

THE HALE COUNTY HEALTH CARE AUTHORITY

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2018 AND 2017

**THE HALE COUNTY HEALTH CARE AUTHORITY
TABLE OF CONTENTS
SEPTEMBER 30, 2018 AND 2017**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Balance Sheets	3
Statements of Revenues, Expenses, and Changes in Net Position	5
Statements of Cash Flows	6
Notes to the Financial Statements	8
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Changes in the Net Pension Asset – HCH	33
Schedule of Changes in the Net Pension Asset – EMS	34
Schedule of Employer Contributions – HCH	35
Schedule of Employer Contributions – EMS	36
SUPPLEMENTARY INFORMATION	
Board Members and Officials (Unaudited)	37
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>	38
Auditee Response (Unaudited)	40

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Hale County Health Care Authority

Report on the Financial Statements

We have audited the accompanying financial statements of The Hale County Health Care Authority (the Authority), as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Hale County Emergency Medical Services, a component unit of The Hale County Health Care Authority, which represents 20%, 72%, and 14%, respectively, of the assets and deferred outflow of resources, net position, and operating revenues of the Authority for 2018 and 17%, 59%, and 13%, respectively, of the assets and deferred outflow of resources, net position, and operating revenues of the Authority for 2017. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Hale County Emergency Medical Services, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of The Hale County Health Care Authority as of September 30, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedules of changes in net pension asset and schedules of employer contributions 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2019, on our consideration of The Hale County Health Care Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority’s internal control over financial reporting and compliance.

Warren Averett, LLC

Birmingham, Alabama
March 27, 2019

**THE HALE COUNTY HEALTH CARE AUTHORITY
BALANCE SHEETS
SEPTEMBER 30, 2018 AND 2017**

	2018	2017
ASSETS AND DEFERRED OUTFLOW OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,392,600	\$ 1,548,226
Patient accounts receivable, net of estimated uncollectibles of \$1,935,374 (\$2,003,234 in 2017)	1,325,314	1,373,608
Other receivables	-	431
Estimated third-party payor settlements	-	20,759
Supplies	153,773	120,597
Assets held by trustee for debt service and required for current liabilities	845	218
Prepaid expenses	40,347	39,262
Tax revenue receivable	456,177	449,326
Total current assets	3,369,056	3,552,427
NONCURRENT CASH AND INVESTMENTS		
Bond proceeds to be used for capital improvements	339,150	707,023
Under indenture agreement – held by trustee	845	218
Less assets held by trustee for debt service and required for current liabilities	845	218
Total noncurrent cash and investments	339,150	707,023
PROPERTY AND EQUIPMENT, NET	3,265,922	3,411,810
OTHER ASSETS		
Bond insurance costs	53,488	55,544
Net pension asset	813,592	1,661,692
Equity in Inspirien	119,280	119,280
	986,360	1,836,516
TOTAL ASSETS	7,960,488	9,507,776
DEFERRED OUTFLOW OF RESOURCES		
Loss on refunding of debt	278,576	295,229
Defined benefit pension plan	271,199	300,556
	549,775	595,785
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 8,510,263	\$ 10,103,561

See notes to the financial statements.

**THE HALE COUNTY HEALTH CARE AUTHORITY
BALANCE SHEETS
SEPTEMBER 30, 2018 AND 2017**

LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION

	2018	2017
CURRENT LIABILITIES		
Current portion of bonds payable	\$ 120,000	\$ 115,000
Current portion of capital lease obligations	46,274	46,019
Accounts payable	211,305	225,492
Estimated third-party payor settlements	110,520	-
Accrued payroll and payroll taxes	340,645	342,120
Accrued interest payable	13,986	14,177
Unearned home health revenue	86,436	66,815
Total current liabilities	929,166	809,623
LONG-TERM DEBT, NET OF CURRENT PORTION		
Bonds payable	4,651,719	4,769,071
Capital lease obligations	65,697	111,971
Total long-term debt, net of current portion	4,717,416	4,881,042
DEFERRED INFLOW OF RESOURCES		
Defined benefit pension plan	117,273	1,043,544
Deferred tax revenue	495,587	491,343
	612,860	1,534,887
NET POSITION		
Net investment in capital assets	(508,151)	(136,519)
Restricted for debt service	845	218
Unrestricted	2,758,127	3,014,310
Total net position	2,250,821	2,878,009
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	\$ 8,510,263	\$ 10,103,561

See notes to the financial statements.

THE HALE COUNTY HEALTH CARE AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Net patient service revenue, net of provision for bad debts of \$2,169,396 (\$1,860,279 in 2017)	\$ 8,766,973	\$ 8,641,886
Other revenue	77,666	28,000
Total operating revenues	8,844,639	8,669,886
OPERATING EXPENSES		
Professional care of patients	6,447,373	6,349,380
Dietary services	143,356	141,287
General services	611,678	658,737
Administrative services	1,484,618	1,574,309
Employee health and welfare	727,041	695,708
Depreciation	458,447	491,139
Total operating expenses	9,872,513	9,910,560
OPERATING LOSS	(1,027,874)	(1,240,674)
NONOPERATING REVENUES (EXPENSES)		
Tax revenue	573,935	556,941
Investment income	5,208	8,863
Donations and noncapital grant income	18,643	12,330
Interest and amortization expense	(197,100)	(185,876)
Total nonoperating revenues (expenses)	400,686	392,258
REVENUES LESS THAN EXPENSES AND DECREASE IN NET POSITION	(627,188)	(848,416)
NET POSITION AT BEGINNING OF YEAR	2,878,009	3,726,425
NET POSITION AT END OF YEAR	\$ 2,250,821	\$ 2,878,009

See notes to the financial statements.

