u>2017</u>
Current Assets	<u>\$ 5,902,210</u>	<u>\$ 6,115,922</u>
Non-Current Assets:		
Capital assets	318	695
Deposits	450	450
	<u>768</u>	<u>1,145</u>
Total Assets	5,902,978	6,117,067
Deferred Outflows of Resources:		
Pensions	<u>-</u>	<u>90,309</u>
Total Assets and Deferred Outflows	<u><u>\$ 5,902,978</u></u>	<u><u>\$ 6,207,376</u></u>
Current Liabilities	\$ 601,290	\$ 97,793
Non-Current Liabilities	<u>-</u>	<u>189,113</u>
Total Liabilities	<u>601,290</u>	<u>286,906</u>
Deferred Inflows of Resources:		
Pensions	<u>-</u>	<u>20,843</u>
Net Position:		
Net investment in capital assets	318	695
Restricted	50,692	79,155
Designated	3,980,963	2,182,038
Undesignated	1,269,715	3,637,739
	<u>5,301,688</u>	<u>5,899,627</u>
Total Liabilities, Deferred Inflows and Net Position	<u><u>\$ 5,902,978</u></u>	<u><u>\$ 6,207,376</u></u>

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018 AND 2017
UNAUDITED**

Summary of Financial Condition (Continued)

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

	2018	2017
Operating Revenues	\$ 41,263	\$ 62,139
Operating Expenses	(126,455)	(257,072)
Nonoperating Revenues	216,791	3,432,115
Nonoperating Expenses	(729,538)	(296,749)
Change in Net Position	(597,939)	2,940,433
Net Position - Beginning of Year	5,899,627	2,959,194
Net Position - End of Year	\$ 5,301,688	\$ 5,899,627

At the end of the fiscal year, the Authority had net position of \$5,301,688 which is a decrease of \$597,939 from the prior fiscal year. The total operating expenses for the fiscal year were \$126,455, of which \$15,857 was incurred for payroll and related expenses. The total nonoperating expenses for the year were \$729,538, all of which were for charitable grant purposes which are not considered part of regular operation expenses. Of the total nonoperating expenses, the amount of \$597,075 was accrued based on expenses incurred by Lakeview Center through fiscal year end connected with the Century project described above. The balance of the nonoperating expenses were charged against the respective grant accounts.

The total nonoperating revenues for the year consist of the following line items:

	2018	2017
Net proceeds from bond defeasance	\$ -	\$ 3,289,397
Legal settlement proceeds	-	97,190
Net pension liability settlement	119,647	-
Investment income	97,144	45,528
	\$ 216,791	\$ 3,432,115

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018 AND 2017
UNAUDITED**

Summary of Financial Condition (Continued)

Total investment income increased 113% from the prior fiscal year. In 2018 and 2017, interest income from investments exceeded realized and unrealized losses, fees, and other investment costs by \$97,144 and \$45,528, 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.ehealthfinance.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, 2018 AND 2017**

ASSETS AND DEFERRED OUTFLOWS

	2018	2017
Current Assets:		
Cash and cash equivalents	\$ 3,914,576	\$ 4,505,375
Investments	1,976,792	1,604,666
Interest receivable	10,656	5,323
Prepaid insurance	186	558
Total current assets	5,902,210	6,115,922
Non-Current Assets:		
Capital assets, net of accumulated depreciation	318	695
Deposits	450	450
Total non-current assets	768	1,145
Total assets	5,902,978	6,117,067
Deferred Outflows of Resources:		
Pensions	-	90,309
Total Assets and Deferred Outflows	\$ 5,902,978	\$ 6,207,376

