ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY

PENSACOLA, FLORIDA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2016 AND 2015

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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, 2016 and 2015, 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.

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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, 2016 and 2015, 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 February 21, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Saltmarsh Cleaveland & Gund

Pensacola, Florida
February 21, 2017

The following is a narrative overview and analysis of the Authority's significant financial activities for the fiscal year ended September 30, 2016.

Operational Highlights

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

- The Authority has one employee, Ms. Paula Drummond, who serves as Executive Director and General Counsel. Ms. Drummond is an attorney in good standing with The Florida Bar since 1978. She represented the Authority in her private practice for 22 years before accepting the employee position in 2005. Ms. Drummond is a member of the National Association of Bond Lawyers (NABL) and provides services as Issuer's Counsel for the Authority in connection with its bond financing activity. In addition, the Authority retains an external certified public accountant ("CPA") to provide financial management and oversight services on a continuous basis. The Authority's current CPA has provided services since 2003.

- 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 Chapters 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 is 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.

Operational Highlights (Continued)

- On September 30, 2016, the Authority had $193,630,732 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 2016. In November 2015, the Authority's Azalea Trace Series 2003A bonds matured. The Authority also assisted Borrower Covenant Hospice, Inc. with amendments to its private placement financing documents with the consent of the financial institution bond holder. 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 9-30-2016
$25,395,000 Escambia County Health FA Revenue Bonds (Azalea Trace, Inc.) Series 2003 B	07/24/03	11/15/29	$25,395,000
$154,515,000 Revenue Bonds (Florida Health Care Facility Loan Program) Series 2000 A	07/25/00	07/01/20	$7,500,000
$8,600,000 Revenue Bonds (Covenant Hospice, Inc.) Series 2005 A	06/01/05	06/05/30	$5,806,006
$900,000 Revenue Bonds (Covenant Hospice, Inc.) Series 2005 B	08/23/05	07/05/30	$610,096
$15,000,000 Revenue Bond (Baptist Hospital, Inc.) Series 2009	12/09/09	11/01/19	$9,468,598
$155,000,000 Health Care Facilities Revenue Bonds (Baptist Hospital, Inc.) Series 2010A	02/15/10	08/15/36	$141,710,000
$15,000,000 Health Facilities Authority Baptist Hospital, Inc. Tax Exempt Lease Financing	12/08/10	04/30/18	$3,141,032

- 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. To qualify for a grant, the local organization 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. The Authority designated $250,000 from its reserves to fund capital grants over a five fiscal year period (fiscal years 2013 through 2017). The amount of grant funds available in each of the five fiscal years is $50,000 and any amounts not awarded will carry over to the following fiscal year. There are limits on the size of the grants awarded and other program requirements. 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 the end of the 2016 fiscal year, $12,500 in mini grants were awarded. Additional information about the capital grant program can be found on the Authority's website.

Operational Highlights (Continued)

- At the end of fiscal year 2016, the Authority had net position of $2,959,194. The majority of these 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 $1,944,812 as of September 30. 2016. A reserve fund of $500,000 is maintained for bond issue contingency funding. The remaining Grant Program reserve is $142,226. The Authority determines the levels of these reserves on an annual basis.

- The Authority had a net operating loss for fiscal year 2016 of $200,181 and net non-operating revenues of $585,550, resulting in an increase in net position of $385,369. In fiscal year 2016 the Authority received a contribution of $370,904 from a local non-profit organization restricted to fund capital grants, and a payment of $192,750 received as the Authority's share of settlements obtained in a national class action lawsuit In re Municipal Derivatives Antitrust Litigation. These funds are included in non-operating revenues.

- 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. Annual bond fees were established according to the fee policy in existence at the time the bonds were issued, and cannot be increased. The Authority has historically kept annual fees at low levels as a consideration to the non-profit Borrowers. The existence of operating reserves has also factored into the decision to maintain annual fees at their current level.

