

TOMBIGBEE HEALTHCARE AUTHORITY

FINANCIAL STATEMENTS

for the years ended September 30, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tombigbee Healthcare Authority
Demopolis, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of Tombigbee Healthcare Authority (the Authority) and the financial statements of Tombigbee Healthcare Authority Foundation, Inc. (the Foundation), a discretely presented component unit, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits 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.

Continued

Let's Think Together.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority and of its discretely presented component unit, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Substantial Doubt about the Authority's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 14 to the financial statements, the Authority has suffered recurring losses from operations, cash flow management difficulties, and deficit working capital. These issues indicate that substantial doubt exists about the Authority's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Prior Year Financial Statements

The financial statements of the Authority and of its discretely presented component unit as of September 30, 2017, were audited by other auditors whose report dated February 19, 2018, on those statements included an emphasis of matter paragraph describing conditions that raised substantial doubt about the Authority's ability to continue as a going concern.

Continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 5 through 13 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The 2018 board members and officials, the statements of operating revenues, operating expenses by department, and operating expenses by natural category are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statements of operating revenues, operating expenses by department, and operating expenses by natural category are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 statements of operating revenues, operating expenses by department, and operating expenses by natural category are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The 2017 statements of operating revenues, operating expenses by department, and operating expenses by natural category were subjected to the auditing procedures applied in the 2017 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2017 financial statements as a whole.

The 2018 board members and officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Authority's 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.

DRAFFIN + TUCKER, LLP

Albany, Georgia
March 28, 2019



TOMBIGBEE
HEALTHCARE AUTHORITY
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TOMBIGBEE HEALTHCARE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2018 and 2017

This section of Tombigbee Healthcare Authority's (the Authority) financial statements presents management's analysis of the Authority's financial performance during the fiscal years that ended on September 30, 2018 and 2017. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

2018

- We experienced an increase of 10% in inpatient gross revenue, while our outpatient gross revenue had a slight increase of 2%. Our top performers in inpatient were Pharmacy with a 16% increase and Adult Psychiatric, which had its first full fiscal year of operation, with a 58% increase over last year. For outpatient services, we experienced increases in Emergency Room, Observation, Laboratory, CT Scan, Outpatient Psychiatric, and Sleep Lab gross revenues, but decreases in Operating Room, Physical Therapy, Home Health, Nuclear Medicine, Oncology, and MRI gross revenues. Also, our Partial Hospitalization and our Adult Intensive Outpatient Programs were discontinued which resulted in additional decreases in gross revenues in 2018.
- In fiscal year 2018, the Authority implemented the Municipal Intercept Services, Alabama's only state tax refund municipal debt recovery program, which realized an additional cash flow of approximately \$230,000.

2017

- We had a decrease of 10% in inpatient gross revenue, but a less than 1% increase in outpatient gross revenue. Our top performers in outpatient services saw a 24% increase in Oncology revenue, a 13% increase in Physical Therapy revenue, and a 12% increase in Sleep Lab revenue.
- We also opened our Adult Psychiatric Unit in February 2017, which we anticipate will boost our inpatient revenues significantly and help bring in additional outpatient revenue in 2018.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), Continued September 30, 2018 and 2017

Overview of the Financial Statements

The financial statements consist of two parts: management's discussion and analysis (unaudited) and the financial statements. The financial statements also include notes and supplementary information.

Required Basic Financial Statements

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

The statements of revenues, expenses, and changes in net position account for all of the current year's revenues and expenses. These statements measure the success of the Authority's operations over the past year, show the rollforward of the Authority's net position, 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. These statements' primary purpose 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 and the statements of revenues, expenses, and changes in net position report information about the Authority's activities in a way that will help answer this question. These two statements report the net position of the Authority and changes in them. 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 also need to consider other nonfinancial factors, such as changes in economic conditions, regulations, and new or changed government legislation.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), Continued
September 30, 2018 and 2017

Net Position

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

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

	<u>FY 2018</u>	<u>FY 2017</u>	<u>\$ Change</u>	<u>% Change</u>
Receivables, net	\$ 2.3	\$ 2.5	\$(0.2)	(8)%
Other current assets	<u>2.9</u>	<u>2.3</u>	<u>0.6</u>	<u>26 %</u>
Current assets	<u>5.2</u>	<u>4.8</u>	<u>0.4</u>	<u>8 %</u>
Other assets	0.4	0.2	0.2	100%
Capital assets	<u>10.7</u>	<u>12.0</u>	<u>(1.3)</u>	<u>(11)%</u>
Total assets	\$ <u>16.3</u>	\$ <u>17.0</u>	\$(<u>0.7</u>)	(<u>4</u>)%
Total current liabilities	\$ 8.5	\$ 10.0	\$(1.5)	(15)%
Long-term liabilities	<u>6.1</u>	<u>2.6</u>	<u>3.5</u>	<u>135 %</u>
Total liabilities	<u>14.6</u>	<u>12.6</u>	<u>2.0</u>	<u>16 %</u>
Net position:				
Net investment in capital assets	7.9	8.9	(1.0)	(11)%
Unrestricted	<u>(6.2)</u>	<u>(4.5)</u>	<u>(1.7)</u>	<u>38 %</u>
Total net position	<u>1.7</u>	<u>4.4</u>	<u>(2.7)</u>	<u>(61)%</u>
Total liabilities and net position	\$ <u>16.3</u>	\$ <u>17.0</u>	\$(<u>0.7</u>)	(<u>4</u>)%

As shown in Table A-1, net position decreased approximately \$2.7 million from 2017. This change is attributable to expenses exceeding revenues in 2018 due to a 33% decrease in non-operating income, a 10% decrease in Self Recovery inpatient admissions, and a 5% decrease in outpatient visits. Total assets decreased by approximately \$0.7 million primarily due to a \$200,000 decrease in net patient accounts receivable brought about by a decrease in Home Health and Oncology service revenue, and a \$1.3 million decrease in property and equipment due to depreciation expense exceeding additions for the year.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), Continued
September 30, 2018 and 2017

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

	<u>FY 2017</u>	<u>FY 2016</u>	<u>\$ Change</u>	<u>% Change</u>
Receivables, net	\$ 2.5	\$ 2.6	\$(0.1)	(4)%
Other current assets	<u>2.3</u>	<u>2.1</u>	<u>0.2</u>	<u>10</u> %
Current assets	4.8	4.7	0.1	2 %
Other assets	0.2	0.5	(0.3)	(60)%
Capital assets	<u>12.0</u>	<u>13.3</u>	<u>(1.3)</u>	<u>(10)</u> %
Total assets	\$ <u>17.0</u>	\$ <u>18.5</u>	\$(<u>1.5</u>)	(<u>8</u>)%
Total current liabilities	\$ 10.0	\$ 6.4	\$ 3.6	56 %
Long-term liabilities	<u>2.6</u>	<u>3.1</u>	<u>(0.5)</u>	<u>(16)</u> %
Total liabilities	<u>12.6</u>	<u>9.5</u>	<u>3.1</u>	<u>33</u> %
Net position:				
Net investment in capital assets	8.9	10.0	(1.1)	(11)%
Unrestricted	<u>(4.5)</u>	<u>(1.0)</u>	<u>(3.5)</u>	<u>350</u> %
Total net position	<u>4.4</u>	<u>9.0</u>	<u>(4.6)</u>	<u>(51)</u> %
Total liabilities and net position	\$ <u>17.0</u>	\$ <u>18.5</u>	\$(<u>1.5</u>)	(<u>8</u>)%

As shown in Table A-2, net position decreased approximately \$4.6 million from 2016. This change is attributable to expenses exceeding revenues in 2017 due to a 22% decrease in inpatient admissions, and a 40% decrease in Swing Bed inpatient admissions. Total assets decreased by approximately \$1.5 million primarily due to a \$300,000 decrease in noncurrent cash due to using those funds to complete the Adult Psychiatric Unit, a \$100,000 decrease in net patient accounts receivable brought about by a decrease in net patient service revenue, and a \$1.3 million decrease in property and equipment due to depreciation expense exceeding additions for the year.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), Continued
September 30, 2018 and 2017

Change in Net Position

While the balance sheets show the change in financial position, the statements of revenues, expenses, and changes in net position presented in Tables B-1 and B-2 provide answers as to the nature and source of these changes.

