THE EAST ALABAMA HEALTH CARE AUTHORITY

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2017 AND 2016

Warren Averett
CPAs AND ADVISORS

Tentative report, subject to review by the Chief Examiner of The Department of Examiners of Public Accounts, State of Alabama. This report will become final upon review and acceptance by the Chief Examiner.

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SEPTEMBER 30, 2017 AND 2016

Warren Averett
CPAs AND ADVISORS

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The East Alabama Health Care Authority

Report on the Financial Statements
We have audited the accompanying financial statements of The East Alabama Health Care Authority (the Authority) as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The East Alabama Health Care Authority as of September 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years 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 information on pages 4-11 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 audits 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of operating expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Members of the Authority Board and Schedule of Insurance Coverage on pages 42-43 have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we do not express an opinion on them or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2018, 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.

Warren Averett, LLC

Birmingham, Alabama
January 25, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of The East Alabama Health Care Authority's (the Authority) financial statements presents management's analysis of the Authority's financial performance during the fiscal years that ended on September 30, 2017 and 2016. Please read it in conjunction with the financial statements, which follow this section:

Financial Highlights

2017

- Income from operations was $4.4 million for 2017, down from $7.2 million in the prior year.
- Net position increased in 2017 by $8.1 million.
- Total long-term liabilities decreased by $70.9 million primarily due to the defeasance of the 2008-A and 2008-B bond issues.
- Total cash and investments on the balance sheet decreased by $80.8 million primarily due to the bond defeasance noted above, but also due to slowing collections due to a billing system conversion. This also caused an increase in net accounts receivable.

2016

- Income from operations decreased from 2015 of $9.1 million to $7.2 million in 2016.
- Excess of revenues over expenses increased from $7.1 million in 2015 to $18.8 million in 2016 due primarily to a sale of three senior housing facilities, for a gain of $11.1 million.
- Net position increased in 2016 by $18.8 million.
- Total cash and investments on the balance sheet increased from $211.5 million in 2015 to $234.2 million in 2016, an increase of $22.7 million.
- The Authority invested $18.2 million in net property, plant, and equipment in 2016.

Overview of the Financial Statements

The financial statements consist of two parts: management's discussion and analysis and the financial statements. The financial statements also include notes and additional information that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Authority offer short-term and long-term financial information about its activities. The balance sheets include all of the Authority's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. The balance sheets also provide the basis for computing rate of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the statements of revenues and expenses and statements of changes in net position. These statements measure the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its services provided, as well as its profitability and creditworthiness.

The final required financial statements are the statements of cash flows. The primary purpose of these statements is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statements report cash receipts, cash payments, and net changes in cash resulting from operating, investing, noncapital financing, and financing activities, and provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis

Our analysis of the financial statements of the Authority begins below. One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better off or worse off as a result of the year's activities?" The balance sheets, the statements of revenues and expenses, and the statements of changes in net position report information about the Authority's activities in a way that will help answer this question. These statements report the net position of the Authority and changes in it. You can think of the Authority's net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors, such as changes in economic conditions, regulations, and new or changed government legislation.

Net Position

To begin our analysis, a summary of the Authority's balance sheets is presented in Tables A-1 and A-2.

Table A-1
Condensed Balance Sheets (in millions of dollars)

	FY 2017	FY 2016	Dollar Change	Percentage Change
Receivables, net	$ 32.1	$ 24.0	$ 8.1	33.8%
Other current assets	54.1	58.3	(4.2)	-7.2%
Current assets	86.2	82.3	3.9	4.7%
Other assets	116.6	190.1	(73.5)	-38.7%
Property, plant, and equipment, net	146.5	143.9	2.6	1.8%
Total assets	$ 349.3	$ 416.3	$ (67.0)	-16.1%
Current liabilities	$ 66.5	$ 70.7	$ (4.2)	-5.9%
Long-term liabilities	42.1	113.0	(70.9)	-62.7%
Total liabilities	$ 108.6	$ 183.7	$ (75.1)	-40.9%
Net position:				
Net investment in capital assets	$ 86.6	$ 23.5	$ 63.1	
Unrestricted	149.7	204.6	(54.9)	
Restricted	4.4	4.5	(0.1)	
Total net position	$ 240.7	$ 232.6	$ 8.1	3.5%

As shown in Table A-1, net position increased $8.1 million from 2016. This change in net position was attributable to income generated in 2017. See discussion following Table A-3 for more details.

Current assets are up $3.9 million from 2016. The various components' fluctuations are worthy of comment, however. The Authority changed its patient accounting financial system during 2017. This change temporarily slowed the cash collection process and caused net accounts receivable to increase 33.8% from $24.0 million at the end of fiscal 2016 to $32.1 million at the end of fiscal 2017. Cash, cash equivalents and temporary investments decreased $7.4 million due to this dynamic as well.

Other assets are down $73.5 million. This is made up of the reductions in investment dollars from "assets whose use is limited" and "long-term investments". These reductions are directly related to the reduction of long-term liabilities of $70.9 million. Both asset and liability reductions are due to the defeasance of the 2008-A and 2008-B bonds during 2017.

Table A-2
Condensed Balance Sheets (in millions of dollars)

	FY 2016	FY 2015	Dollar Change	Percentage Change
Receivables, net	$ 24.0	$ 22.8	$ 1.2	5.3%
Other current assets	58.3	56.1	2.2	3.9%
Current assets	82.3	78.9	3.4	4.3%
Other assets	190.1	172.2	17.9	10.4%
Property, plant, and equipment, net	143.9	149.6	(5.7)	-3.8%
Total assets	$ 416.3	$ 400.7	$ 15.6	3.9%
Current liabilities	$ 70.7	$ 75.7	$ (5.0)	-6.6%
Long-term liabilities	113.0	110.9	2.1	1.9%
Total liabilities	$ 183.7	$ 186.6	$ (2.9)	-1.6%
Minority interest	$ -	$ 0.3	$ (0.3)	-100.0%
Net position:				
Net investment in capital assets	$ 23.5	$ 29.3	$ (5.8)	
Unrestricted	204.6	180.0	24.6	
Restricted	4.5	4.5	-	
Total net position	$ 232.6	$ 213.8	$ 18.8	8.8%

As shown in Table A-2, net position increased $18.8 million from 2015. This change in net position was attributable to income generated in 2016. See discussion following Table A-4 for more details.

Current assets are up $3.4 million from 2015 primarily due to an increase of cash and temporary investments of about $5.0 million. Other assets are also up $17.9 million from 2015. This amount also represents higher financial investment balances due to the sale of three senior housing facilities. In this transaction, the Authority received approximately $16.2 million and recorded a gain on the sale of $11.1 million (as noted on the “non-operating revenue” section of the Statement of Revenues and Expenses). This transaction also explains the decrease of $5.7 million in net property, plant, and equipment.

Liabilities decreased by $2.9 million, which is made up of decreases in other accrued liabilities as well as an increase in the fixed payer swap, which is categorized as “other long-term liabilities”. “Other accrued liabilities” decreased because gainsharing payouts (employee bonuses) were not achieved for 2016 due to the Authority’s soft financial performance in income from operations and not achieving certain required operational metrics.

Table A-3
Condensed Statements of Revenues, Expenses, and Changes in Net Position (in millions of dollars)

	FY 2017	FY 2016	Dollar Change	Percentage Change
Operating revenues	$ 350.5	$ 332.1	$ 18.4	5.5%
Service departments	61.2	61.3	(0.1)	-0.2%
Earnings departments	266.7	245.4	21.3	8.7%
Depreciation and amortization	18.2	18.2	-	0.0%
Total operating expenses	346.1	324.9	21.2	6.5%
Income from operations	4.4	7.2	(2.8)	-38.9%
Nonoperating revenues (expenses), net	3.7	11.6	(7.9)	
Excess of revenues over expenses	8.1	18.8	(10.7)	
Beginning net position	232.6	213.8	18.8	
Ending net position	$ 240.7	$ 232.6	$ 8.1	3.5%

As shown in Table A-3 above, income from operations in 2017 was $4.4 million, down from $7.2 million in 2016.

