

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2019 AND 2018

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
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SEPTEMBER 30, 2019 AND 2018**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Medical West Hospital Authority, An Affiliate of UAB Health System ("the Authority"), as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Medical West Hospital Authority, An Affiliate of UAB Health System, as of September 30, 2019 and 2018, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Warren Averett, LLC

Birmingham, Alabama
December 5, 2019

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
SEPTEMBER 30, 2019 AND 2018**

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

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

The Authority's strategic focus during fiscal year 2020 is to continue to improve financial performance and grow market share through focusing on the provision of quality health care to meet the current and future needs of the market. Specifically, management has goals focused to:

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

The State Health Planning and Development Agency has approved a Certificate of Need filed by the Authority to construct a replacement hospital in McCalla in Jefferson County. The move opens the way for the Authority to construct a 200-bed replacement hospital near Exit 1 on Interstate Highway 459 to serve the residents of southwest Jefferson County. The existing facility in Bessemer was built in 1964 and hospital officials believe a new facility is necessary to continue providing the highest quality health care in a patient-focused environment in upcoming years. The new hospital will provide all the services currently available at the existing facility. The Authority will also continue to serve area residents through operation of its primary care clinics in Bessemer, Hueytown, Vance, Tannehill, Hoover and Parkwest, along with the freestanding emergency department on Highway 150. Design and construction of the new hospital is expected to take 3 years. The current facility on 9th Ave. Southwest in Bessemer will continue to provide full medical care during the construction period.

**MEDICAL WEST HOSPITAL AUTHORITY,
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
SEPTEMBER 30, 2019 AND 2018**

Net Position

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

Table A-1

Condensed Statements of Net Position (in millions of dollars)

	<u>2019</u>	<u>2018</u>	<u>\$ Change</u>	<u>% Change</u>
Receivables, net	\$ 19.8	\$ 19.6	\$ 0.2	1.0%
Other current assets	<u>30.6</u>	<u>29.1</u>	1.5	5.2%
Current assets	50.4	48.7	1.7	3.5%
Other assets	4.5	4.2	0.3	7.1%
Capital assets	<u>29.5</u>	<u>31.2</u>	(1.7)	-5.4%
Total assets	<u>84.4</u>	<u>84.1</u>	0.3	0.4%
Deferred outflow of resources	<u>-</u>	<u>0.1</u>	(0.1)	-100.0%
Current liabilities	15.7	16.1	(0.4)	-2.5%
Noncurrent liabilities	<u>36.2</u>	<u>36.3</u>	(0.1)	-0.3%
Total liabilities	<u>51.9</u>	<u>52.4</u>	(0.5)	-1.0%
NET POSITION				
Net investment in capital assets	(6.4)	(4.5)	(1.9)	42.2%
Unrestricted	<u>38.9</u>	<u>36.3</u>	2.6	7.2%
TOTAL NET POSITION	<u><u>\$ 32.5</u></u>	<u><u>\$ 31.8</u></u>	\$ 0.7	2.2%

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

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

**MEDICAL WEST HOSPITAL AUTHORITY,
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
SEPTEMBER 30, 2019 AND 2018**

As shown in Table A-1, net position increased approximately \$0.7 million from 2018. This change in net position was primarily attributable to a combined \$0.2 million increase in total assets and deferred outflow of resources and a \$0.5 million reduction in total liabilities.

Property and equipment at September 30, 2019, totals approximately \$29.5 million, net of accumulated depreciation. During 2019, total additions to property and equipment were approximately \$3.8 million, and depreciation expense was approximately \$5.5 million.

Long-term obligations, less current portions, increased in fiscal year 2019 by approximately \$0.07 million. Long-term debt at September 30, 2019 includes the term loan used for refinance of earlier bond issues that were originally used for facility additions and improvements. Also included are a 2006 note payable used to acquire real estate, a 2015 note payable for medical equipment purchases and capital lease obligations for medical equipment. The Authority has pledged all gross revenues as collateral for this indebtedness.

