

HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2020



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**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
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YEAR ENDED SEPTEMBER 30, 2020**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Highlands County Health Facilities Authority
Sebring, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the Highlands County Health Facilities Authority (Authority), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the entity'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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 respective financial position of the governmental activities and the general fund of the Authority as of September 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information for the general fund on pages 3 – 7 and 21 – 22, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2021, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's 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.



CliftonLarsonAllen LLP

Sebring, Florida
January 27, 2021

**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

The management of Highlands County Health Facilities Authority (Authority) offers this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2020.

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- The Authority's assets exceeded its liabilities at September 30, 2020 by \$160,673.
- The Authority's total assets and liabilities decreased approximately \$215.61 million and \$215.58 million, respectively, resulting in a decrease in net position of \$22,426.
- The Authority's general fund's fund balances at September 30, 2020 were approximately \$280.3 million, which represents a decrease of \$50.5 million from the previous year. This decrease was due to \$50 million of principal paid on the Authority's Series 2012A Revenue Bonds.
- The Authority during the fiscal year experienced a significant decline in the 1-month LIBOR rate because of the COVID-19 global pandemic. The rate at the beginning of the year was 2.03% at the beginning of March 2020 it was 0.98% and at the end of the year it was 0.16%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-Wide Financial Statements

The government-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 statement of net position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The statement of activities presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The government-wide financial statements disclose functions of the Authority that are principally supported by fees (governmental activities). Governmental activities of the Authority are comprised of human services and the financing of health facility projects. The government-wide financial statements include only those activities of the Authority; there are no other entities which the Authority considers to be component units.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority has only a general fund which is a governmental type fund.

**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. The Authority's only governmental fund is its general fund.

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$160,673 as of September 30, 2020. The following schedule provides a summary of assets, liabilities, and net position of the Authority for the fiscal years 2020 and 2019:

	Governmental Activities		
	2020	2019	Change
Current and Other Assets	\$ 710,697,662	\$ 926,304,143	\$ (215,606,481)
Current Liabilities	430,536,989	596,121,044	(165,584,055)
Long-Term Debt Outstanding	280,000,000	330,000,000	(50,000,000)
Total Liabilities	710,536,989	926,121,044	(215,584,055)
Net Position			
Restricted for Health Care Grants	112,801	124,750	(11,949)
Restricted for Debt Service	47,872	58,349	(10,477)
Total Net Position	\$ 160,673	\$ 183,099	\$ (22,426)

The Authority's assets decreased \$215.61 million or 23.3%, its current liabilities decreased \$165.58 million or 27.8%, and long-term debt decreased \$50 million or 15.0% when compared to the prior year. The decrease in assets is primarily due to a \$215 million decrease in the Authority's ownership of patient accounts receivable from Adventist Health System/Sunbelt, Inc. (the Corporation). This decrease in patient accounts receivable resulted in a corresponding decrease in the Authority's total outstanding liabilities of \$215.58 million when compared to the prior year. The decrease in current liabilities of \$165.58 million is comprised of a decrease in notes payable of \$165 million and a decrease in accrued interest payable of \$447,980. The decrease in long-term liabilities of \$50 million represents principal that was paid on bonds payable during the year.

As of September 30, 2020, the Authority reports a positive balance in net position of \$160,673, which is comprised of \$112,801 of net position that is restricted for health care grants that are awarded at the beginning of the next fiscal year and \$47,872 that is restricted for debt service.

**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities

The Authority's net position decreased by \$22,426 for the year ended September 30, 2020 for a decrease of \$69,590 when compared to the prior year's change in net position of \$47,164. The schedule below provides a summary of the key elements of the changes in net position for the fiscal years 2020 and 2019:

	Governmental Activities		
	2020	2019	Change
REVENUES			
Program Revenues:			
Charges for Services - Fees	\$ 9,377,448	\$ 14,394,223	\$ (5,016,775)
General Revenues:			
Interest Income	3,724	9,574	(5,850)
Miscellaneous Income	61	-	61
Total Revenues	9,381,233	14,403,797	(5,022,564)
EXPENSES			
Human Services	115,902	141,500	(25,598)
Debt Service	9,287,757	14,215,133	(4,927,376)
Total Expenses	9,403,659	14,356,633	(4,952,974)
CHANGE IN NET POSITION	(22,426)	47,164	(69,590)
Net Position - Beginning of Year	183,099	135,935	47,164
NET POSITION - END OF YEAR	<u>\$ 160,673</u>	<u>\$ 183,099</u>	<u>\$ (22,426)</u>

The \$69,590 decrease in the change in net position is primarily from the bond program's fee revenue for the Authority decreasing more than the related debt service expenses for the year. The fee revenue for the fiscal year decreased \$5.02 million and related debt service costs decreased \$4.93 million for an overall net decrease in net position of \$89,399. This decrease, however, was offset by a \$25,598 decrease in health care grants the Authority awarded when compared to the prior year.