Operating revenues were up $18.4 million (or 5.5%) in 2017 to $350.5 million. This is primarily due to strong volumes and one new service line. However, operating revenues could have been higher. Bad debt expense was higher than expected by $5.3 million, which lowered operating revenues. This increase in bad debt expense is due to slower collections caused by the Authority's change in its patient accounting financial system. Slower collections cause higher and older receivables, which increases bad debt expense. Management considers this a temporary problem and if these higher and older receivables can be collected, then bad debt expense will be lowered at that point.

Expenses were up in 2017 by $21.2 million or 6.5%. This is consistent with the increase to operating revenue, especially if bad debt expense was not an issue.

Nonoperating revenues were down from 2016 by $7.9 million. This is primarily due to the gain on sale of senior housing facilities that occurred in 2016 and not repeated in 2017.

The summary of unrealized gains (losses) in 2017 is as follows:

Gain in value of stocks	$ 148,584
Loss in value of bonds	(954,078)
Gain in value of swaps	4,476,042
2017 unrealized losses	$ 3,670,548

Table A-4
Condensed Statements of Revenues, Expenses, and Changes in Net Position (in millions of dollars)

	FY 2016	FY 2015	Dollar Change	Percentage Change
Operating revenues	$ 332.1	$ 335.3	$ (3.2)	-1.0%
Service departments	61.3	62.3	(1.0)	-1.6%
Earnings departments	245.4	245.2	0.2	0.1%
Depreciation and amortization	18.2	18.7	(0.5)	-2.7%
Total operating expenses	324.9	326.2	(1.3)	-0.4%
Income from operations	7.2	9.1	(1.9)	-20.9%
Nonoperating revenues (expenses), net	11.6	(2.0)	13.6	
Excess of revenues over expenses	18.8	7.1	11.7	
Beginning net position	213.8	206.7	7.1	
Ending net position	$ 232.6	$ 213.8	$ 18.8	8.8%

As shown in Table A-4 above, income from operations in 2016 was $7.2 million, down from $9.1 million in 2015.

Operating revenues were down by $3.2 million year over year. The sale of the senior housing facilities accounts for this drop. The following chart summarizes the drop in revenue and expenses from 2015 (a full year of operations) versus 2016 (a partial year of operations) for the senior living communities.

	2016	2015	Difference
Net Revenue	$2.4 M	$5.7 M	$3.3 M
Operating Expenses	2.1 M	4.9 M	2.8 M
Depreciation	.2 M	.5 M	.3 M
Net Income	.1 M	.3 M	.2 M

Operating Expenses were slightly lower as well. Excluding the effect of the senior housing facilities sale, revenues were flat. 2016 was a year where the Authority executed its strategic plan to integrate its new Lanier campus into its system. This plan called for labor and delivery services to be consolidated at its main campus, the restructuring of several physician contracts at Lanier and efforts to find new, more appropriate, profitable business lines for that facility. This plan also called for a change in IT platforms to connect both campuses into one system for clinical and financial operations.

Nonoperating revenues (expenses) had consistent results year over year excluding the gain on the sale of the Authority's senior living communities discussed above. This transaction was very positive for the Authority and will help its cash position going into a period over the next five years of anticipated growth in capital investment.

The summary of unrealized gains (losses) in 2016 is as follows:

Gain in value of stocks	$ 658,684
Loss in value of bonds	(341,968)
Loss in value of swaps	(2,293,105)
2016 unrealized losses	$ (1,976,389)

Capital Assets and Debt Financing

Property, Plant, and Equipment

As of September 30, 2017, the Authority had $146.5 million invested in net property, plant, and equipment as shown in Table A-5 below. During 2017, the Authority wrote off assets and accumulated depreciation for assets no longer in use. This caused reductions in each category, as compared to 2016 balances, as follows:

a. Buildings and fixed equipment – $20.2 million
b. Major moveable equipment – $11.1 million
c. Accumulated depreciation – $30.8 million

As of September 30, 2016, the Authority had $143.9 million invested in net property, plant, and equipment as shown in Table A-5 below. This amount is down from 2015 by $5.7 million and reflects the sale of its senior housing facilities as well as routine capital expenditures and depreciation. See Note 1 of the financial statements for more details

Table A-5
Capital Assets (in millions of dollars)

	FY 2017	FY 2016	FY 2015
Land and land improvements	$ 20.8	$ 20.8	$ 21.0
Buildings and fixed equipment	189.5	203.6	210.9
Major moveable equipment	142.5	144.8	136.7
Total capital assets	352.8	369.2	368.6
Accumulated depreciation	(211.8)	(229.0)	(221.6)
Construction-in-progress	5.5	3.7	2.6
	$ 146.5	$ 143.9	$ 149.6

Long-Term Debt

In June of 2017, the Authority defeased $66,485,000 (or 100%) of the 2008-A and 2008-B bonds. A loss was recorded on the transaction of $3,437,333 and it was included on the statement of revenues and expenses in the nonoperating section. This transaction eliminated debt at rates of 5.25-5.50% and strengthened debt related ratios significantly. It was viewed favorably by the Authority's rating agency.

In 2016, the Authority's only long-term debt transaction was to pay interest and principal on its outstanding debt.

Other Long-Term Liabilities

Other long-term liabilities relate solely to the negative value of its swap agreement, which the Authority held at September 30, 2017 and 2016. The swap agreement has a termination date greater than one year; therefore, it is classified as long-term. The value decreased due to the lower interest rates for maturities of 16 years (which is the term of the swap).

For more detailed information regarding the Authority's capital assets and debt financing, please refer to the notes to the financial statements.

FINANCIAL STATEMENTS

THE EAST ALABAMA HEALTH CARE AUTHORITY
BALANCE SHEETS
SEPTEMBER 30, 2017 AND 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 15,739,991	$ 26,349,069
Temporary investments	23,742,598	20,575,159
Accounts receivable, net	32,093,689	24,008,313
Inventories	7,697,196	6,614,825
Prepaid expenses	6,789,888	4,215,788
Current portion of assets whose use is limited	115,042	550,531
Total current assets	86,178,404	82,313,685
ASSETS WHOSE USE IS LIMITED		
Board-designated funds	60,719,182	119,553,757
Trustee held funds	115,042	6,677,746
By East Alabama Medical Center Foundation	16,679,945	14,881,221
	77,514,169	141,112,724
Less assets required for current liabilities	115,042	550,531
Total assets whose use is limited	77,399,127	140,562,193
INVESTMENTS		
Long-term investments	36,421,121	46,172,703
PROPERTY, PLANT, AND EQUIPMENT		
Land and land improvements	20,844,397	20,844,397
Buildings and fixed equipment	189,495,456	203,550,145
Major moveable equipment	142,457,887	144,846,111
	352,797,740	369,240,653
Less accumulated depreciation	211,782,032	229,029,897
	141,015,708	140,210,756
Construction-in-progress	5,503,133	3,700,143
Total property, plant, and equipment	146,518,841	143,910,899
OTHER ASSETS	2,746,556	3,354,657
TOTAL ASSETS	$ 349,264,049	$ 416,314,137

See notes to the financial statements.

THE EAST ALABAMA HEALTH CARE AUTHORITY
BALANCE SHEETS
SEPTEMBER 30, 2017 AND 2016

LIABILITIES AND NET POSITION

	2017	2016
CURRENT LIABILITIES		
Accounts payable	$ 9,020,041	$ 10,241,282
Bonds and notes payable due within one year	30,000,000	30,050,000
Payroll taxes and employee withholdings	2,122,844	2,408,984
Employee health insurance claims payable	1,877,686	1,964,190
Accrued salaries and wages	6,306,620	6,596,818
Accrued vacation pay	7,526,379	7,056,413
Other accrued liabilities	9,398,349	11,913,390
Accrued interest payable	239,211	506,195
Total current liabilities	66,491,130	70,737,272
LONG-TERM DEBT		
Bonds and notes payable, less current portion plus unamortized premium, net	29,934,751	96,381,484
OTHER LONG-TERM LIABILITIES	12,156,897	16,632,939
NET POSITION		
Net investment in capital assets	86,584,090	23,516,630
Restricted:		
For debt service	115,042	550,531
Expendable for other purposes	4,238,993	3,928,924
Unrestricted	149,743,146	204,566,357
Total net position	240,681,271	232,562,442
TOTAL LIABILITIES AND NET POSITION	$ 349,264,049	$ 416,314,137

See notes to the financial statements.

