

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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2019 AND 2018

**THE EAST ALABAMA HEALTH CARE AUTHORITY
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SEPTEMBER 30, 2019 AND 2018**

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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, 2019 and 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.

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, 2019 and 2018, 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 38 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 39-40 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 15, 2020, 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 15, 2020

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, 2019 and 2018. Please read it in conjunction with the financial statements, which follow this section:

Financial Highlights

2019

- Income from operations was \$6.9 million for 2019, up from \$1.3 million in the prior year.
- Net position increased in 2019 by \$11.8 million.
- The Authority invested \$41.6 million in net property, plant, and equipment in 2019.

2018

- Income from operations decreased from 2017 from \$4.4 million to \$1.3 million in 2018 (see explanation under Table A-4, 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.

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 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 2019</u>	<u>FY 2018</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Receivables, net	\$ 39.1	\$ 36.8	\$ 2.3	6.3%
Other current assets	69.0	58.7	10.3	17.5%
Current assets	<u>108.1</u>	<u>95.5</u>	<u>12.6</u>	<u>13.2%</u>
Other assets	133.4	147.2	(13.8)	-9.4%
Property, plant, and equipment, net	<u>176.9</u>	<u>155.7</u>	<u>21.2</u>	<u>13.6%</u>
Total assets	<u>\$ 418.4</u>	<u>\$ 398.4</u>	<u>\$ 20.0</u>	<u>5.0%</u>
Current liabilities	\$ 78.0	\$ 73.0	\$ 5.0	6.8%
Long-term liabilities	<u>75.2</u>	<u>72.0</u>	<u>3.2</u>	<u>4.4%</u>
Total liabilities	<u>\$ 153.2</u>	<u>\$ 145.0</u>	<u>\$ 8.2</u>	<u>5.7%</u>
Net position:				
Net investment in capital assets	\$ 91.5	\$ 86.7	\$ 4.8	
Unrestricted	166.9	160.7	6.2	
Restricted	<u>6.8</u>	<u>6.0</u>	<u>0.8</u>	
Total net position	<u>\$ 265.2</u>	<u>\$ 253.4</u>	<u>\$ 11.8</u>	<u>4.7%</u>

As shown in Table A-1, net position increased \$11.8 million from 2018. This change in net position was attributable to income generated in 2019. See discussion following Table A-3 for more details.

Current assets are up \$12.6 million or 13.2% from 2018 balances. Net receivables are up 6.3% (consistent with increases in operating revenue of 7.7%). Other current assets are up \$10.3 million, which is made up primarily from increase in cash and temporary investments along with moderate increases in inventories and prepaid expenses.

Other assets are down by \$13.8 million. This is due to the draw down of trustee held funds to pay for the new Cancer Center facility. The Cancer Center facility and equipment along with other routine capital explain the large increase in property, plant and equipment.

Table A-2
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	95.5	86.2	9.3	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>\$ 398.4</u>	<u>\$ 349.3</u>	<u>\$ 49.1</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>\$ 145.0</u>	<u>\$ 108.6</u>	<u>\$ 36.4</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>\$ 253.4</u>	<u>\$ 240.7</u>	<u>\$ 12.7</u>	5.3%

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

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

	<u>FY 2019</u>	<u>FY 2018</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues	\$ 410.4	\$ 381.1	\$ 29.3	7.7%
Service departments	66.3	68.9	(2.6)	-3.8%
Earnings departments	317.0	291.9	25.1	8.6%
Depreciation and amortization	20.2	19.0	1.2	6.3%
Total operating expenses	<u>403.5</u>	<u>379.8</u>	<u>23.7</u>	6.2%
Income from operations	6.9	1.3	5.6	430.8%
Nonoperating revenues (expenses), net	<u>4.9</u>	<u>11.4</u>	<u>(6.5)</u>	
Excess of revenues over expenses	11.8	12.7	(0.9)	
Beginning net position	253.4	240.7	12.7	
Ending net position	<u>\$ 265.2</u>	<u>\$ 253.4</u>	<u>\$ 11.8</u>	4.7%

As shown in Table A-3 above, income from operations in 2019 was \$6.9 million, up from \$1.3 million in 2018. Management was greatly pleased with the significant improvement in financial performance year over year.