The decreases in the Authority's fee revenue is dependent upon the monthly debt service costs and debt service costs, primarily interest expense, decreased because of a significant decline in the 1-month LIBOR interest rate during the year.

**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities (Continued)

The net decrease in debt service costs of \$4,927,376 are primarily due to the following changes:

	2020	2019	Change
Interest Expense	\$ 4,562,902	\$ 8,903,460	\$ (4,340,558)
Servicing Fees for Accounts Receivable Program	4,580,466	5,167,080	(586,614)
Other Costs	144,389	144,593	(204)
Total	<u>\$ 9,287,757</u>	<u>\$ 14,215,133</u>	<u>\$ (4,927,376)</u>

The decreased interest cost of \$4,340,558 is due primarily to a lower 1-month LIBOR index during the current fiscal year when compared to the prior fiscal year. In addition, there was a decrease of \$586,614 in the servicing fees for the accounts receivable program. Servicing fees for the accounts receivable program will fluctuate from year to year because the monthly cost is based on the previous twelve-month's average outstanding balance of accounts receivable as of December 31. Therefore, because there was a decrease in the average outstanding balance of receivables at December 31, when compared to the prior twelve-month period, there was a decrease in servicing fees for the fiscal year.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

As noted earlier, the Authority uses fund accounting to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, total fund balance may serve as a useful measure of a government's net resources available for spending and meeting its obligation at the end of its fiscal year. At September 30, 2020, the Authority's general fund reported ending fund balance of \$280,332,243. This was a decrease of \$50,470,406 in fund balance when compared to the prior year. The decrease for the current year was \$50.4 million more than the statement of activities, as explained in more detail in the previous government-wide financial analysis section. This difference is because the decrease in the bonds payable of \$50 million is recognized as an expenditure in the fund financial statements and the collection from patient accounts receivable to fund the payment is not recognized as revenue.

BUDGETARY HIGHLIGHTS

The adopted budget for expenses related to the revenue bond program is an estimated amount based on current credit market conditions and any changes to those conditions or a restructuring of the revenue bond program would require the Authority to amend its budget. The Authority amended its budget during the year to provide additional appropriations for bond principal payments of \$10 million. The additional appropriation of \$10 million for bond principal payments was needed because the original budget did not anticipate the additional \$10 million being paid before September 30, 2020.

The \$10 million increase in bond principal payments was partially funded by a decrease of \$4.5 million to the budget for interest expense and a decrease of \$500,000 to the budget for other debt services costs with the remaining \$5 million being funded by the Authority's fund balance.

**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

DEBT ADMINISTRATION

The Authority's outstanding debt is as follows:

	2020	2019	Change
Notes Payable	\$ 429,968,608	\$ 595,057,507	\$ (165,088,899)
Bonds Payable	280,000,000	330,000,000	(50,000,000)
Total	<u>\$ 709,968,608</u>	<u>\$ 925,057,507</u>	<u>\$ (215,088,899)</u>

The Authority's outstanding debt for notes payable decreased \$165 million and bonds payable decreased \$50 million compared to the prior year. The decrease in bonds payable is from planned bond redemption by the Corporation to restructure the accounts receivable program's bonds payable. The restructuring resulted in two principal payments, one for \$10 million and another of \$40 million during the year. The Authority's outstanding balances for its notes payable to the Corporation can fluctuate from year to year and is based on the amount of patient accounts receivable that are sold to the Authority by the Corporation. Please refer to Notes 4 and 5 of the notes to financial statements for a complete presentation of all liabilities.