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Current Liabilities:		
Accrued expenses	\$ 4,215	\$ 9,774
Compensated absences	-	8,795
Charitable grants payable	597,075	79,224
Total current liabilities	601,290	97,793
Non-Current Liabilities:		
Net pension liability	-	189,113
Total liabilities	601,290	286,906
Deferred Inflows of Resources:		
Pensions	-	20,843
Net Position:		
Net investment in capital assets	318	695
Restricted for charitable capital improvement grants	50,692	79,155
Unrestricted:		
Designated for future operations	1,919,812	1,919,812
Designated for bond issue contingencies	100,000	100,000
Designated for mini grants	3,500	7,500
Designated for charitable grants	154,726	154,726
Designated for Lakeview-Century project	1,402,925	-
Designated for Escambia County MOA	400,000	-
Undesignated	1,269,715	3,637,739
Total unrestricted net position	5,250,678	5,819,777
Total net position	5,301,688	5,899,627
Total Liabilities, Deferred Inflows and Net Position	\$ 5,902,978	\$ 6,207,376

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, 2018 AND 2017

	2018	2017
Operating Revenues:		
Fees -		
Annual bond	\$ 41,263	\$ 41,993
Monthly	-	146
Bond transaction fees	-	20,000
Total operating revenues	41,263	62,139
Operating Expenses:		
Accounting and auditing	12,519	18,304
Bond issuance	722	-
Contract labor	55,040	75
Depreciation	377	557
Dues and subscriptions	1,675	1,700
Office expense	8,525	10,780
Payroll	10,158	132,154
Payroll taxes	832	9,920
Pension and benefits	4,867	45,091
Rent	16,480	18,444
Seminars, training, and travel	15,260	20,047
Total operating expenses	126,455	257,072
Operating Loss	(85,192)	(194,933)
Nonoperating Revenues (Expenses):		
Investment income	97,144	45,528
Grants	(729,538)	(296,749)
Release of net pension liability	119,647	-
Net proceeds from bond defeasance	-	3,289,397
Legal settlement proceeds	-	97,190
Total nonoperating revenues (expenses), net	(512,747)	3,135,366
Change in Net Position	(597,939)	2,940,433
Net Position - Beginning of Year	5,899,627	2,959,194
Net Position - End of Year	\$ 5,301,688	\$ 5,899,627

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

ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities:		
Receipts from health facilities and others	\$ 41,263	\$ 62,139
Payments to vendors	(115,117)	(108,998)
Payments to employees	(24,943)	(145,614)
Net cash used in operating activities	(98,797)	(192,473)
Cash Flows From Noncapital Financing Activities:		
Grant payments to other organizations	(211,687)	(217,525)
Net proceeds from bond defeasance	-	3,289,397
Legal settlement proceeds	-	97,190
Net cash provided by (used in) noncapital financing activities	(211,687)	3,169,062
Cash Flows From Investing Activities:		
Purchases of investments	(1,839,955)	(675,501)
Sales and maturities of investments	1,461,877	1,323,320
Receipts from investment income	97,763	59,736
Net cash provided by (used in) investing activities	(280,315)	707,555
Net Increase (Decrease) in Cash and Cash Equivalents	(590,799)	3,684,144
Cash and Cash Equivalents, Beginning of Year	4,505,375	821,231
Cash and Cash Equivalents, End of Year	\$ 3,914,576	\$ 4,505,375
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	\$ (85,192)	\$ (194,933)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation	377	557
Changes in:		
Prepaid insurance	372	373
Deferred outflows of resources - pensions	-	(2,219)
Accrued expenses	(5,559)	96
Compensated absences	(8,795)	(15,199)
Net pension liability	-	9,738
Deferred inflows of resources - pensions	-	9,114
Net cash used in operating activities	\$ (98,797)	\$ (192,473)

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

NOTES TO FINANCIAL STATEMENTS

ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

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.

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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.

Compensated Absences:

It has been the Authority's policy to permit employees to accumulate an unlimited amount of earned but unused paid time off. Accordingly, the Authority has recorded an accrual for earned but unused paid time off. The balance of compensated absences was paid out upon the retirement of the Authority's sole employee during the year ended September 30, 2018.

Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Florida Retirement System ("FRS") defined benefit plan and the Health Insurance Subsidy ("HIS") defined benefit plan, and additions to/deductions from the FRS's and the HIS's fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Deferred Outflows and Inflows of Resources:

The Authority reports decreases and increases in net position that relate to future periods as deferred outflows of resources and deferred inflows of resources, respectively, in separate sections of the statements of net position. The deferred outflows and inflows of resources related to pensions are further discussed in Note 7.

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.

Reclassifications:

Certain reclassifications were made to the 2017 financial statements to conform to the current year presentation.

ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits:

At September 30, 2018, the carrying amount of the Authority's deposits was \$263,595 and the bank balance was \$366,449, 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, 2018, 65% of the Authority's investments were in money market mutual funds and the Florida PRIME, which are exempt from the concentration risk policy, while the remaining 35% of investments were in U.S. Government obligations, mortgage-backed securities and corporate bonds through a custodial account. At September 30, 2018, no assets subject to the concentration risk policy represented 6% or more invested in the securities of any single issuer.

Custodial Credit Risk:

The Authority's investment policy requires securities, with the exception of certificates of deposits, 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 and apart from the assets of the financial institution. Certificates of deposits are placed in the provider's safekeeping department for the term of the deposit.

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).

ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Credit Risk (Continued):

- (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.

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, 2018. 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.

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Credit Risk (Continued):

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 “Aaa” (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, 2018.

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, 2018.

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, 2018 and 2017, the Authority had the following investments:

Investment	Maturities	2018	2017
Money market mutual funds	Average of less than 60 days	\$ 61,316	\$ 413,289
Local Government Surplus Funds Trust Fund	Average of 33 days	3,589,665	3,794,843
U.S. Government obligations	Average of .75 years	676,765	582,803
Mortgage-backed securities	Average of 3.53 years	11,184	21,784
Corporate bonds	Average of 0.94 years	1,288,843	1,000,079
		<u>\$ 5,627,773</u>	<u>\$ 5,812,798</u>

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Fair Value of Investments:

The Authority categorizes its fair value measurements within the fair value hierarchy established 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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market mutual funds	\$ 61,316	\$	\$	\$ 61,316
U.S. Government obligations		676,765		676,765
Mortgage-backed securities		11,184		11,184
Corporate bonds		1,288,843		1,288,843
Total investments	<u>\$ 61,316</u>	<u>\$ 1,976,792</u>	<u>\$ -</u>	<u>\$ 2,038,108</u>

The following table presents assets carried at fair value at September 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market mutual funds	\$ 413,289	\$	\$	\$ 413,289
U.S. Government obligations		582,803		582,803
Mortgage-backed securities		21,784		21,784
Corporate bonds		1,000,079		1,000,079
Total investments	<u>\$ 413,289</u>	<u>\$ 1,604,666</u>	<u>\$ -</u>	<u>\$ 2,017,955</u>

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.

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE 3 - CAPITAL ASSETS

Changes in capital assets were as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Office equipment	\$ 20,284	\$ -	\$ -	\$ 20,284
Less accumulated depreciation	(19,589)	(377)	-	(19,966)
	<u>\$ 695</u>	<u>\$ (377)</u>	<u>\$ -</u>	<u>\$ 318</u>

NOTE 4 - COMPENSATED ABSENCES

Compensated absences consist of accumulated unpaid paid time off, which covers personal or family member illness, medical care, bereavement leave, or other personal time off. Changes in compensated absences were as follows:

	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Compensated absences	\$ 8,795	\$ -	\$ (8,795)	\$ -	\$ -

NOTE 5 - 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 and its Executive Director have 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, 2018.

ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 6 - 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 \$171,694,360 and \$179,187,913 at September 30, 2018 and 2017, respectively.