Table B-1: Condensed Statements of Revenues, Expenses, and Changes in Net Position
(in millions of dollars)

	<u>FY 2018</u>	<u>FY 2017</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues	\$ <u>22.9</u>	\$ <u>20.7</u>	\$ <u>2.2</u>	<u>11</u> %
Operating expenses:				
Service departments	8.7	8.7	0.0	0 %
Revenue departments	15.7	15.5	0.2	1 %
Depreciation	<u>1.6</u>	<u>1.7</u>	(0.1)	(6) %
Total operating expenses	<u>26.0</u>	<u>25.9</u>	<u>0.1</u>	<u>0</u> %
Loss from operations	(3.1)	(5.2)	2.1	(40) %
Nonoperating revenues, net	<u>0.4</u>	<u>0.6</u>	(0.2)	(33) %
Change in net position	(2.7)	(4.6)	1.9	(41) %
Beginning net position	<u>4.4</u>	<u>9.0</u>	(4.6)	(51) %
Ending net position	\$ <u>1.7</u>	\$ <u>4.4</u>	\$ (2.7)	(61) %

Table B-1 above shows a decrease in loss from operations during 2018 of \$2.1 million. This is due mainly to the increase in patient revenue due to an increase in patient days associated with the new Adult Psychiatric Unit.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), Continued

September 30, 2018 and 2017

Table B-2: Condensed Statements of Revenues, Expenses, and Changes in Net Position
(in millions of dollars)

	<u>FY 2017</u>	<u>FY 2016</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues	\$ <u>20.7</u>	\$ <u>22.0</u>	\$(<u>1.3</u>)	<u>6</u> %
Operating expenses:				
Service departments	8.7	8.6	0.1	1 %
Revenue departments	15.5	15.3	0.2	1 %
Depreciation	<u>1.7</u>	<u>1.8</u>	(<u>0.1</u>)	(<u>6</u>) %
Total operating expenses	<u>25.9</u>	<u>25.7</u>	<u>0.2</u>	<u>1</u> %
Loss from operations	(<u>5.2</u>)	(<u>3.7</u>)	(1.5)	41 %
Nonoperating revenues, net	0.6	0.1	0.5	500 %
Capital grant income	<u>-</u>	<u>0.3</u>	(<u>0.3</u>)	(<u>100</u>) %
Change in net position	(<u>4.6</u>)	(<u>3.3</u>)	(1.3)	39 %
Beginning net position	<u>9.0</u>	<u>12.3</u>	(<u>3.3</u>)	(<u>27</u>) %
Ending net position	\$ <u>4.4</u>	\$ <u>9.0</u>	\$(<u>4.6</u>)	(<u>51</u>) %

Table B-2 above shows an increase in loss from operations during 2017 of \$1.5 million. This is due mainly to the decrease in inpatient revenue due to lower patient days.

Capital Assets and Debt Financing

Capital Assets

At September 30, 2018, the Authority had \$10.7 million invested in a variety of capital assets, as reflected in Table C-1 that follows, which represents a 11 % decrease from 2017. There were no major projects or purchases made in 2018. At September 30, 2017, the Authority had \$12.0 million invested in a variety of capital assets, as reflected in Table C-1 that follows, which represents a 10 % decrease from 2016. Our major project in 2017 was our Adult Psychiatric Unit, which was completed in February 2017.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), Continued
September 30, 2018 and 2017

Table C-1: Capital Assets (in millions of dollars)

	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2016</u>
Land and land improvements	\$ 1.5	\$ 1.5	\$ 1.5
Buildings	23.1	23.0	22.2
Equipment	<u>33.1</u>	<u>32.8</u>	<u>32.7</u>
	57.7	57.3	56.4
Accumulated depreciation	(47.0)	(45.4)	(43.7)
Construction-in-progress	<u>-</u>	<u>0.1</u>	<u>0.6</u>
Net capital assets	\$ <u>10.7</u>	\$ <u>12.0</u>	\$ <u>13.3</u>

Debt Financing

During 2012, the Authority entered into an agreement with an air ambulance service company. The agreement states that the Authority will make the service company its preferred provider of air ambulance services. The agreement provides for the service company to pay the Authority monthly rent in the amount of \$1,750 for the use of the Authority's helipad, less a credit of \$595 per month for hangar and helipad improvements paid for by the service company. At the end of the 10-year agreement, ownership of the improvements will revert to the Authority. The Authority has treated the transaction as the financed purchase of the improvements. No interest rate is stated in the terms of the agreement. The agreement matures in November 2021. The outstanding balance of the financed purchase is \$23,780 at September 30, 2018 (\$30,914 at September 30, 2017).

During 2013, the Authority entered into a note payable with a local bank in the amount of \$3,000,000. The proceeds of the note payable were used to repay and consolidate two existing note agreements and to finance capital purchases. The note requires the Authority to make monthly installments in the amount of \$28,625, including principal and interest, through July 20, 2023. The interest rate for the tax-exempt loan is 2.75%. The loan is secured by the Authority's rights pertaining to the lease between the Authority and the City of Demopolis (see Note 1) and a security agreement covering Authority equipment. The note payable had a balance of \$1,553,006 at September 30, 2018 (\$1,849,371 at September 30, 2017).

During 2014, the Authority entered into a capital lease obligation with a vendor. The terms of the capital lease require the Authority to make monthly payments of \$875, including interest at a rate of 4.23%. The capital lease is secured by equipment and matured in September 2018. The capital lease had a balance of \$-0- at September 30, 2018 (\$10,260 at September 30, 2017).

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), Continued September 30, 2018 and 2017

Debt Financing, Continued

During 2015, the Authority entered into a capital lease obligation with a finance company. The terms of the capital lease require the Authority to make monthly payments of \$2,684, including interest at a rate of 8.52%. The capital lease is secured by equipment and matures in July 2019. The capital lease had a balance of \$25,859 at September 30, 2018 (\$54,665 at September 30, 2017).

During 2015, the Authority entered into a finance agreement with a vendor. The terms of the agreement require the Authority to make monthly payments of \$8,196, including interest at a rate of 7.50%. The agreement matures in March 2020. The agreement had a balance of \$139,091 at September 30, 2018 (\$223,541 at September 30, 2017).

During 2015, the Authority entered into a finance agreement with a vendor. The terms of the agreement do not include a stated interest rate and require 60 equal monthly installments of \$1,250. The agreement matures in June 2020. The agreement had a balance of \$26,250 at September 30, 2018 (\$41,250 at September 30, 2017).

During 2016, the Authority entered into a loan agreement with the City of Demopolis in the amount of \$926,200 for the purpose of construction of a 10-bed adult psychiatric unit. The payment terms are interest only through December 2016 and then 144 monthly payments of \$7,886 of principal and interest through February 2029. The loan carries a fixed interest rate of 3.50% and is secured by a mortgage on certain real estate. The note payable had a balance of \$819,581 at September 30, 2018 (\$878,988 at September 30, 2017).

During 2017, the Authority entered into a loan agreement with the Marengo County Commission in the amount of \$2,000,000. The loan was used to fund operations of the Authority. Interest only payments are made monthly by withholding interest payments from sales tax revenue received. The Authority made an initial principal payment of \$28,987 which was also withheld from sales tax revenue, leaving a balance of \$1,971,013 at September 30, 2017. The loan carried a fixed interest rate of 1.93% through June 2018. On June 1, 2018, Marengo County issued Series 2018-B Taxable General Obligation Warrants to refund and retire its bank loan that was issued to fund the 2017 loan agreement with the Authority. Upon the issuance of the Warrants, the County refunded the \$28,987 paid by the Authority during 2017, and the Authority's sales tax revenue withholdings were aligned with the bond principal and interest payment terms. Interest rates per the bond terms are fixed and range from 2.75% to 4.00%. Monthly payments of interest only are due for the months of June through October 2018, and monthly payments of principal and interest in the amount of \$21,079 will begin in November 2018. The loan matures in October 2028. The loan balance as of September 30, 2018 was \$2,000,000.

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TOMBIGBEE HEALTHCARE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), Continued
September 30, 2018 and 2017

Debt Financing, Continued

In October 2017, the Authority entered into a promissory note with the City of Demopolis in the amount of \$110,272. The proceeds of the note were used for hospital roof repairs. The note carries a fixed interest rate of 3.50%. Accrued interest from October 12, 2017, through October 1, 2018, is due on October 1, 2018. Beginning on November 1, 2018, the Authority will pay 120 monthly principal and interest payments of \$1,091.

