MEDICAL WEST HOSPITAL AUTHORITY, AN AFFILIATE OF UAB HEALTH SYSTEM

FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

Warren Averett
CPAs AND ADVISORS

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AN AFFILIATE OF UAB HEALTH SYSTEM
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Warren Averett
CPAs AND ADVISORS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Medical West Hospital Authority,
An Affiliate of UAB Health System

Report on the Financial Statements
We have audited the accompanying financial statements of Medical West Hospital Authority, An Affiliate of UAB Health System ("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 Medical West Hospital Authority, An Affiliate of UAB Health System, as of September 30, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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 3 through 6 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.

Other Reporting Required by *Government Auditing Standards*
In accordance with Government Auditing Standards, we have also issued our report dated January 8, 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 8, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

The following discussion and analysis provides an overview of the financial position and activities of Medical West Hospital Authority, An Affiliate of UAB Health System, and its subsidiaries (the "Authority"). The Authority is a stand-alone entity and does not consolidate into any other entity.

The Authority is a public corporation organized under the University Authority Act of 2016, Alabama Code Section 16-17 A-1 et seq. (the "Enabling Law"). The Authority was organized under the Enabling Law in 2017 by the Board of Trustees of The University of Alabama (the "UA Board"), a public corporation and constitutional entity of the State of Alabama. The Authority is the owner and operator of a health care delivery system (the "System") located in west Jefferson County and is a leading provider of health care services in that area. The System is comprised of a 310-licensed-bed acute care hospital (the "Hospital") formerly known as UAB Medical West, a network of employed primary care physicians and specialists, and a freestanding imaging center adjacent to the Hospital campus. The Authority is required to compile its financial statements in accordance with the standards of the Governmental Accounting Standards Board ("GASB"). UAB Health System, an Alabama nonprofit corporation affiliated with the UA Board, manages the System for the Authority. This discussion has been prepared by management and should be read in conjunction with the Authority's financial statements and notes thereto, which begin on page 7.

The Authority's strategic focus during fiscal year 2019 is to continue to improve financial performance and grow market share through focusing on the provision of quality health care to meet the current and future needs of the market. Specifically, management has goals focused to:

- Implement operational improvements that result in quality clinical outcomes and improved patient, physician, and employee satisfaction.
- Grow clinical services based upon market needs, projected growth, and financial contribution.
- Improve access and utilization of outpatient surgical and diagnostic services.

Net Position
To begin our analysis, a summary of the Authority's statements of net position is presented in Table A-1 below.

Table A-1
Condensed Statements of Net Position (in millions of dollars)

	2018	2017	$ Change	% Change
Receivables, net	$ 19.6	$ 19.0	$ 0.6	3.2%
Other current assets	29.1	25.8	3.3	12.8%
Current assets	48.7	44.8	3.9	8.7%
Other assets	4.2	4.4	(0.2)	-4.5%
Capital assets	31.2	34.0	(2.8)	-8.2%
Total assets	84.1	83.2	0.9	1.1%
Deferred outflow of resources	0.1	0.1	-	0.0%
Current liabilities	16.1	15.4	0.7	4.5%
Noncurrent liabilities	36.3	36.8	(0.5)	-1.4%
Total liabilities	52.4	52.2	0.2	0.4%
NET POSITION				
Net investment in capital assets	(4.5)	(1.9)	(2.6)	136.8%
Unrestricted	36.3	33.0	3.3	10.0%
TOTAL NET POSITION	$ 31.8	$ 31.1	$ 0.7	2.3%

The statements of net position present the financial position of the Authority at the end of the fiscal year and include all assets, deferred outflows, liabilities, and deferred inflows of the Authority. The difference between total assets and deferred outflows and total liabilities and deferred inflows – net position – is one indicator of the current financial condition of the Authority, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year.

Assets and liabilities are generally measured using current values, with the exception of capital assets, which are stated at historical cost less allowances for depreciation.

As shown in Table A-1, net position increased approximately $0.7 million from 2017. This change in net position was primarily attributable to a combined $0.9 million increase in total assets offset by a $0.2 million increase in total liabilities.

Property and equipment at September 30, 2018, totals approximately $31.2 million, net of accumulated depreciation. During 2018, total additions to property and equipment were approximately $3.0 million, and depreciation expense was approximately $5.8 million.

Long-term obligations, less current portions, decreased in fiscal year 2018 by approximately $0.3 million. Long-term debt at September 30, 2018, includes the term loan used for refinance of earlier bond issues that were originally used for facility additions and improvements. Also included are a 2006 note payable used to acquire real estate and a 2015 note payable for medical equipment purchases. The Authority has pledged all gross revenues as collateral for this indebtedness.

Change in Net Position

While the statements of net position show the net position, the statements of revenues, expenses, and changes in net position provide answers as to the nature and source of these changes.

Table A-2

Condensed statements of revenues, expenses, and changes in net position (in millions of dollars)

	2018	2017	$ Change	% Change
Operating revenues	$ 126.3	$ 120.8	$ 5.5	4.6%
Professional care of patients	86.7	80.9	5.8	7.2%
Service departments	32.1	30.8	1.3	4.2%
Depreciation	5.8	6.4	(0.6)	-9.4%
Total operating expenses	124.6	118.1	6.5	5.5%
Operating income	1.7	2.7	(1.0)	-37.0%
Nonoperating net expenses	(1.0)	(1.6)	0.6	-37.5%
Change in net position	0.7	1.1	(0.4)	-36.4%
Beginning net position	31.1	30.0	1.1	3.7%
Ending net position	$ 31.8	$ 31.1	$ 0.7	2.3%

The statements of revenues, expenses, and changes in net position present the extent to which the Authority's overall net position increased or decreased during the year as a result of operations or other reasons.