THE HALE COUNTY HEALTH CARE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	\$ 8,966,167	\$ 8,618,208
Payments to suppliers	(3,202,195)	(3,218,198)
Payments to employees	(6,310,608)	(5,226,425)
Other receipts and payments, net	78,097	27,835
Net cash provided by (used in) operating activities	(468,539)	201,420
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayment of bonds payable – noncapital	-	(80,000)
Interest paid on bonds payable – noncapital	(25,000)	(24,927)
Tax receipts	571,328	554,623
Proceeds from donations and noncapital grants	18,643	12,330
Net cash provided by noncapital financing activities	564,971	462,026
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(312,559)	(413,279)
Repayment of capital lease obligations	(46,019)	(47,758)
Repayment of bonds payable – capital	(115,000)	(35,000)
Interest paid on bonds payable – capital	(150,934)	(146,354)
Net cash used by capital and related financing activities	(624,512)	(642,391)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	5,208	8,863
Net cash provided by investing activities	5,208	8,863
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(522,872)	29,918
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,255,467	2,225,549
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,732,595	\$ 2,255,467

See notes to the financial statements.

**THE HALE COUNTY HEALTH CARE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET		
Cash and cash equivalents	\$ 1,392,600	\$ 1,548,226
Bond proceeds to be used for capital improvements	339,150	707,023
Assets under indenture agreement – held by trustee	<u>845</u>	<u>218</u>
Total cash and cash equivalents	<u>\$ 1,732,595</u>	<u>\$ 2,255,467</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating loss	<u>\$ (1,027,874)</u>	<u>\$ (1,240,674)</u>
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	458,447	491,139
Provision for bad debts	2,169,396	1,860,279
Change in patient accounts receivable	(2,121,102)	(1,770,848)
Change in other receivables	431	(165)
Change in supplies	(33,176)	25,239
Change in prepaid expenses	(1,085)	3,476
Change in net pension asset	848,100	(32,009)
Change in deferred outflow of resources	29,357	(85,208)
Change in estimated third-party payor settlements	131,279	(51,679)
Change in accounts payable	(14,187)	32,345
Change in accrued payroll and payroll taxes	(1,475)	(12,589)
Change in unearned home health revenue	19,621	(61,430)
Change in deferred inflow of resources	<u>(926,271)</u>	<u>1,043,544</u>
Total adjustments to reconcile operating loss to net cash provided by (used in) operating activities	<u>559,335</u>	<u>1,442,094</u>
Net cash provided by (used in) operating activities	<u>\$ (468,539)</u>	<u>\$ 201,420</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND FINANCING ACTIVITIES		
Amortization of discount, bond insurance and loss on refunding	<u>\$ 21,357</u>	<u>\$ 19,577</u>

See notes to the financial statements.

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Hale County Health Care Authority (the Authority) is a public corporation that owns and operates Hale County Hospital (HCH) and Hale County Emergency Medical Services (EMS). The Hale County Hospital Board (the Board) was originally incorporated under the provisions of the **Code of Alabama 1975**, Sections 22-21-70 through 22-21-83. Subsequently, the Board was designated to operate as a hospital corporation under the provisions of the **Code of Alabama 1975**, Sections 22-21-100 through 22-21-112. As of November 23, 1993, the Board was reincorporated as a health care authority under the provisions of the **Code of Alabama 1975**, Section 22-21-314. The Authority was designated to operate as a hospital corporation under the provisions of the **Code of Alabama 1975**, Sections 22-21-310 through 22-21-359.

Tax Status

As a governmental unit, the Authority is exempt from federal and state income taxes.

Related Organization

The majority of the Authority's board members are appointed by the Hale County Commission (the County Commission). The County Commission, however, is not financially accountable (because it does not impose will or have a financial benefit or burden relationship) for the Authority, and the Authority is not considered part of the County Commission's financial reporting entity. The Authority is considered a related organization of the County Commission.

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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The accompanying financial statements have been prepared in accordance with statements issued by the Governmental Accounting Standards Board (GASB) and the accounting and reporting guidelines set forth in the American Institute of Certified Public Accountants' Audit and Accounting Guide, Health Care Organizations.

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

The Authority's deposits at September 30, 2018 and 2017, 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.

Cash and cash equivalents include cash on hand, demand deposit accounts, and short-term investments with original maturities of three months or less. Cash and cash equivalents exclude amounts limited as to use by arrangements under trust agreements.

Noncurrent Cash and Investments

Bond proceeds to be used for capital improvements include remaining unspent proceeds from bond issues to be used for the acquisition of capital improvements as specified in the bond agreements. Such assets consist of a non-interest bearing cash account that is covered by the SAFE Program described above.

Assets under indenture agreement include assets held by trustees as required by indenture agreements. Amounts required to meet current liabilities of the Authority at September 30, 2018 and 2017, have been reclassified to current assets in the balance sheets.

Assets held under indenture agreement are carried at cost, which approximates fair value. Interest and gains and losses, both realized and unrealized, on investments are included in nonoperating revenues when earned. The Authority may invest any portion of the principal proceeds derived from the sale of any of its securities, which is not then needed for any of the purposes for which such securities were authorized to be issued in any of the following: federal securities, any debt securities that are the direct obligations of any agency of the United States of America, interest-bearing bank time deposits and interest-bearing bank certificates of deposit, and interest-bearing time deposits and interest-bearing certificates of deposit of any federally-chartered savings and loan association. At September 30, 2018 and 2017, assets under indenture agreement consist of cash and cash equivalents.

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed on the straight-line method over the following lives:

Item	Estimated Useful Life
Land improvements	8 to 20 years
Buildings and improvements	5 to 50 years
Fixed equipment	5 to 20 years
Major movable equipment	3 to 40 years
Ambulances	3 to 5 years
Minor equipment	3 to 5 years

Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation in the financial statements.

Supplies

Supplies inventory is stated at cost on the first-in, first-out (FIFO) method of inventory valuation, which is not in excess of market.