THE EAST ALABAMA HEALTH CARE AUTHORITY
STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
OPERATING REVENUE		
Net patient service revenue (net of provision for bad debts of $42,104,115 in 2017 and $31,682,181 in 2016)	$ 327,496,295	$ 314,605,683
Other revenues, net	23,025,312	17,537,036
Total operating revenue	350,521,607	332,142,719
EXPENSES		
Service departments	61,172,144	61,290,967
Earnings departments	266,693,912	245,432,525
Depreciation and amortization	18,290,798	18,236,660
Total expenses	346,156,854	324,960,152
INCOME FROM OPERATIONS	4,364,753	7,182,567
NONOPERATING REVENUES (EXPENSES)		
Interest income from trustee held funds	184,361	80,567
Donations	838,855	761,031
Loss on disposal of assets	(495,258)	(303,793)
Other interest income	3,110,946	3,355,695
Gain on sale of senior housing facilities	-	11,073,235
Loss on advance refunding	(3,437,333)	-
Interest expense	(5,673,626)	(6,729,951)
Ad valorem taxes	5,555,583	5,353,071
Unrealized gains (losses)	3,670,548	(1,976,389)
Total nonoperating revenues (expenses)	3,754,076	11,613,466
EXCESS OF REVENUES OVER EXPENSES	$ 8,118,829	$ 18,796,033

See notes to the financial statements.

THE EAST ALABAMA HEALTH CARE AUTHORITY
STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
CHANGES IN NET POSITION		
Excess of revenues over expenses	$ 8,118,829	$ 18,796,033
NET POSITION AT BEGINNING OF YEAR	232,562,442	213,766,409
NET POSITION AT END OF YEAR	$ 240,681,271	$ 232,562,442

See notes to the financial statements.

THE EAST ALABAMA HEALTH CARE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
OPERATING ACTIVITIES		
Receipts from patient service	$ 319,410,919	$ 313,421,187
Other receipts	23,025,312	17,537,036
Payments to suppliers and others	(152,599,883)	(136,092,611)
Payments to employees	(182,243,701)	(172,344,213)
Net cash provided by operating activities	7,592,647	22,521,399
NONCAPITAL FINANCING ACTIVITIES		
Ad valorem taxes	5,555,583	5,353,071
Donations	838,855	761,031
Distributions to minority interest	-	(993,982)
Net cash provided by noncapital financing activities	6,394,438	5,120,120
INVESTING ACTIVITIES		
Interest and dividends on investments	3,295,307	3,436,262
Changes in temporary investments, assets whose use is limited by the Board of Directors and long-term investments	1,382,127	(28,353,241)
Net changes in assets whose use is limited by East Alabama Medical Center Foundation	(1,798,724)	(486,678)
Net cash provided by (used in) investing activities	2,878,710	(25,403,657)
CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of bonds and notes payable	-	(45,000)
Interest paid on long-term debt	(5,940,610)	(6,778,947)
Acquisitions of property, plant, and equipment, net	(21,732,851)	(18,246,431)
Proceeds from sale of assets	198,588	16,354,543
Net cash used in capital and related financing activities	(27,474,873)	(8,715,835)
DECREASE IN CASH AND CASH EQUIVALENTS	(10,609,078)	(6,477,973)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	26,349,069	32,827,042
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 15,739,991	$ 26,349,069

See notes to the financial statements.

THE EAST ALABAMA HEALTH CARE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from operations	$ 4,364,753	$ 7,182,567
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Provision for depreciation and amortization	18,290,798	18,236,660
Provision for bad debts	42,104,115	31,682,181
Changes in operating assets and liabilities:		
Accounts receivable, net	(50,189,491)	(32,866,677)
Inventories	(1,082,371)	576,442
Prepaid expenses	(2,574,100)	2,137,865
Other assets	608,101	(183,527)
Accounts payable	(1,221,241)	67,170
Other accrued liabilities	(2,707,917)	(4,954,523)
Minority interest	-	643,241
Net cash provided by operating activities	$ 7,592,647	$ 22,521,399
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Transfer of assets to trust for debt refunding	$ 69,972,333	$ -

See notes to the financial statements.

1. ACCOUNTING POLICIES

Reporting Entity

The East Alabama Health Care Authority (the Authority) is a public corporation organized under the laws of the State of Alabama. The Authority was originally incorporated June 13, 1950, as Lee County Hospital Board (the Hospital) under the laws of Alabama Act No. 46 adopted in 1949. The Hospital reincorporated as The East Alabama Health Care Authority under the provisions of Act No. 82-418 at the 1982 Regular Session of the Legislature of Alabama. As of October 1, 1988, the Authority, under the provisions of the Code of Alabama, was designated to operate as a hospital corporation. The Authority is governed by its Board of Directors (the Board) composed of nine members. As a result of the asset purchase between the Authority and George H. Lanier Memorial Hospital on January 31, 2014, two additional Board members were added to the Board, both to be from Chambers County. This became effective October 1, 2015. The Board members serve six-year terms and are approved by the Lee County Commission. The Authority has received exemption from income tax under Internal Revenue Code Section 115 as a governmental entity.

The Authority includes the accounts of East Alabama Medical Center (EAMC or the Medical Center) – a 429-bed two hospital system, providing acute care, which also includes a 26-bed skilled nursing facility and two stand-alone skilled nursing facilities. The Authority owns and operates the following entities:

- *East Alabama Medical Center Foundation (the Foundation)* is a fund-raising entity established to serve as an instrument to assist, advance, and strengthen the Authority in its service as a health care center for eastern Alabama. The Foundation is a tax-exempt entity under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code. The Foundation has filed its tax returns through September 30, 2016. The tax returns for periods ended September 30, 2014, and thereafter are subject to audit by the taxing authorities.
- *East Alabama Medical Development Associates, Inc. (EAMD)* was incorporated in 1996 to establish or affiliate with organizations to fulfill various health care needs in eastern Alabama. EAMD is a taxable entity under the Internal Revenue Code. EAMD has filed its tax returns through September 30, 2016. The tax returns for periods ended September 30, 2014, and thereafter are subject to audit by the taxing authorities.
- *East Alabama Leasing, LLC (EAL)* was created in January 2007. It is a joint venture between the Authority and various members of its medical staff. The purpose of this entity is to purchase appropriate clinical equipment and lease it to the Authority. This allows the Authority to have additional access to capital besides traditional borrowing. EAL is a taxable pass-through entity under the Internal Revenue Code. EAL dissolved operations in 2016.
- *East Alabama Cardiovascular Leasing, LLC (EACL)* was created in October 2008. It is a joint venture between the Authority and various members of its medical staff. The purpose of this entity is to purchase appropriate clinical equipment and lease it to the Authority. This allows the Authority to have additional access to capital besides traditional borrowing. EACL is a taxable pass-through entity under the Internal Revenue Code. EACL dissolved operations in 2016.
- *East Alabama Orthopedics and Sports Medicine, LLC (Ortho)* – The Authority created Ortho in April 2007 to employ orthopedic physicians and their staff to provide orthopedic physician services to the local community. Ortho is a taxable pass-through entity under the Internal Revenue Code.