In August 2018, the Authority entered into a capital lease obligation with a finance company. The terms of the capital lease require the Authority to make monthly payments of \$2,090, including interest at a rate of 2.93%. The capital lease is secured by equipment and matures in August 2023. The capital lease had a balance of \$114,699 at September 30, 2018.

In August 2018, the Authority entered into a promissory note with the City of Demopolis in the amount of \$1,000,000. The proceeds of the note are to be used to fund the operations of the Authority. The note has a stated interest rate of -0-% and is due in full on August 6, 2023.

In September 2018, the Authority entered into a note payable with a local bank in the amount of \$1,000,350. The proceeds of the loan are to be used to fund the operations of the Authority. The loan requires monthly payments of interest only at a rate of 4.09% through August 26, 2023, and the principal balance of the loan is due on September 26, 2023. The note is secured by a guarantee from the Marengo County Commission and monthly interest payments are made by the County by withholding the payments from sales tax revenue received.

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

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TOMBIGBEE HEALTHCARE AUTHORITY

STATEMENTS OF NET POSITION
as of September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash	\$ 1,021,920	\$ 299,125
Short-term investments	-	200,000
Patient accounts receivable, net of estimated uncollectibles of approximately \$1,487,000 in 2018 and \$1,569,000 in 2017	2,343,053	2,449,609
Other receivables	913,973	788,398
Inventories	752,960	791,599
Prepaid expenses	<u>209,815</u>	<u>220,921</u>
Total current assets	<u>5,241,721</u>	<u>4,749,652</u>
Noncurrent cash and investments:		
Loan proceeds to be used for the acquisition of property and equipment	-	54,678
Other	<u>-</u>	<u>136,633</u>
Total noncurrent cash and investments	<u>-</u>	<u>191,311</u>
Property and equipment, net	<u>10,737,874</u>	<u>11,958,008</u>
Other assets:		
Other receivables	90,703	84,744
Other	<u>276,700</u>	<u>-</u>
Total other assets	<u>367,403</u>	<u>84,744</u>
Total assets	<u>\$ 16,346,998</u>	<u>\$ 16,983,715</u>

	<u>2018</u>	<u>2017</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	\$ 5,976,336	\$ 5,177,441
Accrued salaries, wages, payroll taxes, and amounts withheld from employees	848,732	896,994
Estimated third-party payor settlements	967,442	1,459,352
Current portion of long-term debt	<u>706,282</u>	<u>2,477,735</u>
Total current liabilities	8,498,792	10,011,522
Long-term debt, less current portion	<u>6,106,606</u>	<u>2,582,267</u>
Total liabilities	<u>14,605,398</u>	<u>12,593,789</u>
Net position:		
Net investment in capital assets	7,925,336	8,923,697
Unrestricted	<u>(6,183,736)</u>	<u>(4,533,771)</u>
Total net position	<u>1,741,600</u>	<u>4,389,926</u>
Total liabilities and net position	\$ <u>16,346,998</u>	\$ <u>16,983,715</u>

See accompanying notes to financial statements.

TOMBIGBEE HEALTHCARE AUTHORITY

STATEMENTS OF FINANCIAL POSITION – DISCRETELY
PRESENTED COMPONENT UNIT
for the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash	\$ <u>20,502</u>	\$ <u>17,859</u>
Total assets	\$ <u>20,502</u>	\$ <u>17,859</u>
NET ASSETS		
Net assets:		
Unrestricted	\$ 12,555	\$ 12,449
Temporarily restricted	<u>7,947</u>	<u>5,410</u>
Total net assets	\$ <u>20,502</u>	\$ <u>17,859</u>

See accompanying notes to financial statements.

TOMBIGBEE HEALTHCARE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
for the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenue:		
Net patient service revenue (net of provision for bad debts of approximately \$3,289,000 in 2018 and \$3,287,000 in 2017)	\$ 22,378,841	\$ 20,157,350
Other revenue	<u>528,792</u>	<u>522,681</u>
Total operating revenues	<u>22,907,633</u>	<u>20,680,031</u>
Operating expenses:		
Service departments	8,666,852	8,756,387
Revenue departments	15,733,199	15,503,625
Depreciation	<u>1,576,893</u>	<u>1,675,810</u>
Total operating expenses	<u>25,976,944</u>	<u>25,935,822</u>
Operating loss	<u>(3,069,311)</u>	<u>(5,255,791)</u>
Nonoperating revenues (expenses):		
Investment income (loss)	(12,771)	3,484
Net change in the fair value of investments	-	40,770
Gain on disposal of property and equipment	52,594	2,380
Local sales tax revenue	462,171	452,349
Other contributions and noncapital grant income	680,480	1,533,979
Other nonoperating expenses	(499,803)	(1,314,305)
Interest expense	<u>(261,686)</u>	<u>(132,129)</u>
Total nonoperating revenue	<u>420,985</u>	<u>586,528</u>
Excess expenses	<u>(2,648,326)</u>	<u>(4,669,263)</u>
Net position at beginning of year	<u>4,389,926</u>	<u>9,059,189</u>
Net position at end of year	<u>\$ 1,741,600</u>	<u>\$ 4,389,926</u>

See accompanying notes to financial statements.

TOMBIGBEE HEALTHCARE AUTHORITY

STATEMENTS OF ACTIVITIES – DISCRETELY
PRESENTED COMPONENT UNIT
for the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Unrestricted net assets:		
Revenues, gains, and support:		
Unrestricted contributions	\$ 200	\$ -
Net assets released from restrictions	<u>624</u>	<u>-</u>
Total revenues	824	-
Expenses:		
Management and general	<u>718</u>	<u>-</u>
Increase in unrestricted net assets	<u>106</u>	<u>-</u>
Temporarily restricted net assets:		
Revenues, gains, and support:		
Contributions	3,161	100
Net assets released from restrictions	<u>(624)</u>	<u>-</u>
Increase in temporarily restricted net assets	<u>2,537</u>	<u>100</u>
Increase in net assets	2,643	100
Net assets at beginning of year	<u>17,859</u>	<u>17,759</u>
Net assets at end of year	\$ <u>20,502</u>	\$ <u>17,859</u>

See accompanying notes to financial statements.

TOMBIGBEE HEALTHCARE AUTHORITY

STATEMENTS OF CASH FLOWS
for the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 21,993,487	\$ 20,899,264
Payments to suppliers	(10,157,132)	(9,602,726)
Payments to employees or on behalf of employees	(13,759,191)	(13,544,187)
Other receipts and payments, net	<u>390,809</u>	<u>297,883</u>
Net cash used by operating activities	<u>(1,532,027)</u>	<u>(1,949,766)</u>
Cash flows from noncapital financing activities:		
Proceeds from other contributions and noncapital grants, net	180,677	219,674
Proceeds from the issuance of long-term debt	2,029,337	2,000,000
Local sales tax receipts	420,284	411,345
Interest paid	<u>(121,295)</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>2,509,003</u>	<u>2,631,019</u>
Cash flows from capital and related financing activities:		
Purchases of property and equipment	(201,613)	(369,689)
Proceeds from disposal of property and equipment	53,902	2,380
Proceeds from the issuance of long-term debt	110,272	-
Principal paid on long-term debt	(503,227)	(472,442)
Interest paid	<u>(92,298)</u>	<u>(122,649)</u>
Net cash used by capital and related financing activities	<u>(632,964)</u>	<u>(962,400)</u>
Cash flows from investing activities:		
Investment income received	3,095	3,744
Purchases of investments	(150,000)	(70,000)
Proceeds from the sale of investments	<u>471,010</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>324,105</u>	<u>(66,256)</u>
Net change in cash and cash equivalents	668,117	(347,403)
Cash and cash equivalents at beginning of year	<u>353,803</u>	<u>701,206</u>
Cash and cash equivalents at end of year	\$ <u>1,021,920</u>	\$ <u>353,803</u>

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

STATEMENTS OF CASH FLOWS, Continued
for the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of cash and cash equivalents to statements of net position:		
Cash	\$ 1,021,920	\$ 299,125
Cash and cash equivalents included in noncurrent cash and investments	<u> -</u>	<u>54,678</u>
Total cash and cash equivalents	\$ <u>1,021,920</u>	\$ <u>353,803</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$(3,069,311)	\$(5,255,791)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	1,576,893	1,675,810
Provision for bad debts	3,289,388	3,287,258
Changes in:		
Patient accounts receivable	(3,182,832)	(3,156,331)
Other receivables	(137,983)	(224,798)
Inventories	38,639	131,326
Prepaid expenses	11,106	(23,947)
Other assets	(276,700)	-
Accounts payable	758,945	968,883
Accrued salaries, wages, payroll taxes, and amounts withheld from employees	(48,262)	36,837
Estimated third-party payor settlements	<u>(491,910)</u>	<u>610,987</u>
Net cash used by operating activities	\$ <u>(1,532,027)</u>	\$ <u>(1,949,766)</u>
Supplemental schedule of noncash investing, capital, and financing activities:		
Local sales tax revenue included in other receivables	\$ <u>50,234</u>	\$ <u>56,440</u>
Investment income included in other receivables	\$ <u>6,146</u>	\$ <u>6,389</u>
Net change in the fair value of investments	\$ <u> -</u>	\$ <u>40,770</u>
Principal payments on debt withheld from sales tax revenue	\$ <u> -</u>	\$ <u>28,987</u>
Interest payments on debt withheld from sales tax revenue	\$ <u>48,093</u>	\$ <u>9,480</u>
Purchases of property and equipment included in accounts payable	\$ <u>39,950</u>	\$ <u> -</u>
Capital lease obligations entered into	\$ <u>116,504</u>	\$ <u> -</u>

See accompanying notes to financial statements.

