

THE EAST ALABAMA HEALTH CARE AUTHORITY

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2018 AND 2017

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.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
TABLE OF CONTENTS
SEPTEMBER 30, 2018 AND 2017**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	4
FINANCIAL STATEMENTS	
Balance Sheets	12
Statements of Revenues and Expenses	14
Statements of Changes in Net Position	15
Statements of Cash Flows	16
Notes to the Financial Statements	18
SUPPLEMENTARY INFORMATION	
Schedules of Operating Expenses	40
Members of the Authority Board (Unaudited)	41
Schedule of Insurance Coverage (Unaudited)	42
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 <i>Government Auditing</i> Standards	43

INDEPENDENT AUDITORS' REPORT

To 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, 2018 and 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.

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, 2018 and 2017, 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 on page 40 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 41-42 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 28, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Warren Averett, LLC

Birmingham, Alabama
January 28, 2019

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, 2018 and 2017. Please read it in conjunction with the financial statements, which follow this section:

Financial Highlights

2018

- Income from operations decreased from 2017 from \$4.4 million to \$1.3 million in 2018 (see explanation under Table A-3, which follows).
- Excess of revenues over expenses increased from \$8.1 million in 2017 to \$12.7 million in 2018.
- Net position increased, in 2018, by \$12.7 million.
- Total cash and investments on the balance sheet, excluding trustee held funds related to a bond issuance, increased from \$153.3 million in 2017 to \$162.5 million in 2018, an increase of \$9.2 million.
- The Authority invested \$28.7 million in net property, plant, and equipment in 2018.

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.
- The Authority invested \$21.7 million in net property, plant, and equipment in 2017.

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 capital and related 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)

	<u>FY 2018</u>	<u>FY 2017</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Receivables, net	\$ 36.8	\$ 32.1	\$ 4.7	14.6%
Other current assets	58.7	54.1	4.6	8.5%
Current assets	<u>95.5</u>	<u>86.2</u>	<u>9.3</u>	10.8%
Other assets	147.2	116.6	30.6	26.2%
Property, plant, and equipment, net	155.7	146.5	9.2	6.3%
Total assets	<u><u>\$ 398.4</u></u>	<u><u>\$ 349.3</u></u>	<u><u>\$ 49.1</u></u>	14.1%
Current liabilities	\$ 73.0	\$ 66.5	\$ 6.5	9.8%
Long-term liabilities	72.0	42.1	29.9	71.0%
Total liabilities	<u><u>\$ 145.0</u></u>	<u><u>\$ 108.6</u></u>	<u><u>\$ 36.4</u></u>	33.5%
Net position:				
Net investment in capital assets	\$ 86.7	\$ 86.6	\$ 0.1	
Unrestricted	160.7	149.7	11.0	
Restricted	6.0	4.4	1.6	
Total net position	<u><u>\$ 253.4</u></u>	<u><u>\$ 240.7</u></u>	<u><u>\$ 12.7</u></u>	5.3%

As shown in Table A-1, net position increased \$12.7 million from 2017. This change in net position was attributable to income generated in 2018. See discussion following Table A-3 for more details.

Current assets are up \$9.3 million from 2018. Net receivables are up \$4.7 million or 14.6% from 2017. Part of this increase is due to higher revenues of 8.7% (see Table A-3) and the other part is due to ongoing issues with the change in the Authority's patient accounting system in 2017. Most issues related to this have been resolved, but a few remain. Other current assets are up \$4.6 million over 2017 primarily due to higher cash balances.

Other assets are up \$30.6 million from the prior year. \$26.2 million relates to unspent proceeds of the 2018 bond issue. The remaining \$4.0 million is from higher assets in the Authority's long-term bond portfolio as well as higher assets in its Foundation portfolio assets.

Current liabilities are up \$6.5 million primarily due to an unpaid settlement at year end of a Qui Tam legal case the Authority incurred in the amount of \$5.8 million.

Long term liabilities are up \$29.9 million from the prior year primarily due to the issuance of the Authority's 2018 bond issue for \$35.1 million, netted by a reduction in the negative value of its fixed payor interest rate swap by \$3.7 million.

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

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Receivables, net	\$ 32.1	\$ 24.0	\$ 8.1	33.8%
Other current assets	54.1	58.3	(4.2)	-7.2%
Current assets	<u>86.2</u>	<u>82.3</u>	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	<u>\$ 349.3</u>	<u>\$ 416.3</u>	<u>\$ (67.0)</u>	-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	<u>\$ 108.6</u>	<u>\$ 183.7</u>	<u>\$ (75.1)</u>	-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	<u>\$ 240.7</u>	<u>\$ 232.6</u>	<u>\$ 8.1</u>	3.5%

As shown in Table A-2, 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-4 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-3

Condensed Statements of Revenues, Expenses, and Changes in Net Position (in millions of dollars)