1. ACCOUNTING POLICIES – CONTINUED

- *East Alabama HomeMed, LLC (EAH)* – The Authority created EAH in 2009. The purpose of this entity is to provide durable medical equipment to the communities it serves. EAH is a taxable pass-through entity under the Internal Revenue Code.
- *East Alabama EMS, LLC (EMS)* – The Authority created EMS in 2009. The purpose of this entity is to provide ambulance services to the local community. EMS is a taxable pass-through entity under the Internal Revenue Code.
- *East Alabama Health Services, LLC (EHS)* – The Authority created EHS in 2009. The purpose of this entity is to provide assisted living and health facilities to the local community. EHS is a taxable pass-through entity under the Internal Revenue Code.
- *East Alabama Campus Health, LLC (EACH)* – The Authority created EACH in 2009. The purpose of this entity is to operate the student health facility at Auburn University. EACH is a taxable pass-through entity under the Internal Revenue Code.
- *Aperian Laboratory Solutions, LLC (ALS)* – The Authority created ALS in 2009. The purpose of this entity is to provide toxicology and reference lab services to physicians and laboratories across the country. ALS is a taxable pass-through entity under the Internal Revenue Code.
- *Auburn Primary Care, LLC (APC)* – The Authority created APC in 2009. The purpose of this entity is to provide a primary care physician office in Auburn, Alabama. APC is a taxable pass-through entity under the Internal Revenue Code.
- *Primary Medicine Associates, LLC (PMA)* – The Authority created PMA in 2009. The purpose of this entity is to provide a primary care physician office in Auburn, Alabama. PMA is a taxable pass-through entity under the Internal Revenue Code.
- *Maternity Services of District 11, LLC (MS11)* was created in 1999. The purpose of this entity is to operate the Medicaid Waiver program for District 11 in Alabama. MS11 is a taxable pass-through entity under the Internal Revenue Code.
- *East Alabama Medical Center Voluntary Employee Benefit Association Trust (VEBA)* – The Authority created VEBA in 2011. The purpose of this entity is to offer self-insured health insurance to the Authority and associated physician practices. VEBA is a tax-exempt entity under Section 501(a) as an organization described in Section 501(c)(9) of the Internal Revenue Code. VEBA has filed its tax returns through September 30, 2016. The tax returns for the periods ended September 30, 2014, and thereafter are subject to audit by the taxing authorities.
- *East Alabama Heart and Vascular Consultations, LLC (EAHV)* – The Authority created EAHV in 2012. The purpose of this entity is to provide cardiologist offices in Opelika and Auburn, Alabama. EAHV is a taxable pass-through entity under the Internal Revenue Code.
- *EAMC Eye Clinic, LLC (EAEC)* – The Authority created EAEC in 2012 to employ ophthalmologists and their staff to provide ophthalmic physician services to the local community. EAEC is a taxable pass-through entity under the Internal Revenue Code.
- *Neurology Center of East Alabama, LLC (NCEA)* – The Authority created NCEA in 2016 to employ neurologists and their staff to provide neurology services to the local community. NCEA is a taxable pass-through entity under the Internal Revenue Code.
- *East Alabama Apothecary, LLC (EAA)* – The Authority created EAA in 2016 to operate a retail pharmacy to the local community. EAA is a taxable pass-through entity under the Internal Revenue Code.

1. ACCOUNTING POLICIES – CONTINUED

- *Endocrinology and Metabolism of East Alabama, LLC (E&M)* – The Authority created E&M in 2013 to employ an endocrinologist and their staff to provide endocrinology physician services to the local community. E&M is a taxable pass-through entity under the Internal Revenue Code.
- *East Alabama Physicians, LLC (EAP)* – The Authority created EAP in 2014 to employ psychiatrists, a rheumatologist, and their staffs to provide services to the local community. EAP is a taxable pass-through entity under the Internal Revenue Code.
- *Valley Area Primary Care, LLC (VAPC)* – The Authority created VAPC in 2015 to employ primary care physicians and their staff to provide primary care to the Valley, Alabama community. VAPC is a taxable pass-through entity under the Internal Revenue Code.
- *Valley Area Urgent Care, LLC (VAUC)* – The Authority created VAUC in 2015 to employ primary care physicians and their staff to provide urgent care services to the Valley, Alabama community. VAUC is a taxable pass-through entity under the Internal Revenue Code.
- *Valley Area Surgical Clinic, LLC (VASC)* – The Authority created VASC in 2015 to employ surgeons and their staff to provide surgical care to the Valley, Alabama community. VASC is a taxable pass-through entity under the Internal Revenue Code.
- *Valley Area Internal Medicine, LLC (VAIM)* – The Authority created VAIM in 2015 to employ internists and their staff to provide internal medicine services to the Valley, Alabama community. VAIM is a taxable pass-through entity under the Internal Revenue Code.
- *Valley Area ENT, LLC (VAENT)* – The Authority created VAENT in 2015 to employ ENT physicians and their staff to provide ENT services to the Valley, Alabama community. VAENT is a taxable pass-through entity under the Internal Revenue Code.
- *East Alabama Occupational Medicine, LLC (EAOM)* – The Authority created EAOM in 2017 to employ an occupational medicine physician and their staff to provide services such as drug screens and occupational health services to the local community. EAOM is a taxable pass-through entity under the Internal Revenue Code.

The Authority is the sole member or controlling member and either operates, appoints, or approves at least a voting majority of the Board of Directors of each of the entities. Further, each entity operates for the benefit of the Authority. Accordingly, the affiliated entities are reported as blended component units of the Authority.

Principles of Consolidation

The financial statements of the Authority include the accounts of the Medical Center, the Foundation, EAMD, VEBA, and each of the previously mentioned limited liability companies, collectively referred to herein as the Authority. All significant intercompany transactions have been eliminated.

Enterprise Fund Accounting

The Authority utilizes the enterprise fund method of accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Mission Statement

The Authority strives to provide high quality, compassionate health care.

1. ACCOUNTING POLICIES – CONTINUED

Operating Versus Nonoperating Revenues and Expenses

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are for patient service. Operating expenses include general and administrative expenses, supplies and other expenses, and depreciation and amortization expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Authority does not pursue collection of amounts determined to qualify as charity care, and those amounts are not reported as revenues in the accompanying financial statements.

The Authority maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of these services and supplies, and equivalent service statistics. The following information measures the level of charity care provided during the years ended September 30, 2017 and 2016:

	2017	2016
Charges forgone, based on established rates	$19,962,867	$17,963,061
Estimated costs and expense incurred to provide charity care	8,997,264	7,557,742

Net Patient Service Revenues

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, primarily Medicare, Medicaid, and Blue Cross of Alabama, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. In the opinion of management, adequate provision has been made for any adjustments that may result from review and audit.

1. ACCOUNTING POLICIES – CONTINUED

Revenues from the Medicare and Medicaid programs accounted for approximately 36.7% and 9.7%, respectively, of the Authority's gross patient service revenues for the year ended September 30, 2017, and 42.4% and 9.5%, respectively, of the Authority's gross patient service revenues for the year ended September 30, 2016. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Authority believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made resulting in significant fines and penalties, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

A summary of the payment arrangements with major third-party payors follows:

- *Medicare.* Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. Services rendered for outpatient services provided to Medicare beneficiaries are paid at prospectively determined rates. The Authority's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Authority.

  The Authority's Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through September 30, 2013. Net patient service revenues increased by approximately $1,250,000 during fiscal years 2017 and 2016, due to changes in estimates related to prior year cost report settlements.

  The Medicare Prescription Drug Improvement and Modernization Act of 2003 (MMA) established the Recovery Audit Contractor (RAC) three-year demonstration program to conduct postpayment reviews to detect and correct improper payments in the fee-for-service Medicare program. Each RAC had discretion over the types of reviews and record requests it would conduct within the states for which it was responsible as long as it followed the Centers for Medicare and Medicaid Services (CMS)-defined Statement of Work. The Tax Relief and Health Care Act of 2006 made the RAC program permanent and mandated its nationwide expansion by 2010. CMS has awarded contracts to four RACs that will implement the permanent RAC program on a nationwide basis. All hospitals in the state of Alabama will be subject to reviews under the RAC program. The first reviews began in August 2009. The Authority has evaluated the potential impact of reviews under the RAC program in the accompanying financial statements.