ECONOMIC FACTORS AFFECTING SUBSEQUENT YEARS

Local, national, and international economic factors as they relate to the credit markets, influence the Authority's revenues and expenses related to its accounts receivable bond program. Positive economic growth and population growth in the community could bring more demand for medical facilities and therefore the issuance of new bonds. Currently, the Authority receives all its revenues from Adventist Health System/Sunbelt, Inc. Fee revenue associated with bond administration will increase or decrease based on the interest and other debt service costs related to the bond program.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning the financial statements, long-term financial planning, future debt issuances, or questions related to the management of the Authority's operations should be addressed to the Authority at:

H. Wayne Harris, Chairman
Highlands County Health Facilities Authority
c/o Swaine, Harris, and Wohl, P.A.
425 South Commerce Avenue
Sebring, FL 33870

**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2020**

ASSETS

Cash and Cash Equivalents	\$ 729,054
Accounts Receivable	709,968,608
Total Assets	<u>710,697,662</u>

LIABILITIES

Accounts Payable	396,811
Accrued Interest Payable	171,570
Notes Payable	429,968,608
Noncurrent Liabilities:	
Due in More Than One Year	<u>280,000,000</u>
Total Liabilities	<u>710,536,989</u>

NET POSITION

Restricted for Health Care Grants	112,801
Restricted for Debt Service	<u>47,872</u>
Total Net Position	<u><u>\$ 160,673</u></u>

See accompanying Notes to Financial Statements.

**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2020**

EXPENSES

Human Services	\$ 115,902
Debt Service:	
Interest	4,562,902
Other Debt Service Costs	<u>4,724,855</u>
Total Expenses	<u>9,403,659</u>

PROGRAM REVENUES

Charges for Services - Fees	<u>9,377,448</u>
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Net Program Expense	(26,211)
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GENERAL REVENUES

Interest Income	3,724
Miscellaneous Income	<u>61</u>
	<u>3,785</u>

CHANGE IN NET POSITION	(22,426)
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Net Position - Beginning of Year	<u>183,099</u>
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NET POSITION - END OF YEAR	<u><u>\$ 160,673</u></u>
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See accompanying Notes to Financial Statements.

**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUND
SEPTEMBER 30, 2020**

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 729,054
Accounts Receivable	<u>709,968,608</u>
Total Assets	<u><u>\$ 710,697,662</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 396,811
Notes Payable	<u>429,968,608</u>
Total Liabilities	<u>430,365,419</u>
FUND BALANCE	
Restricted for Health Care Grants	112,801
Restricted for Debt Service	<u>280,219,442</u>
Total Fund Balance	<u><u>280,332,243</u></u>
Total Liabilities and Fund Balance	<u><u>\$ 710,697,662</u></u>
Reconciliation of Fund Balance to Net Position	
Fund Balance - Governmental Fund	\$ 280,332,243
Amounts reported for governmental activities in the statement of net position are different because:	
Interest accrued on long-term liabilities is not payable with current financial resources and, therefore, is not reported in the governmental fund.	(171,570)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental fund:	
Bonds Payable	<u>(280,000,000)</u>
Net Position of Governmental Activities	<u><u>\$ 160,673</u></u>

See accompanying Notes to Financial Statements.

**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED SEPTEMBER 30, 2020**

	<u>General Fund</u>
REVENUES	
Charges for Services - Fees	\$ 9,377,448
Interest income	3,724
Miscellaneous income	<u>61</u>
Total Revenues	9,381,233
EXPENDITURES	
Human Services:	
Contributions	115,902
Debt Service:	
Principal	50,000,000
Interest	5,010,882
Other Debt Service Costs	<u>4,724,855</u>
Total Expenditures	<u>59,851,639</u>
NET CHANGE IN FUND BALANCE	(50,470,406)
Fund Balance - Beginning of Year	<u>330,802,649</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 280,332,243</u></u>

See accompanying Notes to Financial Statements.

**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2020**

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND	\$ (50,470,406)
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Amounts Reported for Governmental Activities in the Statement of
Activities are Different Because:

Under the modified accrual basis of accounting used in a
governmental fund, interest on long-term liabilities is not
recognized as an expenditure until due, rather than as it accrues.

Net Change in Accrued Interest on Long-Term Liabilities	447,980
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The repayment of principal of long-term liabilities is an expenditure
of a governmental fund because it consumes current financial
resources, but the payment reduces long-term liabilities in the
statement of net position.