	<u>FY 2018</u>	<u>FY 2017</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues	<u>\$ 381.1</u>	<u>\$ 350.5</u>	<u>\$ 30.6</u>	8.7%
Service departments	68.9	61.2	7.7	12.6%
Earnings departments	291.9	266.7	25.2	9.4%
Depreciation and amortization	<u>19.0</u>	<u>18.2</u>	<u>0.8</u>	4.4%
Total operating expenses	<u>379.8</u>	<u>346.1</u>	<u>33.7</u>	9.7%
Income from operations	<u>1.3</u>	<u>4.4</u>	<u>(3.1)</u>	-70.5%
Nonoperating revenues (expenses), net	<u>11.4</u>	<u>3.7</u>	<u>7.7</u>	
Excess of revenues over expenses	<u>12.7</u>	<u>8.1</u>	<u>4.6</u>	
Beginning net position	<u>240.7</u>	<u>232.6</u>	<u>8.1</u>	
Ending net position	<u>\$ 253.4</u>	<u>\$ 240.7</u>	<u>\$ 12.7</u>	5.3%

As shown in Table A-3 above, income from operations in 2018 was \$1.3 million, down from \$4.4 million in 2017.

While operating income, in 2018, declined for the second straight year, this decline is deceiving in that the Authority actually began a significant turnaround in 2018 that needs explaining. In 2018, the Authority had a lawsuit (Qui Tam) in which it settled \$5.8 million with the plaintiff/government and had \$.7 million in related legal costs in addition to the settlement. While these amounts have been accurately recorded in operating income, management considers this event to be a “one-time” event and does not expect anything like this going forward. Without this one-time event, income from operations would have been \$7.8 million, which is significantly higher than the \$4.4 million in 2017 and approximate to the \$7.2 million in 2016. The reason for this improvement is due to the 8.7% increase (or \$30.6 million) in operating revenue over 2017. These revenue increases were largely due to improvements in the cardiology service line. This improvement is because all cardiologists have come together as one employed practice working as a team instead of uncoordinated efforts of individual practices. Due to this coordination, three new cardiologists were able to be recruited, including one who performs electrophysiology services, which is a new service for the market. Besides cardiology, other large service lines including pharmacy, surgery and imaging also had excellent revenue growth in 2018. If the “one-time” expenses were eliminated, total operating expenses would have increased 7.8% instead of 9.7% as noted above. This level of expense increase is more in line with, and more explained by, the 8.7% growth in revenue.

Nonoperating revenues increased to \$11.4 million in 2018 from \$3.7 million in 2017. \$3.4 million of this increase is due to no advance refunding loss in 2018 compared to 2017. Interest expense in 2018 was \$2.2 million lower than 2017 due to paying off bonds in 2017. Increased donations and higher ad valorem tax collections also accounted for the large increase in 2018.

The summary of unrealized gains (losses) in 2018 is as follows:

Gain in value of stocks	\$ 3,103,240
Loss in value of bonds	(2,666,608)
Gain in value of swaps	3,723,349
2018 unrealized gains	<u><u>\$ 4,159,981</u></u>

Table A-4

Condensed Statements of Revenues, Expenses, and Changes in Net Position (in millions of dollars)

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
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	<u>346.1</u>	<u>324.9</u>	<u>21.2</u>	6.5%
Income from operations	4.4	7.2	(2.8)	-38.9%
Nonoperating revenues (expenses), net	<u>3.7</u>	<u>11.6</u>	<u>(7.9)</u>	
Excess of revenues over expenses	8.1	18.8	(10.7)	
Beginning net position	<u>232.6</u>	<u>213.8</u>	<u>18.8</u>	
Ending net position	<u><u>\$ 240.7</u></u>	<u><u>\$ 232.6</u></u>	<u><u>\$ 8.1</u></u>	3.5%

As shown in Table A-4 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 the provision for bad debts 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 debts. Management considers this a temporary problem and if these higher and older receivables can be collected, then bad debts 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 the provision for bad debts 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 gains	<u><u>\$ 3,670,548</u></u>

Capital Assets and Debt Financing

Property, Plant, and Equipment

As of September, 30, 2018, the Authority had \$155.7 million invested in net property, plant, and equipment as noted below in Table A-5. The increases are the result of routine equipment purchases and continued construction projects (primarily the new cancer center).

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

Table A-5

Capital Assets (in millions of dollars)

	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2016</u>
Land and land improvements	\$ 21	\$ 21	\$ 21
Buildings and fixed equipment	197.8	189.5	203.6
Major moveable equipment	147.5	142.5	144.8
Total capital assets	<u>366.3</u>	<u>352.8</u>	<u>369.2</u>
Accumulated depreciation	(220.6)	(211.8)	(229.0)
Construction-in-progress	10.0	5.5	3.7
	<u><u>\$ 156</u></u>	<u><u>\$ 147</u></u>	<u><u>\$ 144</u></u>

Long-Term Debt

In May of 2018, the Authority issued bonds for \$35.1 million to finance a portion of its capital needs for the near future. The remaining portion of its capital needs would be financed using cash and investments on the Authority's balance sheet. The proceeds of the bonds would primarily pay for its cancer center construction as well as construction for its new free standing emergency department building. Other transactions related to long term debt were to pay interest and principal on its outstanding debt.