1. ACCOUNTING POLICIES – CONTINUED

- *Medicaid.* Inpatient services rendered to Medicaid program beneficiaries are reimbursed at an all-inclusive per diem rate. The prospectively determined per diem rates are not subject to retroactive settlement. Outpatient services are reimbursed based on a fee schedule, plus cost adjustment payments. The Authority also receives disproportionate share payments based on the level of Certified Public Expenditures (CPEs) the Authority has spent. CPEs are defined as funds paid for Medicaid and certain indigent patients.

- *Blue Cross.* Inpatient services rendered to Blue Cross subscribers are reimbursed based on a per diem rate per day of hospitalization, and outpatient services are reimbursed based on a percentage of charges.

The Authority has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Authority under these agreements includes discounts from established charges and daily rates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all temporary cash investments with a maturity of less than three months at the time of purchase, primarily money market funds not included in Board-designated funds and trustee-held funds, to be cash equivalents. Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. At September 30, 2017 and 2016, the carrying amount of the Authority's deposits was $15,739,991 and $26,349,069, respectively, which approximated market. The Authority's deposits were held by financial institutions that participate in the State of Alabama's Security of Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the Code of Alabama 1975, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. Certain balances consolidated by the Authority for nongovernmental entities (the Foundation, the limited liability companies, etc.) are not eligible to participate in the SAFE Program. These funds would be covered up to FDIC limits. At year end, the Authority did not have any cash and cash equivalents in excess of FDIC limits and SAFE coverage amounts.

Temporary Investments

Temporary investments include short-term investments with original maturities of more than three months.

Inventories

Inventories are stated at the lower of cost or market, determined on the first-in, first-out (FIFO) basis.

1. ACCOUNTING POLICIES – CONTINUED

Assets Whose Use is Limited
Assets whose use is limited include investments restricted by the Board to provide for future capital purchases over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held in a self-insurance reserve fund (see Note 8); assets held by trustees under indenture agreements; and assets restricted by the Foundation for purposes designated by donors.

Derivative Activities
Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, provides definition of a derivative investment instrument and addresses measurement and reporting. It discusses that changes in the fair value of hedging derivative instruments will be reported as deferred outflows and inflows of resources, while changes in fair value of investment derivative instruments (i.e., ineffective hedging instruments) will be reported as part of income. For derivative instruments held by the Authority as of September 30, 2017 and 2016, the gain or loss is recognized in unrealized gains (losses) within the statements of revenues and expenses.

Property, Plant, and Equipment
Property, plant, and equipment is stated at cost. Depreciation expense is provided on the straight-line method based upon estimated useful lives, which are as follows:

Item	Estimated Useful Life
Land improvements	10 - 15 years
Building	15 - 40 years
Fixed equipment	10 - 20 years
Major moveable equipment	3 - 10 years

The detail of property and equipment as of September 30, 2017 and 2016, is as follows:

	2016	Additions	Deletions	2017
Land and land improvements	$ 20,844,397	$ -	$ -	$ 20,844,397
Buildings and fixed equipment	203,550,145	7,954,731	(22,009,420)	189,495,456
Major moveable equipment	144,846,111	11,975,130	(14,363,354)	142,457,887
Property and equipment, at cost	369,240,653	19,929,861	(36,372,774)	352,797,740
Less accumulated depreciation	229,029,897	18,431,062	(35,678,927)	211,782,032
	140,210,756	1,498,799	(693,847)	141,015,708
Construction-in-progress	3,700,143	1,802,990	-	5,503,133
	$ 143,910,899	$ 3,301,789	$ (693,847)	$ 146,518,841

1. ACCOUNTING POLICIES – CONTINUED

	2015	Additions	Deletions	2016
Land and land improvements	$ 21,011,088	$ -	$ (166,691)	$ 20,844,397
Buildings and fixed equipment	210,904,056	-	(7,353,911)	203,550,145
Major moveable equipment	136,727,135	17,129,344	(9,010,368)	144,846,111
Property and equipment, at cost	368,642,279	17,129,344	(16,530,970)	369,240,653
Less accumulated depreciation	221,601,576	18,374,190	(10,945,869)	229,029,897
	147,040,703	(1,244,846)	(5,585,101)	140,210,756
Construction-in-progress	2,583,056	1,117,087	-	3,700,143
	$ 149,623,759	$ (127,759)	$ (5,585,101)	$ 143,910,899

Estimated costs to complete projects under construction at September 30, 2017, were approximately $31,000,000.

Bond Issue Costs, Premiums, and Discounts
Bond issue costs are expensed as incurred. Premiums and discounts are amortized over the life of the bonds using the straight-line method.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Use of Restricted Resources
When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first for their intended donor purpose and then unrestricted resources as they are needed.

Deferred Outflows and Inflows of Resources
GASB provides that certain amounts reported on the balance sheet of a governmental entity be reported separately from assets and liabilities and be reported as deferred outflows of resources and deferred inflows of resources. As of September 30, 2017 and 2016, the Authority does not have any significant amounts that meet the definition of deferred outflows or inflows of resources.

1. ACCOUNTING POLICIES – CONTINUED

Net Position

Net position of the Authority is classified in four components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net position* is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Authority, including amounts deposited with trustees as required by bond indentures, discussed in Note 3. *Restricted nonexpendable net position* equals the principal portion of permanent endowments. The Authority does not have any restricted nonexpendable net position. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

New Accounting Pronouncements

In January of 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. As such, the Authority has not implemented the provisions in the 2017 financial statements.

In May of 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. As such, the Authority has not implemented the provisions in the 2017 financial statements. The statement is not expected to have a significant impact on the Authority.

In June of 2017, GASB issued Statement No. 87, *Leases*. The statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. As such, the Authority has not implemented the provisions in the 2017 financial statements.

Subsequent Events

Management has evaluated the impact of subsequent events through January 25, 2018, representing the date the financial statements were issued.

2. ACCOUNTS RECEIVABLE

Accounts receivable at September 30 consisted of the following:

	2017	2016
Accounts receivable for patient care services, net of allowance for contractual adjustments	$ 62,297,099	$ 46,839,660
Less allowance for doubtful accounts	28,346,833	19,111,806
	33,950,266	27,727,854
Estimated amounts due to Medicare on year-end settlements	(6,800,865)	(8,065,669)
Other	4,944,288	4,346,128
Accounts receivable, net	$ 32,093,689	$ 24,008,313

The estimated amount due to Medicare represents the cumulative difference between total estimable reimbursable amounts and interim reimbursements received.

The Authority grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The Authority ages its accounts based on discharge date or date of service. Once accounts reach a certain age, they are turned over to a collection agency to pursue for a set amount of time and written off by the Authority. The Authority provides an allowance for doubtful accounts based on review of historical collection information, aging of accounts, and specific account review.

The mix of receivables from patients and third-party payors at September 30 was as follows:

	2017	2016
Medicare	25%	29%
Medicaid	9%	10%
Blue Cross	17%	17%
Other third-party payors	26%	17%
Self-pay	23%	27%
	100%	100%

3. INVESTMENTS

The Authority maintains a pool of investments, the assets of which are further classified as temporary investments, assets whose use is limited by the Board and trustee and long-term investments. Segregation of these funds as either temporary investments, assets whose use is limited, and long-term investments is based on management's direction of principal placed in the pool. All cash and investments of the Foundation are classified by the Authority as assets whose use is limited.

The Authority's investments, other than certificates of deposit, are generally carried at fair value. Investments in certificates of deposit are carried at cost, which approximates fair value. At September 30, 2017 and 2016, the Authority had the following investments and maturities, all of which were held in the Authority's name by six custodial banks that are agents of the Authority. The summary below includes the temporary investments, long-term investments, and Board-designated funds included on the balance sheet for 2017 in the amounts of $23,742,598, $36,421,121, and $60,719,182, respectively, for a total of $120,882,901. The summary below includes the temporary investments, long-term investments, and Board-designated funds included on the balance sheet for 2016 in the amounts of $20,575,159, $46,172,703, and $119,553,757, respectively, for a total of $186,301,619. These funds are combined for this presentation because they are administered by the Authority's Board investment policy.