Change in Net Position

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

Table A-2

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

	<u>2019</u>	<u>2018</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues	\$ 130.5	\$ 126.3	\$ 4.2	3.3%
Professional care of patients	89.9	86.7	3.2	3.7%
Service departments	33.3	32.1	1.2	3.7%
Depreciation	5.5	5.8	(0.3)	-5.2%
Total operating expenses	128.7	124.6	4.1	3.3%
Operating income	1.8	1.7	0.1	5.9%
Nonoperating net expenses	(1.1)	(1.0)	(0.1)	10.0%
Change in net position	0.7	0.7	0.0	0.0%
Beginning net position	31.8	31.1	0.7	2.3%
Ending net position	<u>\$ 32.5</u>	<u>\$ 31.8</u>	\$ 0.7	2.2%

**MEDICAL WEST HOSPITAL AUTHORITY,
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
SEPTEMBER 30, 2019 AND 2018**

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

As shown in Table A-2 above, operating revenues increased by approximately \$4.2 million from the prior year. Patient service revenue, net of allowances for contractual discounts, charity care, and bad debt expense, was approximately \$128.4 million for 2019, an increase of approximately \$4.2 million and 3.3% from the prior year. The increase is primarily attributable to increased patient volumes in fiscal year 2019.

Operating expenses for fiscal year 2019 were approximately \$128.7 million compared to approximately \$124.6 million in fiscal year 2018, a 3.3% increase driven primarily by an increase in salaries and professional fees for physicians.

Statements of Cash Flows

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

Requests for Information

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

FINANCIAL STATEMENTS

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2019 AND 2018**

ASSETS AND DEFERRED OUTFLOW OF RESOURCES	2019	2018
	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 24,681,260	\$ 23,768,553
Short-term investments	1,045,095	1,035,054
Patient accounts receivable, net of estimated uncollectibles of \$15,264,950 in 2019 and \$13,046,749 in 2018	19,815,400	19,645,883
Estimated third-party settlements	78,370	-
Other receivables	744,542	369,412
Inventories	2,381,096	2,212,706
Prepaid expenses	1,542,180	1,339,350
Noncurrent cash and investments required for current liabilities	<u>130,604</u>	<u>345,212</u>
Total current assets	<u>50,418,547</u>	<u>48,716,170</u>
NONCURRENT CASH AND INVESTMENTS		
Designated by Board for capital improvements	3,972,910	3,919,670
Held under self-insurance trust agreement by trustee	<u>575,024</u>	<u>570,483</u>
	4,547,934	4,490,153
Less amounts required for current liabilities	<u>130,604</u>	<u>345,212</u>
Total noncurrent cash and investments	<u>4,417,330</u>	<u>4,144,941</u>
PROPERTY AND EQUIPMENT, NET	29,549,119	31,233,296
OTHER ASSETS	<u>27,746</u>	<u>78,219</u>
TOTAL ASSETS	<u>84,412,742</u>	<u>84,172,626</u>
DEFERRED OUTFLOW OF RESOURCES	<u>43,582</u>	<u>58,110</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u><u>\$ 84,456,324</u></u>	<u><u>\$ 84,230,736</u></u>

See notes to the financial statements.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2019 AND 2018**

	2019	2018
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 9,464,168	\$ 8,472,836
Accrued salaries and wages	1,947,076	2,365,017
Accrued and withheld payroll taxes and employee benefits	1,413,679	1,152,435
Accrued vacation and sick pay	2,238,950	2,327,625
Accrued contribution to affiliate	135,157	225,013
Estimated third-party payor settlements	-	934,134
Accrued self-insurance losses	130,604	345,212
Accrued interest on long-term obligations	63,929	60,029
Current portion of long-term obligations	365,350	271,822
Total current liabilities	15,758,913	16,154,123
OTHER LIABILITIES	590,302	779,757
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION	35,624,577	35,549,801
NET POSITION		
Net investment in capital assets	(6,397,226)	(4,530,217)
Unrestricted	38,879,758	36,277,272
Total net position	32,482,532	31,747,055
TOTAL LIABILITIES AND NET POSITION	\$ 84,456,324	\$ 84,230,736

See notes to the financial statements.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Net patient service revenue, net of provision for bad debts of \$25,280,026 in 2019 and \$19,611,283 in 2018	\$ 128,424,570	\$ 124,263,437
Other operating revenue	<u>2,022,076</u>	<u>2,026,850</u>
Total operating revenues	<u>130,446,646</u>	<u>126,290,287</u>
OPERATING EXPENSES		
Professional care of patients	89,894,191	86,640,758
Service departments	33,315,225	32,097,986
Depreciation	<u>5,446,210</u>	<u>5,841,900</u>
Total operating expenses	<u>128,655,626</u>	<u>124,580,644</u>
OPERATING INCOME	<u>1,791,020</u>	<u>1,709,643</u>
NONOPERATING REVENUES (EXPENSES)		
Investment and interest income	67,823	31,100
Interest expense	(863,344)	(860,197)
Loss on sale of property and equipment	(14,865)	(1,964)
Contribution obligation incurred to affiliate	<u>(245,157)</u>	<u>(225,013)</u>
Total nonoperating revenues (expenses)	<u>(1,055,543)</u>	<u>(1,056,074)</u>
CHANGE IN NET POSITION BEFORE MINORITY INTEREST	735,477	653,569
MINORITY INTEREST	<u>-</u>	<u>21,463</u>
CHANGE IN NET POSITION	735,477	675,032
NET POSITION AT BEGINNING OF YEAR	<u>31,747,055</u>	<u>31,072,023</u>
NET POSITION AT END OF YEAR	<u>\$ 32,482,532</u>	<u>\$ 31,747,055</u>