In June of 2017, the Authority defeased \$66.5 million (or 100%) of the 2008-A and 2008-B bonds. A loss was recorded on the transaction of \$3.4 million and 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.

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, 2018 and 2017. The swap agreement has a termination date greater than one year; therefore, it is classified as long-term. The swap has a negative value due to the variable rate associated with the swap being below the fixed rate.

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, 2018 AND 2017**

ASSETS	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 21,324,140	\$ 15,739,991
Temporary investments	23,783,572	23,742,598
Accounts receivable, net	36,754,548	32,093,689
Inventories	8,539,339	7,697,196
Prepaid expenses	4,724,500	6,789,888
Current portion of assets whose use is limited	411,508	115,042
Total current assets	95,537,607	86,178,404
ASSETS WHOSE USE IS LIMITED		
Board-designated funds	60,161,601	60,719,182
Trustee held funds	26,596,694	115,042
East Alabama Medical Center Foundation	18,629,545	16,679,945
	105,387,840	77,514,169
Less assets required for current liabilities	411,508	115,042
Total assets whose use is limited	104,976,332	77,399,127
INVESTMENTS		
Long-term investments	38,624,395	36,421,121
PROPERTY, PLANT, AND EQUIPMENT		
Land and land improvements	20,980,946	20,844,397
Buildings and fixed equipment	197,782,970	189,495,456
Major moveable equipment	147,561,888	142,457,887
	366,325,804	352,797,740
Less accumulated depreciation	220,609,928	211,782,032
	145,715,876	141,015,708
Construction-in-progress	9,971,580	5,503,133
Total property, plant, and equipment	155,687,456	146,518,841
OTHER ASSETS	3,563,396	2,746,556
TOTAL ASSETS	\$ 398,389,186	\$ 349,264,049

See notes to the financial statements.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
BALANCE SHEETS
SEPTEMBER 30, 2018 AND 2017**

LIABILITIES AND NET POSITION		
	2018	2017
CURRENT LIABILITIES		
Accounts payable	\$ 8,232,944	\$ 9,020,041
Bonds and notes payable due within one year	31,705,000	30,000,000
Payroll taxes and employee withholdings	2,259,370	2,122,844
Employee health insurance claims payable	1,762,065	1,877,686
Accrued salaries and wages	6,957,003	6,306,620
Accrued vacation pay	8,061,941	7,526,379
Other accrued liabilities	13,738,728	9,398,349
Accrued interest payable	319,775	239,211
Total current liabilities	73,036,826	66,491,130
LONG-TERM DEBT	63,521,773	29,934,751
OTHER LONG-TERM LIABILITIES	8,433,548	12,156,897
NET POSITION		
Net investment in capital assets	86,645,869	86,584,090
Restricted:		
For debt service	411,508	115,042
Expendable for other purposes	5,604,628	4,238,993
Unrestricted	160,735,034	149,743,146
Total net position	253,397,039	240,681,271
TOTAL LIABILITIES AND NET POSITION	\$ 398,389,186	\$ 349,264,049

See notes to the financial statements.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
STATEMENTS OF REVENUES AND EXPENSES
SEPTEMBER 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
OPERATING REVENUE		
Net patient service revenue (net of provision for bad debts of \$29,855,621 in 2018 and \$42,104,115 in 2017)	\$ 350,643,976	\$ 327,496,295
Other revenues, net	30,454,845	23,025,312
Total operating revenue	381,098,821	350,521,607
EXPENSES		
Service departments	68,936,292	61,172,144
Earnings departments	291,892,419	266,693,912
Depreciation and amortization	19,007,166	18,290,798
Total expenses	379,835,877	346,156,854
INCOME FROM OPERATIONS	1,262,944	4,364,753
NONOPERATING REVENUES (EXPENSES)		
Interest income from trustee held funds	116,748	184,361
Donations	2,036,793	838,855
Loss on disposal of assets	(366,123)	(495,258)
Other interest income	3,097,951	3,110,946
Loss on advance refunding	-	(3,437,333)
Interest expense	(3,498,857)	(5,673,626)
Ad valorem taxes	5,906,331	5,555,583
Unrealized gains	4,159,981	3,670,548
Total nonoperating revenues (expenses)	11,452,824	3,754,076
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 12,715,768</u>	<u>\$ 8,118,829</u>

See notes to the financial statements.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
STATEMENTS OF CHANGES IN NET POSITION
SEPTEMBER 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
CHANGES IN NET POSITION		
Excess of revenues over expenses	\$ 12,715,768	\$ 8,118,829
NET POSITION AT BEGINNING OF YEAR	<u>240,681,271</u>	<u>232,562,442</u>
NET POSITION AT END OF YEAR	<u><u>\$ 253,397,039</u></u>	<u><u>\$ 240,681,271</u></u>