- The Authority maintains a managed custodial investment account to achieve higher yields on reserved funds. At September 30, 2016, the investment portfolio for this account was approximately 34% U.S. Government Obligations and federal agency Mortgage-backed Securities and 66% Corporate Bonds.

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 12 of this report.

Summary of Financial Condition

Escambia County Health Facilities Authority's Net Position

	2016	2015
Current Assets	$ 3,094,178	$ 2,711,467
Non-Current Assets:		
Capital assets	1,252	927
Deposits	450	450
	1,702	1,377
Total Assets	3,095,880	2,712,844
Deferred Outflows of Resources:		
Pensions	88,090	48,110
Total Assets and Deferred Outflows	$ 3,183,970	$ 2,760,954
Current Liabilities	$ 20,895	$ 39,763
Non-Current Liabilities	192,152	117,446
Total Liabilities	213,047	157,209
Deferred Inflows of Resources:		
Pensions	11,729	29,920
Net Position:		
Net investment in capital assets	1,252	927
Restricted for charitable grants	370,904	-
Designated for future operations	1,944,812	1,929,672
Designated for bond issue contingencies	500,000	500,000
Designated for charitable grants	142,226	143,226
	2,959,194	2,573,825
Total Liabilities, Deferred Inflows and Net Position	$ 3,183,970	$ 2,760,954

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

	2016	2015
Operating Revenues	$ 58,359	$ 50,102
Operating Expenses	(258,540)	(215,284)
Nonoperating Revenues	586,550	24,677
Nonoperating Expenses	(1,000)	(69,499)
Change in Net Position	385,369	(210,004)
Net Position - Beginning of Year	2,573,825	2,783,829
Net Position - End of Year	$ 2,959,194	$ 2,573,825

At the end of the fiscal year, the Authority had net position of $2,959,194 which is an increase of $385,369 from the prior fiscal year. The total operating expenses for the fiscal year were $258,540, of which $192,821 was incurred for payroll and related expenses. The total nonoperating expenses for the year were $1,000, all of which was for charitable grant payments that were charged against the reserve account for grants and were not considered part of regular operating expenses.

The total nonoperating revenues for the year consist of a restricted contribution to be used for charitable capital improvement grants, legal settlement proceeds, and investment income as follows:

	2016	2015
Restricted contribution	$ 370,904	$ -
Legal settlement proceeds	192,750	
Interest income	44,705	50,562
Fund B final distribution	-	5,264
Realized loss	(8,405)	(14,052)
Unrealized loss	(8,659)	(9,074)
Fees and other investment costs	(4,745)	(8,023)
	$ 586,550	$ 24,677

Total investment income decreased 7% from the prior fiscal year.

Realized losses which are included in investment income are due primarily to investments which were purchased at a premium and are shown as having a loss at maturity in the amount of the premium paid. The interest earnings on these investments are reported separately as interest income and are not included in the amount reported as realized loss. In 2016 and 2015 interest income from investments exceeded realized losses, fees, and other investment costs by $31,555 and $28,487, respectively. Unrealized losses which are also included in investment income are due primarily to fluctuations in the fair market value of securities held in the investment account.

In July 2015, following statutory authorization from the Florida legislature, the Florida State Board of Administration distributed the residual balance held within Fund B to those participants in the Local Government Investment Pool Surplus Funds Trust Fund ("LGIP" and now known as Florida PRIME) who had been entitled to, but had not received, a November 2007 interest payment on invested funds during that month. The amount paid to each such participant was based on each participant's proportional share of the total November 2007 interest earned by such participants in the LGIP which was not paid out but transferred to the trust fund in order to maximize the payout of principal. The Authority received a total payment of $5,264 in 2015, which was included in investment income but shown separately from interest income, as its proportional share of the November 2007 interest earned on its investment in the LGIP at that time.