Operating revenues were up \$29.3 million (or 7.7%) in 2019 to \$410.4 million. This is due to strong growth along most of the Authority's primary service lines including cardiology, surgery, imaging and pharmacy. With expenses only up 6.2%, income from operations grew significantly compared to 2018.

Nonoperating revenues were down from 2018 by \$6.5 million. This is due to the unrealized loss in 2019 from investments of \$4.96 million compared to the \$4.16 million gain in 2018. Without this swing of \$9.12 million, nonoperating revenue would have trended nicely higher.

The summary of unrealized gains (losses) in 2019 is as follows:

Loss in value of stocks	\$ (4,306,392)
Gain in value of bonds	4,469,109
Loss in value of swaps	<u>(5,123,611)</u>
2019 unrealized losses	<u>\$ (4,960,894)</u>

The unrealized gain in bond values of \$4.47 million and the unrealized loss in the value of the Authority's fixed payor interest rate swap of \$5.1 million is consistent with the trend of lower market interest rates between the fiscal year 2018 and 2019.

The unrealized loss from stocks is primarily due to the loss in value of the Authority's Premier, Inc. holding that declined \$3.3 million during the year. The additional unrealized loss of \$1.0 million came from stock market portfolio results of its EAMC Foundation, Inc. subsidiary investments. In the quarter ended 12/31/2018, the market correction reduced the Foundation's stock values by approximately \$2.4 million. During the nine months ending 9/30/2019, the stock values recovered by approximately \$1.4 million to the net the annual \$1.0 million reduction in value.

Table A-4

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	\$ 381.1	\$ 350.5	\$ 30.6	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	19.0	18.2	0.8	4.4%
Total operating expenses	<u>379.8</u>	<u>346.1</u>	<u>33.7</u>	9.7%
Income from operations	1.3	4.4	(3.1)	-70.5%
Nonoperating revenues (expenses), net	<u>11.4</u>	<u>3.7</u>	<u>7.7</u>	
Excess of revenues over expenses	12.7	8.1	4.6	
Beginning net position	240.7	232.6	8.1	
Ending net position	<u>\$ 253.4</u>	<u>\$ 240.7</u>	<u>\$ 12.7</u>	5.3%

As shown in Table A-4 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	<u>3,723,349</u>
2018 unrealized gains	<u><u>\$ 4,159,981</u></u>

Capital Assets and Debt Financing

Property, Plant, and Equipment

As noted below in Table A-5, the Authority had net property, plant and equipment of \$176.9 million invested at the end of fiscal year 2019, \$155.7 million invested at the end of fiscal year 2018, and \$146.5 million invested at the end of fiscal year 2017. These annual increases are the result of routine capital purchases. In fiscal year 2019, the completion of the new Cancer Center facility was recorded as well.

Table A-5

Capital Assets (in millions of dollars)

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>
Land and land improvements	\$ 21.1	\$ 21.0	\$ 21.0
Buildings and fixed equipment	222.7	197.8	189.5
Major moveable equipment	<u>163.9</u>	<u>147.5</u>	<u>142.5</u>
Total capital assets	407.7	366.3	353.0
Accumulated depreciation	(236.4)	(220.6)	(211.8)
Construction-in-progress	<u>5.6</u>	<u>10.0</u>	<u>5.5</u>
	<u><u>\$ 176.9</u></u>	<u><u>\$ 155.7</u></u>	<u><u>\$ 146.7</u></u>

Long-Term Debt

No significant changes occurred in long-term debt in 2019. The only transactions were routine payments of principal and interest on outstanding debt.

Other Long-Term Liabilities

Other long-term liabilities relate solely to the negative value of its swap agreement, which the Authority held at September 30, 2019 and 2018. The swap agreement has a termination date greater than one year; therefore, it is classified as long-term. The value decreased due to the lower interest rates for maturities of 14 years (which is the term of the swap).