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

1. Description of Organization and Summary of Significant Accounting Policies

Organization

Tombigbee Healthcare Authority (the Authority) is classified as a governmental entity under the laws of Alabama. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

The Authority is comprised of Bryan W. Whitfield Memorial Hospital, Bryan W. Whitfield Memorial Hospital Home Health Agency, Tombigbee Geriatric Behavioral Health, Tombigbee Adult Behavioral Health, Two Rivers Surgical Center, and GROWestAL. The Authority's primary mission is to provide health care services to the citizens of Marengo County and the surrounding areas through its facilities. The Authority operates the Bryan W. Whitfield Memorial Hospital under a lease agreement originally with the Hospital Building Authority of the City of Demopolis (Hospital Building Authority). Lease payments under the original lease consisted of the Authority making the debt service payments on the Hospital Building Authority's outstanding revenue bonds that were issued for the purpose of acquiring, constructing, and equipping a comprehensive public hospital in the City of Demopolis. The original lease was accounted for as a capital lease in the Authority's financial statements with the related assets included in property and equipment and the related Hospital Building Authority bonds recorded as a liability. The Authority has since retired the outstanding bonds of the Hospital Building Authority, and title to the leased property has transferred from the Hospital Building Authority to the City of Demopolis. The Authority continues to lease the hospital building property from the City of Demopolis for nominal annual rental payments. The lease agreement currently expires on April 1, 2043.

In February 2014, the Tombigbee Healthcare Authority Foundation, Inc. (the Foundation) was formed to promote and advance the purposes and objectives of the Authority. The Foundation is authorized by the Authority to solicit contributions on its behalf. The Foundation exists primarily for the benefit of the Authority and its health care mission. In the absence of donor restrictions, the Foundation has discretionary control over the amounts to be distributed, the timing of such distributions, and the purposes for which such funds are to be used.

In May 2002, the *Determining Whether Certain Organizations Are Component Units* topic of the Governmental Accounting Standards Board (GASB) Codification was issued. The purpose of this guidance is to determine whether certain organizations for which the primary government is not financially accountable, such as the Foundation, should be reported as component units based on the nature and significance of their relationships with the primary government. As a result, the Foundation is presented as a discretely presented component

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Organization, Continued

unit in the Authority's financial statements, whereby the statement of financial position and the statement of activities are separately presented in the accompanying financial statements. The Foundation is a not-for-profit organization and, accordingly, follows the applicable pronouncements of the Financial Accounting Standards Board (FASB).

Basis of Accounting

The accompanying financial statements have been prepared in accordance with statements issued by the GASB and the accounting and reporting guidelines set forth in the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Organizations*.

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 date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs and certain other nonoperating expenses related to grants.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2018 and 2017

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Deferred Outflows/Inflows

GASB provides that certain amounts reported on the statements of net position of a governmental entity be reported separately from assets and liabilities and be reported as deferred outflows of resources and deferred inflows of resources. As of September 30, 2018 and 2017, the Authority does not have any amounts that meet the definition of deferred outflows or inflows of resources.

Net Position

The 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 net 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 remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

Restricted Resources

When the Authority has both restricted and unrestricted resources available to finance a particular program, it is the Authority's policy to use restricted resources before unrestricted resources.

Charity Care

The Authority has a policy of providing charity care to patients who are unable to pay. Such patients are identified upon admission based on income levels and past histories. If information is not available at the time of admission, subsequent analysis is performed. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues. The Authority provided charity care of \$1,608,003 in 2018 (\$1,373,758 in 2017) based on established charge rates.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Net Patient Service Revenue

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. Revenues from the Medicare and Medicaid programs accounted for approximately 44% (45% in 2017) and 21% (19% in 2017), 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. 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.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposit accounts, and short-term investments with original maturities of three months or less.

The Authority's deposits were held by financial institutions 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.

Supplies Inventory

Inventories, consisting primarily of supplies, are stated at cost, which is not in excess of market, using the first-in, first-out (FIFO) method.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Short-Term Investments and Noncurrent Cash and Investments

Short-term investments consist of certificates of deposit with a maturity of less than one year and are carried at cost which approximates fair value. Noncurrent cash and investments consist of stock, which is reported at fair value based on quoted market prices, and a money market account, which is carried at cost which approximates fair value and represents unspent loan proceeds to be used for future capital purchases. The Authority's investments are in accordance with its investment policy. The net change in fair value of the stock is included in nonoperating revenues (expenses) in the statements of revenues, expenses, and changes in net position.

Property and Equipment

Property and equipment items are recorded at cost or, if donated, at acquisition value on the date acquired. The provision for depreciation is computed on the straight-line method using the estimated useful lives of the respective assets.

The Authority capitalizes significant leases which transfer substantially all of the benefits and risks of ownership. Amortization expense on the leased assets is computed on the straight-line method over the estimated useful life of the asset or lease term (whichever is shorter) and is included with the provision for depreciation.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Financing Cost

Costs incurred in connection with the issuance of bonds and notes are expensed in the period in which they are incurred.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Compensated Absences

The Authority's employees earn paid days off (PDO), which is comprised of vacation, sick, bereavement and holiday benefits at varying rates depending on years of service. Employees are allowed to accumulate PDO's up to a specified maximum. PDO's accumulated in excess of the specified maximum are forfeited. Employees may elect to be paid for their unused PDO's annually up to a specified maximum of the PDO's earned each year. The estimated PDO accrual is reported in accrued salaries, wages, payroll taxes, and amounts withheld from employees on the Authority's statements of net position.

Contributions

From time to time, the Authority receives contributions from individuals and organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Local Sales Tax Revenues

The Authority receives the proceeds of certain sales taxes collected by the city and the county. GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, among other matters, requires that the proceeds of taxes, such as those received by the Authority (referred to as derived tax revenue transactions), be recorded as revenue by the recipient in the period that the underlying exchange from which the tax is derived occurs.

Risk Management

The Authority is exposed to various risks of loss from torts, medical malpractice claims, theft of, damage to, and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, natural disasters, and employee health benefits. With the exception of employee health benefits, commercial insurance coverage is purchased for claims arising from such matters (see Note 10 regarding employee health benefits). Settled claims have not exceeded commercial insurance in any of the three preceding years.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2018 and 2017

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Impairment of Long-Lived Assets

The Authority evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Authority has not recorded any impairment charges in the accompanying statements of revenues, expenses and changes in net position for the years ended September 30, 2018 and 2017.

Accounts Receivable

Adequate allowances are provided for doubtful accounts. Credit losses have historically been within management's expectations. Allowance for doubtful accounts is estimated based on historical write-off percentages and review of large balance self-pay accounts. Doubtful accounts are written off against the allowance after adequate collection effort is exhausted and recorded as recoveries of bad debts if subsequently collected.

Fair Value Measurements

GASB Statement No. 72 – *Fair Value Measurement and Application* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. GASB No. 72 also establishes a hierarchy of inputs to valuation techniques used to measure fair value. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. GASB No. 72 describes the following three levels of inputs that may be used:

- *Level 1:* Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.
- *Level 2:* Observable inputs such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued

- *Level 3*: Unobservable inputs for an asset or liability. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Prior Year Reclassification

Certain reclassifications have been made to the fiscal year 2017 financial statements to conform to the fiscal year 2018 presentation. These reclassifications had no impact on the change in net position in the accompanying financial statements.