September 30, 2017:

		Investment Maturities (in Years)			
	Carrying Amount	Less Than 1	1-5	6-10	More Than 10
Investment type:					
Money market accounts	$ 143,170	$ 143,170	$ -	$ -	$ -
CDs	1,905,334	1,726,098	179,236	-	-
U.S. Treasuries	57,797,742	6,714,745	27,905,840	10,070,762	13,106,395
Government agencies	2,756,924	2,088	346,081	630,499	1,778,256
Other	6,383,720	6,383,720	-	-	-
Corporate	51,896,011	19,865,741	31,100,792	779,872	149,606
	$ 120,882,901	$ 34,835,562	$ 59,531,949	$ 11,481,133	$ 15,034,257

3. INVESTMENTS – CONTINUED

September 30, 2016:

	Carrying Amount	Investment Maturities (in Years) Less Than 1	1-5	6-10	More Than 10
Investment type:					
Money market accounts	$ 1,165,606	$ 1,165,606	$ -	$ -	$ -
CDs	1,897,455	125,490	1,771,965	-	-
U.S. Treasuries	92,316,572	2,219,751	66,012,455	9,818,652	14,265,714
Government agencies	4,131,614	3,057	306,685	901,461	2,920,411
Other	6,338,640	6,338,640	-	-	-
Corporate	80,451,732	22,824,786	56,455,041	1,019,195	152,710
	$ 186,301,619	$ 32,677,330	$ 124,546,146	$ 11,739,308	$ 17,338,835

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's investment policy limits the maturity of any corporate bond investments to 15 years or less and any U.S. Treasury securities or governmental agency securities to maturities of 30 years or less. At September 30, 2017, the Authority's portfolio (including temporary investments, long-term investments, and Board-designated funds) has an average maturity of approximately 4.77 years to final maturity and 4.77 years to call.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Authority's investment policy for temporary investments, Board-designated funds and long-term investments limits investments to fixed income securities issued by the U.S. Treasury, governmental agency securities, and corporate bonds that are investment grade. U.S. Treasury securities have no credit risk, government agency securities owned by the Authority are all AAA rated by Standard & Poor's, and all corporate bonds held at September 30, 2017, and to the date of this report, are classified as investment grade issue. Prior to 2013, the Authority held a nominal cost investment in Premier, Inc. During 2013, this company went public resulting in the Authority holding a stock valued at approximately $6 million.

3. INVESTMENTS – CONTINUED

Custodial Credit Risk

For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to cover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's policy states that these securities must be held by an acceptable custodian but has no policy regarding a dollar limit as to the amount of securities a custodian may hold for the Authority. The Authority currently has six custodians for the temporary investments, long-term investments, and Board-designated funds. The trustee-held funds and the Foundation funds are held by two separate custodians.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. The Authority's investment policy limits the amount of securities in one corporate name to no more than 5% of the total portfolio. At September 30, 2017 and 2016, no one corporate name exceeded 5%.

3. INVESTMENTS – CONTINUED

The Trust Indenture of the Health Care Facilities Revenue and Tax Anticipation Bonds, Series 2008-A, Series 2008-B, Series 2012-A, and Series 2012-B, establishes certain funds to be controlled by a trustee. Balances in the trusteed funds at September 30, 2017 and 2016, consisting primarily of U.S. Government obligations and certificates of deposit, were as follows:

	2017	2016
Bond Fund	$ 28	$ 130,609
Bond Reserve Fund	-	2,456,129
Accrued interest	-	37,702
Trustee-held funds for Series 2008-A Revenue and Tax Anticipation Bonds	28	2,624,440
Bond Fund	-	230,590
Bond Reserve Fund	-	3,581,086
Accrued interest	-	106,591
Trustee-held funds for Series 2008-B Revenue and Anticipation Bonds	-	3,918,267
Bond Fund	115,011	115,053
Trustee-held funds for Series 2012-A Revenue and Tax Anticipation Bonds	115,011	115,053
Bond Fund	3	19,986
Trustee-held funds for Series 2012-B Revenue and Tax Anticipation Bonds	3	19,986
Total trustee-held funds	115,042	6,677,746
Less current portion	115,042	550,531
	$ -	$ 6,127,215

Trustee-Held Funds
The Bond Reserve Funds are required to be maintained at a balance equal to the maximum annual debt service requirement in any one year. Deposits are made into the Bond Funds sufficient to fund interest and principal due on the next payment date. As more fully described in Note 4, the Series 2008-A and 2008-B bonds were defeased whereby the related trustee funds described above were transferred to the escrow account associated with the refunding.

3. INVESTMENTS – CONTINUED

The Foundation

East Alabama Medical Center Foundation had assets of $16,679,945 at September 30, 2017, and $14,881,221 at September 30, 2016. The following table shows the investment amounts per asset class at fair market value:

	2017	2016
Cash	$ 1,864,343	$ 1,793,033
Bond mutual funds	997,906	983,280
Equity mutual funds	11,423,880	10,361,615
Individual equities	2,386,031	1,726,682
Other	7,785	16,611
	$ 16,679,945	$ 14,881,221

Most of the funds in the Foundation are managed with the assistance of an investment advisor. The advisor assists the Authority with appropriate asset allocation between asset classes, selection of money managers, and monitoring of results. Because the accounts of the Authority cannot directly invest in equity securities, the Foundation, with its ability to do so, helps the organization as a whole diversify its investment portfolio.

4. LONG-TERM DEBT

Long-term debt consisted of the following at September 30:

	2017	2016
Health Care Facilities Revenue and Tax Anticipation Bonds, Series 2008-A, with interest payable March 1 and September 1 at fixed rates ranging from 4.0% to 5.25%, defeased in 2017	$ -	$ 26,535,000
Health Care Facilities Revenue and Tax Anticipation Bonds, Series 2008-B, with interest payable March 1 and September 1 at fixed rates ranging from 4.0% to 5.50%, defeased in 2017	-	40,000,000
Health Care Facilities Revenue and Tax Anticipation Bonds, Series 2012-A, with interest payable March 1 and September 1 at fixed rates ranging from 4.0% to 5.0%	28,380,000	28,380,000

4. LONG-TERM DEBT – CONTINUED

	2017	2016
Health Care Facilities Revenue and Tax Anticipation Bonds, Series 2012-B, with interest payable weekly at variable rates ranging from .86% to 1.0%	30,000,000	30,000,000
	58,380,000	124,915,000
Amounts due within one year	(30,000,000)	(30,050,000)
Unamortized premium, net	1,554,751	1,516,484
	$ 29,934,751	$ 96,381,484

The fair value of the bonds is estimated using the current market rate for the Authority's bonds at September 30, 2017. The fair value of the Authority's bonds was approximately $61.2 million at September 30, 2017.

During the 2012 fiscal year, the Authority issued $28,380,000 of Health Care Facilities Bonds, Series 2012-A, dated April 11, 2012 (the 2012-A Bonds), and $30,000,000 of Health Care Facilities Bonds, Series 2012-B, dated April 24, 2012 (the 2012-B Bonds). The net proceeds of these issues of approximately $60 million were used to retire the Series 2002-A Bonds and advance refund a portion of the 2008-B Bonds. The 2012-A Bonds are fixed rate bonds with maturities ranging from $1,705,000 to $4,355,000 spread between 2019 and 2028 with rates ranging between 4.0% and 5.0%. These bonds were issued in conjunction with a Net Original Issue Premium of $2,350,489, which lowered the yield to between 2.83% and 4.33%.

The $30,000,000 2012-B Bonds were issued with variable rates in the Weekly Rate Mode. The rates are determined each week based on a determination by the Remarketing Agent. The rates paid during fiscal year 2017 ranged from 86 basis points to 100 basis points (during fiscal year 2016, ranged from 1 basis point to 95 basis points). The Authority uses its own balance sheet for liquidity for these bonds. These bonds can be redeemed anytime prior to its maturity date of September 1, 2039. These bonds are recorded as a current liability.