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

FINANCIAL STATEMENTS

**THE EAST ALABAMA HEALTH CARE AUTHORITY
BALANCE SHEETS
SEPTEMBER 30, 2019 AND 2018**

ASSETS	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 28,909,160	\$ 21,324,140
Temporary investments	23,298,447	23,783,572
Accounts receivable, net	39,072,256	36,754,548
Inventories	9,668,448	8,539,339
Prepaid expenses	6,752,362	4,724,500
Current portion of assets whose use is limited	412,345	411,508
Total current assets	108,113,018	95,537,607
ASSETS WHOSE USE IS LIMITED		
Board-designated funds	64,513,048	60,161,601
Trustee held funds Cannot find detail, in this report, for this line item...	7,987,967	26,596,694
East Alabama Medical Center Foundation	20,614,841	18,629,545
	93,115,856	105,387,840
Less assets required for current liabilities	412,345	411,508
Total assets whose use is limited	92,703,511	104,976,332
INVESTMENTS		
Long-term investments	38,647,350	38,624,395
PROPERTY, PLANT AND EQUIPMENT		
Land and land improvements	21,131,836	20,980,946
Buildings and fixed equipment	222,696,988	197,782,970
Major moveable equipment	163,803,221	147,561,888
	407,632,045	366,325,804
Less accumulated depreciation	236,366,963	220,609,928
	171,265,082	145,715,876
Construction-in-progress	5,629,073	9,971,580
Total property, plant and equipment	176,894,155	155,687,456
OTHER ASSETS	2,020,580	3,563,396
TOTAL ASSETS	\$ 418,378,614	\$ 398,389,186

See notes to the financial statements.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
BALANCE SHEETS
SEPTEMBER 30, 2019 AND 2018**

	2019	2018
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 12,756,654	\$ 8,232,944
Bonds and notes payable due within one year	31,295,000	31,705,000
Payroll taxes and employee withholdings	2,682,006	2,259,370
Employee health insurance claims payable	3,180,126	1,762,065
Accrued salaries and wages	8,089,466	6,957,003
Accrued vacation pay	7,914,018	8,061,941
Other accrued liabilities	11,744,445	13,738,728
Accrued interest payable	323,954	319,775
Total current liabilities	77,985,669	73,036,826
LONG-TERM DEBT	61,597,769	63,521,773
OTHER LONG-TERM LIABILITIES	13,557,158	8,433,548
NET POSITION		
Net investment in capital assets	91,577,008	86,645,869
Restricted:		
For debt service	412,345	411,508
Expendable for other purposes	6,358,949	5,604,628
Unrestricted	166,889,716	160,735,034
Total net position	265,238,018	253,397,039
TOTAL LIABILITIES AND NET POSITION	\$ 418,378,614	\$ 398,389,186

See notes to the financial statements.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	2019	2018
OPERATING REVENUE		
Net patient service revenue (net of provision for bad debts of \$37,333,726 in 2019 and \$29,855,621 in 2018)	\$ 378,761,288	\$ 350,643,976
Other revenues, net	31,681,850	30,454,845
Total operating revenue	410,443,138	381,098,821
EXPENSES		
Service departments	66,306,371	68,936,292
Earnings departments	316,976,227	291,892,419
Depreciation and amortization	20,198,738	19,007,166
Total expenses	403,481,336	379,835,877
INCOME FROM OPERATIONS	6,961,802	1,262,944
NONOPERATING REVENUES (EXPENSES)		
Interest income from trustee held funds	272,265	116,748
Donations	3,352,614	2,036,793
Gain (loss) on disposal of assets	85,778	(366,123)
Other investment income	3,988,153	3,097,951
Interest expense	(4,368,988)	(3,498,857)
Ad valorem taxes	6,510,249	5,906,331
Unrealized gains (losses)	(4,960,894)	4,159,981
Total nonoperating revenues (expenses)	4,879,177	11,452,824
EXCESS OF REVENUES OVER EXPENSES	\$ 11,840,979	\$ 12,715,768