Requests for Information

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

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

ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2016 AND 2015

ASSETS AND DEFERRED OUTFLOWS

	2016	2015
Current Assets:		
Cash and cash equivalents	$ 821,231	$ 393,373
Investments	2,264,577	2,309,318
Interest receivable	7,439	8,664
Prepaid insurance	931	112
Total current assets	3,094,178	2,711,467
Non-Current Assets:		
Capital assets, net of accumulated depreciation	1,252	927
Deposits	450	450
Total non-current assets	1,702	1,377
Total assets	3,095,880	2,712,844
Deferred Outflows of Resources:		
Pensions	88,090	48,110
Total Assets and Deferred Outflows	$ 3,183,970	$ 2,760,954

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

	2016	2015
Current Liabilities:		
Accrued expenses	$ 9,678	$ 11,075
Compensated absences	11,217	13,388
Charitable grants payable	-	15,300
Total current liabilities	20,895	39,763
Non-Current Liabilities:		
Compensated absences	12,777	10,251
Net pension liability	179,375	107,195
Total non-current liabilities	192,152	117,446
Total liabilities	213,047	157,209
Deferred Inflows of Resources:		
Pensions	11,729	29,920
Net Position:		
Net investment in capital assets	1,252	927
Restricted for charitable capital improvement grants	370,904	-
Unrestricted:		
Designated for future operations	1,944,812	1,929,672
Designated for bond issue contingencies	500,000	500,000
Designated for charitable grants	142,226	143,226
Total unrestricted net position	2,587,038	2,572,898
Total net position	2,959,194	2,573,825
Total Liabilities, Deferred Inflows and Net Position	$ 3,183,970	$ 2,760,954

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, 2016 AND 2015

	2016	2015
Operating Revenues:		
Fees -		
Annual bond	$ 42,698	$ 49,323
Monthly	661	779
Bond and issuer counsel	15,000	-
Total operating revenues	58,359	50,102
Operating Expenses:		
Accounting and auditing	17,131	18,479
Bond issuance	7,531	-
Depreciation	375	470
Dues and subscriptions	2,616	2,615
Office expense	7,179	7,850
Payroll	140,681	119,881
Payroll taxes	10,598	8,524
Pension and benefits	41,542	24,865
Rent	12,311	11,937
Seminars, training, and travel	18,576	20,663
Total operating expenses	258,540	215,284
Operating Loss	(200,181)	(165,182)
Nonoperating Revenues (Expenses):		
Investment income	22,896	24,677
Charitable grants	(1,000)	(69,499)
Restricted contribution	370,904	-
Legal settlement proceeds	192,750	-
Total nonoperating revenues (expenses), net	585,550	(44,822)
Change in Net Position	385,369	(210,004)
Net Position - Beginning of Year	2,573,825	2,783,829
Net Position - End of Year	$ 2,959,194	$ 2,573,825

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

ESCAMBIA COUNTY HEALTH FACILITIES AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities:		
Receipts from health facilities and others	$ 58,359	$ 50,102
Payments to vendors	(104,653)	(92,890)
Payments to employees	(141,364)	(113,301)
Net cash used in operating activities	(187,658)	(156,089)
Cash Flows From Noncapital Financing Activities:		
Grant payments to other organizations	(16,300)	(54,199)
Restricted contribution	370,904	-
Legal settlement proceeds	192,750	-
Net cash provided by (used in) noncapital financing activities	547,354	(54,199)
Cash Flows From Investing Activities:		
Purchases of investments	(849,810)	(1,244,170)
Sales and maturities of investments	877,488	1,222,344
Purchase of capital assets	(700)	-
Receipts from investment income	41,184	52,250
Net cash provided by investing activities	68,162	30,424
Net Increase (Decrease) in Cash and Cash Equivalents	427,858	(179,864)
Cash and Cash Equivalents, Beginning of Year	393,373	573,237
Cash and Cash Equivalents, End of Year	$ 821,231	$ 393,373
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	$ (200,181)	$ (165,182)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation	375	470
Changes in:		
Prepaid insurance	(819)	223
Deferred outflows of resources - pensions	(39,980)	(376)
Accrued expenses	(1,397)	7,113
Compensated absences	355	3,361
Net pension liability	72,180	32,973
Deferred inflows of resources - pensions	(18,191)	(34,671)
Net cash used in operating activities	$ (187,658)	$ (156,089)

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity:

The Escambia County Health Facilities Authority (the "Authority") was created on March 6, 1975 by resolution of the Escambia County Board of County Commissioners. The Authority members are appointed by the Escambia County Board of County Commissioners, 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.