4. LONG-TERM DEBT – CONTINUED

During the 2008 fiscal year, the Authority issued $27,015,000 of Health Care Facilities Bonds, Series 2008-A, dated March 6, 2008 (the 2008-A Bonds), and $74,540,000 of Health Care Facilities Bonds, Series 2008-B, dated March 19, 2008 (the 2008-B Bonds). The net proceeds of these issues of approximately $98 million were used to retire the Series 2006-A Bonds. The 2008-A Bonds were fixed rate bonds with maturities of $585,000 spread between 2008 and 2018 and $26,430,000 that were subject to a mandatory tender on September 1, 2018. Rates ranged from 4.0% to 5.0% for the series bonds and 5.25% for the bonds subject to mandatory tender. The 2008-B Bonds were fixed rate bonds with maturities of $6,895,000 spread between 2009 and 2013 with rates ranging between 4.0% and 4.75%, as well as $27,645,000 subject to mandatory tender at September 1, 2013, with a rate of 5.0% and $40,000,000 subject to mandatory tender at September 1, 2018, with a rate of 5.50%. The $27,645,000 (noted above) was advance refunded with the proceeds of the 2012-A Bonds. In June 2017, the Authority defeased the 2008-A and 2008-B Bonds in the amount of $66,535,000 by transferring financial assets to an irrevocable trust fund. Amounts in the escrow trust fund are sufficient to make all scheduled principal and interest payments on the bonds until September 1, 2018, when the remaining amounts outstanding will be called and paid with the remaining trust fund balance. The refunded bonds and the related escrow account have been removed from the accompanying financial statements. This transaction resulted in recognizing a loss of $3,437,333. The balance held in escrow at September 30, 2017 totaled $69,133,558 and the principal amount outstanding on the bonds was $66,485,000.

All of the outstanding bonds of the Authority (2012-A, and 2012-B) are secured by a pledge of the gross receipts of the Authority, the accounts receivable of the Authority, pledged tax proceeds of the Authority, and the funds and accounts established under the bond indentures. In addition, under the terms of the bond indentures, the Authority is required to maintain certain deposits with a trustee and must satisfy certain measures of financial performance as long as the bonds are outstanding.

Activity related to long-term debt is summarized as follows:

	Balance October 1	Additions	Repayments	Balance September 30
Fiscal year 2017	$ 124,915,000	$ -	$ (66,535,000)	$ 58,380,000
Fiscal year 2016	$ 124,960,000	$ -	$ (45,000)	$ 124,915,000

4. LONG-TERM DEBT – CONTINUED

Scheduled principal and interest repayments on long-term debt are as follows:

	Principal	Interest
2018	$ 30,000,000	$ 1,680,125
2019	1,705,000	1,380,125
2020	1,765,000	1,311,925
2021	1,845,000	1,223,675
2022	1,925,000	1,131,425
2023-2027	18,230,000	3,607,125
2028	2,910,000	123,675
	$ 58,380,000	$ 10,458,075

During fiscal years 2017 and 2016, total interest paid was $5,940,610 and $6,778,947, respectively. There was no interest capitalized in 2017 or 2016.

Other long-term liabilities include the value of the following swap agreements the Authority has with Bank of America/Merrill Lynch, its counterparty.

Interest Rate Swaps

The Authority has entered into an interest rate swap agreement as part of its interest rate risk management strategy. This derivative is recorded at fair value with changes in the derivative's fair value recognized currently in earnings as nonoperating revenues (expenses).

The terms call for making fixed payments at a rate of 3.945% and receiving a floating rate based on 67% of USD-LIBOR-BBA. The Authority paid $1,463,810 and $1,622,662 related to this swap in 2017 and 2016, respectively.

			Value at September 30	
Swap Type	Notional Amount	Original Termination Date	2017	2016
Fixed payer swap	$ 44,900,000	September 1, 2033	$(12,156,897)	$(16,632,939)

The only activity in the other long-term liabilities account is recording the change in fair value of the swaps from period to period.

5. EMPLOYEE RETIREMENT PLAN

The Financial Security Plan (the Plan) is a defined contribution plan administered by VOYA, which covers substantially all of the Authority's employees. Contributions are determined at the discretion of the Board of Directors on a yearly basis. No contribution expense related to the Plan was incurred in fiscal years 2017 or 2016. The Plan was amended to freeze participation in, and contributions made to, the Plan effective September 22, 2005.

5. EMPLOYEE RETIREMENT PLAN – CONTINUED

During 1993, the Authority implemented a tax sheltered annuity program (the Program) for all eligible employees. The Program consists of a Tax Sheltered Annuity (TSA) and Thrift Plan, which are both defined contribution plans administered by VOYA. Each year, participants may contribute to the TSA plan a percentage of pretax annual compensation, not to exceed total allowed tax-deferred contributions to all benefit plans based upon current statutory limits for employees younger than 50 years of age and for employees 50 years of age and older. The Authority contributes to the Thrift Plan a percentage of the participant's contribution to the TSA plan as established by the Board of Directors. Effective January 1, 2001, the Authority contributes 75% of the first 6% of compensation that a participant contributes to the TSA plan. During fiscal years 2017 and 2016, the Authority contributed $3,074,399 and $3,140,528, respectively, and participants contributed $5,622,529 and $5,520,891, respectively, to the Program.

The provisions and contribution requirements were established by, and may be amended by, the Authority.

6. OTHER ACCRUED LIABILITIES

Other accrued liabilities at September 30 consisted of the following:

	2017	2016
Accrued medical malpractice insurance	$ 2,951,068	$ 3,192,416
Accrued retirement plan	2,305,060	2,995,908
Other accrued liabilities	4,142,221	5,725,066
	$ 9,398,349	$ 11,913,390

7. COMMITMENTS

The Authority has lease agreements for office space and medical and office equipment, which are being accounted for as operating leases. Lease expense for the years ended September 30, 2017 and 2016, was $3,040,245 and $3,366,127, respectively. Future noncancelable commitments under these leases are as follows:

2018	$ 1,812,590
2019	1,633,431
2020	1,008,386
2021	837,513
2022	326,607
	$ 5,618,527

8. SELF-INSURANCE

Beginning January 1, 2003, the Authority became self-insured for professional and general liability coverage. For claims reported prior to January 1, 2003, the Authority maintained a claims made policy with Medical Assurance, Inc. The Authority has established a self-insurance reserve fund based on actuarial funding recommendations determined by an independent actuary. The balance of the self-insurance reserve fund at September 30, 2017 and 2016, is approximately $3,384,000 and $3,346,000, respectively, and is included in Board-designated funds in the accompanying balance sheets. At September 30, 2017 and 2016, the Authority has accrued approximately $2,951,000 and $3,192,000, respectively, related to reported and incurred but not reported (IBNR) claims covered under the self-insurance policy.

In addition to being self-insured for professional and general liability, the Authority is self-insured for employee health insurance and workers' compensation. Amounts accrued are based on actuarial determined calculations. Amounts accrued are included in other accrued liabilities.

9. SALE OF SENIOR HOUSING FACILITIES

In March 2016, the Authority sold three senior housing facilities to a prospective buyer. The prospective buyer purchased Camellia Place, Azalea Place, and Magnolia Place (together with all other structures, systems, fixtures, and utilities associated with and used in the operation of said facilities; the land and the improvements; and real property) for an approximate amount of $16,240,000. The Authority recognized a gain on the sale of $11,073,235 in the 2016 statement of revenues and expenses.

10. FAIR VALUE MEASUREMENT

The following information is presented in accordance with the disclosure requirements of GASB Statement No. 72, *Fair Value Measurement and Application*.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Authority for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 – Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available; therefore, allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

10. FAIR VALUE MEASUREMENT – CONTINUED

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at September 30, 2017 and 2016.

Cash and cash equivalents and certificates of deposit: the carrying amount approximates fair value because of the short maturity of these instruments.

U.S. Treasury securities, *corporate bonds and corporate stocks*: fair value is based on quoted market prices in an active market for identical assets and liabilities as of the reporting date and are categorized in Level 1 of the fair value hierarchy.

Government securities: fair value is based on prices obtained from independent pricing services and are reflected within Level 2, as they are based on observable pricing for similar assets and/or other market observable inputs.