See notes to the financial statements.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
CHANGE IN NET POSITION		
Excess of revenues over expenses	\$ 11,840,979	\$ 12,715,768
NET POSITION AT BEGINNING OF YEAR	<u>253,397,039</u>	<u>240,681,271</u>
NET POSITION AT END OF YEAR	<u><u>\$ 265,238,018</u></u>	<u><u>\$ 253,397,039</u></u>

See notes to the financial statements.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Receipts from patient service	\$ 376,443,580	\$ 345,983,117
Other receipts	33,131,737	29,585,246
Payments to suppliers and others	(173,922,999)	(157,459,731)
Payments to employees	<u>(207,161,907)</u>	<u>(197,385,602)</u>
Net cash provided by operating activities	28,490,411	20,723,030
NONCAPITAL FINANCING ACTIVITIES		
Ad valorem taxes	6,510,249	5,906,331
Donations	<u>3,352,614</u>	<u>2,036,793</u>
Net cash provided by noncapital financing activities	9,862,863	7,943,124
INVESTING ACTIVITIES		
Interest and dividends on investments	4,260,418	3,214,699
Changes in temporary investments, Board-designated funds, trustee held funds and long-term investments	15,883,999	(28,245,768)
Net changes in assets whose use is limited by East Alabama Medical Center Foundation	<u>(2,987,128)</u>	<u>(1,435,520)</u>
Net cash provided by (used in) investing activities	17,157,289	(26,466,589)
CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	-	35,442,961
Principal payments on long-term debt	(2,175,000)	-
Interest paid on long-term debt and interest rate swap	(4,364,809)	(3,418,293)
Acquisitions of property, plant and equipment, net	(41,627,804)	(28,667,068)
Proceeds from sale of assets	<u>242,070</u>	<u>26,984</u>
Net cash provided by (used in) capital and related financing activities	<u>(47,925,543)</u>	<u>3,384,584</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,585,020	5,584,149
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>21,324,140</u>	<u>15,739,991</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 28,909,160</u></u>	<u><u>\$ 21,324,140</u></u>

See notes to the financial statements.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	2019	2018
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from operations	\$ 6,961,802	\$ 1,262,944
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Provision for depreciation and amortization	20,198,738	19,007,166
Provision for bad debts	37,333,726	29,855,621
Changes in operating assets and liabilities:		
Accounts receivable, net	(39,651,434)	(34,516,480)
Inventories	(1,129,109)	(842,143)
Prepaid expenses	(2,027,862)	2,065,388
Other assets	1,449,887	(869,599)
Accounts payable	4,523,710	(787,097)
Other accrued liabilities	830,953	5,547,230
Net cash provided by operating activities	\$ 28,490,411	\$ 20,723,030
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Unrealized gain on temporary, long-term, Board-designated and foundation investments	\$ 162,717	\$ 436,632
Unrealized gain (loss) on interest rate swap	\$ (5,123,611)	\$ 3,723,349
Gain (loss) on disposal of property and equipment	\$ 85,778	\$ (366,123)

See notes to the financial statements.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

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, 2018. The tax returns for periods ended September 30, 2016, 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, 2018. The tax returns for periods ended September 30, 2016, 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, 2019 AND 2018**

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, 2018. The tax returns for the periods ended September 30, 2016, 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, 2019 AND 2018**

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. VAENT was dissolved on December 20, 2018.
- *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. VIMA was dissolved on December 20, 2018.
- *East Alabama Healthcare Network, LLC (CIN)* – The Authority created CIN in 2019 for the purpose of operating a clinically integrated network within the region. CIN 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.

THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

1. ACCOUNTING POLICIES – CONTINUED

Operating Versus Nonoperating Revenues and Expenses

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

Charity Care

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

The Authority maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of these services and supplies and equivalent service statistics. The following information measures the level of charity care provided during the years ended September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Charges forgone, based on established rates	\$25,850,653	\$22,981,492
Estimated costs and expense incurred to provide charity care	11,446,669	10,578,381

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.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

1. ACCOUNTING POLICIES – CONTINUED

Revenues from the Medicare and Medicaid programs accounted for approximately 31.0% and 9.7%, respectively, of the Authority's gross patient service revenues for the year ended September 30, 2019, and 33.2% and 9.4%, respectively, of the Authority's gross patient service revenues for the year ended September 30, 2018. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Authority believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made resulting in significant fines and penalties, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs.

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

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

The Authority's Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through September 30, 2014. Net patient service revenues decreased by approximately \$720,000 during fiscal year 2019 and increased by approximately \$1,810,000 during fiscal year 2018 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.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

1. ACCOUNTING POLICIES – CONTINUED

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

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, 2019 and 2018, the carrying amount of the Authority's deposits was \$28,909,160 and \$21,324,140, 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 September 30, 2019, the Authority had approximately \$5,600,000 of cash and cash equivalents in excess of FDIC limits.

Temporary Investments

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

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

1. ACCOUNTING POLICIES – CONTINUED

Inventories

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

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, 2019 and 2018, 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, 2019 AND 2018**

1. ACCOUNTING POLICIES – CONTINUED

The detail of property and equipment as of September 30, 2019 and 2018, is as follows:

	<u>2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>2019</u>
Land and land improvements	\$ 20,980,946	\$ 150,890	\$ -	\$ 21,131,836
Buildings and fixed equipment	197,782,970	24,923,277	(9,259)	222,696,988
Major moveable equipment	<u>147,561,888</u>	<u>16,553,637</u>	<u>(312,304)</u>	<u>163,803,221</u>
Property and equipment, at cost	366,325,804	41,627,804	(321,563)	407,632,045
Less accumulated depreciation	<u>220,609,928</u>	<u>20,264,813</u>	<u>(4,507,778)</u>	<u>236,366,963</u>
	145,715,876	21,362,991	4,186,215	171,265,082
Construction-in-progress	<u>9,971,580</u>	<u>-</u>	<u>(4,342,507)</u>	<u>5,629,073</u>
	<u>\$ 155,687,456</u>	<u>\$ 21,362,991</u>	<u>\$ (156,292)</u>	<u>\$ 176,894,155</u>
	<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	<u>142,457,887</u>	<u>13,604,507</u>	<u>(8,500,506)</u>	<u>147,561,888</u>
Property and equipment, at cost	352,797,740	24,198,621	(10,670,557)	366,325,804
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>

Estimated costs to complete projects under construction at September 30, 2019, were approximately \$39,000,000.

Bond Issue Costs, Premiums and Discounts

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

Use of Estimates

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

THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

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, 2019 and 2018, 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 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 2019 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 2019 financial statements.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

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 2019 financial statements.

Subsequent Events

Management has evaluated the impact of subsequent events through January 15, 2020, representing the date the financial statements were issued.

2. ACCOUNTS RECEIVABLE

Accounts receivable at September 30 consisted of the following:

	<u>2019</u>	<u>2018</u>
Accounts receivable for patient care services, net of allowance for contractual adjustments	\$ 64,312,543	\$ 60,188,676
Less allowance for doubtful accounts	<u>25,752,617</u>	<u>24,460,350</u>
	38,559,926	35,728,326
Estimated amounts due to Medicare on year-end settlements	(5,950,328)	(5,018,073)
Other	<u>6,462,658</u>	<u>6,044,295</u>
Accounts receivable, net	<u>\$ 39,072,256</u>	<u>\$ 36,754,548</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, 2019 AND 2018**

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>2019</u>	<u>2018</u>
Medicare	20%	26%
Medicaid	12%	9%
Blue Cross	21%	19%
Other third-party payors	28%	26%
Self-pay	19%	20%
	<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, 2019 and 2018, 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 2019 in the amounts of \$23,298,447, \$38,647,350 and \$64,513,048, respectively, for a total of \$126,458,845. 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. 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, 2019 AND 2018**

3. INVESTMENTS – CONTINUED

September 30, 2019:

	Carrying Amount	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Investment type:					
Money market accounts	\$ 2,481,276	\$ 2,481,276	\$ -	\$ -	\$ -
Certificates of deposit	1,928,659	-	1,928,659	-	-
U.S. Treasuries	78,182,719	24,238,611	29,924,623	8,553,600	15,465,885
Government agencies	1,502,719	1,826	21,699	369,550	1,109,644
Corporate stock	5,668,320	-	5,668,320	-	-
Corporate bonds	36,695,152	8,419,511	28,275,641	-	-
	<u>\$ 126,458,845</u>	<u>\$ 35,141,224</u>	<u>\$ 65,818,942</u>	<u>\$ 8,923,150</u>	<u>\$ 16,575,529</u>

September 30, 2018:

	Carrying Amount	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>

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, 2019, the Authority's portfolio (including temporary investments, long-term investments and Board-designated funds) has an average maturity of approximately 3.69 years to final maturity and 3.50 years to call.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

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, 2019, 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, 2019, the Authority had one security which was 9% 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.

Trustee-Held Funds

The Trust Indenture of the Health Care Facilities Revenue and Tax Anticipation Bonds, 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, 2019 and 2018, were as follows:

	2019	2018
Money market accounts	\$ 7,987,967	\$ 4,689,116
U.S. Treasuries	-	21,907,578
	\$ 7,987,967	\$ 26,596,694

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

3. INVESTMENTS – CONTINUED

	<u>2019</u>	<u>2018</u>
Series 2012-A Bonds Bond Fund	\$ 259,660	\$ 257,888
Series 2012-B Bonds Bond Fund	32,330	33,841
Series 2018-A Bonds Acquisition Fund	7,575,622	26,185,186
Bond Fund	<u>120,355</u>	<u>119,779</u>
Total trustee-held funds	7,987,967	26,596,694
Less assets required for current liabilities	<u>412,345</u>	<u>411,508</u>
	<u>\$ 7,575,622</u>	<u>\$ 26,185,186</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 \$20,614,841 at September 30, 2019, and \$18,629,545 at September 30, 2018. The following table shows the investment amounts per asset class at fair market value:

	<u>2019</u>	<u>2018</u>
Cash	\$ 1,641,007	\$ 1,545,348
Bond mutual funds	2,619,549	1,150,832
Equity mutual funds	12,519,681	13,149,403
Individual equities	3,826,042	2,776,178
Other	<u>8,562</u>	<u>7,784</u>
	<u>\$ 20,614,841</u>	<u>\$ 18,629,545</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, 2019 AND 2018**

4. LONG-TERM DEBT

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

	2019	2018
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%	\$ 26,675,000	\$ 28,380,000
Health Care Facilities Bonds, Series 2012-B, with interest payable weekly at variable rates, 1.13% at September 30, 2019	29,530,000	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	35,080,000
	91,285,000	93,460,000
Amounts due within one year	(31,295,000)	(31,705,000)
Unamortized premiums, net	1,607,769	1,766,773
	\$ 61,597,769	\$ 63,521,773

The fair value of the bonds is estimated using the current market rate for the Authority's bonds at September 30, 2019. The fair value of the Authority's bonds was approximately \$97,200,000 at September 30, 2019.

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 \$1,765,000 to \$4,355,000 spread between 2020 and 2028 with rates ranging between 4.25% 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, 2019 AND 2018**

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 2019 ranged from 113 basis points to 159 basis points (during fiscal year 2018, ranged from 100 basis points to 159 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.