Deferred Outflow and Inflow of Resources

Deferred outflow of resources consists of losses from debt refunding and amounts related to defined benefit pension plans. Losses from debt refundings are being amortized over the shorter of the remaining life of the refunded debt or the life of the new debt.

Deferred inflow of resources consists of amounts related to defined benefit pension plans and resources associated with imposed nonexchange revenue transactions (i.e., ad valorem tax revenues) that are received or reported as a receivable before the period for which the property taxes are levied.

Unearned Home Health Revenue

The Medicare program has a prospective payment system for home health care whereby the Authority receives a predetermined payment for each 60-day episode of care. The Authority receives a portion of the predetermined payment at the beginning of the 60-day period with the remaining amount to be received at the end of the 60-day period. The amount reported as unearned home health revenue in the September 30, 2018 and 2017, balance sheets represents payments received by the Authority for services not yet provided.

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Net Position

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

Tax Revenue

The Authority receives the proceeds of certain ad valorem tax revenues. GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, requires that the proceeds of taxes such as those received by the Authority (referred to as imposed nonexchange revenue transactions) be recorded as assets by the recipient when an enforceable legal claim to the resources exists or the resources are received, whichever is first, and as revenue by the recipient in the period for which taxes are levied.

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.

Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Charity Care

The Authority's facilities provide care to patients who meet certain criteria under the charity care policy without charge or at amounts less than their established rates. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. During the year ended September 30, 2018, the Authority provided approximately \$9,000 in forgone charges for charity care (\$46,000 for the year ended September 30, 2017).

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 disaster; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded commercial insurance in any of the three preceding years.

Patient Accounts Receivable and Third-Party Payor Settlements

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

Pension

EMS participates in the Employees' Retirement System of Alabama (the Plan or ERS). HCH participated in the Plan until September 30, 1983 and currently has three retired employees still receiving benefits. The Plan's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the GASB. Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

Subsequent Events

Management has evaluated subsequent events and their potential effects on these financial statements through March 27, 2019, which is the date the financial statements were issued.

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The Authority is still evaluating the impact, if any, of this statement in the year of adoption.

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements for this statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Authority is still evaluating the impact of this statement in the year of adoption.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*. This statement defines debt for purposes of disclosure in notes to the financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. Direct borrowings and direct placements have terms negotiated directly with the investor or lender and are not offered for public sale. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The Authority is still evaluating the impact, if any, of this statement in the year of adoption.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes new accounting requirements for interest cost incurred before the end of a construction period. Generally, this statement establishes that such interest cost should be expensed in the period incurred and should no longer be subject to capitalization as part of property and equipment. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Authority is still evaluating the impact, if any, of this statement in the year of adoption.

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

2. NET PATIENT SERVICE REVENUE

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. A summary of the payment arrangements with 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 related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2014.

Medicaid

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

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. The Authority's Blue Cross cost reports have been audited through March 31, 2017.

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

3. CONCENTRATION OF CREDIT RISK

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

	<u>2018</u>	<u>2017</u>
Medicare	32%	23%
Medicaid	10%	14%
Blue Cross	6%	8%
Other commercial	7%	12%
Private pay	45%	43%
	<u>100%</u>	<u>100%</u>

4. NET PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable, net, consist of the following at September 30:

	<u>2018</u>	<u>2017</u>
Receivable from patients and their insurance carriers	\$ 2,510,739	\$ 2,889,268
Receivable from Medicare beneficiaries	1,404,794	1,046,103
Receivable from Medicaid beneficiaries	432,463	626,478
	<u>4,347,996</u>	<u>4,561,849</u>
Total patient accounts receivable	4,347,996	4,561,849
Less allowance for contractual adjustments	1,087,308	1,185,007
Less allowance for uncollectibles	1,935,374	2,003,234
	<u>1,325,314</u>	<u>1,373,608</u>
Net patient accounts receivable	<u>\$ 1,325,314</u>	<u>\$ 1,373,608</u>

5. NONCURRENT CASH AND INVESTMENTS

At September 30, 2018 and 2017, the Authority's noncurrent cash and investments consisted of a non-interest bearing cash account held at a local financial institution to be used for future capital acquisitions as specified by bond agreements and treasury money market funds held in a trustee account in the Authority's name by a custodial financial institution that is an agent of the Authority.

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

6. PROPERTY AND EQUIPMENT

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

	<u>September 30, 2017</u>	<u>Additions</u>	<u>Disposals or Transfers</u>	<u>September 30, 2018</u>
Land	\$ 76,275	\$ -	\$ -	\$ 76,275
Land improvements	2,214	-	-	2,214
Buildings and improvements	3,231,285	1,974	197,735	3,430,994
Fixed equipment	368,685	5,860	-	374,545
Major moveable equipment	3,584,485	114,774	-	3,699,259
Ambulances	879,863	99,369	-	979,232
Minor equipment	7,249	1,192	-	8,441
Property and equipment, at cost	8,150,056	223,169	197,735	8,570,960
Accumulated depreciation	<u>(4,846,591)</u>	<u>(458,447)</u>	-	<u>(5,305,038)</u>
	3,303,465	(235,278)	197,735	3,265,922
Construction-in-progress	<u>108,345</u>	<u>89,390</u>	<u>(197,735)</u>	<u>-</u>
	<u>\$ 3,411,810</u>	<u>\$ (145,888)</u>	<u>\$ -</u>	<u>\$ 3,265,922</u>
	<u>September 30, 2016</u>	<u>Additions</u>	<u>Disposals or Transfers</u>	<u>September 30, 2017</u>
Land	\$ 76,275	\$ -	\$ -	\$ 76,275
Land improvements	2,214	-	-	2,214
Buildings and improvements	3,231,285	-	-	3,231,285
Fixed equipment	368,685	-	-	368,685
Major moveable equipment	3,463,258	121,227	-	3,584,485
Ambulances	696,882	182,981	-	879,863
Minor equipment	6,523	726	-	7,249
Property and equipment, at cost	7,845,122	304,934	-	8,150,056
Accumulated depreciation	<u>(4,355,452)</u>	<u>(491,139)</u>	-	<u>(4,846,591)</u>
	3,489,670	(186,205)	-	3,303,465
Construction-in-progress	<u>-</u>	<u>108,345</u>	<u>-</u>	<u>108,345</u>
	<u>\$ 3,489,670</u>	<u>\$ (77,860)</u>	<u>\$ -</u>	<u>\$ 3,411,810</u>