<u>50,000,000</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (22,426)</u></u>
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**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Highlands County Health Facilities Authority (Authority) was established in 1979 in accordance with Chapter 154.207 of the Florida Statutes. The Highlands County Board of County Commissioners on July 17, 1979 resolved to create and activate the Authority. The Authority is composed of five members appointed by the Board of County Commissioners. Although the members are appointed by the Board of County Commissioners of Highlands County, the Authority is not a component unit of the County because the County is not financially accountable for the Authority. No potential component units exist which would require inclusion in the Authority's financial statements. These financial statements represent the net position and changes in net position of the Authority and are not meant to represent any activity of Highlands County, Florida.

The Authority, as authorized by Chapter 154.201-154.241 of the Florida Statutes, was created for the purpose of financing and refinancing projects for the public purposes described in and in the manner provided by Ordinance No. 79-3 of Highlands County and by Chapter 154.201-154.241 of the Florida Statutes and for the purpose of financing health facilities. The Authority assists health facilities in the acquisition, construction, financing, and refinancing of projects.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Basic Financial Statements – Government-Wide

The Authority's basic financial statements include both government-wide (reporting the Authority as a whole) and fund financial statements (reporting the Authority's general fund). Both the government-wide and fund financial statements categorize the activities as governmental; it does not have any business-type activities.

The government-wide statement of net position reports information on all activities of the Authority and is reported on a full accrual economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues consist entirely of fees which are determined by the bond indenture. Expenditures are restricted by statute to nonprofit human health service agencies and debt service. Revenues are recorded when earned (bond program fees are considered earned when payments are received) and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basic Financial Statements – Fund Financial Statements

The financial transactions of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

The emphasis in fund financial statements is on major funds. Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, (GASB No. 34) as amended, sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures) for the determination of major funds. The Authority has used GASB Statement No. 34 minimum criteria for major fund determination and its only fund is its General Fund, which is considered a major fund.

The purpose of the Authority's only fund is as follows:

General Fund – The General Fund is the general operating fund of the Authority. It is used to account for all financial resources and expenditures.

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income, and is presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are recognized when the related liability is incurred. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due and payable.

Bond program fee revenue is recognized at the time the bond trustee transfers monies from the collection fund to the revenue fund to pay expenses as authorized by the bond indenture.

Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Authority's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restricted classifications – committed and then assigned fund balances before using unassigned fund balances.

Accounts Receivable

Accounts receivable purchased as part of the Authority's bond program are stated at estimated net realizable value as defined in the bond indenture and related agreements.

**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are stated at fair value, except for short-term investments, if any, which are stated at amortized cost.

Government-Wide Net Position

Government-wide net position is divided into two categories:

- Restricted net position – Consists of net position that is restricted by the Authority's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted net position – All other net position is reported in this category.

Governmental Fund Balances

The Authority's governmental fund balances are reported in clearly defined categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – Amounts that are not in spendable form (such as advances) or are required to be maintained intact.
- Restricted fund balance – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – Amounts constrained to specific purposes by the Authority itself, using its highest level of decision-making authority (i.e., Board members) and its highest level action (i.e., Resolution). To be reported as committed, amounts cannot be used for any other purpose unless the Authority takes the same highest level action to remove or change the constraint.
- Assigned fund balance – Amounts the Authority intends to use for a specific purpose. Intent can be expressed by the Board members or by an official or body to which the Authority delegates the authority.
- Unassigned fund balance – Amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The Authority's Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the Authority Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 2 CASH AND INVESTMENTS

Deposit Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority deposits cash into an escrow account maintained by Swaine, Harris, and Wohl, P.A., which is insured up to \$250,000.

Cash and cash equivalents at September 30, 2020 consist of:

Deposits in Attorney's Escrow	\$ 112,801
Money Market Mutual Funds with Bond Trustee	616,253
Total Cash and Cash Equivalents	<u>\$ 729,054</u>

Investments

The Authority has not adopted a formal investment policy so therefore is governed by Florida Statute 218.415(17) when investing public funds in excess of amounts needed to meet current expenses. The statute authorizes the Authority to invest in the Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, SEC registered money market funds with the highest credit quality from a nationally recognized rating agency, direct obligations of the U.S. Treasury and interest bearing time deposits and savings accounts in qualified public depositories.