See notes to the financial statements.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	\$ 127,242,549	\$ 124,033,834
Payments to suppliers	(66,773,858)	(64,528,028)
Payments to employees	(56,504,861)	(54,154,396)
Other receipts and payments, net	<u>1,646,946</u>	<u>2,978,155</u>
Net cash provided by operating activities	<u>5,610,776</u>	<u>8,329,565</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payment of contribution obligation incurred to affiliate	<u>(335,013)</u>	<u>(345,899)</u>
Net cash used in noncapital financing activities	<u>(335,013)</u>	<u>(345,899)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the sale of property and equipment	2,960	3,250
Purchases of property and equipment	(3,250,471)	(2,836,224)
Repayment of long-term debt	(321,103)	(306,193)
Interest paid	<u>(844,916)</u>	<u>(793,330)</u>
Net cash used in capital and related financing activities	<u>(4,413,530)</u>	<u>(3,932,497)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment income	67,823	31,100
Change in other assets	50,473	(41,341)
Change in investments	<u>(3,834)</u>	<u>(3,778)</u>
Net cash provided by (used in) investing activities	<u>114,462</u>	<u>(14,019)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	976,695	4,037,150
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>29,038,343</u>	<u>25,001,193</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 30,015,038</u></u>	<u><u>\$ 29,038,343</u></u>

See notes to the financial statements.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	2019	2018
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION		
Cash and cash equivalents	\$ 24,681,260	\$ 23,768,553
Cash and cash equivalents included in short-term investments	785,844	779,637
Cash and cash equivalents included in noncurrent cash and investments:		
Designated by Board for capital improvements	3,972,910	3,919,670
Held under self-insurance trust agreement	575,024	570,483
Total cash and cash equivalents	\$ 30,015,038	\$ 29,038,343
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,791,020	\$ 1,709,643
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,446,210	5,841,900
Provision for bad debts	25,280,026	19,611,283
Change in patient accounts receivable	(25,449,543)	(20,302,109)
Change in other receivables	(375,130)	951,305
Change in inventories	(168,390)	2,855
Change in prepaid expenses	(202,830)	36,731
Change in accounts payable and accrued expenses	951,352	(230,408)
Change in salaries, wages, and related withholdings payable	(245,372)	286,866
Change in estimated third-party payor settlements	(1,012,504)	461,223
Change in other current liabilities	(214,608)	213,046
Change in other liabilities	(189,455)	(252,770)
Total adjustments to reconcile operating income to net cash provided by operating activities	3,819,756	6,619,922
Net cash provided by operating activities	\$ 5,610,776	\$ 8,329,565

See notes to the financial statements.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Contribution obligation to affiliate accrued	<u>\$ 135,157</u>	<u>\$ 225,013</u>
Loss on sale of property and equipment	<u>\$ 14,865</u>	<u>\$ 1,964</u>
Accrued purchases of property and equipment	<u>\$ 39,980</u>	<u>\$ 163,721</u>
Minority interest	<u>\$ -</u>	<u>\$ 21,463</u>
Equipment acquired through capital lease obligations	<u>\$ 489,407</u>	<u>\$ -</u>

See notes to the financial statements.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

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

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

Reporting Entity

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

**MEDICAL WEST HOSPITAL AUTHORITY,
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NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

On September 11, 2012, the Authority formed a limited liability company, Physician Integration Partners, LLC, as the sole member. At September 30, 2019 and 2018, the entity had no assets or activity recorded in its financial records.

Enterprise Fund Accounting

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

Use of Estimates

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

Cash and Cash Equivalents

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

The Authority's deposits at year end were held by financial institutions in the State of Alabama's Security for Alabama Funds Enhancement ("SAFE") Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the Code of Alabama 1975, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation ("FDIC"). If the securities pledged failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Short-Term and Noncurrent Cash and Investments

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

Inventories

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

Patient Accounts Receivable, Net

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

Income Taxes

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

MWI (prior to its dissolution) had adopted the provision of the accounting standards codification relating to uncertainty in income taxes. This guidance requires entities to assess their uncertain tax positions for the likelihood that they would be overturned upon Internal Revenue Service examination or upon examination by state taxing authorities. MWI determined that it did not have any positions at September 30, 2018, that it would be unable to substantiate.