2. Net Patient Service Revenues

The Authority provides health care services primarily to residents of the region.

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive adjustments to revenues due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenues on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Net patient service revenues have been increased by approximately \$520,000 in 2018 (increased by approximately \$194,000 in 2017) due to changes in estimates related to prior year cost report settlements.

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from established rates. A summary of the payment arrangements with major 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 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. Medicare cost reports have been audited and

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

2. Net Patient Service Revenues, Continued

• Medicare. Continued

settled by the Medicare fiscal intermediary through September 30, 2014. In the opinion of management, the amounts included in the financial statements as estimated third-party settlements contain adequate provisions for any adjustments that may result from reviews of open cost reports.

• Medicaid

The Hospital Funding Program governs Medicaid payments. For public hospitals, the Hospital Funding Program utilizes federal funds derived from disproportionate share hospital (DSH) payments to provide inpatient and outpatient payments.

Hospitals receive quarterly DSH payments during the state fiscal year, base per diem payments for inpatient services, and outpatient payments based on the Medicaid fee schedule maintained by the Medicaid agency. These payments are determined and provided by the Alabama Medicaid Agency. The Alabama Medicaid Agency claims the maximum allowable DSH amount from the federal government and distributes these funds to hospitals based on a hospital's share of statewide uncompensated care.

DSH transactions are considered interim payments by the Centers for Medicare and Medicaid Services (CMS), the federal agency responsible for managing states' Medicaid programs. The Alabama Medicaid Agency is required to conduct reconciliations of DSH payments to hospitals with actual cost incurred by the hospitals. This reconciliation process for SFY 2014 was in progress at year-end. Based on these reconciliations, the State of Alabama, through the Medicaid Agency, is responsible for any excess funds claimed above allowed amounts or unclaimed funds below allowed amounts from CMS. If the reconciliation shows the cost incurred for all public hospitals is more than the total DSH payments received, no individual hospital adjustment will be made; however, if the cost incurred for all public hospitals is less than the total DSH payments received, each individual hospital will be required to reimburse its pro rata share of payments received for the difference noted. During 2018, there were no audit findings requiring reimbursement from public hospitals.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

2. Net Patient Service Revenues, Continued

• 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 April 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. As of year end, all of the Authority’s Blue Cross cost reports have been audited and settled.

• 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 prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The components of net patient service revenue for the years ended September 30, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Patient service revenues, at established rates	\$ 63,942,156	\$ 61,522,687
Less contractual adjustments	(36,665,924)	(36,704,321)
Less charity care	(1,608,003)	(1,373,758)
Less provision for bad debts	(3,289,388)	(3,287,258)
Total	\$ <u>22,378,841</u>	\$ <u>20,157,350</u>

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

3. Concentration of Credit Risk

The Authority grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2018 and 2017, was as follows:

	<u>2018</u>	<u>2017</u>
Medicare	41 %	36 %
Medicaid	15 %	16 %
Blue Cross	12 %	11 %
Commercial insurance	11 %	14 %
Self-pay	<u>21 %</u>	<u>23 %</u>
Total	<u>100 %</u>	<u>100 %</u>

4. Short-Term Investments and Noncurrent Cash and Investments

As of September 30, 2018 and 2017, short-term investments and noncurrent cash and investments were as follows:

	<u>2018</u>	<u>2017</u>
Short-term investments:		
Certificates of deposit	\$ <u>-</u>	\$ <u>200,000</u>
Noncurrent cash and investments:		
Money market account	\$ -	\$ 54,678
Stock	<u>-</u>	<u>136,633</u>
Total	\$ <u>-</u>	\$ <u>191,311</u>

At September 30, 2017, certificates of deposit included in short-term investments were nonnegotiable deposits in local banks insured by federal depository insurance and the SAFE Program (see Note 1). The certificate of deposit at September 30, 2017, matured during the year ended September 30, 2018. The money market account represents unspent loan proceeds to be used for the acquisition of capital assets. Such funds are covered under the SAFE Program (Note 1). The stock, included in other noncurrent investments, is an uninsured and unregistered investment held by the counterparty's trust department in the Authority's name. The Authority does not have a policy that limits the amount of investments that are held by counterparties. It is the Authority's policy to limit its investments so that the average quality ratio of the portfolio is not less than A. The stock was rated A1 by Moody's as of September 30, 2017.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

4. Short-Term Investments and Noncurrent Cash and Investments, Continued

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy requires investment in securities that are reasonably liquid. The Authority limits investments in the securities of any one company to no more than 5% of total investments. At September 30, 2017, the Authority was in violation of this policy.

The fair value of the stock is valued based on the quoted market price of the publicly traded stock, which is categorized as Level 1 within the fair value hierarchy as defined under GASB Statement No. 72, *Fair Value Measurement and Application*. Level 1 is defined as fair value based on unadjusted quoted prices in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date.

5. Retirement Plans

The Bryan W. Whitfield Memorial Hospital 401(a) Retirement Plan (the Plan) is a noncontributory, defined contribution pension plan for all eligible employees. The Plan covers all employees at least 21 years of age who have completed one year of service and who have earned at least 1,000 hours of service either in their first 12 months of employment or in any calendar year. Bryan W. Whitfield Memorial Hospital is the plan administrator, and the provisions were established under the authority of the Board of Directors of the Authority. The Authority's policy is to fund the Plan each year with contributions at the rate of 5% of covered payroll. Pension expense was \$296,957 for the year ended September 30, 2018 (\$322,397 in 2017). At September 30, 2018, the Authority has accrued pension payments of \$578,695 (\$638,939 in 2017), which are included in accounts payable on the statements of net position. Vesting in the Authority's contributions is based on years of continuous service. Forfeited nonvested accounts may be used to pay plan expenses. The Authority recognized forfeitures in pension expense of \$49,748 in 2018 (\$18,172 in 2017).

The Authority also has a defined contribution 457(b) deferred compensation plan (the 457(b) Plan). All full-time employees are eligible to participate in the 457(b) plan. Qualified employees can contribute up to the lesser of 100% of the employee's compensation or the federal statutory limits. The Authority makes no contributions to the 457(b) Plan.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

6. Property and Equipment

Property and equipment consisted of the following at September 30, 2018 and 2017:

	Balance September 30, <u>2017</u>	<u>Additions</u>	<u>Disposals</u>	Transfers of <u>CIP</u>	Balance September 30, <u>2018</u>
Land	\$ 640,916	\$ -	\$ -	\$ -	\$ 640,916
Land improvements	871,082	20,110	-	-	891,192
Buildings	22,922,199	3,530	-	181,881	23,107,610
Fixed equipment	8,782,788	4,424	-	-	8,787,212
Major moveable equipment	<u>24,043,699</u>	<u>147,893</u>	<u>(30,220)</u>	<u>131,020</u>	<u>24,292,392</u>
Capital assets at historical cost	57,260,684	175,957	(30,220)	312,901	57,719,322
Less accumulated depreciation	<u>(45,433,467)</u>	<u>(1,576,893)</u>	<u>28,912</u>	<u>-</u>	<u>(46,981,448)</u>
Total	11,827,217	(1,400,936)	(1,308)	312,901	10,737,874
Construction-in-progress	<u>130,791</u>	<u>182,110</u>	<u>-</u>	<u>(312,901)</u>	<u>-</u>
Total property and equipment	\$ <u>11,958,008</u>	\$ <u>(1,218,826)</u>	\$ <u>(1,308)</u>	\$ <u>-</u>	\$ <u>10,737,874</u>

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

6. Property and Equipment, Continued

	Balance September 30, <u>2016</u>	<u>Additions</u>	<u>Disposals</u>	Transfers of <u>CIP</u>	Balance September 30, <u>2017</u>
Land	\$ 640,916	\$ -	\$ -	\$ -	\$ 640,916
Land improvements	871,082	-	-	-	871,082
Buildings	22,166,924	21,408	-	733,867	22,922,199
Fixed equipment	8,796,348	12,940	-	(26,500)	8,782,788
Major moveable equipment	<u>23,957,819</u>	<u>48,557</u>	<u>-</u>	<u>37,323</u>	<u>24,043,699</u>
Capital assets at historical cost	56,433,089	82,905	-	744,690	57,260,684
Less accumulated depreciation	<u>(43,757,657)</u>	<u>(1,675,810)</u>	<u>-</u>	<u>-</u>	<u>(45,433,467)</u>
Total	12,675,432	(1,592,905)	-	744,690	11,827,217
Construction-in-progress	<u>588,697</u>	<u>286,784</u>	<u>-</u>	<u>(744,690)</u>	<u>130,791</u>
Total property and equipment	\$ <u>13,264,129</u>	\$ <u>(1,306,121)</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>11,958,008</u>

Depreciation expense for the year ended September 30, 2018, was \$1,576,893 (\$1,675,810 in 2017).