See notes to the financial statements.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
STATEMENTS OF CASH FLOWS
SEPTEMBER 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Receipts from patient service	\$ 345,983,117	\$ 319,410,919
Other receipts	29,585,246	23,025,312
Payments to suppliers and others	(157,459,731)	(152,599,883)
Payments to employees	<u>(197,385,602)</u>	<u>(182,243,701)</u>
Net cash provided by operating activities	20,723,030	7,592,647
NONCAPITAL FINANCING ACTIVITIES		
Ad valorem taxes	5,906,331	5,555,583
Donations	<u>2,036,793</u>	<u>838,855</u>
Net cash provided by noncapital financing activities	7,943,124	6,394,438
INVESTING ACTIVITIES		
Interest and dividends on investments	3,214,699	3,295,307
Changes in temporary investments, Board-designated funds, trustee held funds and long-term investments	(28,245,768)	1,382,127
Net changes in assets whose use is limited by East Alabama Medical Center Foundation	<u>(1,435,520)</u>	<u>(1,798,724)</u>
Net cash provided by (used in) investing activities	(26,466,589)	2,878,710
CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	35,442,961	-
Interest paid on long-term debt and interest rate swap	(3,418,293)	(5,940,610)
Acquisitions of property, plant, and equipment, net	(28,667,068)	(21,732,851)
Proceeds from sale of assets	<u>26,984</u>	<u>198,588</u>
Net cash provided by (used in) capital and related financing activities	<u>3,384,584</u>	<u>(27,474,873)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,584,149	(10,609,078)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>15,739,991</u>	<u>26,349,069</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 21,324,140</u></u>	<u><u>\$ 15,739,991</u></u>

See notes to the financial statements.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
STATEMENTS OF CASH FLOWS
SEPTEMBER 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from operations	\$ 1,262,944	\$ 4,364,753
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Provision for depreciation and amortization	19,007,166	18,290,798
Provision for bad debts	29,855,621	42,104,115
Changes in operating assets and liabilities:		
Accounts receivable, net	(34,516,480)	(50,189,491)
Inventories	(842,143)	(1,082,371)
Prepaid expenses	2,065,388	(2,574,100)
Other assets	(869,599)	608,101
Accounts payable	(787,097)	(1,221,241)
Other accrued liabilities	5,547,230	(2,707,917)
Net cash provided by operating activities	<u>\$ 20,723,030</u>	<u>\$ 7,592,647</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Transfer of assets to trust for debt refunding	<u>\$ -</u>	<u>\$ 69,972,333</u>
Unrealized gain (loss) on temporary, long-term, board designated and foundation investments	<u>\$ 436,631</u>	<u>\$ (805,494)</u>
Unrealized gain on interest rate swap	<u>\$ 3,723,349</u>	<u>\$ 4,476,042</u>
Loss on disposal of property and equipment	<u>\$ (366,123)</u>	<u>\$ (495,258)</u>

See notes to the financial statements.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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, 2017. The tax returns for periods ended September 30, 2015, 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, 2017. The tax returns for periods ended September 30, 2015, and thereafter are subject to audit by the taxing authorities.
- *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.
- *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.

THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

1. ACCOUNTING POLICIES – CONTINUED

- *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, 2017. The tax returns for the periods ended September 30, 2015, 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.
- *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 staff 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.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. ACCOUNTING POLICIES – CONTINUED

- *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.
- *Valley Internal Medicine Associates, LLC (VIMA)* – The Authority created VIMA, in 2017, to employ internist and their staff to provide internal medicine services to the Valley, Alabama, community. VIMA 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.

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.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. ACCOUNTING POLICIES – CONTINUED

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, 2018 and 2017:

	2018	2017
Charges forgone, based on established rates	\$22,981,492	\$19,962,867
Estimated costs and expense incurred to provide charity care	10,578,381	8,997,264

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.

Revenues from the Medicare and Medicaid programs accounted for approximately 33.2% and 9.4%, respectively, of the Authority's gross patient service revenues for the year ended September 30, 2018, and 36.7% and 9.7%, respectively, of the Authority's gross patient service revenues for the year ended September 30, 2017. 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.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. ACCOUNTING POLICIES – CONTINUED

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 \$1,810,000 and \$1,250,000 during fiscal years 2018 and 2017, respectively, 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.

- *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.

THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

1. ACCOUNTING POLICIES – CONTINUED

- *Blue Cross.* Inpatient services rendered to Blue Cross subscribers are reimbursed based on a per diem rate per day of hospitalization. Effective for patients discharged on or after October 1, 2017, outpatient services rendered to Blue Cross subscribers are reimbursed using Enhanced Ambulatory Patient Grouping (“EAPG”). EAPG groups procedures and medical visits sharing similar characteristics and resource utilization, and generates payments based on a multiple of average resource utilization (determined by the EAPG model) and the provider base rate. Prior to EAPG, outpatient services rendered to Blue Cross subscribers were 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, 2018 and 2017, the carrying amount of the Authority's deposits was \$21,324,140 and \$15,739,991, 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.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. ACCOUNTING POLICIES – CONTINUED

Assets Whose Use is Limited

Assets whose use is limited include investments designated 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, 2018 and 2017, 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 EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. ACCOUNTING POLICIES – CONTINUED

The detail of property and equipment as of September 30, 2018 and 2017, is as follows:

	<u>2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>2018</u>
Land and land improvements	\$ 20,844,397	\$ 136,549	\$ -	\$ 20,980,946
Buildings and fixed equipment	189,495,456	10,457,565	(2,170,051)	197,782,970
Major moveable equipment	142,457,887	13,604,507	(8,500,506)	147,561,888
	<u>352,797,740</u>	<u>24,198,621</u>	<u>(10,670,557)</u>	<u>366,325,804</u>
Property and equipment, at cost				
Less accumulated depreciation	<u>211,782,032</u>	<u>19,105,346</u>	<u>(10,277,450)</u>	<u>220,609,928</u>
	141,015,708	5,093,275	(393,107)	145,715,876
Construction-in-progress	<u>5,503,133</u>	<u>4,468,447</u>	<u>-</u>	<u>9,971,580</u>
	<u>\$ 146,518,841</u>	<u>\$ 9,561,722</u>	<u>\$ (393,107)</u>	<u>\$ 155,687,456</u>
	<u>2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>2017</u>
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
	<u>369,240,653</u>	<u>19,929,861</u>	<u>(36,372,774)</u>	<u>352,797,740</u>
Property and equipment, at cost				
Less accumulated depreciation	<u>229,029,897</u>	<u>18,431,062</u>	<u>(35,678,927)</u>	<u>211,782,032</u>
	140,210,756	1,498,799	(693,847)	141,015,708
Construction-in-progress	<u>3,700,143</u>	<u>1,802,990</u>	<u>-</u>	<u>5,503,133</u>
	<u>\$ 143,910,899</u>	<u>\$ 3,301,789</u>	<u>\$ (693,847)</u>	<u>\$ 146,518,841</u>

Estimated costs to complete projects under construction at September 30, 2018, were approximately \$12,200,000.

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.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. ACCOUNTING POLICIES – CONTINUED

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, 2018 and 2017, the Authority does not have any significant amounts that meet the definition of deferred outflows or inflows of resources.

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 November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB Statement No. 83), which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Specifically, this statement requires that a governmental entity that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. GASB No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. GASB Statement No. 83 is effective for reporting periods beginning after June 15, 2018. As such, the Authority has not implemented the provisions in the 2018 financial statements.

THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

1. ACCOUNTING POLICIES – CONTINUED

In January 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. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. 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 2018 financial statements.

In June 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 2018 financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. As such, the Authority has not implemented the provisions in the 2018 financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes new accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this statement. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this statement are effective for reporting periods beginning after December 15, 2019, and should be applied prospectively. Earlier application is encouraged. The Authority adopted this statement effective October 1, 2017. The adoption of this statement did not have a material impact on the Authority's 2018 financial statements.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. ACCOUNTING POLICIES – CONTINUED

In August 2018, GASB issued Statement No. 90, *Majority Equity Interest, an amendment of GASB Statements No. 14 and No. 61*. This statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. Statement No. 90 defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit. This statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. 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 2018 financial statements.

Subsequent Events

Management has evaluated the impact of subsequent events through January 28, 2019, representing the date the financial statements were issued.

2. ACCOUNTS RECEIVABLE

Accounts receivable at September 30 consisted of the following:

	<u>2018</u>	<u>2017</u>
Accounts receivable for patient care services, net of allowance for contractual adjustments	\$ 60,188,676	\$ 62,297,099
Less allowance for doubtful accounts	<u>24,460,350</u>	<u>28,346,833</u>
	35,728,326	33,950,266
Estimated amounts due to Medicare on year-end settlements	(5,018,073)	(6,800,865)
Other	<u>6,044,295</u>	<u>4,944,288</u>
Accounts receivable, net	<u>\$ 36,754,548</u>	<u>\$ 32,093,689</u>

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

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

2. ACCOUNTS RECEIVABLE – CONTINUED

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:

	<u>2018</u>	<u>2017</u>
Medicare	26%	25%
Medicaid	9%	9%
Blue Cross	19%	17%
Other third-party payors	26%	26%
Self-pay	20%	23%
	<u>100%</u>	<u>100%</u>

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, 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 money market accounts and certificates of deposit, are generally carried at fair value. Investments in money market accounts and certificates of deposit are carried at cost, which approximates fair value. At September 30, 2018 and 2017, 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 2018 in the amounts of \$23,783,572, \$38,624,395, and \$60,161,601, respectively, for a total of \$122,569,568. 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. These funds are combined for this presentation because they are administered by the Authority's Board investment policy.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