New Accounting Pronouncement:

The Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application*, which provides guidance regarding fair value measurement and application and requires disclosures to be made about fair value measurements, the level of the fair value hierarchy, and valuation techniques.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 is the Authority's policy to permit employees to accumulate an unlimited amount of earned but unused paid time off. Accordingly, the Authority records an accrual for earned but unused paid time off. Accrued but unused paid time off expected to be used within the next fiscal year is recorded as a current liability in the accompanying financial statements. The amount expected to be carried forward to future years is recorded as a non-current liability.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits:

At September 30, 2016, the carrying amount of the Authority's deposits was $197,009 and the bank balance was $198,734, 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, 2016, 21% of the Authority's investments were in the Florida PRIME, which is exempt from the concentration risk policy, while the remaining 79% of investments were in U.S. Government obligations, mortgage-backed securities and corporate bonds through a custodial account. At September 30, 2016, no assets subject to the concentration risk policy represented 5% 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.

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Credit Risk:

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Credit Risk (Continued):

The Authority's investment policy states that a credit a rating of "AAAm" by Standard & Poor's or the equivalent by another rating agency is required for its investment in the Florida PRIME. Standard and Poor's Ratings Services assigned its "AAAm" principal stability fund rating to the Florida PRIME as of September 30, 2016. The Florida PRIME is an external 2a7-like investment pool, in which the fair value of the Authority's position in the pool is the same as the value of the pool shares.

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

The Authority's investment policy states that a credit quality rating of single A or better from a nationally recognized rating agency is required at the time of purchase for its investments in corporate bonds. Moody's Investor Services assigned rates ranging from the "Aa2" (Standard & Poor's equivalent of "AA") rating to the "A2" (Standard & Poor's equivalent of "A") rating to the Authority's investments in corporate bonds as of September 30, 2016, except for eight corporate bonds which had their ratings lowered to "A3", "Baa1", or "Baa2" by Moody's Investor Services subsequent to their purchases.

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, 2016.

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, 2016 and 2015, the Authority had the following investments:

Investment	Maturities	2016	2015
Money market mutual funds	Average of less than 60 days	$ 22,025	$ 45,549
Local Government Surplus Funds Trust Fund	Average of 50 days	602,197	163,465
Certificates of deposit	N/A	-	200,007
U.S. Government obligations	Average of 1.55 years	736,454	705,890
Mortgage-backed securities	Average of 5.53 years	36,174	55,531
Corporate bonds	Average of 0.97 years	1,491,949	1,347,890
		$ 2,888,799	$ 2,518,332

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, 2016:

	Level 1	Level 2	Level 3	Total
Money market mutual funds	$ 22,025	$	$	$ 22,025
U.S. Government obligations		736,454		736,454
Mortgage-backed securities		36,174		36,174
Corporate bonds		1,491,949		1,491,949
Total investments	$ 22,025	$ 2,264,577	$ -	$ 2,286,602

The following table presents assets carried at fair value at September 30, 2015:

	Level 1	Level 2	Level 3	Total
Money market mutual funds	$ 45,549	$	$	$ 45,549
U.S. Government obligations		705,890		705,890
Mortgage-backed securities		55,531		55,531
Corporate bonds		1,347,890		1,347,890
Total investments	$ 45,549	$ 2,109,311	$ -	$ 2,154,860

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

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

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

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

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

NOTE 3 - CAPITAL ASSETS

Changes in capital assets were as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Office equipment	$ 19,584	$ 700	$ -	$ 20,284
Less accumulated depreciation	(18,657)	(375)	-	(19,032)
	$ 927	$ 325	$ -	$ 1,252

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	$ 23,639	$ 19,850	$ (19,495)	$ 23,994	$ 11,217

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, 2016.