As shown in Table A-2 above, operating revenues increased by approximately $5.5 million from the prior year. Patient service revenue, net of allowances for contractual discounts, charity care, and bad debt expense, was approximately $124.3 million for 2018, an increase of approximately $6.6 million and 5.6% from the prior year. The increase is primarily attributable to increased patient volumes in fiscal year 2018.

Operating expenses for fiscal year 2018 were approximately $124.6 million compared to approximately $118.1 million in fiscal year 2017, a 5.5% increase driven primarily by an increase in salaries and professional fees for physicians.

Statement of Cash Flows

The statement of cash flows provides additional information to the Authority's financial results by reporting the major sources and uses of cash. The statement of cash flows is presented on pages 10 - 12.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial position and results. Questions concerning any of the information provided in this report can be addressed to the Chief Financial Officer, Medical West Hospital Authority, An Affiliate of UAB Health System, 995 9th Avenue. S.W., Bessemer, AL 35022.

FINANCIAL STATEMENTS

MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2018 AND 2017

ASSETS AND DEFERRED OUTFLOW OF RESOURCES

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 23,768,553	$ 19,758,725
Short-term investments	1,035,054	1,028,374
Patient accounts receivable, net of estimated uncollectibles of $13,046,749 in 2018 and $13,795,038 in 2017	19,645,883	18,955,057
Other receivables	369,412	1,320,717
Inventories	2,212,706	2,215,561
Prepaid expenses	1,339,350	1,376,081
Noncurrent cash and investments required for current liabilities	345,212	132,166
Total current assets	48,716,170	44,786,681
NONCURRENT CASH AND INVESTMENTS		
Designated by Board for capital improvements	3,919,670	3,897,374
Held under self-insurance trust agreement by trustee	570,483	568,359
	4,490,153	4,465,733
Less amounts required for current liabilities	345,212	132,166
Total noncurrent cash and investments	4,144,941	4,333,567
PROPERTY AND EQUIPMENT, NET	31,233,296	34,093,731
OTHER ASSETS	78,219	36,878
TOTAL ASSETS	84,172,626	83,250,857
DEFERRED OUTFLOW OF RESOURCES	58,110	72,637
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 84,230,736	$ 83,323,494

See notes to the financial statements.

MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2018 AND 2017

LIABILITIES AND NET POSITION

	2018	2017
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 8,472,836	$ 8,552,789
Accrued salaries and wages	2,365,017	2,061,068
Accrued and withheld payroll taxes and employee benefits	1,152,435	1,102,183
Accrued vacation and sick pay	2,327,625	2,394,960
Accrued contribution to affiliate	225,013	345,899
Estimated third-party payor settlements	934,134	472,911
Accrued self-insurance losses	345,212	132,166
Accrued interest on long-term obligations	60,029	7,689
Current portion of long-term obligations	271,822	317,589
Total current liabilities	16,154,123	15,387,254
OTHER LIABILITIES	779,757	1,032,527
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION	35,549,801	35,810,227
MINORITY INTEREST	-	21,463
NET POSITION		
Net investment in capital assets	(4,530,217)	(1,961,448)
Unrestricted	36,277,272	33,033,471
Total net position	31,747,055	31,072,023
TOTAL LIABILITIES AND NET POSITION	$ 84,230,736	$ 83,323,494

See notes to the financial statements.

MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Net patient service revenue, net of provision for bad debts of $19,611,283 in 2018 and $23,851,938 in 2017	$ 124,263,437	$ 117,635,514
Other operating revenue	2,026,850	3,138,243
Total operating revenues	126,290,287	120,773,757
OPERATING EXPENSES		
Professional care of patients	86,640,758	80,956,548
Service departments	32,097,986	30,769,016
Depreciation	5,841,900	6,378,295
Total operating expenses	124,580,644	118,103,859
OPERATING INCOME	1,709,643	2,669,898
NONOPERATING REVENUES (EXPENSES)		
Investment and interest income	31,100	14,914
Interest expense	(860,197)	(1,256,183)
Debt issuance costs	-	(86,650)
Loss on sale of property and equipment	(1,964)	(1,463)
Contribution obligation incurred to affiliate	(225,013)	(345,899)
Total nonoperating revenues (expenses)	(1,056,074)	(1,675,281)
CHANGE IN NET POSITION BEFORE MINORITY INTEREST	653,569	994,617
MINORITY INTEREST	21,463	43,078
CHANGE IN NET POSITION	675,032	1,037,695
NET POSITION AT BEGINNING OF YEAR	31,072,023	30,034,328
NET POSITION AT END OF YEAR	$ 31,747,055	$ 31,072,023

See notes to the financial statements.

MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 124,033,834	$ 113,706,066
Payments to suppliers	(64,528,028)	(59,684,460)
Payments to employees	(54,154,396)	(51,834,368)
Other receipts and payments, net	2,978,155	3,536,643
Net cash provided by operating activities	8,329,565	5,723,881
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payment of contribution obligation incurred to affiliate	(345,899)	(436,177)
Contributions from minority interest holder	-	568
Net cash used in noncapital financing activities	(345,899)	(435,609)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the sale of property and equipment	3,250	23,883
Purchases of property and equipment	(2,836,224)	(2,808,816)
Repayment of long-term debt	(306,193)	(303,830)
Payment of debt issuance costs	-	(86,650)
Interest paid	(793,330)	(1,600,452)
Net cash used in capital and related financing activities	(3,932,497)	(4,775,865)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment income	31,100	14,914
Change in other assets	(41,341)	(36,878)
Change in investments	(3,778)	2,577,673
Net cash (used in) provided by investing activities	(14,019)	2,555,709
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,037,150	3,068,116
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	25,001,193	21,933,077
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 29,038,343	$ 25,001,193

See notes to the financial statements.

MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION		
Cash and cash equivalents	$ 23,768,553	$ 19,758,725
Cash and cash equivalents included in short-term investments	779,637	776,735
Cash and cash equivalents included in noncurrent cash and investments:		
Designated by Board for capital improvements	3,919,670	3,897,374
Held under self-insurance trust agreement	570,483	568,359
Total cash and cash equivalents	$ 29,038,343	$ 25,001,193
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 1,709,643	$ 2,669,898
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,841,900	6,378,295
Provision for bad debts	19,611,283	23,851,938
Change in patient accounts receivable	(20,302,109)	(25,485,624)
Change in other receivables	951,305	450,520
Change in inventories	2,855	170,507
Change in prepaid expenses	36,731	3,732
Change in accounts payable and accrued expenses	(230,408)	(1,451,840)
Change in salaries, wages, and related withholdings payable	286,866	280,135
Change in estimated third-party payor settlements	461,223	(723,494)
Change in other current liabilities	213,046	(79,635)
Change in other liabilities	(252,770)	(340,551)
Total adjustments to reconcile operating income to net cash provided by operating activities	6,619,922	3,053,983
Net cash provided by operating activities	$ 8,329,565	$ 5,723,881

See notes to the financial statements.

MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Contribution obligation incurred to affiliate	$ 225,013	$ 345,899
Loss on sale of property and equipment	$ 1,964	$ 1,463
Accrued purchases of property and equipment	$ 150,455	$ 163,721
Minority interest	$ 21,463	$ 43,078
Refunding of long-term debt	$ -	$ 35,300,000

See notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Medical West Hospital Authority, An Affiliate of UAB Health System ("the Authority"), is a public corporation organized under and pursuant to the provisions of the University Authority Act of 2016, Section 16-17A-1, et seq. Code of Alabama (the "Enabling Law"). The Authority was reincorporated and organized under the Enabling Law effective September 19, 2017, by the Board of Trustees of the University of Alabama, a public corporation and constitutional entity of the State of Alabama (the "UA Board"). The UAB Health System, an Alabama nonprofit corporation ("UAB Health System"), provides management for the Authority. UAB Health System is affiliated with the UA Board, including the University of Alabama Hospital in Birmingham, Alabama, which is the primary teaching hospital for the medical school at the University of Alabama at Birmingham. The Authority is a stand-alone entity and does not consolidate into any other entity.

Prior to reorganization, The Health Care Authority for Medical West, An Affiliate of UAB Health System (the "HCA"), was a public corporation organized under The Health Care Authorities Act of 1982, Section 22-21-310, et seq. Code of Alabama (the "HCA Act"). The HCA was organized by the Certificate of Incorporation of the HCA filed for record with the Tuscaloosa County Probate Court on December 22, 2005, and its authorizing subdivision was the UA Board. The HCA was a stand-alone entity and did not consolidate into any other entity. The UAB Health System provided management for the HCA. References included in these financial statements to the Authority are also references to the HCA prior to the reincorporation, as applicable.

Prior to the organization of the Authority and the HCA, UAB Medical West, formerly known as Bessemer Carraway Medical Center (the "Hospital"), served as an Alabama nonprofit acute care community hospital under Section 501(c)(3). During February 2002, the Hospital entered into an affiliation agreement with UAB Health System whereby UAB Health System appointed the majority of the Hospital's Board of Directors (the "Board"). The Western Health Services Foundation was formed at that time to serve as the support organization for the Hospital. Pursuant to the December 1, 2005 and September 27, 2017, affiliation agreements, the UA Board elects six of the eleven directors of the Authority, and the Western Health Services Foundation Board elects the remaining directors. The September 27, 2017, affiliation agreement of the Authority can be terminated for cause by either party on each five-year anniversary of the effective date.

The purpose of the Authority remains much the same subsequent to the reorganization, including the provision of community health care services and the acquisition, ownership, and operation of health care facilities. The Authority board of directors retains ultimate authority and control over the business, policies, operation, and assets of the Hospital.

Reporting Entity

The accompanying financial statements include the accounts of the Authority, its 68%-owned subsidiary until dissolution, Medical West Imaging Center, LLC ("MWI"), and its wholly-owned limited liability company, Physician Integration Partners, LLC ("PIP").