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 2019	\$ 93,460,000	\$ -	\$ (2,175,000)	\$ 91,285,000
Fiscal year 2018	\$ 58,380,000	\$ 35,080,000	\$ -	\$ 93,460,000

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

	<u>Principal</u>	<u>Interest</u>
2020	\$ 31,295,000	\$ 3,214,652
2021	1,845,000	2,656,875
2022	1,925,000	2,564,625
2023	2,005,000	2,468,375
2024	3,770,000	2,368,125
2025-2029	16,290,000	8,926,700
2030-2034	6,075,000	6,548,400
2035-2039	3,365,000	5,296,200
2040-2044	11,585,000	4,235,350
2045-2048	13,130,000	1,339,000
	<u>\$ 91,285,000</u>	<u>\$ 39,618,302</u>

During fiscal years 2019 and 2018, total interest paid on long-term debt was \$3,382,102 and \$2,195,664, respectively.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

4. LONG-TERM DEBT – CONTINUED

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 \$982,707 and \$1,222,629 of interest related to this swap in fiscal years 2019 and 2018, respectively.

Swap Type	Notional Amount	Original Termination Date	Value at September 30	
			2019	2018
Fixed payer swap	\$ 44,150,000	September 1, 2033	\$(13,557,159)	\$ (8,433,548)

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

5. EMPLOYEE RETIREMENT PLAN

The Financial Security Plan (the Plan) is a defined contribution plan administered by VOYA, which covers substantially all of the Authority's employees. Contributions are determined at the discretion of the Board of Directors on a yearly basis. No contribution expense related to the Plan was incurred in fiscal years 2019 or 2018. 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 2019 and 2018, the Authority contributed \$3,613,433 and \$3,383,256, respectively, and participants contributed \$6,575,829 and \$6,074,359, respectively, to the Program.

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

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

6. OTHER ACCRUED LIABILITIES

Other accrued liabilities at September 30 consisted of the following:

	<u>2019</u>	<u>2018</u>
Accrued medical malpractice insurance	\$ 3,651,068	\$ 2,951,068
Accrued retirement plan	2,528,805	2,857,549
Accrued settlements	-	4,250,000
Accrued gainsharing	4,261,958	-
Other accrued liabilities	<u>1,302,614</u>	<u>3,680,111</u>
	<u>\$ 11,744,445</u>	<u>\$ 13,738,728</u>

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, 2019 and 2018, was \$3,280,444 and \$3,323,507, respectively. Future noncancelable commitments under these leases are as follows:

2020	\$ 1,664,021
2021	1,278,639
2022	672,046
2023	582,025
2024	<u>102,574</u>
	<u>\$ 4,299,305</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, 2019 and 2018, was approximately \$3,551,000 and \$3,391,000, respectively, and is included in Board-designated funds in the accompanying balance sheets. At September 30, 2019 and 2018, the Authority has accrued approximately \$3,651,000 and \$2,951,000, respectively, related to reported and incurred but not reported (IBNR) claims covered under the self-insurance policy.

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

**THE EAST ALABAMA HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

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 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, 2019 and 2018.

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, 2019 AND 2018

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, 2019	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	\$ 78,182,719	\$ 78,182,719	\$ -	\$ -
Corporate Bonds	36,695,152	36,695,152	-	-
Corporate stocks	5,668,320	5,668,320	-	-
Government securities:				
Federal Home Loan Mortgage	844,279	-	844,279	-
Federal Nat'l Mortgage Assn	658,440	-	658,440	-
Total assets at fair value	\$ 122,048,910	\$ 120,546,191	\$ 1,502,719	\$ -
Liabilities				
Interest rate swap obligation	\$ (13,557,159)	\$ -	\$ (13,557,159)	\$ -

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)	\$ -

SUPPLEMENTARY INFORMATION

**THE EAST ALABAMA HEALTH CARE AUTHORITY
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	2019	2018
SERVICE AND EARNINGS DEPARTMENTS' EXPENSES		
Salaries	\$ 161,278,859	\$ 153,321,328
Benefits	44,446,327	45,271,124
Nonmedical supplies	3,717,720	3,551,735
Food and dietary supplies	2,970,994	2,805,666
Equipment rental	3,325,527	3,176,861
Medical specialists' fees	12,959,012	11,745,877
Repairs and maintenance	18,841,411	18,013,761
Medical supplies/drugs/film	85,722,013	70,076,345
Purchased services	27,515,966	29,982,650
Utilities and telephone	6,605,918	6,024,145
Insurance	2,075,114	1,398,152
Audit, consulting and legal fees	2,702,690	8,808,314
Education, travel, dues and other	6,859,089	6,652,753
Gainsharing expense	4,261,958	-
	383,282,598	360,828,711
CAPITAL EXPENSES		
Depreciation	20,264,813	19,105,346
Amortization	(66,075)	(98,180)
	20,198,738	19,007,166
TOTAL OPERATING EXPENSES	\$ 403,481,336	\$ 379,835,877

See independent auditors' report.