Florida Statute 201.415(1) permits the Authority to issue debt where there are indentures in effect for those funds. The bond trustee, as authorized in the bond indenture, can utilize investments of the highest quality, rated in one of the three highest rating categories, assigned by Moody's or Standard & Poor's or Fitch. Specific investments include direct obligations of, or obligations unconditionally guaranteed by, the U.S. Treasury or any agency or instrumentality of the United States of America, any state or local government obligations, pre-refunded municipal obligations, SEC registered money market funds, or common trust funds or fixed income mutual funds, investment agreements, guaranteed investment contracts, repurchase agreements, asset-back securities, debt securities of any legal entity, commercial paper, certificates of deposit, savings accounts, federal funds or bankers' acceptances and forward rate or purchase agreements.

During the year, the Authority's bond trustee utilized a money market mutual fund to invest excess cash on hand. The following is a summary of the credit risk and interest rate risk of the money market mutual fund:

Credit Rating – Standard & Poor's AAAm
Weighted Average Maturity – 46 days

HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 3 ACCOUNTS RECEIVABLE

The Authority has entered into a program with Adventist Health System/Sunbelt, Inc. and certain of its affiliated corporations to provide for the continuous sale of certain patient accounts receivable to the Authority. The patient accounts receivables purchased consist primarily of amounts due from government programs and commercial insurers. The Authority issued bonds to provide a portion of the consideration for its purchase of the receivables. The remaining consideration is provided from the proceeds of collections of the receivables already purchased and from a parity note and a subordinated note given by the Authority to Adventist Health System/Sunbelt, Inc. All purchased accounts receivable are pledged as collateral for the Authority's revenue bonds.

NOTE 4 SHORT-TERM LIABILITIES

The changes in short-term debt for the fiscal year ended September 30, 2020 is as follows:

	Balance October 1, 2019	Additions	Reductions	Balance September 30, 2020
Notes Payable:				
Subordinated Note	\$ 82,500,000	\$ 73,863,389	\$ 86,363,389	\$ 70,000,000
Parity Note	512,557,507	408,770,799	561,359,698	359,968,608
Total Notes Payable	<u>\$ 595,057,507</u>	<u>\$ 482,634,188</u>	<u>\$ 647,723,087</u>	<u>\$ 429,968,608</u>

The following is a summary of the Authority's notes payable at September 30, 2020:

The subordinated note is noninterest bearing and is payable to Adventist Health System/Sunbelt, Inc., a Florida nonprofit corporation (the Corporation) in accordance with the bond indenture and associated agreements to provide additional collateral in an amount equal to the adjusted required collateral amount determined on the initial purchase date less applied cash from the bond proceeds. The note is payable to the Corporation only after all of the bonds and amounts owing on any letters of credit have been paid and may not be sold, transferred, assigned, negotiated, or pledged by the Corporation.

The parity note is noninterest bearing and is payable to the Corporation, in accordance with the bond indenture and associated agreements. The principal of the note represents current and future loans in amounts equal to the net receivables value less the adjusted required collateral determined on each purchase date by the Corporation serving as the Authority's agent (the Servicer) pursuant to the terms of the Master Servicing Agreement. Amounts are payable periodically on the note to the Corporation under the terms of the agreement. The note is on parity with the revenue bonds and may not be sold, transferred, assigned, negotiated, or pledged by the Corporation.

**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 5 LONG-TERM LIABILITIES

The changes in long-term debt for the fiscal year ended September 30, 2020 are as follows:

	Balance October 1, 2019	Additions	Reductions	Balance September 30, 2020	Due Within One Year
Governmental Activities:					
Revenue Bonds:					
Series 2012A	\$ 214,985,000	\$ -	\$ 50,000,000	\$ 164,985,000	\$ -
Series 2012B	115,015,000	-	-	115,015,000	-
Total	<u>\$ 330,000,000</u>	<u>\$ -</u>	<u>\$ 50,000,000</u>	<u>\$ 280,000,000</u>	<u>\$ -</u>

Revenue Bonds

Long-term liabilities at September 30, 2020 include \$280,000,000 of revenue bonds that have been issued in two different series. All of the bonds are secured by a pledge of the accounts receivable the Authority has purchased as part of the Adventist Health System/Sunbelt, Inc. Accounts Receivable Program.