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

6. PROPERTY AND EQUIPMENT – CONTINUED

Amortization of assets held under capital leases is charged to depreciation expense. Property and equipment includes the following assets held under capital leases:

	2018	2017
Major moveable equipment	\$ 219,363	\$ 219,363
Less accumulated depreciation	107,404	61,131
	\$ 111,959	\$ 158,232

7. LONG-TERM DEBT

At September 30, long-term debt, including additions and reductions, consists of the following:

	Balance at September 30, 2017	Additions	Reductions	Balance at September 30, 2018	Amounts Due within One Year
Bonds and note payable:					
Series 2016-A Bonds	\$ 4,455,000	\$ -	\$ (115,000)	\$ 4,340,000	\$ 120,000
Series 2016-B Bonds	500,000	-	-	500,000	-
Capital Lease Obligation – lab equipment	133,673	-	(33,663)	100,010	34,313
Capital Lease Obligation – phone system	24,317	-	(12,356)	11,961	11,961
	5,112,990	-	(161,019)	4,951,971	166,274
Less unamortized bond discount	(70,929)	-	2,648	(68,281)	-
	\$ 5,042,061	\$ -	\$ (158,371)	\$ 4,883,690	\$ 166,274

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

7. LONG-TERM DEBT – CONTINUED

	Balance at September 30, 2016	Additions	Reductions	Balance at September 30, 2017	Amounts Due within One Year
Bonds and note payable:					
Series 2016-A Bonds	\$ 4,490,000	\$ -	\$ (35,000)	\$ 4,455,000	\$ 115,000
Series 2016-B Bonds	580,000	-	(80,000)	500,000	-
Capital Lease Obligation – lab equipment	168,631	-	(34,958)	133,673	33,663
Capital Lease Obligation – phone system	37,117	-	(12,800)	24,317	12,356
	5,275,748	-	(162,758)	5,112,990	161,019
Less unamortized bond discount	(73,356)	-	2,427	(70,929)	-
	<u>\$ 5,202,392</u>	<u>\$ -</u>	<u>\$ (160,331)</u>	<u>\$ 5,042,061</u>	<u>\$ 161,019</u>

On February 15, 2008, the Authority issued \$3,965,000 in Hospital Tax Anticipation and Revenue Bonds, Series 2008, to advance refund the Series 2004 Bonds and fund projected capital expenditures. The transaction was accounted for as an insubstance defeasance and, accordingly, the escrow funds and the liability of the Series 2004 Bonds were removed from the financial statements. The Series 2008 Bonds were payable at interest rates ranging from 3.50% to 5.00% out of proceeds of a special county ad valorem tax. Interest payments were due on March 1 and September 1, and principal payments were due on March 1. The Series 2008 Bonds matured or had mandatory redemption requirements annually through March 2038.

On February 15, 2009, the Authority issued \$510,000 in Taxable Subordinated Hospital Tax Anticipation and Revenue Bonds, Series 2009. A portion of the proceeds was used to replenish amounts that had been inadvertently spent out of the proceeds of the Series 2008 Bonds for working capital. The remaining proceeds were used for working capital as needed. The taxable bonds included interest at 8%, matured in annual amounts of \$245,000 and \$265,000 on March 1, 2039 and March 1, 2040, respectively, and were secured by net hospital revenues of the Authority and the proceeds from a special county ad valorem tax, subject and subordinate to the prior pledge of the net hospital revenues and tax for payment of the Series 2008 Bonds.

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

7. LONG-TERM DEBT – CONTINUED

On January 1, 2016, the Authority issued \$4,490,000 in Hospital Tax Anticipation Bonds, Series 2016-A, and \$580,000 Taxable Hospital Tax Anticipation Bonds, Series 2016-B, to advance refund the Series 2008 Bonds and 2009 Bonds and fund projected capital expenditures. The amount of the Series 2016-A and Series 2016-B Bonds to be used for capital expenditures was \$994,000 and \$6,000, respectively. A portion of the proceeds of the Series 2016-A and Series 2016-B Bonds issued by the Authority was placed in an escrow fund for the payment of the scheduled principal and interest on the Series 2008 and Series 2009 until March 1, 2016, at which time the remaining outstanding Series 2008 and Series 2009 Bonds were called and paid with the remaining monies in the escrow account. This transaction resulted in a loss of \$107,032, which, along with the remaining unamortized loss from the previous refunding of \$216,071, is being amortized over the remaining life of the Series 2004 Bonds in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. The refunding extended the Authority's repayment of the refunded bonds over a period of an additional five years and resulted in an decrease of total cash flows required to service the debt of approximately \$258,300 over the remaining life of the bonds and an economic gain of approximately \$561,300. The Series 2016-A Bonds are payable at interest rates ranging from 2.00% to 4.00% out of proceeds of a special county ad valorem tax. Interest payments are due on March 1 and September 1, and principal payments are due on March 1. The Series 2016-A Bonds mature or have mandatory redemption requirements annually through March 2045, with the exception of no principal payments being due in 2039 and 2040. The Series 2016-B Bonds are payable at interest rates ranging from 2.00% to 5.00% out of proceeds of a special county ad valorem tax. Interest payments are due on March 1 and September 1, and principal payments are due on March 1, 2017, 2038, 2039, and 2040.