7. Other Assets

The Authority purchased shares in Inspirien Insurance Company (formerly known as Coastal Risk Retention Group, Inc.) in order to purchase insurance through the company. The amount reported in other assets related to the purchase of these shares is \$276,700 and is reported at cost. The fair value of this investment approximates the carrying value based on the redemption price per share as per the terms of the shareholder agreement.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

8. Long-Term Debt

During 2012, the Authority entered into an agreement with an air ambulance service company. The agreement states that the Authority will make the service company its preferred provider of air ambulance services. The agreement provides for the service company to pay the Authority monthly rent in the amount of \$1,750 for the use of the Authority's helipad, less a credit of \$595 per month for hangar and helipad improvements paid for by the service company. At the end of the 10-year agreement, ownership of the improvements will revert to the Authority. The Authority has treated the transaction as the financed purchase of the improvements. No interest rate is stated in the terms of the agreement. The agreement matures in November 2021. The outstanding balance of the financed purchase is \$23,780 at September 30, 2018 (\$30,914 at September 30, 2017).

During 2013, the Authority entered into a note payable with a local bank in the amount of \$3,000,000. The proceeds of the note payable were used to repay and consolidate two existing note agreements and to finance capital purchases. The note requires the Authority to make monthly installments in the amount of \$28,625, including principal and interest, through July 20, 2023. The interest rate for the tax-exempt loan is 2.75%. The loan is secured by the Authority's rights pertaining to the lease between the Authority and the City of Demopolis (see Note 1) and a security agreement covering Authority equipment. The note payable had a balance of \$1,553,006 at September 30, 2018 (\$1,849,371 at September 30, 2017).

During 2014, the Authority entered into a capital lease obligation with a vendor. The terms of the capital lease require the Authority to make monthly payments of \$875, including interest at a rate of 4.23%. The capital lease is secured by equipment and matured in September 2018. The capital lease had a balance of \$-0- at September 30, 2018 (\$10,260 at September 30, 2017).

During 2015, the Authority entered into a capital lease obligation with a finance company. The terms of the capital lease require the Authority to make monthly payments of \$2,684, including interest at a rate of 8.52%. The capital lease is secured by equipment and matures in July 2019. The capital lease had a balance of \$25,859 at September 30, 2018 (\$54,665 at September 30, 2017).

During 2015, the Authority entered into a finance agreement with a vendor. The terms of the agreement require the Authority to make monthly payments of \$8,196, including interest at a rate of 7.50%. The agreement matures in March 2020. The agreement had a balance of \$139,091 at September 30, 2018 (\$223,541 at September 30, 2017).

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

8. Long-Term Debt, Continued

During 2015, the Authority entered into a finance agreement with a vendor. The terms of the agreement do not include a stated interest rate and require 60 equal monthly installments of \$1,250. The agreement matures in June 2020. The agreement had a balance of \$26,250 at September 30, 2018 (\$41,250 at September 30, 2017).

During 2016, the Authority entered into a loan agreement with the City of Demopolis in the amount of \$926,200 for the purpose of construction of a 10-bed adult psychiatric unit. The payment terms are interest only through December 2016 and then 144 monthly payments of \$7,886 of principal and interest through February 2029. The loan carries a fixed interest rate of 3.50% and is secured by a mortgage on certain real estate. The note payable had a balance of \$819,581 at September 30, 2018 (\$878,988 at September 30, 2017).

During 2017, the Authority entered into a loan agreement with the Marengo County Commission in the amount of \$2,000,000. The loan was used to fund operations of the Authority. Interest only payments are made monthly by withholding interest payments from sales tax revenue received. The Authority made an initial principal payment of \$28,987 which was also withheld from sales tax revenue, leaving a balance of \$1,971,013 at September 30, 2017. The loan carried a fixed interest rate of 1.93% through June 2018. On June 1, 2018, Marengo County issued Series 2018-B Taxable General Obligation Warrants to refund and retire its bank loan that was issued to fund the 2017 loan agreement with the Authority. Upon the issuance of the Warrants, the County refunded the \$28,987 paid by the Authority during 2017, and the Authority's sales tax revenue withholdings were aligned with the bond principal and interest payment terms. Interest rates per the bond terms are fixed and range from 2.75% to 4.00%. Monthly payments of interest only are due for the months of June through October 2018, and monthly payments of principal and interest in the amount of \$21,079 will begin in November 2018. The loan matures in October 2028. The loan balance as of September 30, 2018 was \$2,000,000.

In October 2017, the Authority entered into a promissory note with the City of Demopolis in the amount of \$110,272. The proceeds of the note were used for hospital roof repairs. The note carries a fixed interest rate of 3.50%. Accrued interest from October 12, 2017, through October 1, 2018, is due on October 1, 2018. Beginning on November 1, 2018, the Authority will pay 120 monthly principal and interest payments of \$1,091.

In August 2018, the Authority entered into a capital lease obligation with a finance company. The terms of the capital lease require the Authority to make monthly payments of \$2,090, including interest at a rate of 2.93%. The capital lease is secured by equipment and matures in August 2023. The capital lease had a balance of \$114,699 at September 30, 2018.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

8. Long-Term Debt, Continued

In August 2018, the Authority entered into a promissory note with the City of Demopolis in the amount of \$1,000,000. The proceeds of the note are to be used to fund the operations of the Authority. The note has a stated interest rate of -0-% and is due in full on August 6, 2023.

In September 2018, the Authority entered into a note payable with a local bank in the amount of \$1,000,350. The proceeds of the loan are to be used to fund the operations of the Authority. The loan requires monthly payments of interest only at a rate of 4.09% through August 26, 2023, and the principal balance of the loan is due on September 26, 2023. The note is secured by a guarantee from the Marengo County Commission and monthly interest payments are made by the County by withholding the payments from sales tax revenue received.

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

	Balance September 30, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2018</u>	Amounts Due Within <u>One Year</u>
Notes payable	\$ 4,995,077	\$ 2,139,609	\$(462,356)	\$ 6,672,330	\$ 658,412
Capital lease obligations	<u>64,925</u>	<u>116,504</u>	<u>(40,871)</u>	<u>140,558</u>	<u>47,870</u>
Total long-term debt	\$ <u>5,060,002</u>	\$ <u>2,256,113</u>	\$ <u>(503,227)</u>	\$ <u>6,812,888</u>	\$ <u>706,282</u>
	Balance September 30, <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2017</u>	Amounts Due Within <u>One Year</u>
Notes payable	\$ 3,460,112	\$ 2,000,000	\$(465,035)	\$ 4,995,077	\$ 2,438,670
Capital lease obligations	<u>101,319</u>	<u>-</u>	<u>(36,394)</u>	<u>64,925</u>	<u>39,065</u>
Total long-term debt	\$ <u>3,561,431</u>	\$ <u>2,000,000</u>	\$ <u>(501,429)</u>	\$ <u>5,060,002</u>	\$ <u>2,477,735</u>

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

8. Long-Term Debt, Continued

Future payments on long-term debt for each of the next five years, thereafter, and in the aggregate are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 706,282	\$ 199,586	\$ 905,868
2020	665,903	172,512	838,415
2021	623,774	153,635	777,409
2022	641,170	135,032	776,202
2023	2,598,092	115,689	2,713,781
2024-2028	1,545,354	189,077	1,734,431
2029	<u>32,313</u>	<u>231</u>	<u>32,544</u>
Total	\$ <u>6,812,888</u>	\$ <u>965,762</u>	\$ <u>7,778,650</u>

9. Medical Malpractice Insurance

The Authority is covered by a claims made general and professional liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis. Liability limits related to this policy in 2018 and 2017 are \$1 million per occurrence and \$3 million in aggregate. The Authority uses a third-party administrator to review and analyze incidents that may result in a claim against the Authority. In conjunction with the third-party administrator, incidents are assigned reserve amounts for the ultimate liability that may result from an asserted claim.