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 $193,630,732 and $201,653,793 at September 30, 2016 and 2015, 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.

NOTE 7 - RETIREMENT PLANS (Continued)

Pension Plan (Continued):

Benefits Provided - Authority employees hired before January 1, 1996 and all employees hired after September 30, 2007 are 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 ends November 1, 2017. The Authority's contribution rate for DROP was 12.28% from October 1, 2014 through June 30, 2015, 12.88% from July 1, 2015 through June 30, 2016, and 12.99% from July 1, 2016 through September 30, 2016.

The Authority's contributions to the Pension Plan totaled $13,075, $14,425, and $15,039, for the years ended September 30, 2016, 2015, and 2014, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At September 30, 2016 and 2015, the Authority reported a net pension liability of $135,384 and $68,025, respectively, for its proportionate share of the Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 and 2015, respectively. 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, 2016 and 2015, respectively, the Authority's proportionate share was 0.000536174% and 0.000526658%, respectively.

NOTE 7 - RETIREMENT PLANS (Continued)

Pension Plan (Continued):

For the years ended September 30, 2016 and 2015, the Authority recognized pension expense of $25,842 and $9,852, respectively, related to the Pension Plan. In addition, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for the years ended September 30, 2016 and 2015:

	Deferred Outflows of Resources	Deferred Inflows of Resources
September 30, 2016:		
Differences between expected and actual experience	$ 10,366	$ 1,261
Change in assumptions	8,190	-
Net difference between projected and actual earnings on Pension Plan investments	34,995	-
Changes in proportion and differences between Pension Plan contributions and proportionate share of contributions	23,829	8,122
Pension Plan contributions subsequent to measurement date	3,301	-
	$ 80,681	$ 9,383

	Deferred Outflows of Resources	Deferred Inflows of Resources
September 30, 2015:		
Differences between expected and actual experience	$ 7,181	$ 1,613
Change in assumptions	4,515	-
Net difference between projected and actual earnings on Pension Plan investments	-	16,243
Changes in proportion and differences between Pension Plan contributions and proportionate share of contributions	29,576	10,011
Pension Plan contributions subsequent to measurement date	3,269	-
	$ 44,541	$ 27,867

NOTE 7 - RETIREMENT PLANS (Continued)

Pension Plan (Continued):

The deferred outflows of resources related to the Pension Plan totaling $3,301 resulting from Authority contributions to the Pension Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30		
2017	$	12,402
2018		12,402
2019		26,045
2020		14,651
2021		1,741
Thereafter		756
	$	67,997

Actuarial Assumptions - The total pension liability in the July 1, 2016 and 2015 actuarial valuations was determined using the following actuarial assumptions:

	2016	2015
Valuation date	July 1, 2016	July 1, 2015
Measurement date	June 30, 2016	June 30, 2015
Inflation	2.60%	2.60%
Salary increases including inflation	3.25%	3.25%
Long-term expected rate of return, net of investment expense	7.60%	7.65%

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, 2016 and 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

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:

	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.00%	3.00%	3.00%	1.70%
Fixed income	18.00%	4.70%	4.60%	4.60%
Global equity	53.00%	8.10%	6.80%	17.20%
Real estate	10.00%	6.40%	5.80%	12.00%
Private equity	6.00%	11.50%	7.80%	30.00%
Strategic investments	12.00%	6.10%	5.60%	11.10%
	100.00%			
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, 2016 and 2015 actuarial valuations was 7.60% and 7.65%, respectively. 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.

NOTE 7 - RETIREMENT PLANS (Continued)

HIS Plan (Continued):

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the Authority's proportionate share of net pension liability calculated using the discount rate of 7.60% as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1%-point lower (6.60%) or 1%-point higher (8.60%) than the current rate as of September 30, 2016:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Authority's proportionate share of the net pension liability	$ 249,252	$ 135,384	$ 40,605

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, 2016 and 2015, the Authority reported payables of $1,040 and $1,038, respectively for the outstanding amount of contributions to the Pension Plan required for the years then ended.