Capital lease obligation – lab equipment at September 30, 2018, has an effective interest rate of 2%, and is due in monthly principal and interest payments of \$2,997 through August 2021. The lease is collateralized by equipment and has an outstanding balance of \$100,010 at September 30, 2018 (\$133,673 at September 20, 2017).

Capital lease obligation – phone system at September 30, 2018, has an effective interest rate of 4%, and is due in monthly principal and interest payments of \$1,135 through September 2019. The lease is collateralized by equipment and has an outstanding balance of \$11,961 at September 30, 2017 (\$24,317 at September 20, 2017).

The fair value of the Authority's bonds payable is based on current traded value. The fair value of bonds payable is approximately \$4,618,000 at September 30, 2018 (\$4,985,000 at September 30, 2017).

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

7. LONG-TERM DEBT – CONTINUED

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

	Principal	Interest
2019	\$ 166,274	\$ 168,738
2020	154,975	165,220
2021	155,722	162,092
2022	125,000	159,203
2023	130,000	156,413
2024 to 2028	705,000	730,284
2029 to 2033	815,000	615,030
2034 to 2038	960,000	460,939
2039 to 2043	1,190,000	238,050
2044 to 2045	550,000	22,200
	\$ 4,951,971	\$ 2,878,169

8. CONTINGENCIES AND COMMITMENTS

The Authority is insured for medical malpractice and professional liability exposure through a third-party insurance policy. The current policy expires in January 2020, and premiums are expensed pro rata over the policy period. The Authority has purchased 11,928 shares of the current insurance carrier's subscriber stock at a cost of \$119,280. These purchases have been recorded as an other asset in the 2018 and 2017 balance sheets.

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.

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

9. HALE COUNTY HOSPITAL FOUNDATION

During 2012, the Hale County Hospital Foundation, Inc. (the Foundation) was created. The Foundation does not operate under the oversight of the Authority nor does the Authority have access to the assets of the Foundation. The Foundation did not make any contributions to the Authority in 2018 or 2017.

10. OPERATING LEASES

Total rental expenses for all operating leases for the years ended September 30, 2018 and 2017, were approximately \$52,000 and \$59,000, respectively. The following is a schedule of estimated future minimum lease payments under all operating leases having initial or remaining noncancelable lease terms in excess of one year:

2019	\$ 48,000
2020	48,000
2021	<u>24,000</u>
	<u>\$ 120,000</u>

11. RETIREMENT PLANS

HCH currently participates in a defined contribution 457(b) deferred compensation plan (the Plan). All full-time employees are eligible to participate in the 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 Plan.

The Employees' Retirement System of Alabama (the Plan or ERS), an agency multiple-employer plan, was established October 1, 1945, under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns, and quasi-public organizations. HCH was a participant in the Plan until September 30, 1983, at which point HCH terminated its participation in the Plan. HCH employees who were fully vested at the time of termination were entitled to future benefits of the Plan. EMS also participates in the Plan and continues to be an active participant of the Plan.

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

11. RETIREMENT PLANS – CONTINUED

Plan Description

The responsibility for the general administration and operation of the Plan is vested in its Board of Control. The Plan's Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the Plan's Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

The Plan's Board of Control consists of 13 trustees as follows:

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of the Plan appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of the Plan who are elected by members from the same category of the Plan for a term of four years as follows:
 - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency, each of whom is an active beneficiary of the Plan.
 - b. Two vested active state employees.
 - c. Two vested active employees of an employer participating in the Plan pursuant to Code of Alabama § 36-27-6.

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

11. RETIREMENT PLANS – CONTINUED

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending September 30 are paid to the beneficiary.

The ERS serves approximately 909 local participating employers. The ERS membership includes approximately 88,517 participants. As of September 30, 2017, membership consisted of:

	<u>Plan Total</u>	<u>Hale County Hospital</u>	<u>Hale County EMS</u>
Retirees and beneficiaries currently receiving benefits	23,853	3	-
Terminated employees entitled to but not yet receiving benefits	1,401	-	1
Terminated employees not entitled to benefits	7,154	-	1
Active members	55,941	-	16
Post-DROP participants who are still in active service	168	-	-
	<u>88,517</u>	<u>3</u>	<u>18</u>

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

11. RETIREMENT PLANS – CONTINUED

Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

The Plan establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit, and administrative expenses of the Plan. For the year ended September 30, 2018, EMS's active employee contribution rate was 4.11% of covered employee payroll, and EMS's average contribution rate to fund the normal and accrued liability costs was 0.29% of pensionable payroll.

EMS's contractually required contribution rate for the year ended September 30, 2018, was .37% of pensionable pay for Tier 1 employees, and .37% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2015, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from EMS were \$2,320 for the year ended September 30, 2018.

There were no required contributions related to HCH made during the year.

Net Pension Asset

HCH's net pension asset was measured as of September 30, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of September 30, 2016, rolled forward to September 30, 2017, using standard roll-forward techniques as shown in the following table:

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

11. RETIREMENT PLANS – CONTINUED

Total pension liability as of September 30, 2016 (a)	\$ 80,968
Entry age normal cost for October 1, 2016 – September 30, 2017 (b)	-
Actual benefit payments and refunds for October 1, 2016 – September 30, 2017 (c)	<u>(13,392)</u>
 Total pension liability as of September 30, 2017 [(a) x (1.08)] + (b) - [(c) x (1.04)]	 <u>\$ 73,333</u>

EMS's net pension asset was measured as of September 30, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of September 30, 2016, rolled forward to September 30, 2017, using standard roll-forward techniques as shown in the following table:

Total pension liability as of September 30, 2016 (a)	\$ 1,313,062
Entry age normal cost for October 1, 2016 – September 30, 2017 (b)	43,803
Transfers among employers	1,455
Actual benefit payments and refunds for October 1, 2016 – September 30, 2017 (c)	<u>(68,050)</u>
 Total pension liability as of September 30, 2017 [(a) x (1.08)] + (b) - [(c) x (1.04)]	 <u>\$ 1,389,396</u>