MWI has filed its tax returns for all periods through September 30, 2018. Periods ended on December 31, 2016, and subsequent remain subject to audit by taxing authorities.

**MEDICAL WEST HOSPITAL AUTHORITY,
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property and Equipment

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

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

Operating Revenues and Expenses

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

Net Patient Service Revenue

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

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The difference between original estimates made by the Authority in prior years and subsequent revisions (including final settlements) for Medicare retroactive settlements was a decrease to net patient service revenue of approximately \$80,000 and an increase of approximately \$174,000 for the years ended September 30, 2019 and 2018, respectively.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position

Net position of the Authority is classified in four components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings, including the loss on refunding, used to finance the purchase or construction of those assets. *Restricted expendable net position* is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Authority. *Restricted nonexpendable net position* equals the principal portion of permanent endowments. The Authority does not have any restricted expendable or nonexpendable net position. *Unrestricted net position* is the remaining residual net position that does not meet the definition of *net investment in capital assets* or *restricted*. The Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

Charity Care

The Authority accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Authority. In assessing a patient's inability to pay, the Authority utilizes the generally recognized poverty income levels of Alabama but also includes certain cases where incurred charges are significant when compared to income. Charity care provided in fiscal year 2019 and 2018, measured at established rates, approximated \$7,100,000 and \$6,200,000, respectively, and is not included in net patient service revenue. The costs incurred in providing these services are included in the Authority's operating expenses.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, short-term investments, and noncurrent cash and investments approximates their fair value. The carrying amount of accounts receivable, accounts payable, and accrued expenses is the approximate fair value due to the short-term nature of these instruments. The fair value of the Authority's long-term obligations was estimated using the required payments of the obligations discounted at current borrowing rates. The estimated fair value of long-term obligations at September 30, 2019 and 2018, is approximately \$36,100,000 and 34,900,000, respectively.

Deferred Outflow of Resources

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

**MEDICAL WEST HOSPITAL AUTHORITY,
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued Accounting Pronouncements

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

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

Subsequent Events

The Authority has evaluated the impact of subsequent events through December 5, 2019, representing the date on which the financial statements were issued.

**MEDICAL WEST HOSPITAL AUTHORITY,
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2. PATIENT ACCOUNTS RECEIVABLE

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

	<u>2019</u>	<u>2018</u>
Receivable from patients and their insurance carriers	\$ 27,399,551	\$ 27,033,703
Receivable from Medicare beneficiaries	35,242,027	35,805,596
Receivable from Medicaid beneficiaries	8,161,560	7,182,724
Receivable from Blue Cross beneficiaries	<u>11,854,824</u>	<u>8,690,151</u>
Total patient accounts receivable	82,657,962	78,712,174
Less allowance for contractual adjustments	47,577,612	46,019,542
Less allowance for uncollectibles	<u>15,264,950</u>	<u>13,046,749</u>
Net patient accounts receivable	<u>\$ 19,815,400</u>	<u>\$ 19,645,883</u>

3. NET PATIENT SERVICE REVENUE

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

Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Defined pass-through costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2014.

Laws and regulations governing the Medicare program are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare program.

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3. NET PATIENT SERVICE REVENUE – CONTINUED

Medicaid

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

Blue Cross

Inpatient services rendered to Blue Cross subscribers are reimbursed at prospectively determined rates per day of hospitalization. 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.

Other

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

Net patient service revenue is comprised of the following for the years ended September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Gross patient service revenue	\$ 617,971,759	\$ 610,676,950
Less contractual adjustments	457,179,961	460,568,206
Less charity care	7,087,202	6,234,024
Less provision for bad debts	<u>25,280,026</u>	<u>19,611,283</u>
	<u>\$ 128,424,570</u>	<u>\$ 124,263,437</u>

4. NONCURRENT CASH AND INVESTMENTS

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

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4. NONCURRENT CASH AND INVESTMENTS – CONTINUED

The Board of Directors of the Authority designated cash and investments in the amounts of \$3,972,910 and \$3,919,670 for the replacement of property and equipment and for other capital purposes at September 30, 2019 and 2018, respectively.