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

On November 1, 2007, the Authority acquired a 60% interest in Imaging Center West, LLC. Subsequent to the acquisition, the name of the entity was changed to Medical West Imaging Center, LLC. Since the acquisition, the Authority has acquired an additional 8% interest. The accounts and transactions of MWI are included in the accompanying financial statements from the acquisition date. All significant intercompany transactions have been eliminated. Effective September 30, 2018, MWI was legally dissolved. All assets and liabilities of MWI were transferred to the Authority as of the dissolution date. For the years ended September 30, 2018 and 2017, the minority interest in the operations of MWI was approximately $21,000 and $43,000, respectively. As of September 30, 2018 and 2017, the minority interest in the equity of MWI was approximately $0 and $21,000, respectively.

On September 11, 2012, the Authority formed a limited liability company, Physician Integration Partners, LLC, as the sole member. At September 30, 2018 and 2017, the entity had no assets or activity recorded in its financial records.

Enterprise Fund Accounting

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

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.

Cash and Cash Equivalents

Cash equivalents include certain short-term investments which have original maturity dates of three months or less, excluding amounts in short-term investments or whose use is limited by Board designation or other arrangements under trust and debt agreements. All cash and cash equivalents are recorded at cost, which approximates fair value.

The Authority's deposits at year end were held by financial institutions in the State of Alabama's Security for 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.

The cash accounts of MWI are not covered by the SAFE Program. As of September 30, 2018 and 2017, all cash accounts of MWI were covered by the FDIC limit.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Short-Term and Noncurrent Cash and Investments

Short-term and noncurrent cash and investments consist primarily of money market accounts and certificates of deposit. All investments are recorded at fair value. Noncurrent cash and investments available to pay current liabilities are included in current assets.

Inventories

Inventories, principally consisting of medical supplies and pharmaceuticals, are stated at cost, using the first-in, first-out method, which is not in excess of market.

Patient Accounts Receivable, Net

Receivables from patients, insurance companies, and third-party contractual agencies are recorded at regular patient service rates. A majority of the Authority's patients are insured by certain third-party insurers (principally Medicare, Medicaid, and Blue Cross) based on contractual agreements, which generally result in the Authority collecting less than the established charge rates. Final determination of payments under these agreements is subject to review by appropriate authorities. Adequate allowances are provided for doubtful accounts, contractual adjustments, and other uncertainties. Credit losses have historically been within management's expectations. Allowances for doubtful accounts are estimated based on historical write-off percentages and other collection indicators, and contractual allowances are estimated based on the terms of third-party insured contracts. Doubtful accounts are written off against the allowance after adequate collection effort is exhausted and recorded as recoveries of bad debts if subsequently collected.

Income Taxes

As a governmental entity, the Authority is exempt from federal and state income taxes. MWI (prior to its dissolution) and PIP are limited liability companies. Under the provisions for this form of business, MWI and PIP are not taxable entities, and elements of income and expense flow through and are taxed to the members. The members customarily make capital withdrawals throughout the year to pay their income tax liabilities.

MWI has adopted the provision of the Accounting Standards Codification relating to uncertainty in income taxes. This guidance requires entities to assess their uncertain tax positions for the likelihood that they would be overturned upon Internal Revenue Service examination or upon examination by state taxing authorities. MWI has determined that it does not have any positions at September 30, 2018 and 2017, that it would be unable to substantiate.

MWI has filed its tax returns for all years through December 31, 2017. Years ended on December 31, 2015, and subsequent remain subject to audit by taxing authorities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property and Equipment

Property and equipment is stated at cost or, if donated, at fair market value on the date of donation. Routine maintenance and repairs are charged to expense as incurred, while costs of improvements and additions are capitalized. Upon retirement or disposal of an asset, the asset and related allowance for depreciation are eliminated. Any gain or loss on such transactions is included in nonoperating revenues and expenses. The provision for depreciation of property and equipment owned by the Authority and under capital leases is included in depreciation expense and computed on the straight-line method using the estimated useful lives for the respective classes of assets as shown below:

Item	Estimated Useful Life
Land improvements	5 - 20 years
Buildings	30 - 40 years
Fixed equipment	10 - 20 years
Major movable equipment	5 - 10 years
Automobiles and related equipment	5 years

Operating Revenues and Expenses

The Authority's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Authority's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and prospectively determined per diem payments. Net patient service revenue is reported as the estimated net realizable amounts from patients, third-party payors, 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.

The difference between original estimates made by the Authority in prior years and subsequent revisions (including final settlements) for Medicare and Blue Cross retroactive settlements was an increase to net patient service revenue of approximately $174,000 and $661,000 for the years ended September 30, 2018 and 2017, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position

Net position of the Authority is classified in four components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings, including the loss on refunding, 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. *Restricted nonexpendable net position* equals the principal portion of permanent endowments. The Authority does not have any restricted expendable or nonexpendable net position. *Unrestricted net position* is the remaining residual net position that does not meet the definition of *net investment in capital assets* or *restricted*. The Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

Charity Care

The Authority accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Authority. In assessing a patient's inability to pay, the Authority utilizes the generally recognized poverty income levels of Alabama but also includes certain cases where incurred charges are significant when compared to income. Charity care provided in fiscal year 2018 and 2017, measured at established rates, approximated $6,200,000 and $7,400,000, respectively, and is not included in net patient service revenue. The costs incurred in providing these services are included in the Authority’s operating expenses.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, short-term investments, and noncurrent cash and investments approximates their fair value. The carrying amount of accounts receivable, accounts payable, and accrued expenses is the approximate fair value due to the short-term nature of these instruments. The fair value of the Authority's long-term obligations was estimated using the required payments of the obligations discounted at current borrowing rates. The estimated fair value of long-term obligations at September 30, 2018 and 2017, is approximately $34,900,000 and 36,100,000, respectively.