NOTE 7 - RETIREMENT PLANS

Florida Retirement System:

As provided by Chapters 121 and 112, Florida Statutes, the FRS provides two cost-sharing multiple-employer defined benefit plans administered by the Florida Department of Management Services Division of Retirement, including the FRS Pension Plan (“Pension Plan”) and the Retiree Health Insurance Subsidy Program (“HIS Plan”) for participating public employees.

The State of Florida issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Florida Division of Retirement, 2639 N. Monroe Street, Building C, Tallahassee, Florida 32399 or calling 1-850-488-6491.

Pension Plan:

Plan Description - The Pension Plan is a cost-sharing multiple-employer defined benefit pension plan. The Pension Plan was amended in 1998 to add the Deferred Retirement Option Program (“DROP”) and amended in 2000 to provide a defined contribution plan alternative for FRS members.

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE 7 - RETIREMENT PLANS (Continued)

Pension Plan (Continued):

Benefits Provided – All Authority employees were covered by the Pension Plan. Employees who retire with 30 years of credited service or at age 62 with 6 years of credited service are entitled to a benefit, payable monthly for life, equal to 1.6 percent of their average final compensation for each year of credited service. Average final compensation is the employee's average salary for the five highest years of salary earned during covered employment. Benefits fully vest on reaching 6 years of credited service. Vested employees may retire before age 62 or 30 years of credited service and receive reduced retirement benefits. The Pension Plan also provides death and disability benefits.

The DROP permits employees eligible for normal retirement under the Pension Plan to defer receipt of monthly benefit payment while continuing employment with an FRS participating employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the Florida Retirement System Trust Fund and accrue interest.

Contributions - The Authority is required by State statute to make contributions to the Pension Plan equal to a certain percent of covered employees' salaries. On July 1, 2013, the Authority's employee entered DROP. The DROP participation period for the employee ended November 1, 2017, at which time the Authority's employee retired. The Authority's contribution rate for DROP was 12.99% from October 1, 2016 through June 30, 2017 and 13.26% from July 1, 2017 through November 1, 2017.

The Authority's contributions to the Pension Plan totaled \$5,578 and \$13,204 for the years ended September 30, 2018 and 2017, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At September 30, 2017, the Authority reported a net pension liability of \$150,025 for its proportionate share of the Pension Plan's net pension liability. Since the Authority's former sole employee is no longer an actively contributing participant since retiring, no pension liability is reported as of September 30, 2018. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The Authority's proportionate share of net pension liability was based on the Authority's fiscal year contributions relative to the fiscal year contributions of all participating members. At June 30, 2017, the Authority's proportionate share was 0.000507195%.

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE 7 - RETIREMENT PLANS (Continued)

Pension Plan (Continued):

For the year ended September 30, 2017, the Authority recognized pension expense of \$19,582 related to the Pension Plan. For the year ended September 30, 2018, the Authority recognized nonoperating revenues of \$82,267 related to the release of the net pension liability upon the retirement of the Authority's employee. In addition, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for at September 30, 2017:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
September 30, 2017:		
Differences between expected and actual experience	\$ 13,769	\$ 831
Change in assumptions	50,419	-
Net difference between projected and actual earnings on Pension Plan investments	-	3,718
Changes in proportion and differences between Pension Plan contributions and proportionate share of contributions	16,741	10,023
Pension Plan contributions subsequent to measurement date	<u>3,380</u>	<u>-</u>
	<u>\$ 84,309</u>	<u>\$ 14,572</u>

Actuarial Assumptions - The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions:

	<u>2017</u>
Valuation date	July 1, 2017
Measurement date	June 30, 2017
Inflation	2.60%
Salary increases including inflation	3.25%
Long-term expected rate of return, net of investment expense	7.10%

Mortality rates were based on the Generational RP-2000 with Projection Scale BB. Actuarial cost method was Individual Entry Age.