Actuarial Assumptions

The total pension liability as of September 30, 2017, was determined based on the annual actuarial funding valuation report prepared as of September 30, 2016. The key actuarial assumptions are summarized below:

Inflation	2.75%
Salary increases	3.25% - 5.00%
Investment rate of return, net of pension plan investment expense	7.75%

Mortality rates were based on the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females ages 78 and older. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The actuarial assumptions used in the actuarial valuation as of September 30, 2016, were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

11. RETIREMENT PLANS – CONTINUED

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Fixed Income	17.00%	4.40%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash Equivalents	3.00%	1.50%

*Includes assumed rate of inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was the long term rate of return, 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

11. RETIREMENT PLANS – CONTINUED

Changes in Net Pension Liability (Asset)

HCH's changes in net pension liability (asset) are shown in the following table:

	Increase (Decrease)		
	Total Pension Liability [a]	Plan Fiduciary Net Position [b]	Net Pension Liability (Asset) [a]-[b]
Balance at September 30, 2016	\$ 77,029	\$ 1,674,281	\$ (1,597,252)
Changes for the year:			
Service cost	-	-	-
Interest	5,451	-	5,451
Changes of assumptions	-	-	-
Difference between expected and actual experience	4,245	-	4,245
Contributions – employer	-	(1,000,000)	1,000,000
Contributions – employees	-	-	-
Net investment income	-	149,493	(149,493)
Benefit payments, including refunds of employee contributions	(13,392)	(13,392)	-
Administrative expense	-	-	-
Transfers among employers	-	-	-
Net changes	<u>(3,696)</u>	<u>(863,899)</u>	<u>860,203</u>
Balance at September 30, 2017	<u>\$ 73,333</u>	<u>\$ 810,382</u>	<u>\$ (737,049)</u>

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

11. RETIREMENT PLANS – CONTINUED

EMS's changes in net pension liability (asset) are shown in the following table:

	Increase (Decrease)		
	Total Pension Liability [a]	Plan Fiduciary Net Position [b]	Net Pension Liability (Asset) [a]-[b]
Balance at September 30, 2016	\$ 1,264,213	\$ 1,328,653	\$ (64,440)
Changes for the year:			
Service cost	43,803	-	43,803
Interest	95,340	-	95,340
Changes of assumptions	-	-	-
Difference between expected and actual experience	52,635	-	52,635
Contributions – employer	-	2,982	(2,982)
Contributions – employees	-	32,753	(32,753)
Net investment income	-	168,146	(168,146)
Benefit payments, including refunds of employee contributions	(68,050)	(68,050)	-
Administrative expense	-	-	-
Transfers among employers	1,455	1,455	-
Net changes	<u>125,183</u>	<u>137,286</u>	<u>(12,103)</u>
Balance at September 30, 2017	<u>\$ 1,389,396</u>	<u>\$ 1,465,939</u>	<u>\$ (76,543)</u>

Refund of Excess Contributions

In May 2017, HCH received \$1,000,000 from the net pension asset associated with HCH's prior participation in the Plan. This amount was recorded as a deferred inflow of resources as of September 30, 2017, as payment was received after the measurement date of the net pension asset for 2017. The amount received was reclassified as a reduction of the net pension asset for HCH during 2018. The remaining net pension asset will ultimately be returned to HCH when those remaining participants and beneficiaries have received all of their retirement benefits. The remaining amount ultimately received by HCH will be based on various factors and is, therefore, subject to change.

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The following table presents HCH's and EMS's net pension asset calculated using the discount rate of 7.75%, as well as what HCH's and EMS's proportionate share of the net pension asset/liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

11. RETIREMENT PLANS – CONTINUED

	<u>1% Decrease (6.75%)</u>	<u>Current Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
HCH's net pension (asset)	\$ (733,666)	\$ (737,049)	\$ (740,150)
EMS's net pension (asset) liability	\$ 99,621	\$ (76,543)	\$ (224,167)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2017. The auditor's report dated August 31, 2018, on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2018, HCH recognized a credit to pension expense of \$89,487. At September 30, 2018, HCH reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	-	36,701
Employer contributions subsequent to the measurement date	-	-
	<u>\$ -</u>	<u>\$ 36,701</u>

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

11. RETIREMENT PLANS – CONTINUED

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for HCH will be recognized in HCH's pension expense as follows:

Year ending September 30:

2019		\$ (8,696)
2020		2,262
2021		(18,466)
2022		(11,801)
2023		-
Thereafter		-

For the year ended September 30, 2018, EMS recognized pension expense of \$42,993. At September 30, 2018, EMS reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 126,874	\$ 37,579
Changes of assumptions	142,005	-
Net difference between projected and actual earnings on plan investments	-	42,993
Employer contributions subsequent to the measurement date	<u>2,320</u>	<u>-</u>
	<u>\$ 271,199</u>	<u>\$ 80,572</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions related to EMS will be recognized in EMS's pension expense as follows:

Year ending September 30:

2019		\$ 33,238
2020		43,445
2021		25,323
2022		30,634
2023		23,594
Thereafter		32,073

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

12. CONDENSED FINANCIAL INFORMATION OF BLENDED COMPONENT UNIT

The following tables represent the condensed financial information of the Authority's component unit, EMS, as of September 30, 2018 and 2017, and for the years then ended:

CONDENSED ASSETS AND DEFERRED OUTFLOW OF RESOURCES

	<u>2018</u>	<u>2017</u>
Current assets	\$ 782,602	\$ 819,077
Capital assets	585,217	574,005
Other assets	<u>76,543</u>	<u>64,440</u>
Total assets	1,444,362	1,457,522
Deferred outflow of resources	<u>271,199</u>	<u>286,947</u>
Total assets and deferred outflow of resources	<u>\$ 1,715,561</u>	<u>\$ 1,744,469</u>