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, 2016 and 2015, 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.

NOTE 7 - RETIREMENT PLANS (Continued)

HIS Plan (Continued):

<u>Contributions</u> - 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. At September 30, 2016 at 2015, 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 $1,935, $1,468, and $1,371 for the years ended September 30, 2016, 2015, and 2014, respectively.

<u>Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions</u> - At September 30, 2016 and 2015, the Authority reported a net pension liability of $43,991 and $39,170, respectively, for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 and 2014, respectively. 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, 2016 and 2015, the Authority's proportionate share was 0.000377454% and 0.000384082%, respectively.

For the years ended September 30, 2016 and 2015, the Authority recognized pension expense of $3,209 and $2,559, respectively, related to the HIS Plan. In addition, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at September 30, 2016 and 2015:

	Deferred Outflows of Resources	Deferred Inflows of Resources
September 30, 2016:		
Differences between expected and actual experience	$ -	$ 100
Change in assumptions	6,903	-
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	-	2,246
HIS Plan contributions subsequent to measurement date	484	-
	$ 7,409	$ 2,346

NOTE 7 - RETIREMENT PLANS (Continued)

HIS Plan (Continued):

	Deferred Outflows of Resources	Deferred Inflows of Resources
September 30, 2015:		
Differences between expected and actual experience	$ -	$ -
Change in assumptions	3,082	-
Net difference between projected and actual earnings on HIS Plan investments	3	(18)
Changes in proportion and differences between HIS Plan contributions and proportionate share of contributions	-	2,071
HIS Plan contributions subsequent to measurement date	484	-
	$ 3,569	$ 2,053

The deferred outflows of resources related to pensions totaling $484 resulting from Authority contributions to the HIS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan will be recognized in pension expense as follows:

Year Ending September 30	
2017	$ 776
2018	776
2019	772
2020	770
2021	731
Thereafter	754
	$ 4,579

NOTE 7 - RETIREMENT PLANS (Continued)

HIS Plan (Continued):

Actuarial Assumptions - The total pension liability in the July 1, 2016 and 2015 actuarial valuations was determined using the following actuarial assumptions:

	2016	2015
Valuation date	July 1, 2016	July 1, 2014
Measurement date	June 30, 2016	June 30, 2015
Inflation	2.60%	2.60%
Salary increases including inflation	3.25%	3.25%
Municipal Bond Rate	2.85%	3.80%

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, 2016 and 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

Discount Rate - The discount rate used to measure the total pension liability in the July 1, 2016 and July 1, 2014 actuarial valuations was 2.85% and 3.80%, respectively. 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.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the Authority's proportionate share of net pension liability calculated using the discount rate of 2.85% as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1%-point lower (1.85%) or 1%-point higher (3.85%) than the current rate as of September 30, 2016:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
Authority's proportionate share of the net pension liability	$ 50,467	$ 43,991	$ 38,616

NOTE 7 - RETIREMENT PLANS (Continued)

HIS Plan (Continued):

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, 2016 and 2015, the Authority reported payables of $152 and $154, respectively, for the outstanding amount of contributions to the HIS Plan required for the years then ended.

NOTE 8 - OPERATING LEASE

The Authority leases office space under an operating lease which expires on September 30, 2018. Rent expense for the facility lease amounted to $12,311 and $11,937 for the years ended September 30, 2016 and 2015, respectively. The minimum future rental payments are approximately $19,000 annually for fiscal years ending September 30, 2017 and 2018.

NOTE 9 - RELATED PARTY TRANSACTIONS

A member of the Authority's Board of Directors holds a key position in the local Commercial Services division of a Pensacola based bank used by the Authority for two of its depository accounts. The Authority also maintains an investment account that is handled by the Investment Management and Corporate Trust Services divisions at the bank's corporate headquarters in Alabama. The board member is not affiliated with these Alabama divisions. At September 30, 2016, amounts at this bank totaling approximately $2,343,000 were held in checking, money market, and investment accounts.