Deferred Outflow of Resources

Deferred outflow of resources consists of net losses from debt refundings. Losses from debt refundings are being amortized over the shorter of the remaining life of the refunded debt or the life of the new debt.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued Accounting Pronouncements

In January 2017, the Governmental Accounting Standards Board ("GASB") issued Statement No. 84, *Fiduciary Activities*. This 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. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. 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. Earlier application is encouraged. The Authority is still evaluating the impact, if any, of this statement in the year of adoption.

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It 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, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements for this statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Authority is still evaluating the impact of this statement in the year of adoption.

In June 2018, the 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. Generally, this statement establishes that such interest cost should be expensed in the period incurred and should no longer be subject to capitalization as part of property and equipment. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Authority is still evaluating the impact, if any, of this statement in the year of adoption.

Subsequent Events

The Authority has evaluated the impact of subsequent events through January 8, 2019, representing the date on which the financial statements were available to be issued (see Note 15).

2. PATIENT ACCOUNTS RECEIVABLE

The components of patient accounts receivable were as follows as of September 30:

	2018	2017
Receivable from patients and their insurance carriers	$ 31,929,886	$ 31,067,815
Receivable from Medicare beneficiaries	30,909,413	33,259,742
Receivable from Medicaid beneficiaries	7,182,724	6,652,479
Receivable from Blue Cross beneficiaries	8,690,151	9,806,230
Total patient accounts receivable	78,712,174	80,786,266
Less allowance for contractual adjustments	46,019,542	48,036,171
Less allowance for uncollectibles	13,046,749	13,795,038
Net patient accounts receivable	$ 19,645,883	$ 18,955,057

Effective for patients discharged after January 1, 2017, the Authority began providing uninsured patients with a 75% discount of gross charges at the time of the billing. The portion of the accounts receivable from patients and their insurance carriers related to uninsured patients is net of these discounts.

3. NET PATIENT SERVICE REVENUE

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. A summary of the payment arrangements with third-party payors follows:

Medicare
Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Defined pass through costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. 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. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2014.

Laws and regulations governing the Medicare program are complex and subject to interpretation. 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 program.

3. NET PATIENT SERVICE REVENUE – CONTINUED

Medicaid
Inpatient hospital services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined per diem rates. The prospectively determined rates are established by the Medicaid agency and are not subject to retroactive adjustment. Outpatient services were reimbursed on a fee schedule, plus cost adjustment expenses. Annually, a copy of the Medicare cost report is submitted to the Medicaid agency to assist in monitoring the program.

Blue Cross
Inpatient services rendered to Blue Cross subscribers are reimbursed at prospectively determined rates per day of hospitalization. Effective for patients discharged on or after January 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. EAPG eliminates cost report settlements. Prior to EAPG, outpatient services rendered to Blue Cross subscribers were reimbursed based on a cost reimbursement methodology. The Authority was reimbursed for cost reimbursable services at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by Blue Cross. The Authority's Blue Cross cost reports have been audited through December 31, 2016.

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

Net patient service revenue is comprised of the following for the years ended September 30, 2018 and 2017:

	2018	2017
Gross patient service revenue	$ 610,676,950	$ 596,161,236
Less contractual adjustments	460,568,206	447,288,836
Less charity care	6,234,024	7,384,948
Less provision for bad debts	19,611,283	23,851,938
	$ 124,263,437	$ 117,635,514

4. NONCURRENT CASH AND INVESTMENTS

Noncurrent cash and investments include cash and investments, together with accrued interest, whose use is limited in substance as the result of Board designation for capital improvements and terms of the self-insurance trust agreement.

4. NONCURRENT CASH AND INVESTMENTS – CONTINUED

The Board of Directors of the Authority designated cash and investments in the amounts of $3,919,670 and $3,897,374 for the replacement of property and equipment and for other capital purposes at September 30, 2018 and 2017, respectively.

The Authority self-insures for professional, general liability, and workers' compensation coverage. The balance of self-insurance funds on deposit with the trustee, including accrued interest, was $570,483 and $568,359 at September 30, 2018 and 2017, respectively. In addition, the Authority maintains an umbrella excess liability for professional, general liability, and workers' compensation coverage (see note 10). Deposits to the self-insurance funds are not recognized in operations; rather, an estimate of loss is accrued when a loss becomes probable. Evaluations of the accrued losses are made periodically, and the amount of the accrual is adjusted accordingly.

All of the Authority's noncurrent cash and investments at September 30, 2018 and 2017, are held in cash and cash equivalent accounts.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting that risk, the Authority's investment policy limits the asset allocation as follows:

	Target Weight
Fixed income/cash	50%
Short-term investments/cash	50%
	100%

5. SHORT-TERM INVESTMENTS

Short-term investments include cash and investments that are not limited by any agreements nor any internal Board designations. Such investments generally have maturities of 12 months or less. A summary of the Authority's short-term investments at September 30 is as follows:

	2018	2017
Cash and cash equivalents	$ 779,637	$ 776,735
Certificates of deposit	255,417	251,639
	$ 1,035,054	$ 1,028,374

6. PROPERTY AND EQUIPMENT

At September 30, 2018, property and equipment, including additions and disposals, consists of the following:

	Balance at September 30, 2017	Additions	Disposals	Transfers of CIP	Balance at September 30, 2018
Land	$ 3,697,849	$ -	$ -	$ -	$ 3,697,849
Land improvements	545,937	7,814	-	-	553,751
Buildings	66,570,178	425,129	-	327,265	67,322,572
Fixed equipment	17,380,301	18,026	-	35,049	17,433,376
Major moveable equipment	46,815,743	1,960,072	(62,326)	27,805	48,741,294
Automobiles and related equipment	93,019	-	-	-	93,019
Capital assets at historical cost	135,103,027	2,411,041	(62,326)	390,119	137,841,861
Less accumulated depreciation	(101,571,509)	(5,841,900)	57,112	-	(107,356,297)
	33,531,518	(3,430,859)	(5,214)	390,119	30,485,564
Construction-in-progress	562,213	575,638	-	(390,119)	747,732
	$ 34,093,731	$ (2,855,221)	$ (5,214)	$ -	$ 31,233,296

At September 30, 2017, property and equipment, including additions and disposals, consists of the following:

	Balance at September 30, 2016	Additions	Disposals	Transfers of CIP	Balance at September 30, 2017
Land	$ 3,697,849	$ -	$ -	$ -	$ 3,697,849
Land improvements	539,308	3,475	-	3,154	545,937
Buildings	65,411,818	404,819	(18,757)	772,298	66,570,178
Fixed equipment	17,177,237	78,008	(141,408)	266,464	17,380,301
Major moveable equipment	46,861,240	1,634,872	(1,687,977)	7,608	46,815,743
Automobiles and related equipment	64,557	28,462	-	-	93,019
Capital assets at historical cost	133,752,009	2,149,636	(1,848,142)	1,049,524	135,103,027
Less accumulated depreciation	(97,016,010)	(6,378,295)	1,822,796	-	(101,571,509)
	36,735,999	(4,228,659)	(25,346)	1,049,524	33,531,518
Construction-in-progress	788,836	822,901	-	(1,049,524)	562,213
	$ 37,524,835	$ (3,405,758)	$ (25,346)	$ -	$ 34,093,731

Construction-in-progress at September 30, 2018, consists of costs for renovations, equipment, and installation. Management estimates the additional costs to complete these items are approximately $193,000 and are expected to be completed through December 2018.

7. LONG-TERM OBLIGATIONS

Fiscal year 2018 and 2017 changes in the Authority's long-term debt are as follows:

	Balance at September 30, 2017	Additions	Reductions	Balance at September 30, 2018	Amounts Due Within One Year
Notes payable:					
Term loan	$ 35,300,000	$ -	$ -	$ 35,300,000	$ -
Guidance line	366,597	-	141,909	224,688	141,909
Notes payable	424,609	-	127,674	296,935	129,913
Total notes payable	36,091,206	-	269,583	35,821,623	271,822
Capital lease obligations	36,610	-	36,610	-	-
	$ 36,127,816	$ -	$ 306,193	$ 35,821,623	$ 271,822

	Balance at September 30, 2016	Additions	Reductions	Balance at September 30, 2017	Amounts Due Within One Year
Bonds and notes payable:					
Series 2013-A Revenue Bonds	$ 20,080,000	$ -	$ 20,080,000	$ -	$ -
Capital expenditure line of credit	15,000,000	-	15,000,000	-	-
Term loan	-	35,300,000	-	35,300,000	-
Guidance line	508,506	-	141,909	366,597	141,909
Notes payable	551,692	-	127,083	424,609	139,070
Total bonds and notes payable	36,140,198	35,300,000	35,348,992	36,091,206	280,979
Bond premium 2013-A	25,581	-	25,581	-	-
Capital lease obligations	291,448	-	254,838	36,610	36,610
	$ 36,457,227	$ 35,300,000	$ 35,629,411	$ 36,127,816	$ 317,589

Scheduled principal and interest repayments on notes payable are as follows:

Year Ending September 30	Principal	Interest
2019	$ 271,822	$ 829,267
2020	215,978	823,371
2021	33,823	820,101
2022	35,300,000	884,932
	$ 35,821,623	$ 3,357,671

7. LONG-TERM OBLIGATIONS – CONTINUED

During 2017, the Authority entered into a financing agreement (the “Term Loan”) with a financial institution for $35,300,000. The proceeds were used to refund the $15,000,000 capital expenditure ling of credit (the “Capital Line”) and the Series 2013-A Revenue Bonds (the “2013 Bonds”). The note accrues interest at a fixed rate of 2.32% and is due monthly beginning November 2017 and ending at the maturity date of September 30, 2022. The entire principal is due at maturity. The master trust indenture requires that the Authority comply with certain financial and nonfinancial covenants. The Authority is in compliance with all financial covenants as of September 30, 2018. To provide collateral for the note payments, the Authority pledged all of its gross revenue and all property, rights, and privileges of the Authority.

The transaction resulted in a defeasance and, accordingly, the proceeds of the Term Loan and the liability for the Capital Line and the 2013 Bonds were removed from the accompanying financial statements. This transaction resulted in a gain, which when netted against the remaining unamortized loss from a previous refunding, is being amortized over the shorter of the remaining life of the retired debt or the life of the new debt. The refunding discussed above decreased the Authority’s payback of the refunded debt by one and a half months and resulted in a decrease of total cash flows required to service the debt of approximately $607,000 over the remaining life of the debt and an economic gain of approximately $2,093,000.