Various claims and assertions have been made against the Authority in its normal course of providing services. In addition, other claims may be asserted arising from services provided to patients in the past. In the opinion of management and legal counsel, the Authority has adequate liability insurance protection to indemnify any material asserted or unasserted claims as of September 30, 2018 and 2017.

10. Employee Medical Self-Insurance

The Authority is self-insured for employee health claims. The plan is administered by a third party and includes per-person stop loss coverage for claims in excess of \$100,000. The Authority has accrued an estimate of its liability for incurred but unreported claims in accounts payable in the accompanying financial statements. Total expenses relative to this plan were \$1,326,662 and \$1,203,994 in 2018 and 2017, respectively.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

11. Accounts Receivable and Payable

The components of patient accounts receivable, net, are as follows:

	<u>2018</u>	<u>2017</u>
Receivables from patients and their insurance carriers	\$ 3,515,426	\$ 3,906,267
Receivables from Medicare	3,339,473	2,897,755
Receivables from Medicaid	<u>1,198,162</u>	<u>1,282,954</u>
Total patient accounts receivable	8,053,061	8,086,976
Less allowance for uncollectible amounts and contractual adjustments	<u>(5,710,008)</u>	<u>(5,637,367)</u>
Net patient accounts receivable	\$ <u>2,343,053</u>	\$ <u>2,449,609</u>

Other receivables, current and long-term consist of the following:

	<u>2018</u>	<u>2017</u>
Local sales tax revenue	\$ 50,234	\$ 56,440
Accrued interest receivable	6,146	6,389
Scholarship loans	90,703	84,744
Rent receivable	857,593	669,723
Miscellaneous	<u>-</u>	<u>55,846</u>
Total	\$ <u>1,004,676</u>	\$ <u>873,142</u>

Accounts payable and accrued salaries, wages, payroll taxes, and amounts withheld from employees consist of the following:

	<u>2018</u>	<u>2017</u>
Payable to vendors	\$ 5,397,641	\$ 4,538,502
Pension payable	578,695	638,939
Accrued payroll	105,629	83,372
Accrued vacation pay	574,808	591,236
Payroll taxes and other withholdings	<u>168,295</u>	<u>222,386</u>
Total	\$ <u>6,825,068</u>	\$ <u>6,074,435</u>

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

12. Operating Leases

The Authority leases office space and equipment under operating lease agreements. Rental expense under these operating leases was \$42,394 in 2018 (\$49,875 in 2017).

Future minimum rental payments under operating leases as of September 30, 2018 that have initial or remaining lease terms in excess of one year are summarized as follows

<u>Year Ending</u>	<u>Amount</u>
2019	\$ 21,732
2020	21,732
2021	21,732
2022	<u>3,622</u>
Total	\$ <u>68,818</u>

The Authority leases space to a medical oncology clinic. Total lease revenue for all operating leases was \$253,144 for the year ended September 30, 2018 (\$237,400 for the year ended September 30, 2017) and is included in other revenue in the accompanying statements of revenues, expenses, and changes in net position.

Future annual minimum lease revenues at September 30 are as follows:

<u>Year Ending</u>	<u>Amount</u>
2019	\$ 183,952
2020	107,016
2021	107,016
2022	<u>62,476</u>
Total	\$ <u>460,460</u>

The following is a summary of property leased as lessor under operating leases and included in property and equipment in the accompanying financial statements:

	<u>2018</u>	<u>2017</u>
Buildings	\$ 311,955	\$ 311,955
Less accumulated depreciation	<u>(152,078)</u>	<u>(144,279)</u>
Total	\$ <u>159,877</u>	\$ <u>167,676</u>

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued September 30, 2018 and 2017

13. Contingencies and Commitments

Recovery Audit Contractors

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 records 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. The Authority has evaluated the potential impact of reviews under the RAC program and believes the amounts accrued at September 30, 2018 and 2017, in the accompanying financial statements are sufficient based on current information available. Additional time and experience with RACs will continue to provide clarity to management in determining adequate and accurate future period reserves.

Compliance Plan

The healthcare industry has been subjected to increased scrutiny from governmental agencies at both the federal and state level with respect to compliance with regulations. Areas of noncompliance identified at the national level include Medicare and Medicaid, Internal Revenue Service, and other regulations governing the healthcare industry. In addition, the Reform Legislation includes provisions aimed at reducing fraud, waste, and abuse in the healthcare industry. These provisions allocate significant additional resources to federal enforcement agencies and expand the use of private contractors to recover potentially inappropriate Medicare and Medicaid payments. The Authority has implemented a compliance plan focusing on such issues. There can be no assurance that the Authority will not be subjected to future investigations with accompanying monetary damages.

Health Care Reform

There has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare at the national and the state levels. Legislation has been passed that includes cost controls on healthcare providers, insurance market reforms, delivery system reforms and various individual and business mandates among other provisions. The costs of these provisions are and 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.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

14. Going Concern Considerations

As shown in the accompanying financial statements, the Authority has incurred a decrease in net position of \$2,648,326 for the year ended September 30, 2018. As of September 30, 2018, the Authority's current liabilities exceeded its current assets by \$3,257,071. As a result of the Patient Protection and Affordable Care Act and other recent legislation, which has resulted in reduced payments for services in addition to increased scrutiny of payments received by health care providers resulting from the RAC and similar programs, health care providers such as the Authority are facing increased pressure to maintain financial viability. This pressure, along with other factors, has significantly impacted the Authority's cash flow and profitability. These factors and the recent financial results also create an uncertainty about the Authority's ability to continue as a going concern.

The Authority is continually evaluating the future impact of the above changes and its current operations to enable it to maintain its ability to provide health care services to the population it serves. On October 1, 2017, the Authority entered into an affiliation and management agreement with UAB Health System as more fully described in Note 15. These agreements have attracted new physicians to the area and have provided cost saving opportunities on supplies and pharmaceuticals. In addition, through the support of UAB, many new services needed in the area have been or are being developed that the Authority believes will continue to improve its financial position. Two examples of this would include the implementation of an inpatient Hospitalist program with Apogee Medical Management, Inc. on November 30, 2018, and a restructuring of the Medical Detox Unit in November 2018, to be managed by Addiction & Mental Health Services, LLC, d/b/a Bradford Health Services. In fiscal year 2018, the Authority decreased its loss from the previous year by \$2,020,937, with an increase in gross revenue of \$2,419,469. In fiscal year 2019, the Authority plans to continue to implement several cost-saving measures and reduce operating expenses to offset recent losses. Expense reductions could include, but are not limited to, reduction in staff, reduction of certain administrative costs, reduction of certain employee-related costs, and outsourcing of services. The Authority Board of Directors is fully committed to the vision of being the health care provider of choice for the community the Authority serves, both now and in future years.

The ultimate success and related financial impact of these changes is uncertain at this time. The ability of the Authority to continue as a going concern is dependent upon its ability to improve profitability and generate additional cash flow. The financial statements do not include any adjustments that might be necessary if the Authority is unable to continue as a going concern.

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

15. Affiliation and Management Agreement

Effective October 1, 2017, the Authority and UAB Health System (UABHS) entered into an Initial Affiliation Agreement and Management Agreement. UABHS is engaged in the management of health care delivery operations for the Board of Trustees of the University of Alabama on behalf of the University of Alabama at Birmingham (the UA Board).

Under the Initial Affiliation Agreement, the parties agree that the Authority will amend its organization documents, as necessary, to permit the appointment of two members to the Authority's board of directors who are representatives of UABHS, selected by UABHS. The Authority and UABHS also agree to work in good faith to reorganize the Authority or transfer its assets upon the organization by the UA Board of a university authority or health care authority to operate Bryan W. Whitfield Memorial Hospital (the UA Authority) and the establishment of a foundation set up by the City of Demopolis in the form of an Alabama health care authority with Board composition similar to that of the Authority. Such reorganization is intended to be accomplished on or before September 30, 2019. Should such a reorganization event occur, the UA Authority will have governance powers with respect to the business and affairs of Bryan W. Whitfield Memorial Hospital. Additionally, a majority of the members of the UA Authority board of directors will be appointed by the UA Board. The agreement commenced on October 1, 2017, and will terminate on September 30, 2019 (the Initial Term), provided, however, that in the event the Management Agreement terminates prior to September 30, 2019, the Initial Affiliation Agreement shall automatically terminate on the date that the termination of the Management Agreement is effective. Unless otherwise terminated pursuant to the preceding sentence, this agreement shall be renewed from year to year after the Initial Term unless either party gives written notice of a desire to modify, amend, or terminate the Agreement at least 90 days, but not more than 120 days, prior to the end of the then-current term or renewal period.