CONDENSED LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION

	<u>2018</u>	<u>2017</u>
Current liabilities	<u>\$ 18,141</u>	<u>\$ 13,185</u>
Total liabilities	18,141	13,185
Deferred inflow of resources	80,572	43,544
Net position:		
Net investment in capital assets	585,217	574,005
Unrestricted	<u>1,031,631</u>	<u>1,113,735</u>
Total net position	<u>1,616,848</u>	<u>1,687,740</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 1,715,561</u>	<u>\$ 1,744,469</u>

**THE HALE COUNTY HEALTH CARE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

**13. CONDENSED FINANCIAL INFORMATION OF BLENDED COMPONENT UNIT –
CONTINUED**

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<u>2018</u>	<u>2017</u>
Operating revenue	\$ 1,253,447	\$ 1,109,304
Operating expenses	<u>1,334,721</u>	<u>1,322,421</u>
Operating loss	(81,274)	(213,117)
Nonoperating revenues	<u>10,382</u>	<u>8,850</u>
Revenues less than expenses and decrease in net position	(70,892)	(204,267)
Net position at beginning of year	<u>1,687,740</u>	<u>1,892,007</u>
Net position at end of year	<u>\$ 1,616,848</u>	<u>\$ 1,687,740</u>

CONDENSED STATEMENTS OF CASH FLOWS

	<u>2018</u>	<u>2017</u>
Net cash provided (used) by:		
Operating activities	\$ 6,059	\$ (102,204)
Capital and related financing activities	(96,220)	(177,846)
Noncapital financing activities	<u>7,233</u>	<u>3,715</u>
Net decrease	(82,928)	(276,335)
Cash and cash equivalents at beginning of year	<u>655,086</u>	<u>931,421</u>
Cash and cash equivalents at end of year	<u>\$ 572,158</u>	<u>\$ 655,086</u>

REQUIRED SUPPLEMENTARY INFORMATION

**HALE COUNTY HOSPITAL
SCHEDULE OF CHANGES IN NET PENSION ASSET – HCH
YEARS ENDED SEPTEMBER 30, 2017 THROUGH 2014**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY				
Service cost	\$ -	\$ -	\$ -	\$ -
Interest	5,451	5,793	6,076	6,618
Change in benefit terms	-	-	-	-
Differences between expected and actual experience	4,245	4,018	3,773	-
Changes of assumptions	-	1,505	-	-
Benefit payments	<u>(13,392)</u>	<u>(13,392)</u>	<u>(13,392)</u>	<u>(13,392)</u>
Net change in total pension liability	(3,696)	(2,076)	(3,543)	(6,774)
Total pension liability – beginning	<u>77,029</u>	<u>79,105</u>	<u>82,648</u>	<u>89,422</u>
Total pension liability – ending (a)	<u>\$ 73,333</u>	<u>\$ 77,029</u>	<u>\$ 79,105</u>	<u>\$ 82,648</u>
PLAN FIDUCIARY NET POSITION				
Contributions – employer	\$ (1,000,000)	\$ -	\$ -	\$ -
Contributions – employee	-	-	-	-
Net investment income	149,493	155,370	18,045	164,378
Benefit payments, including refunds of employee contributions	(13,392)	(13,392)	(13,392)	(13,392)
Transfers among employers	-	-	-	-
Net change in plan fiduciary net position	(863,899)	141,978	4,653	150,986
Plan fiduciary net position – beginning	<u>1,674,281</u>	<u>1,532,303</u>	<u>1,527,650</u>	<u>1,376,664</u>
Plan fiduciary net position – ending (b)	<u>\$ 810,382</u>	<u>\$ 1,674,281</u>	<u>\$ 1,532,303</u>	<u>\$ 1,527,650</u>
Net pension liability (asset) - ending (a) - (b)	<u>\$ (737,049)</u>	<u>\$ (1,597,252)</u>	<u>\$ (1,453,198)</u>	<u>\$ (1,445,002)</u>
Plan fiduciary net position as a percentage of the total pension liability	1105.07%	2173.57%	1937.05%	1848.38%
Covered payroll	\$ -	\$ -	\$ -	\$ -
Net pension liability (asset) as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

See independent auditors' report.

**HALE COUNTY EMERGENCY MEDICAL SERVICES
SCHEDULE OF CHANGES IN NET PENSION ASSET – EMS
YEARS ENDED SEPTEMBER 30, 2017 THROUGH 2014**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY				
Service cost	\$ 43,803	\$ 39,589	\$ 44,090	\$ 34,631
Interest	95,340	82,194	73,888	75,897
Change in benefit terms	-	-	-	-
Differences between expected and actual experience	52,635	(49,509)	142,199	-
Changes of assumptions	-	187,087	-	-
Benefit payments	(68,050)	(45,136)	(267,568)	(3,728)
Transfers among employers	1,455	-	-	-
Net change in total pension liability	125,183	214,225	(7,391)	106,800
Total pension liability – beginning	<u>1,264,213</u>	<u>1,049,988</u>	<u>1,057,379</u>	<u>950,579</u>
Total pension liability – ending (a)	<u>\$ 1,389,396</u>	<u>\$ 1,264,213</u>	<u>\$ 1,049,988</u>	<u>\$ 1,057,379</u>
PLAN FIDUCIARY NET POSITION				
Contributions – employer	\$ 2,982	\$ -	\$ -	\$ 13,770
Contributions – employee	32,753	23,512	29,182	28,381
Net investment income	168,146	123,804	15,778	153,184
Benefit payments, including refunds of employee contributions	(68,050)	(45,136)	(267,568)	(3,728)
Transfers among employers	1,455	-	-	-
Net change in plan fiduciary net position	137,286	102,180	(222,608)	191,607
Plan fiduciary net position – beginning	<u>1,328,653</u>	<u>1,226,473</u>	<u>1,449,081</u>	<u>1,257,474</u>
Plan fiduciary net position – ending (b)	<u>\$ 1,465,939</u>	<u>\$ 1,328,653</u>	<u>\$ 1,226,473</u>	<u>\$ 1,449,081</u>
Net pension liability (asset) - ending (a) - (b)	<u>\$ (76,543)</u>	<u>\$ (64,440)</u>	<u>\$ (176,485)</u>	<u>\$ (391,702)</u>
Plan fiduciary net position as a percentage of the total pension liability	105.51%	105.10%	116.81%	137.04%
Covered payroll	\$ 797,447	\$ 785,751	\$ 844,939	\$ 868,422
Net pension liability (asset) as a percentage of covered payroll	-9.60%	-8.20%	-20.89%	-45.11%