The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE 7 - RETIREMENT PLANS (Continued)

Pension Plan (Continued):

The long-term expected rate of return on Pension Plan investments was not based on historical returns, but instead is based in a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major class are summarized in the following table in the July 1, 2017 actuarial valuation:

	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.00%	3.00%	3.00%	1.80%
Fixed income	18.00%	4.50%	4.40%	4.20%
Global equity	53.00%	7.80%	6.60%	17.00%
Real estate	10.00%	6.60%	5.90%	12.80%
Private equity	6.00%	11.50%	7.80%	30.00%
Strategic investments	12.00%	6.10%	5.60%	9.70%
	<u>100.00%</u>			
Assumed inflation - Mean			2.60%	1.90%

Note: (1) As outlined in the Pension Plan's investment policy.

Discount Rate - The discount rate used to measure the total pension liability in the July 1, 2017 actuarial valuation was 7.10%. The Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Pension Plan Fiduciary Net Position - Detailed information about the Pension's Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan - At September 30, 2017, the Authority reported payables of \$1,043 for the outstanding amount of contributions to the Pension Plan required for the year then ended.

ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 7 - RETIREMENT PLANS (Continued)

HIS Plan:

Plan Description - The HIS Plan is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of the State-administered retirement systems in paying their health insurance costs and is administered by the Division of Retirement within the Florida Department of Management Services.

Benefits Provided - For the years ended September 30, 2018 and 2017, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum payment of \$30 and a maximum payment of \$150 per month pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which includes Medicare.

Contributions - The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. During the years ended September 30, 2018 and 2017, the contribution rate was 1.66%. The Authority contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The Authority's contributions to the HIS Plan totaled \$798 and \$1,935 for the years ended September 30, 2018 and 2017, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At September 30, 2017, the Authority reported a net pension liability of \$39,088 for its proportionate share of the HIS Plan's net pension liability. Since the Authority's former sole employee is no longer an actively contributing participant since retiring, no pension liability is reported as of September 30, 2018. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The Authority's proportionate share of net pension liability was based on the Authority's fiscal year contributions relative to the fiscal year contributions of all participating members. At June 30, 2017, the Authority's proportionate share was 0.000365565%.

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE 7 - RETIREMENT PLANS (Continued)

HIS Plan (Continued):

For the year ended September 30, 2017, the Authority recognized pension expense of \$915 related to the HIS Plan. For the year ended September 30, 2018, the Authority recognized nonoperating revenues of \$37,380 related to the release of the net pension liability upon the retirement of the Authority's employee. In addition, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at September 30, 2017:

	Deferred Outflows of Resources	Deferred Inflows of Resources
September 30, 2017:		
Differences between expected and actual experience	\$ -	\$ 80
Change in assumptions	5,494	3,380
Net difference between projected and actual earnings on HIS Plan investments	22	-
Changes in proportion and differences between HIS Plan contributions and proportionate share of contributions	-	2,811
HIS Plan contributions subsequent to measurement date	484	-
	\$ 6,000	\$ 6,271

Actuarial Assumptions - Actuarial valuations for the HIS Plan are conducted biennially. The July 1, 2016 HIS valuation was the most recent actuarial valuation and was used to develop the total pension liability amounts as of June 30, 2017. The July 1, 2016 actuarial valuation was determined using the following actuarial assumptions at the June 30, 2017 measurement date:

	2017
Valuation date	July 1, 2016
Measurement date	June 30, 2017
Inflation	2.60%
Salary increases including inflation	3.25%
Municipal Bond Rate	3.58%

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

Because the HIS Plan is funded on a pay-as-you-go basis, no experience study has been completed for that plan. The actuarial assumptions that determined the total pension liability for the HIS Plan were based on certain results of the most recent experience study conducted for the FRS Pension Plan.

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE 7 - RETIREMENT PLANS (Continued)

HIS Plan (Continued):

Discount Rate - The municipal bond rate used to measure the total pension liability was 3.58% for the 2017 measurement date. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Pension Plan Fiduciary Net Position - Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan - At September 30, 2017, the Authority reported payables of \$149 for the outstanding amount of contributions to the HIS Plan required for the year then ended.