Under the Management Agreement, UABHS shall perform general management services to the Authority which shall involve assessing the Authority's business operations, providing advice and recommendations on how to improve those operations, and other services including assisting in preparing budgets, quarterly assessments of the operating and financial performance, providing oversight and direction for the CEO, CFO, and COO, and improving and updating its compliance program. The management services are subject to an annual management fee in an amount equal to 25% of the Authority's net income (as defined by the agreement), provided the Authority's net income exceeds \$-0-. The agreement commenced on October 1, 2017, and will terminate on September 30, 2019, subject to automatic annual renewals and written notifications similar to those in the Initial Affiliation Agreement noted above.

SUPPLEMENTARY INFORMATION

TOMBIGBEE HEALTHCARE AUTHORITY

BOARD MEMBERS AND OFFICIALS (UNAUDITED)

September 30, 2018

<u>Board Member</u>	<u>Position</u>	<u>Expiration of Term</u>
Mr. Allen Bishop	Chairman	2020
Mr. Charles Singleton	Vice-Chairman	2020
Mr. Rob Fleming	Secretary	2022
Mr. Thomas Moore	Member	2020
Ms. Jan Holley	Member	2024
Dr. Judy Travis	Member	2019
Mr. Michael Patterson	Member	2019
Mr. Don Lilly	Member	2022

<u>Official</u>	<u>Position</u>	<u>Expiration of Term</u>
Mr. Doug Brewer	Administrator	Indefinite

See independent auditor's report.

TOMBIGBEE HEALTHCARE AUTHORITY

STATEMENTS OF OPERATING REVENUES
for the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Patient service revenues:		
Routine service revenues:		
Room and board	\$ 1,034,684	\$ 950,910
Intensive care	1,243,900	1,172,245
Geriatric psychiatry	2,263,200	2,275,200
Adult psychiatric care	2,622,150	1,655,130
Self-recovery	<u>2,155,000</u>	<u>2,392,580</u>
Total routine service revenues	<u>9,318,934</u>	<u>8,446,065</u>
Ancillary service revenues:		
Inpatient:		
Operating room	541,214	329,231
Pharmacy	2,221,449	1,921,494
Inhalation therapy	1,258,851	1,175,985
Intravenous therapy	530,132	626,516
Anesthesiology	55,019	36,996
Radiology	240,632	236,955
Laboratory	2,222,511	2,059,330
Emergency room	875,120	676,276
EKG	186,645	200,215
Geriatric psychiatry	218,590	238,515
Nuclear medicine	21,997	25,338
Physical therapy	480,415	518,655
Ultrasound	62,154	116,347
CT scan	879,519	835,334
MRI	110,003	126,186
Occupational therapy	582,365	556,626
Adult psychiatric care	<u>288,285</u>	<u>176,585</u>
Total inpatient ancillary service revenues	<u>10,774,901</u>	<u>9,856,584</u>

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

STATEMENTS OF OPERATING REVENUES, Continued
for the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Patient service revenues:		
Ancillary service revenues, continued:		
Outpatient:		
Observation	\$ 1,862,516	\$ 1,061,063
Operating room	5,527,361	5,610,249
Pharmacy	706,080	625,345
Inhalation therapy	298,760	255,433
Intravenous therapy	235,407	186,546
Anesthesiology	395,827	420,278
Radiology	1,730,932	1,793,135
Laboratory	4,886,653	4,582,302
Emergency room	8,688,316	7,943,781
EKG	242,610	263,260
Geriatric psychiatry	-	1,680
Nuclear medicine	143,789	317,071
Physical therapy	1,864,344	2,032,602
Ultrasound	685,119	656,340
CT scan	3,828,550	3,760,557
MRI	1,373,583	1,473,083
Occupational therapy	129,095	62,935
Oncology	8,051,782	8,237,487
Home health	656,166	906,336
Wellness	106,162	108,216
Sleep lab	1,184,353	1,088,170
Partial hospitalization program	-	383,056
Behavioral health	602,762	265,022
Adult intensive outpatient program	-	556,004
Clinics	<u>648,154</u>	<u>630,087</u>
Total outpatient ancillary service revenues	<u>43,848,321</u>	<u>43,220,038</u>
Gross patient service revenues	<u>63,942,156</u>	<u>61,522,687</u>

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

STATEMENTS OF OPERATING REVENUES, Continued
for the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Adjustments to revenues:		
Contractual adjustments	\$(36,665,924)	\$(36,704,321)
Charity care	(1,608,003)	(1,373,758)
Bad debt provision	<u>(3,289,388)</u>	<u>(3,287,258)</u>
Total adjustments to revenues	<u>(41,563,315)</u>	<u>(41,365,337)</u>
Net patient service revenue	<u>22,378,841</u>	<u>20,157,350</u>
Other revenue:		
Guest meals	102,692	107,488
Gift shop	54,449	69,527
Rental income	253,144	237,400
Miscellaneous	<u>118,507</u>	<u>108,266</u>
Total other revenue	<u>528,792</u>	<u>522,681</u>
Total operating revenues	\$ <u>22,907,633</u>	\$ <u>20,680,031</u>

See independent auditor's report.

TOMBIGBEE HEALTHCARE AUTHORITY

STATEMENTS OF OPERATING EXPENSES BY DEPARTMENT
for the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Service departments:		
Administrative	\$ 5,501,158	\$ 5,614,574
Dietary	733,827	808,158
Housekeeping	266,731	280,488
Linen and laundry	97,724	99,178
Plant operations	1,434,869	1,349,616
Medical records	568,679	566,409
Gift shop	<u>63,864</u>	<u>37,964</u>
Total service departments	<u>8,666,852</u>	<u>8,756,387</u>
Revenue departments:		
Nursing service	1,449,046	1,252,505
Intensive care	541,880	543,426
Operating room	631,336	649,044
Pharmacy	800,883	779,016
Inhalation therapy	293,923	273,471
Intravenous therapy	163,103	119,832
Anesthesiology	227,006	232,530
Radiology	790,059	834,537
Laboratory	1,317,089	1,167,795
Emergency room	2,206,676	2,116,877
Geriatric psychiatry	949,225	964,054
Nuclear medicine	139,787	136,779
Physical therapy	373,420	455,833
Ultrasound	89,119	63,336
CAT scan	190,468	191,767
MRI	120,328	165,362
Occupational therapy	110,214	154,391
Oncology	1,737,005	1,739,390
Sleep lab	139,314	136,841
Central supply	101,647	74,174
Home health	565,529	665,883
Wellness	84,677	85,597

Continued

TOMBIGBEE HEALTHCARE AUTHORITY

STATEMENTS OF OPERATING EXPENSES BY DEPARTMENT, Continued
for the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenue departments, continued:		
Self-recovery	\$ 898,262	\$ 1,100,436
Partial hospitalization program	-	235,527
Adult psychiatric care	1,048,060	735,520
Clinics	416,617	442,038
Behavioral health	<u>348,526</u>	<u>187,664</u>
Total revenue departments	<u>15,733,199</u>	<u>15,503,625</u>
Depreciation	<u>1,576,893</u>	<u>1,675,810</u>
Total operating expenses	<u>\$ 25,976,944</u>	<u>\$ 25,935,822</u>

See independent auditor's report.

TOMBIGBEE HEALTHCARE AUTHORITY

STATEMENTS OF OPERATING EXPENSES BY NATURAL CATEGORY
for the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating expenses:		
Salaries	\$ 10,881,010	\$ 10,919,961
Supplies	3,418,863	3,346,229
Utilities	981,803	1,014,702
Repairs and maintenance	232,765	174,376
Outside services	6,029,359	5,843,248
Insurance and benefits	2,553,219	2,688,822
Other	303,032	272,674
Depreciation	<u>1,576,893</u>	<u>1,675,810</u>
Total operating expenses	<u>\$ 25,976,944</u>	<u>\$ 25,935,822</u>

See independent auditor's report.

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



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

Board of Directors
Tombigbee Healthcare Authority
Demopolis, Alabama

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 Tombigbee Healthcare Authority (Authority) as of and for the year ended September 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2019.

Internal Control Over Financial Reporting

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

Continued

Let's Think Together.

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

Purpose of 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 Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DRAFFIN + TUCKER, LLP

Albany, Georgia
March 28, 2019