During 2013, the Authority entered into a credit agreement (the "Guidance Line") with a total authorized principal of $4,920,000. In December 2014, the agreement was amended, and the total authorized principal was reduced to $1,000,000 with an expiration date of December 31, 2015. On March 24, 2015, $709,543 was advanced to the Authority, and a promissory note was executed pursuant to the terms of the Guidance Line. The outstanding balance is due in monthly installments of $11,826 and matures May 1, 2020. The obligation accrues interest at LIBOR plus 1.5% with a 2.5% floor and is due monthly. No additional funds are available to the Authority in connection with the Guidance Line as the credit agreement expired at December 31, 2015. The Guidance Line is secured through the assets and revenues of the Authority.

During 2012, the Authority financed the purchase of capital equipment through a note payable. The note is paid in monthly installments of $18,374, which includes interest at a rate of 3.0%. The note matured in fiscal year 2017.

During 2006, the Authority acquired real estate through the issuance of a note payable. The obligation is due in monthly installments of $11,113, which includes interest at a rate of 1.25%. The note matures in 2020. The note is unsecured.

The Authority has entered into a capital lease transaction to purchase equipment. The obligation is due in monthly payments of $5,368, which includes interest at rate of 10.78%. The obligation is secured by the equipment. The note matured in fiscal year 2018.

8. OPERATING LEASES

In September 2005, the Authority entered into an agreement to lease medical and office space for a period of 25 years with rental payments escalating annually by 2.75%. In connection with the lease, expenses of approximately $834,000 and $812,000 have been recorded in the accompanying statements of revenues, expenses, and changes in net position for the years ended September 30, 2018 and 2017, respectively.

During 2014, the Authority entered into an operating lease for the freestanding emergency department building completed in April 2015. The lease is for a 15-year period. In connection with the lease, expenses of approximately $647,000 and $642,000 have been recorded in the accompanying statements of revenues, expenses, and changes in net position for the years ended September 30, 2018 and 2017, respectively.

In November 2015, the Authority entered into an agreement to lease medical equipment for a period of 42 months. In connection with the lease, expenses of approximately $194,000 have been recorded in the accompanying statements of revenues, expenses, and changes in net position for both the years ended September 30, 2018 and 2017.

Estimated scheduled rental payments for the freestanding emergency department, leased medical and office space, and medical equipment are as follows:

2019	$ 1,727,000
2020	1,621,000
2021	1,659,000
2022	1,699,000
2023	1,740,000
2024-2028	9,351,000
2029-2031	3,281,000
	$ 21,078,000

9. CONCENTRATION OF CREDIT RISK

The Authority's medical facilities are located in Jefferson County, Alabama. The Authority grants credit without collateral to its patients, most of whom are local residents insured under third-party payor agreements. As of September 30, 2018 and 2017, the mix of receivables from patients and third-party payors was as follows:

	2018	2017
Medicare	39%	41%
Medicaid	9%	8%
Blue Cross	11%	12%
Other third-party payors and commercial insurance carriers	18%	16%
Self-pay	23%	23%
	100%	100%

10. COMMITMENTS AND CONTINGENCIES

Litigation
The Authority is a defendant in various lawsuits arising in the ordinary course of business. It has been determined that losses are probable on several of these lawsuits, and a reasonable estimate of such losses has been accrued by the Authority. The liability, if any, for the remaining lawsuits against the Authority at September 30, 2018, is not determinable, but, in the opinion of management, such liability, if any, will not have a material effect upon the Authority's financial position, results of operations, or cash flows.

Medical Malpractice and Workers' Compensation Insurance
In addition, the Authority maintains an umbrella excess liability policy which provides professional excess liability coverage for each medical incident and in the aggregate of $15,000,000. The policy contains self-insured retentions for professional and general liability of $1,000,000 for each incident and $3,000,000 in the aggregate. This coverage is in addition to the self-insured trust fund (see note 4) maintained by the Authority.

The Authority has also established a self-insurance plan for workers' compensation and assumed liability for workers' compensation costs. The Authority has obtained excess loss coverage for workers' compensation claims which limits its liability to $500,000 per claim. The estimated liability for incurred but unpaid claims has been accrued in the accompanying financial statements.

10. COMMITMENTS AND CONTINGENCIES – CONTINUED

Medical Records Review

The Medicare Prescription Drug Improvement and Modernization Act of 2003 (“MMA”) established the Recovery Audit Contractor (“RAC”) three-year demonstration program to conduct post-payment 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 are subject to reviews under the RAC program, which began in August 2009.

In addition to CMS, other governmental agencies monitor billing and collection practices of health care providers. Based on the results of those reviews, additional guidance regarding appropriate billing and collection practices is often issued, and, based on that additional guidance, health care providers modify their practices and estimate any amounts that may need to be remitted to government payors for procedures previously performed.

The Authority has evaluated the potential impact of medical record reviews and believes the estimated amounts accrued in the accompanying financial statements are sufficient based on current information available.

Health Care Reform

In recent years, there has been increasing pressure on Congress and some state legislatures to control and reduce the cost of health care at the national and state levels. In 2010, legislation was enacted which included cost controls on hospitals, insurance market reforms, delivery system reforms, and various individual and business mandates, among other provisions. The costs of certain provisions will be funded in part by reductions in payments by government programs, including Medicare and Medicaid. There can be no assurance that these changes will not adversely affect the Authority.