3. INVESTMENTS – CONTINUED

September 30, 2018:

	Carrying	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Investment type:					
Money market accounts	\$ 3,359,066	\$ 3,359,066	\$ -	\$ -	\$ -
Certificates of deposit	1,922,469	-	1,922,469	-	-
U.S. Treasuries	70,604,960	18,724,510	29,134,634	10,660,513	12,085,303
Government agencies	1,955,763	4,123	331,513	478,190	1,141,937
Corporate stock	8,972,880	-	8,972,880	-	-
Corporate bonds	35,754,430	5,608,592	30,004,321	141,517	-
	<u>\$ 122,569,568</u>	<u>\$ 27,696,291</u>	<u>\$ 70,365,817</u>	<u>\$ 11,280,220</u>	<u>\$ 13,227,240</u>

September 30, 2017:

	Carrying	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Investment type:					
Money market accounts	\$ 143,170	\$ 143,170	\$ -	\$ -	\$ -
Certificates of deposit	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
Corporate stock	6,383,720	-	6,383,720	-	-
Corporate bonds	51,896,011	19,865,741	31,100,792	779,872	149,606
	<u>\$ 120,882,901</u>	<u>\$ 28,451,842</u>	<u>\$ 65,915,669</u>	<u>\$ 11,481,133</u>	<u>\$ 15,034,257</u>

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, 2018, the Authority's portfolio (including temporary investments, long-term investments, and Board-designated funds) has an average maturity of approximately 4.29 years to final maturity and 4.27 years to call.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

3. INVESTMENTS – CONTINUED

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, 2018, and to the date of this report, are classified as investment grade issue.

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, 2018, the Authority had one security, which was 8% of the total portfolio, and one security, which was 7% of the total portfolio. At September 30, 2017, one security exceeded 5% of the total portfolio.

Trustee-Held Funds

The Trust Indenture of the Health Care Facilities Revenue and Tax Anticipation Bonds, Series 2008-A, Series 2012-A, Series 2012-B and Series 2018-A, establishes certain funds to be controlled by a trustee. Balances in the trustee funds at September 30, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Money market accounts	\$ 4,689,116	\$ 115,042
U.S Treasuries	<u>21,907,578</u>	<u>-</u>
	<u>\$ 26,596,694</u>	<u>\$ 115,042</u>

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

3. INVESTMENTS – CONTINUED

	<u>2018</u>	<u>2017</u>
Series 2008-A Bonds Bond Fund	\$ -	\$ 28
Series 2012-A Bonds Bond Fund	257,888	115,011
Series 2012-B Bonds Bond Fund	33,841	3
Series 2018-A Bonds Acquisition Fund	26,185,186	-
Bond Fund	<u>119,779</u>	<u>-</u>
Total trustee-held funds	26,596,694	115,042
Less assets required for current liabilities	<u>411,508</u>	<u>115,042</u>
	<u>\$ 26,185,186</u>	<u>\$ -</u>

Funds held in the Acquisition Fund shall be paid out by the Trustee from time to time for the purpose of paying acquisition costs for certain capital improvements (as defined in the Master Trust Indenture). Deposits are made into the Bonds Funds sufficient to fund interest and principal due on the next payment date.

The Foundation

East Alabama Medical Center Foundation had assets of \$18,629,545 at September 30, 2018, and \$16,679,945 at September 30, 2017. The following table shows the investment amounts per asset class at fair market value:

	<u>2018</u>	<u>2017</u>
Cash	\$ 1,545,348	\$ 1,864,343
Bond mutual funds	1,150,832	997,906
Equity mutual funds	13,149,403	11,423,880
Individual equities	2,776,178	2,386,031
Other	<u>7,784</u>	<u>7,785</u>
	<u>\$ 18,629,545</u>	<u>\$ 16,679,945</u>

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.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

4. LONG-TERM DEBT

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

	2018	2017
Health Care Facilities 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
Health Care Facilities Bonds, Series 2012-B, with interest payable weekly at variable rates, 1.59% at September 30, 2018	30,000,000	30,000,000
Health Care Facilities Bonds, Series 2018-A, with interest payable March 1 and September 1 at fixed rates ranging from 4.0% to 5.0%	35,080,000	-
	93,460,000	58,380,000
Amounts due within one year	(31,705,000)	(30,000,000)
Unamortized premiums, net	1,766,773	1,554,751
	\$ 63,521,773	\$ 29,934,751

The fair value of the bonds is estimated using the current market rate for the Authority's bonds at September 30, 2018. The fair value of the Authority's bonds was approximately \$95,100,000 at September 30, 2018.