The interest rate for each series of the revenue bonds adjusts on the first of each month and is based on 79% of the one-month LIBOR index plus 0.625%. The bond indenture provides, upon the election of the Authority and the satisfaction of certain conditions, for the revenue bonds to be converted to a new rate period ranging between a day and multiple years or a fixed interest rate. The total interest expense for all revenue bonds for the year amounted to \$4,562,902.

The following is a description of each series of revenue bonds outstanding:

Series 2012A

The Authority's 2012A Revenue Bonds (Adventist Health System/Sunbelt, Inc. Accounts Receivable Program) were issued in the original amount of \$244,985,000 with a final maturity of November 15, 2027, and have a balance of \$164,985,000 at September 30, 2020. The bonds were issued for the purpose of providing funds to enable the Authority to refund certain prior bonds and to purchase or refinance the purchase of certain accounts receivable from the Corporation.

The interest rate on the 2012A revenue bonds adjusts on the first of each month and is based on 79% of the one-month LIBOR index plus 0.625%. During the fiscal year, the rate ranged from 2.230% to 0.7476%, and at September 30, 2020 was 0.7476%.

**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

Revenue Bonds (Continued)

Series 2012B

The Authority's 2012B Revenue Bonds (Adventist Health System/Sunbelt, Inc. Accounts Receivable Program) were issued in the original amount of \$115,015,000 with a final maturity of November 15, 2027. The bonds were issued for the purpose of providing funds to enable the Authority to purchase or refinance the purchase of certain accounts receivable from the Corporation.

The interest rate on the 2012B revenue bonds adjusts on the first of each month and is based on 79% of the one-month LIBOR index plus 0.625%. During the fiscal year, the rate ranged from 2.230% to 0.7476%, and at September 30, 2020 was 0.7476%.

Debt Service

Debt service requirements to maturity are as follows:

Year Ending September 30,	Series 2012A		Series 2012B		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ -	\$ 1,233,428	\$ -	\$ 859,852	\$ -	\$ 2,093,280
2022	-	1,233,428	-	859,852	-	2,093,280
2023	-	1,233,428	-	859,852	-	2,093,280
2024	-	1,233,428	-	859,852	-	2,093,280
2025	-	1,233,428	-	859,852	-	2,093,280
2026 - 2028	164,985,000	2,621,034	115,015,000	1,827,186	280,000,000	4,448,220
Total	<u>\$ 164,985,000</u>	<u>\$ 8,788,174</u>	<u>\$ 115,015,000</u>	<u>\$ 6,126,446</u>	<u>\$ 280,000,000</u>	<u>\$ 14,914,620</u>

The future interest requirements for variable rate revenue bonds are based on the interest rates plus applicable spread fees in effect at September 30, 2020.

NOTE 6 OTHER DEBT SERVICE COSTS

Below is a summary of the components of the statement of activities other debt service costs for the year ended September 30, 2020:

Servicing Fees for Accounts Receivable Program	\$ 4,580,466
Bond Trustee Fees	95,250
Annual Profit	25,000
Professional Fees	23,031
Administrative Fees	1,108
Total	<u>\$ 4,724,855</u>

HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 7 CONDUIT DEBT OBLIGATIONS

From time to time, the Authority issues debt obligations on behalf of certain health facilities for the purpose of construction, improvement of facilities, or the refinancing of outstanding debt. The Authority is not obligated in any manner for repayment of the debt obligations. These debt obligations are special obligations between investors and the debtors payable solely from the payments received by the trustee under the loan agreements and, therefore, meet the definition of conduit debt in GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*. Accordingly, the debt obligations and the corresponding payments of interest and principal are not reported as liabilities, receipts, and disbursements of the Authority in the accompanying financial statements.

During the year, the Authority did not issue any new conduit obligations and at September 30, 2020, 15 conduit debt obligations were outstanding that amounted to approximately \$1.094 billion.

NOTE 8 RISK MANAGEMENT

The Authority has no risks of loss in the areas of property, workmen's compensation, or employee benefits.

NOTE 9 ECONOMIC DEPENDENCY

The Authority currently receives its revenues from Adventist Health System/Sunbelt, Inc. and its affiliated corporations. However, management believes the Authority would remain in existence if the funding ceased from this source.