11. PENSION PLAN

The Authority has a defined contribution pension plan that covers substantially all of its employees. In addition, the Authority has a deferred compensation plan that covers select employees. Under these plans, the benefits for each employee are the amounts which can be provided by the funds contributed. Contributions are determined based upon a percentage of qualified wages. Pension costs for the years ended September 30, 2018 and 2017 were approximately $1,109,000 and $1,133,000, respectively.

12. MEDICAID DISPROPORTIONATE SHARE SUBSIDIES

In addition to receiving payments from Medicaid for services to hospital patients, the Authority also receives disproportionate share ("DSH") payments from Medicaid. The Authority has recorded net patient revenue in the accompanying statements of revenues, expenses, and changes in net position of approximately \$6,595,000 and \$5,122,000 for the years ended September 30, 2018 and 2017, respectively, in connection with DSH payments.

13. RELATED PARTIES

The UAB Health System provides management services for the Authority. During the years ended September 30, 2018 and 2017, no contributions were received from the UAB Health System, while expenses paid to the UAB Health System totaled approximately \$2,808,000 and \$2,804,000, respectively. Amounts payable to UAB Health System approximated \$225,000 and \$346,000 as of September 30, 2018 and 2017, respectively, and are included in accrued contribution to affiliate. These amounts are based on the financial results of the Authority, before contribution to affiliate. Additionally, amounts payable to UAB Health System for administrative salaries of approximately \$305,000 and \$476,000 as of September 30, 2018 and 2017, respectively, are included in accounts payable and accrued expenses.

In addition to UAB Health System, the Authority conducts business with other UAB Health System entities. These entities include VIVA Health, Inc., Triton Health Systems, LLC, and the University of Alabama Health Services Foundation, P.C. Transactions with the aforementioned entities are carried out in the normal course of business.

The Western Health Services Foundation made contributions of \$62,000 and \$75,000 to the Authority to be used towards the purchase of fixed assets during fiscal years 2018 and 2017, respectively.

14. ELECTRONIC HEALTH RECORDS AWARDS

In July 2013, the Authority registered with the Medicare/Medicaid Electronic Health Records ("EHR") Incentive Program, a federally-funded program which provides financial awards to health care facilities meeting new federally mandated EHR requirements. During the years ended September 30, 2018 and 2017, the Authority recorded revenue of approximately \$53,000 and \$1,190,000, respectively, from the Medicare/Medicaid EHR Incentive Program. These amounts are recorded as other operating revenue in the statements of revenues, expenses, and changes in net position.

15. SUBSEQUENT EVENT

On December 27, 2018, the Authority submitted a letter of intent with the State Health Planning and Development Agency to file a Certificate of Need ("CON") application to replace its existing hospital facility. The Authority intends to file its CON application within six months of the submission date of the letter of intent. The new hospital will consist of 200 licensed beds and will be located at Exit 1 on Interstate Highway 459 in unincorporated west Jefferson County. The projected cost of constructing the replacement hospital, medical office building and parking deck is approximately $290,000,000; and the projected cost of all necessary medical equipment and furnishings is approximately $50,000,000.

ADDITIONAL INFORMATION

MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
MEMBERS OF THE AUTHORITY BOARD AND OFFICIALS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2018

The following are members of the Board of Directors of Medical West Hospital Authority, An Affiliate of UAB Health System:

Name and Address	Position	Expiration of Term
Will Ferniany The Whitaker Building 500 22nd Street South, Suite 408 Birmingham, AL 35233	Chairman	September 30, 2019
Richard Brooks 2536 Altadena Forest Circle Birmingham, AL 35243	Vice-Chairman	September 30, 2020
Don Lilly The Whitaker Building 500 22nd Street South, Suite 502 Birmingham, AL 35233	Member	September 30, 2020
Scott Buchalter, M.D. 1802 6th Ave S Birmingham, AL 35233	Member	September 30, 2021
Allen Pate 100 Municipal Drive P. O. Box 360628 Hoover, AL 35236-0628	Member	September 30, 2021
Don W. Holmes 529 4th Avenue North Bessemer, AL 35022	Member	September 30, 2019
Russell Tyner Baptist Health Montgomery P. O. Box 244001 Montgomery, AL 36124	Member	September 30, 2021
John O. Issis, M.D. 985 9th Avenue S.W. Bessemer, AL 35022	Member	September 30, 2019
Barbara Humphrey 1705 14th Ave Apt B Birmingham, AL 35205	Member	September 30, 2020

MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
MEMBERS OF THE AUTHORITY BOARD AND OFFICIALS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Name and Address	Position	Expiration of Term
Sally Ebaugh, M.D. 1700 4th Avenue North Bessemer, AL 35020	Member	September 30, 2021
Dana Keith 500 University Blvd. East Tuscaloosa, AL 35401	Member	September 30, 2019
Conrad De Los Santos, D.O. 995 9th Avenue S.W. Bessemer, AL 35022	Ex-officio Member	N/A
Keith Pennington 995 9th Avenue S.W. Bessemer, AL 35022	Ex-officio Member	N/A

Warren Averett
CPAs AND ADVISORS

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Medical West Hospital Authority,
An Affiliate of UAB Health System

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 Medical West Hospital Authority, An Affiliate of UAB Health System ("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 8, 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 Authority'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 a 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 8, 2019