**THE EAST ALABAMA HEALTH CARE AUTHORITY
MEMBERS OF THE AUTHORITY BOARD (UNAUDITED)
SEPTEMBER 30, 2019**

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 2035 County Road 290 Opelika, AL 36801	Member	2021
William H. Scott, III 208 North 18 th Street Lanett, AL 36863	Member	2025
Dozier Smith T 1002 Oak Bowery Road Opelika, AL 36801	Member	2020

**THE EAST ALABAMA HEALTH CARE AUTHORITY
SCHEDULE OF INSURANCE COVERAGE (UNAUDITED)
JANUARY 2020**

Coverage	Amount	Insurer	Expiration Date
Property:			
Blanket #1 coverage – buildings, business personal property, business income/extra expense	\$712,000,000	Vigilant Insurance Co.	10/1/2020
Accounts Receivable	\$20,000,000	Vigilant Insurance Co.	10/1/2020
Valuable Papers	\$20,000,000	Vigilant Insurance Co.	10/1/2020
Equipment Breakdown	Included	Vigilant Insurance Co.	10/1/2020
Debris Removal	\$166,609,750	Vigilant Insurance Co.	10/1/2020
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	5/22/2020
Dandyland	\$1,000,000	National Casualty Company	8/7/2020
EAMC-Lanier, LLC	\$1,000,000	Auto-Owners Ins. Co.	2/1/2020
Ambulance – Liability	\$1,000,000	Arch Insurance	7/22/2020
EAMC/Unity Wellness/Passenger Vans	\$1,000,000	Progressive Specialty	6/30/2020
Portable Equipment – East AL EMS	\$580,000	Arch Insurance	7/22/2020
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.	1/1/2020
Directors, Officers, Entity, EPL	\$10,000,000		
Regulatory Liability	\$1,000,000	Federal Insurance Co.	10/1/2020
Fiduciary	\$1,000,000		
ERISA Bond	\$1,000,000	Hartford Insurance Group	5/22/2020
AL Medicaid Bond (EAMC-Lanier, LLC)	\$120,000	Liberty Insurance Co.	2/1/2020
Crime	\$2,500,000	Federal Insurance Co.	10/1/2020
Cyber Liability	\$5,000,000	ACE American	10/1/2020
VEBA ERISA Bond	\$500,000	NGM Insurance	7/1/2021
VEBA Fiduciary	\$1,000,000	Federal Insurance Co.	11/28/2020
VEBA D&O	\$1,000,000	Federal Insurance Co.	11/28/2020
AL DEMPOS Bond – East AL Apothecary	\$1,000,000	Old Republic	4/17/2020
Environmental site liability	\$3,000,000	Illinois Union Ins. Co.	10/1/2020
Other general and professional liability:			
East AL Health Services LLC – Unity Wellness	\$1,000,000	Landmark American Ins. Co.	11/7/2020
East AL Health Services LLC – Healthplus	\$1,000,000	Philadelphia Insurance	11/7/2020
East Alabama Medical Center (Med. Mal)	\$1,000,000	Mag Mutual	8/1/2020
East AL EMS LLC	\$1,000,000	Landmark American	11/7/2020
East AL HomeMed LLC – Opelika	\$1,000,000	Benchmark Insurance Co.	12/1/2020
East Alabama Apothecary, LLC	\$1,000,000	Landmark American	2/1/2020
East Alabama Heart & Vascular GL/Umbrella	\$1,000,000/\$1,000,000	Continental Casualty	1/1/2020

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, 2019, 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 15, 2020.

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 15, 2020