NOTE 8 - OPERATING LEASE

The Authority leases office space under an operating lease which expires on September 30, 2021. Rent expense for the facility lease amounted to \$16,480 and \$18,444 for the years ended September 30, 2018 and 2017, respectively. The minimum future rental payments are approximately \$12,000 for the fiscal years ending September 30, 2019, 2020 and 2021.

NOTE 9 - 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 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. The mini grant fund was capped at \$25,000 and by September 30, 2018, \$21,500 in mini grants have been awarded since program inception.

In January 2018, the Authority extended both grant programs indefinitely, subject to funds availability. During the years ended September 30, 2018 and 2017, the Authority expensed \$4,000 and \$5,000, respectively, in funding for mini grants. At September 30, 2018 and 2017, \$3,500 and \$7,500 was available for funding mini grants, respectively, and \$154,726 was available for additional capital grants.

ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 10 - 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. During the years ended September 30, 2018 and 2017, the Authority expensed \$28,463 and \$291,749, respectively, in funding for grants from the restricted contribution. At September 30, 2018 and 2017, \$50,692 and \$79,155, respectively, was available for funding additional capital grants and is presented as restricted net position.

NOTE 11 - 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 13 for additional details.

NOTE 12 - LEGAL SETTLEMENT PROCEEDS

During the year ended September 30, 2017, the Authority received funds of \$97,190 as its share of settlement proceeds obtained in connection with a class action law suit titled In re Municipal Derivatives Antitrust Litigation. The Authority was a member of the plaintiff class which filed suit against various financial industry defendants alleging bid-rigging in the sale of municipal derivative transactions. Certain of the defendants sold municipal derivative transactions to the Authority in connection with its Series 2000A Loan Program bonds. The Authority recognized the proceeds as non-operating revenues.

NOTE 13 - 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 insure the Council receives its significant state/federal matching fund contributions. The Authority paid its first annual installment of \$100,000 to the County in September 2018. This amount is included in grant expenses on the statement of revenues, expenses, and changes in net position.

ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 13 - COMMITMENTS (Continued)

Lakeview Center:

Also during the year ended September 30, 2018, the Authority approved a grant in an amount not to exceed \$2,000,000 to the Lakeview Center, Inc. for the expansion of its healthcare facility located in Century, Florida, a small community in northern Escambia County. The expansion will double the size of the existing building, creating separate areas within the facility for Lakeview Center to operate its mental health programs, and for Escambia Community Clinic, Inc., d/b/a Community Health Northwest Florida ("ECC") to provide primary medical care and dental services. This grant is subject to (1) a contribution of 10% of the project cost to be funded by or on behalf of the Lakeview Center and (2) a contractual commitment by both the Lakeview Center and ECC to provide their respective health care services at the renovated facility for a period of not less than 10 years. The grant is on a reimbursement basis, with the full amount of the grant payable at project completion. At September 30, 2018, grant expenses totaling \$597,075 were incurred by Lakeview Center, and this amount has been accrued in the statement of financial position as a charitable grant payable. The project is expected to be completed prior to the end of fiscal year 2019, at which time the Lakeview Center will receive reimbursement for the cost of the project, less its 10% contribution, in an amount not to exceed \$2 million dollars.