Interest rate swap obligation: fair value is based on using observable inputs, such as quotations received from the counterparty, dealers or brokers whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depend upon the contractual terms of, and specific risks inherent in, the instrument, as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk and correlations of such inputs. The interest rate swap obligation have inputs that can generally be corroborated by market data and are, therefore, classified within Level 2.

10. FAIR VALUE MEASUREMENT – CONTINUED

The following tables set forth by level, within the fair value hierarchy, the Authority's financial instruments carried at fair value as of September 30:

		Fair Value Measurements Using		
Assets	September 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 143,170	$ 143,170	$ -	$ -
Certificates of deposit	1,905,334	1,905,334	-	-
Debt securities:				
U.S. Treasury securities	57,797,742	57,797,742	-	-
Corporate Bonds	51,896,011	51,896,011	-	-
Corporate stocks	6,383,720	6,383,720	-	-
Government securities:				
Federal Home Loan Mortgage	834,866	-	834,866	-
Federal Nat'l Mortgage Assn	1,621,049	-	1,621,049	-
Tennessee Valley Authority	301,009	-	301,009	-
Total assets at fair value	$ 120,882,901	$ 118,125,977	$ 2,756,924	$ -
Liabilities				
Interest rate swap obligation	$ (12,156,897)	$ -	$ (12,156,897)	$ -

10. FAIR VALUE MEASUREMENT – CONTINUED

		Fair Value Measurements Using		
Assets	September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 1,165,606	$ 1,165,606	$ -	$ -
Certificates of deposit	1,897,455	1,897,455	-	-
Debt securities:				
U.S. Treasury securities	92,316,572	92,316,572	-	-
Corporate Bonds	80,451,732	80,451,732	-	-
Corporate stocks	6,338,640	6,338,640	-	-
Government securities:				
Federal Home Loan Mortgage	1,152,601	-	1,152,601	-
Federal Nat'l Mortgage Assn	2,673,952	-	2,673,952	-
Tennessee Valley Authority	305,061	-	305,061	-
Total assets at fair value	$ 186,301,619	$ 182,170,005	$ 4,131,614	$ -
Liabilities				
Interest rate swap obligation	$ (16,632,939)	$ -	$ (16,632,939)	$ -

SUPPLEMENTARY INFORMATION

THE EAST ALABAMA HEALTH CARE AUTHORITY
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
SERVICE AND EARNINGS DEPARTMENTS' EXPENSES		
Salaries	$ 143,364,490	$ 134,961,650
Benefits	38,772,839	33,872,179
Nonmedical supplies	3,862,995	3,883,724
Food and dietary supplies	2,575,795	2,750,068
Equipment rental	2,651,699	3,363,721
Medical specialists' fees	12,582,231	11,285,456
Repairs and maintenance	17,725,804	15,921,389
Medical supplies/drugs/film	62,954,846	58,485,879
Purchased services	27,825,242	24,065,747
Utilities and telephone	6,241,641	5,841,230
Insurance	1,212,417	1,206,647
Audit, consulting, and legal fees	1,734,175	4,738,848
Education, travel, dues, and other	6,361,882	6,346,954
Total service and earnings departments' expenses	327,866,056	306,723,492
CAPITAL EXPENSES		
Depreciation	18,431,062	18,374,190
Amortization	(140,264)	(137,530)
Total capital expenses	18,290,798	18,236,660
TOTAL OPERATING EXPENSES	$ 346,156,854	$ 324,960,152

See independent auditors' report.

THE EAST ALABAMA HEALTH CARE AUTHORITY
MEMBERS OF THE AUTHORITY BOARD (UNAUDITED)
SEPTEMBER 30, 2017

Name and Address	Title	Expiration of Term
Joel Pittard, M.D. 425 Cross Creek Road Auburn, AL 36832	Chairman	2018
Lucinda Cannon 302 North 9th Street Opelika, AL 36801	Vice-Chairman	2022
Bob Dumas 1635 Bradford Lane Auburn, AL 36830	Secretary-Treasurer	2020
J. Stephen Lock, M.D. 501 North Tenth Street Opelika, AL 36801	Member	2022
Chris Nunn 1515 Waverly Parkway Opelika, AL 36801	Member	2020
Larry Fillmer 80 Lee Road 100 Opelika, AL 36804	Member	2018
David Smalley, M.D. 1647 Lauren Lane Auburn, AL 36830	Member	2018
C. Wayne Alderman 1842 Creekwood Trail Auburn, AL 36830	Member	2022
Gainer Lanier 300 West 10th Street West Point, GA 31833	Member	2021
William H. Scott, III (Bill) 208 North 18th Street Lanett, AL 36863	Member	2019
Open Board Position	Member	2020

THE EAST ALABAMA HEALTH CARE AUTHORITY
SCHEDULE OF INSURANCE COVERAGE (UNAUDITED)
JANUARY 2018

Coverage	Amount	Insurer	Expiration Date
Property:			
Blanket #1 coverage – buildings, business personal property, business income/extra expense	$669,216,000	Vigilant Insurance Co.	10/1/2018
Accounts Receivable	$20,000,000	Vigilant Insurance Co.	10/1/2018
Valuable Papers	$20,000,000	Vigilant Insurance Co.	10/1/2018
Equipment Breakdown	Included	Vigilant Insurance Co.	10/1/2018
Debris Removal	$167,304,000	Vigilant Insurance Co.	10/1/2018
Liability:			
Professional for hospital	As required by law	Self-Insured	N/A
General:			
Bodily injury	As required by law	Self-Insured	N/A
Property damage	As required by law	Self-Insured	N/A
Automobile:			
Hospital	$1,000,000	State Farm Insurance	6/22/2018
Dandyland	$1,000,000	National Casualty Company	8/7/2018
EAMC-Lanier, LLC	$1,000,000	Auto-Owners Ins. Co.	2/1/2019
Ambulance – Liability	$1,000,000	Arch Insurance	7/22/2018
Health Plus Fitness Center	$500,000	National Ind. Co. of the South	10/26/2018
EAMC/Unity Wellness/Passenger Vans	$500,000	National Fire & Marine	6/30/2018
Portable Equipment – East AL EMS	$580,000	Arch Insurance	7/22/2018
Workers' compensation	As required by law	Self-Insured	N/A
Out of State Employees – WC	$1,000,000/$1,000,000/ $1,000,000	Continental Casualty Co.	01/01/2019
Directors, Officers, Entity, EPL, Regulatory Liab.	$11,000,000	Beazley Insurance Co. Inc.	10/1/2018
ERISA Bond	$1,000,000	Hartford Insurance Group	5/22/2018
AL Medicaid Bond (EAMC-Lanier, LLC)	$75,000	Liberty Insurance Co.	2/1/2018
Crime	$2,500,000	Beazley Insurance Co. Inc.	10/1/2018
Cyber Liability	$5,000,000	Syndicate 2623/623 at Lloyd's	10/1/2018
Environmental site liability	$2,000,000	Illinois Union Ins. Co.	10/1/2018
Underground storage tank liability	$1,000,000	Illinois Union Ins. Co.	10/1/2018
Other general and professional liability:			
East AL Health Services LLC – Unity Wellness	$1,000,000	Landmark American Ins. Co.	11/7/2018
East AL Health Services LLC – Healthplus	$1,000,000	Philadelphia Insurance	11/7/2018
East Alabama Medical Center (Med. Mal)	$1,000,000	Mag Mutual	8/1/2018
East AL EMS LLC	$1,000,000	Colony Insurance Co.	11/7/2018
East AL HomeMed LLC – Opelika	$1,000,000	Benchmark Insurance Co.	12/1/2018
East Alabama Apothecary, LLC	$1,000,000	Landmark American Ins. Co.	2/1/2018

This statement is intended only as a descriptive summary. No expression of opinion as to the adequacy of the coverage or fulfillment of statutory requirements is intended.

Warren Averett
CPAs AND ADVISORS

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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*

The Board of Directors
The East Alabama Health Care Authority

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 East Alabama Health Care Authority (the Authority) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents, and have issued our report thereon dated January 25, 2018.

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 opinion 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.

Warren Averett, LLC
Birmingham, Alabama
January 25, 2018