During the 2018 fiscal year, the Authority issued \$35,080,000 of Health Care Facilities Bonds, Series 2018-A, dated May 1, 2018 (the 2018-A Bonds). The 2018-A Bonds were issued to finance capital improvements to the health care facilities of the Authority. The 2018-A Bonds are fixed rate bonds with maturities ranging from \$925,000 to \$3,480,000 spread between 2029 and 2048 with rates ranging between 4.0% and 5.0%. These bonds were issued with a Net Original Issue Premium of \$362,961, which lowered the yield to between 3.28% and 4.06%.

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 with a Net Original Issue Premium of \$2,350,489, which lowered the yield to between 2.83% and 4.33%.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

4. LONG-TERM DEBT – CONTINUED

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 2018 ranged from 100 basis points to 159 basis points (during fiscal year 2017, ranged from 86 basis points to 100 basis points). The Authority uses its own balance sheet for liquidity for these bonds. These bonds can be redeemed any time prior to its maturity date of September 1, 2039, and are therefore classified as a current liability.

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). 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 were sufficient to make all scheduled principal and interest payments on the bonds until September 1, 2018, when the remaining amounts outstanding were called and paid with the remaining trust fund balance. The refunded bonds and the related escrow account were removed from the accompanying 2017 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, 2012-B, and 2018-A) 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:

	<u>Balance October 1</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance September 30</u>
Fiscal year 2018	<u>\$ 58,380,000</u>	<u>\$ 35,080,000</u>	<u>\$ -</u>	<u>\$ 93,460,000</u>
Fiscal year 2017	<u>\$ 124,915,000</u>	<u>\$ -</u>	<u>\$(66,535,000)</u>	<u>\$ 58,380,000</u>

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

4. LONG-TERM DEBT – CONTINUED

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

	Principal	Interest
2019	\$ 31,705,000	\$ 3,290,325
2020	1,765,000	2,745,125
2021	1,845,000	2,656,875
2022	1,925,000	2,564,625
2023	2,005,000	2,468,375
2024-2028	19,135,000	9,861,625
2029-2033	5,415,000	6,765,000
2034-2038	4,950,000	5,494,200
2039-2043	8,610,000	4,609,750
2044-2048	16,105,000	1,983,200
	\$ 93,460,000	\$ 42,439,100

During fiscal years 2018 and 2017, total interest paid on long-term debt was \$2,195,664 and \$4,476,800, respectively.

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 fair value is reflected within other long-term liabilities on the balance sheet.

The terms call for making fixed payments at a rate of 3.95% and receiving a floating rate based on 67% of USD-LIBOR-BBA. The Authority paid \$1,222,629 and \$1,463,810 of interest related to this swap in fiscal years 2018 and 2017, respectively.

Swap Type	Notional Amount	Original Termination Date	Value at September 30	
			2018	2017
Fixed payer swap	\$ 44,900,000	September 1, 2033	\$(8,433,548)	\$(12,156,897)

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

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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 2018 or 2017. The Plan was amended to freeze participation in, and contributions made to, the Plan effective September 22, 2005.

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 2018 and 2017, the Authority contributed \$3,383,256 and \$3,074,399, respectively, and participants contributed \$6,074,359 and \$5,622,529, 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:

	<u>2018</u>	<u>2017</u>
Accrued medical malpractice insurance	\$ 2,951,068	\$ 2,951,068
Accrued retirement plan	2,857,549	2,305,060
Accrued settlements	4,250,000	522,597
Other accrued liabilities	3,680,111	3,619,624
	<u>\$ 13,738,728</u>	<u>\$ 9,398,349</u>

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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, 2018 and 2017, was \$3,323,507 and \$3,040,245, respectively. Future noncancelable commitments under these leases are as follows:

2019	\$ 1,843,869
2020	1,692,231
2021	518,606
2022	<u>21,875</u>
	<u>\$ 4,076,581</u>

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, 2018 and 2017, is approximately \$3,391,000 and \$3,384,000, respectively, and is included in Board-designated funds in the accompanying balance sheets. At September 30, 2018 and 2017, the Authority has accrued approximately \$2,951,000 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. 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 EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

9. FAIR VALUE MEASUREMENT – CONTINUED

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.

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, 2018 and 2017.

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 depends 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.

THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

9. 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:

Assets	September 30, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities:				
U.S. Treasury securities	\$ 92,512,538	\$ 92,512,538	\$ -	\$ -
Corporate Bonds	35,754,430	35,754,430	-	-
Corporate stocks	8,972,880	8,972,880	-	-
Government securities:				
Federal Home Loan Mortgage	799,817	-	799,817	-
Federal Nat'l Mortgage Assn	853,597	-	853,597	-
Tennessee Valley Authority	302,349	-	302,349	-
Total assets at fair value	\$ 139,195,611	\$ 137,239,848	\$ 1,955,763	\$ -

Liabilities				
Interest rate swap obligation	\$ (8,433,548)	\$ -	\$ (8,433,548)	\$ -

Assets	September 30, 2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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	\$ 118,834,397	\$ 116,077,473	\$ 2,756,924	\$ -
Liabilities				
Interest rate swap obligation	\$ (12,156,897)	\$ -	\$ (12,156,897)	\$ -