NOTE 10 - 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 are made available to selected Escambia County non-profit organizations meeting certain requirements. The grants are not loans and do 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 are limits on the size of the grants awarded and other program requirements. 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, 2016, $12,500 in mini grants were awarded.

NOTE 10 - CHARITABLE GRANT PROGRAM (Continued)

During the years ended September 30, 2016 and 2015, the Authority expensed $1,000 and $69,499, respectively, in funding for grants. All grants awarded through September 30, 2016 were fully expensed and closed as of September 30, 2016. At September 30, 2016, $142,226 was available for funding additional capital grants through the end of the Charitable Grant Program on September 30, 2017.

NOTE 11 - RESTRICTED CONTRIBUTION

During the year ended September 30, 2016, 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. As of September 30, 2016, no grants had been awarded from these funds and the entire balance is presented as restricted net position. The Authority anticipates awarding grants from these funds in fiscal year 2017.

NOTE 12 - LEGAL SETTLEMENT PROCEEDS

During the year ended September 30, 2016, the Authority received funds 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 class due to certain of the defendants having been involved in providing derivative financial products to the Authority in connection with its Series 2000 Loan Program Bonds. The Authority recognized the proceeds of $192,750 as non-operating revenues for the 2016 fiscal year.

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*

	2016	2015	2014
Escambia County Health Facilities Authority's proportion of net pension liability	0.000536174%	0.000526658%	0.000602937%
Escambia County Health Facilities Authority's proportionate share of net pension liability	$ 135,384	$ 68,025	$ 36,788
Escambia County Health Facilities Authority's covered-employee payroll	$ 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	116.19%	58.38%	31.57%
Plan fiduciary net position as a percentage of the total pension liability	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*

	2016	2015	2014
Escambia County Health Facilities Authority's proportion of net pension liability	0.000377454%	0.000384082%	0.000400353%
Escambia County Health Facilities Authority's proportionate share of net pension liability	$ 43,991	$ 39,170	$ 37,434
Escambia County Health Facilities Authority's covered-employee payroll	$ 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	37.75%	33.62%	32.13%
Plan fiduciary net position as a percentage of the total pension liability	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*

	2016	2015	2014
Contractually required contribution	$ 13,075	$ 14,425	$ 15,039
Contributions in relation to the contractually required contribution	(13,075)	(14,425)	(15,039)
Contributions deficiency (excess)	$ -	$ -	$ -
Escambia County Health Facilities Authority's covered-employee payroll	$ 116,520	$ 116,520	$ 116,520
Contribution as a percentage of covered-employee payroll	11.22%	12.38%	12.91%

* 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
HEALTH INSURANCE SUBSIDY PROGRAM
LAST TEN FISCAL YEARS*

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

* 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.

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, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 21, 2017.

Internal Control Over Financial Reporting

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

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

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

Board of Directors
Escambia County Health Facilities Authority

Compliance and Other Matters

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

Purpose of Report

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

Saltmarsh Cleaveland & Gund

Pensacola, Florida
February 21, 2017

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, 2016. 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 provided 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, 2016.

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

Saltmarsh Cleaveland & Gund

Pensacola, Florida
February 21, 2017

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, 2016, and have issued our report thereon dated February 21, 2017.

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 Reports

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,* Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated February 21, 2017, 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 findings or recommendations made in the preceding annual financial audit report.

Board of Directors
Escambia County Health Facilities Authority

Official Title and Legal Authority

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

Financial Condition

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.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. 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.

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, requires that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the Authority for the fiscal year ended September 30, 2016, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2016. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

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

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 have any such findings.

Board of Directors
Escambia County Health Facilities Authority

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, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Saltmarsh Cleaveland & Gund

Pensacola, Florida
February 21, 2017