NOTE 10 RELATED PARTY TRANSACTIONS

During the year the Authority recognized expenses of \$62,000 for health care grants that were awarded during the year to four different not for profit organizations that were related to three Authority Board Members. The not for profit organization's board member is also a member of the Authority's board. These Board Members abstained from commenting and voting at the meeting when the health care grant applications were discussed and awarded.

NOTE 11 SUBSEQUENT EVENTS

Subsequent to September 30, 2020, there was \$26.3 million of scheduled principal repaid on conduit debt obligations leaving an outstanding balance of approximately \$1.068 billion.

**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2020**

	Budget			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Charges for Services - Fees	\$ 15,624,750	\$ 10,624,750	\$ 9,377,448	\$ (1,247,302)
Interest Income	-	-	3,724	3,724
Miscellaneous Income	-	-	61	61
Total Revenues	15,624,750	10,624,750	9,381,233	(1,243,517)
EXPENDITURES				
Human Services:				
Contributions	124,750	124,750	115,902	8,848
Debt Service:				
Principal	40,000,000	50,000,000	50,000,000	-
Interest	10,000,000	5,500,000	5,010,882	489,118
Other Debt Service Costs	5,500,000	5,000,000	4,724,855	275,145
Total Expenditures	55,624,750	60,624,750	59,851,639	773,111
NET CHANGE IN FUND BALANCE	(40,000,000)	(50,000,000)	(50,470,406)	(470,406)
Fund Balance - Beginning of Year	330,830,000	330,802,649	330,802,649	-
FUND BALANCE - END OF YEAR	<u>\$ 290,830,000</u>	<u>\$ 280,802,649</u>	<u>\$ 280,332,243</u>	<u>\$ (470,406)</u>

See accompanying Note to Budgetary Comparison Schedule – General Fund.

**HIGHLANDS COUNTY HEALTH FACILITIES AUTHORITY
NOTE TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
SEPTEMBER 30, 2020**

NOTE 1 BUDGETARY INFORMATION

Budgets are prepared and adopted annually for the general fund in accordance with procedures and time intervals prescribed by Florida Statute 189.418(3). Accordingly, the Board adopted an annual budget for the general fund for the fiscal year ended September 30, 2020. The Authority is not required to submit its budget to any regulatory agencies.

The annual budget serves as the legal authorization for expenditures. Expenditures cannot legally exceed the total amount budgeted for each fund. All budget amendments, which change the legally adopted total appropriations for a fund, are approved by the Board and may be amended at any Board meeting prior to 60 days after the fiscal year-end. The level of control for appropriations is exercised at the fund level. Appropriations lapse at year-end. Budgets are prepared using the same modified accrual basis as is used to account for actual transactions.



**INDEPENDENT AUDITORS' 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
Highlands County Health Facilities Authority
Sebring, Florida

We have audited, in accordance with the 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 the governmental activities and the general fund of the Highlands County Health Facilities Authority (Authority), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 27, 2021.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Sebring, Florida
January 27, 2021



MANAGEMENT LETTER

Board of Directors
Highlands County Health Facilities Authority
Sebring, Florida

Report on the Financial Statements

We have audited the financial statements of the Highlands County Health Facilities Authority (Authority), as of and for the fiscal year ended September 30, 2020 and have issued our report thereon dated January 27, 2021.

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 Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Accountants' 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 January 27, 2021, 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. There were no recommendations made in the preceding audit report.

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The reporting entity contains no component units. See Note 1 in the notes to the financial statements.

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate 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 to identify 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 Sections 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.

Special District Component Units

Section 10.554(1)(i)5.c, Rules of the Auditor General, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. The Authority contains no special district component units.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate 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 Authority and applicable management and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Sebring, Florida
January 27, 2021



INDEPENDENT ACCOUNTANTS' REPORT

Highlands County Health Facilities Authority
and the Florida Auditor General
Sebring, Florida

We have examined the Highlands County Health Facilities Authority's (Authority) compliance with Section 218.415, Florida Statutes, regarding the investment of public funds during the year ended September 30, 2020. Management of the Authority is responsible for the Authority's compliance with the specified requirements. Our responsibility is to express an opinion on the Authority's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Authority complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the Authority complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide 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 Section 218.415, Florida Statutes, regarding the investment of public funds during the year ended September 30, 2020.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Sebring, Florida
January 27, 2021