See independent auditors' report

**HALE COUNTY HOSPITAL
SCHEDULE OF EMPLOYER CONTRIBUTIONS - HCH
YEARS ENDED SEPTEMBER 30, 2018 THROUGH 2015**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

Notes to Schedule:

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported.

Contributions for fiscal year 2018 were based on the September 30, 2015 actuarial valuation.

Methods and assumptions used to determine contributions rates:

Actuarial cost methods	Entry age
Amortization method	Level percent closed
Remaining amortization period	N/A
Asset valuation method	Five-year smoothed market
Inflation	3.00%
Salary increases	3.75 - 7.25%, including inflation
Investment rate of return	7.75% net of pension plan investment expense, including inflation

See independent auditors' report.

**HALE COUNTY EMERGENCY MEDICAL SERVICES
SCHEDULE OF EMPLOYER CONTRIBUTIONS - EMS
YEARS ENDED SEPTEMBER 30, 2018 THROUGH 2015**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 2,320	\$ 8,123	\$ 1,566	\$ 2,136
Contributions in relation to the actuarially determined contribution	<u>2,320</u>	<u>8,123</u>	<u>1,566</u>	<u>2,136</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 797,447	\$ 785,751	\$ 844,939	\$ 868,422
Contributions as a percentage of covered payroll	0.29%	1.03%	0.19%	0.25%

Notes to Schedule:

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported.

Contributions for fiscal year 2018 were based on the September 30, 2015 actuarial valuation.

Methods and assumptions used to determine contributions rates:

Actuarial cost methods	Entry age
Amortization method	Level percent closed
Remaining amortization period	30 years
Asset valuation method	Five-year smoothed market
Inflation	3.00%
Salary increases	3.75 - 7.25%, including inflation
Investment rate of return	7.75% net of pension plan investment expense, including inflation

See independent auditors' report.

SUPPLEMENTARY INFORMATION

**THE HALE COUNTY HEALTH CARE AUTHORITY
BOARD MEMBERS AND OFFICIALS (UNAUDITED)
SEPTEMBER 30, 2018**

Name and Address	Position	Expiration of Term
Tommy Martin 2921 County Road 59 Moundville, AL 35474	Chairman of the Board	July 2023
Renee' Barnette 703 Main Street Greensboro, AL 36744	Secretary	July 2021
Lorrie Cook P.O. Box 395 Greensboro, AL 36744	Member	April 2021
Dr. John Dorsey 1310C Main Street Greensboro, AL 36744	Member	July 2021
Betty Gist 2280 County Road 86 Greensboro, AL 36744	Member	April 2021
Ulysess Johnson, Sr. P. O. Box 22 Greensboro, AL 36744	Member	July 2019
Tony Lee 1671 David Campbell Road Moundville, AL 35474	Member	July 2021
Frank Reynolds P. O. Box 460 Greensboro, AL 36744	Member	July 2024
James Scott 2888 County Road 28 Sawyer ville, AL 36776	Member	July 2024

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

Board of Directors
The Hale County Health Care Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Hale County Health Care Authority (the Authority) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 27, 2019.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control that we consider to be material weaknesses. We consider the following deficiencies to be material weaknesses:

During 2018, the Authority completed a conversion of its accounting system from CPSI to Intacct. During our audit, we noted errors in the general ledger as a result of the conversion resulting in numerous year-end audit adjustments. In addition, we noted that the Authority was unable to produce accurate and timely internal financial statements after the conversion.

We also noted a lack of proper segregation of duties of accounting personnel in the accounting and business office departments. Internal controls are designed to safeguard assets by segregation of duties. As a result of the lack of segregation of duties combined with the conversion to the new system discussed above, the Authority had numerous year-end audit adjustments and certain supporting documents for journal entries were unable to be located. While the size of the Authority prohibits complete adherence to the concept of segregation of duties, professional standards require us to report this condition.

Compliance and Other Matters

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

The Hale County Health Care Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying auditee response. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Warren Averett, LLC

Birmingham, Alabama
March 27, 2019

**AUDITEE RESPONSE (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Finding

The auditors noted errors in the general ledger as a result of the conversion of our accounting system resulting in numerous year-end audit adjustments. They also noted that we were unable to produce accurate and timely internal financial statements after the conversion.

Response

We concur with the findings of our auditors. We believe that such errors and delays in financial reporting were due to a lack of understanding of and training on the new accounting system. We have since received additional training on the new system and believe we have an adequate understanding of the accounting system to produce accurate and timely financial statements.

Finding

The auditors also noted a lack of proper segregation of duties of accounting personnel in the accounting and business office departments. Internal controls are designed to safeguard assets by segregation of duties. As a result of the lack of segregation of duties combined with the conversion to the new system discussed above, the Authority had numerous year-end audit adjustments and certain supporting documents for journal entries were unable to be located. While the size of the Authority prohibits complete adherence to the concept of segregation of duties, professional standards require the auditors to report this condition.

Response

We concur with the findings of our auditors. We also concur that the size of The Hale County Health Care Authority prohibits complete adherence to the concept of proper segregation of duties. However, we achieve segregation of duties to the greatest extent possible based on our size, as well as encourage Board of Directors' oversight to supplement that segregation of duties.