SUPPLEMENTARY INFORMATION

**THE EAST ALABAMA HEALTH CARE AUTHORITY
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	2018	2017
SERVICE AND EARNINGS DEPARTMENTS' EXPENSES		
Salaries	\$ 153,321,328	\$ 143,364,490
Benefits	45,271,124	38,772,839
Nonmedical supplies	3,551,735	3,862,995
Food and dietary supplies	2,805,666	2,575,795
Equipment rental	3,176,861	2,651,699
Medical specialists' fees	11,745,877	12,582,231
Repairs and maintenance	18,013,761	17,725,804
Medical supplies/drugs/film	70,076,345	62,954,846
Purchased services	29,982,650	27,825,242
Utilities and telephone	6,024,145	6,241,641
Insurance	1,398,152	1,212,417
Audit, consulting, and legal fees	8,808,314	1,734,175
Education, travel, dues, and other	6,652,753	6,361,882
Total service and earnings departments' expenses	360,828,711	327,866,056
CAPITAL EXPENSES		
Depreciation	19,105,346	18,431,062
Amortization	(98,180)	(140,264)
Total capital expenses	19,007,166	18,290,798
TOTAL OPERATING EXPENSES	\$ 379,835,877	\$ 346,156,854

See independent auditors' report.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
MEMBERS OF THE AUTHORITY BOARD (UNAUDITED)
SEPTEMBER 30, 2018**

Name and Address	Title	Expiration of Term
Joel Pittard, M.D. 425 Cross Creek Road Auburn, AL 36832	Chairman	2024
Lucinda Cannon 1104 Live Oak Circle 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	2024
David Smalley, M.D. 1647 Lauren Lane Auburn, AL 36830	Member	2024
Wayne Alderman 1842 Creekwood Trail Auburn, AL 36830	Member	2022
Gaines Lanier 300 West 10 th Street West Point, GA 31833	Member	2021
William H. Scott, III (Bill) 208 North 18 th Street Lanett, AL 36863	Member	2019
Dozier Smith T 1002 Oak Bowery Road Opelika, AL 36801	Member	2020

**THE EAST ALABAMA HEALTH CARE AUTHORITY
SCHEDULE OF INSURANCE COVERAGE (UNAUDITED)
JANUARY 2019**

Coverage	Amount	Insurer	Expiration Date
Property:			
Blanket #1 coverage – buildings, business personal property, business income/extra expense	\$666,439,000	Vigilant Insurance Co.	10/1/2019
Accounts Receivable	\$20,000,000	Vigilant Insurance Co.	10/1/2019
Valuable Papers	\$20,000,000	Vigilant Insurance Co.	10/1/2019
Equipment Breakdown	Included	Vigilant Insurance Co.	10/1/2019
Debris Removal	\$166,609,750	Vigilant Insurance Co.	10/1/2019
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	6/22/2019
Dandyland	\$1,000,000	National Casualty Company	8/7/2019
EAMC-Lanier, LLC	\$1,000,000	Auto-Owners Ins. Co.	2/1/2019
Ambulance – Liability	\$1,000,000	Arch Insurance	7/22/2019
Health Plus Fitness Center	\$500,000	National Ind. Co. of the South	10/26/2019
EAMC/Unity Wellness/Passenger Vans	\$1,000,000	National Fire & Marine	6/30/2019
Portable Equipment – East AL EMS	\$580,000	Arch Insurance	7/22/2019
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.	1/1/2019
Directors, Officers, Entity, EPL	\$10,000,000		
Regulatory Liability	\$1,000,000	Federal Insurance Co.	10/1/2019
Fiduciary	\$1,000,000		
ERISA Bond	\$1,000,000	Hartford Insurance Group	5/22/2019
AL Medicaid Bond (EAMC-Lanier, LLC)	\$75,000	Liberty Insurance Co.	2/1/2019
Crime	\$2,500,000	Federal Insurance Co.	10/1/2019
Cyber Liability	\$5,000,000	ACE American	10/1/2019
VEBA ERISA Bond	\$500,000	NGM Insurance	7/1/2019
Environmental site liability	\$3,000,000	Illinois Union Ins. Co.	10/1/2019
Other general and professional liability:			
East AL Health Services LLC – Unity Wellness	\$1,000,000	Landmark American Ins. Co.	11/7/2019
East AL Health Services LLC – Healthplus	\$1,000,000	Philadelphia Insurance	11/7/2019
East Alabama Medical Center (Med. Mal)	\$1,000,000	Mag Mutual	8/1/2019
East AL EMS LLC	\$1,000,000	TDC Specialty	11/7/2019
East Alabama Apothecary, LLC	\$1,000,000	Landmark American	1/1/2019
East Alabama Heart & Vascular GL/Umbrella	\$1,000,000/\$1,000,000	Continental Casualty	1/1/2019

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.

**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**

To 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, 2018, 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 28, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 28, 2019