REQUIRED SUPPLEMENTARY INFORMATION

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FLORIDA RETIREMENT SYSTEM PENSION PLAN
LAST TEN FISCAL YEARS*
UNAUDITED**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Escambia County Health Facilities Authority's proportion of net pension liability	0%	0.000507195%	0.000536174%	0.000526658%	0.000602937%
Escambia County Health Facilities Authority's proportionate share of net pension liability	\$ -	\$ 150,025	\$ 135,384	\$ 68,025	\$ 36,788
Escambia County Health Facilities Authority's covered-employee payroll	\$ -	\$ 116,520	\$ 116,520	\$ 116,520	\$ 116,520
Escambia County Health Facilities Authority's proportionate share of net pension liability as a percentage of its covered-employee payroll	0%	128.75%	116.19%	58.38%	31.57%
Plan fiduciary net position as a percentage of the total pension liability	84.26%	83.89%	84.88%	92.00%	96.09%

* The amounts presented for each fiscal year were determined as of June 30. Information provided above was obtained from an actuarial valuation; information prior to fiscal year 2014 was not available.

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
HEALTH INSURANCE SUBSIDY PROGRAM
LAST TEN FISCAL YEARS*
UNAUDITED**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Escambia County Health Facilities Authority's proportion of net pension liability	0%	0.000365565%	0.000377454%	0.000384082%	0.000400353%
Escambia County Health Facilities Authority's proportionate share of net pension liability	\$ -	\$ 39,088	\$ 43,991	\$ 39,170	\$ 37,434
Escambia County Health Facilities Authority's covered-employee payroll	\$ -	\$ 116,520	\$ 116,520	\$ 116,520	\$ 116,520
Escambia County Health Facilities Authority's proportionate share of net pension liability as a percentage of its covered-employee payroll	0%	33.55%	37.75%	33.62%	32.13%
Plan fiduciary net position as a percentage of the total pension liability	2.15%	1.64%	0.97%	0.50%	0.99%

* The amounts presented for each fiscal year were determined as of June 30. Information provided above was obtained from an actuarial valuation; information prior to fiscal year 2014 was not available.

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
SCHEDULE OF CONTRIBUTIONS
FLORIDA RETIREMENT SYSTEM PENSION PLAN
LAST TEN FISCAL YEARS*
UNAUDITED**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 5,578	\$ 13,204	\$ 13,075	\$ 14,425	\$ 15,039
Contributions in relation to the contractually required contribution	<u>(5,578)</u>	<u>(13,204)</u>	<u>(13,075)</u>	<u>(14,425)</u>	<u>(15,039)</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Escambia County Health Facilities Authority's covered-employee payroll	\$ 48,550	\$ 116,520	\$ 116,520	\$ 116,520	\$ 116,520
Contribution as a percentage of covered-employee payroll	11.49%	11.33%	11.22%	12.38%	12.91%

* The amounts presented for each fiscal year were determined for the year ended June 30. Information provided above was obtained from an actuarial valuation; information prior to fiscal year 2014 was not available.

**ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
SCHEDULE OF CONTRIBUTIONS
HEALTH INSURANCE SUBSIDY PROGRAM
LAST TEN FISCAL YEARS*
UNAUDITED**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 798	\$ 1,935	\$ 1,935	\$ 1,468	\$ 1,371
Contributions in relation to the contractually required contribution	<u>(798)</u>	<u>(1,935)</u>	<u>(1,935)</u>	<u>(1,468)</u>	<u>(1,371)</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Escambia County Health Facilities Authority's covered-employee payroll	\$ 48,550	\$ 116,520	\$ 116,520	\$ 116,520	\$ 116,520
Contribution as a percentage of covered-employee payroll	1.64%	1.66%	1.66%	1.26%	1.18%

* The amounts presented for each fiscal year were determined for the year ended June 30. Information provided above was obtained from an actuarial valuation; information prior to fiscal year 2014 was not available.

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, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 13, 2019.

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.

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.



Pensacola, Florida
May 13, 2019

**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, 2018. 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, 2018.

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.



Pensacola, Florida
May 13, 2019

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, 2018, and have issued our report thereon dated May 13, 2019.

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 May 13, 2019, 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; however, Recommendation 2017-01 was presented in the preceding Management Letter. The Authority took corrective action during the year ended September 30, 2018 to address Recommendation 2017-01.

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.



Pensacola, Florida
May 13, 2019