The Authority self-insures for professional, general liability, and workers' compensation coverage. The balance of self-insurance funds on deposit with the trustee, including accrued interest, was \$575,024 and \$570,483 at September 30, 2019 and 2018, respectively. In addition, the Authority maintains an umbrella excess liability for professional, general liability, and workers' compensation coverage (see Note 10). Deposits to the self-insurance funds are not recognized in operations; rather, an estimate of loss is accrued when a loss becomes probable. Evaluations of the accrued losses are made periodically, and the amount of the accrual is adjusted accordingly.

All of the Authority's noncurrent cash and investments at September 30, 2019 and 2018, are held in cash and cash equivalent accounts.

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

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

5. SHORT-TERM INVESTMENTS

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

	2019	2018
Cash and cash equivalents	\$ 785,844	\$ 779,637
Certificates of deposit	259,251	255,417
	\$ 1,045,095	\$ 1,035,054

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6. PROPERTY AND EQUIPMENT

At September 30, 2019, property and equipment, including additions and disposals, consists of the following:

	Balance at September 30, 2018	Additions	Disposals	Transfers of CIP	Balance at September 30, 2019
Land	\$ 3,697,849	\$ -	\$ -	\$ -	\$ 3,697,849
Land improvements	553,751	5,686	-	-	559,437
Buildings	67,327,231	565,300	(375)	88,229	67,980,385
Fixed equipment	17,428,717	757,445	-	195,657	18,381,819
Major moveable equipment	48,741,294	1,773,899	(968,326)	19,861	49,566,728
Automobiles and related equipment	93,019	-	-	-	93,019
Capital assets at historical cost	137,841,861	3,102,330	(968,701)	303,747	140,279,237
Less accumulated depreciation	(107,356,297)	(5,446,210)	950,876	-	(111,851,631)
	30,485,564	(2,343,880)	(17,825)	303,747	28,427,606
Construction-in-progress	747,732	677,528	-	(303,747)	1,121,513
	<u>\$ 31,233,296</u>	<u>\$ (1,666,352)</u>	<u>\$ (17,825)</u>	<u>\$ -</u>	<u>\$ 29,549,119</u>

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

	Balance at September 30, 2017	Additions	Disposals	Transfers of CIP	Balance at September 30, 2018
Land	\$ 3,697,849	\$ -	\$ -	\$ -	\$ 3,697,849
Land improvements	545,937	7,814	-	-	553,751
Buildings	66,574,837	425,129	-	327,265	67,327,231
Fixed equipment	17,375,642	18,026	-	35,049	17,428,717
Major moveable equipment	46,815,743	1,960,072	(62,326)	27,805	48,741,294
Automobiles and related equipment	93,019	-	-	-	93,019
Capital assets at historical cost	135,103,027	2,411,041	(62,326)	390,119	137,841,861
Less accumulated depreciation	(101,571,509)	(5,841,900)	57,112	-	(107,356,297)
	33,531,518	(3,430,859)	(5,214)	390,119	30,485,564
Construction-in-progress	562,213	575,638	-	(390,119)	747,732
	<u>\$ 34,093,731</u>	<u>\$ (2,855,221)</u>	<u>\$ (5,214)</u>	<u>\$ -</u>	<u>\$ 31,233,296</u>

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6. PROPERTY AND EQUIPMENT – CONTINUED

Construction-in-progress at September 30, 2019, consists primarily of preliminary costs incurred for plans to build a new hospital. On May 8, 2019, the Authority filed a Certificate of Need (“CON”) application with the State Health Planning and Development Agency to replace its existing hospital facility which was approved on August 21, 2019. The new hospital will consist of 200 licensed beds and will be located at Exit 1 on Interstate Highway 459 in unincorporated west Jefferson County. The projected cost of constructing the replacement hospital, medical office building and parking deck is approximately \$290,000,000; and the projected cost of all necessary medical equipment and furnishings is approximately \$50,000,000. Design and construction of the new facility is expected to take three years. The construction is expected to be financed with existing resources and long-term debt.

7. LONG-TERM OBLIGATIONS

Fiscal year 2019 and 2018 changes in the Authority’s long-term debt are as follows:

	Balance at September 30, 2018	Additions	Reductions	Balance at September 30, 2019	Amounts Due Within One Year
Notes payable:					
Term loan	\$ 35,300,000	\$ -	\$ -	\$ 35,300,000	\$ -
Guidance line	224,688	-	141,908	82,780	82,780
Notes payable	296,935	-	129,913	167,022	133,198
	<u>35,821,623</u>	<u>-</u>	<u>271,821</u>	<u>35,549,802</u>	<u>215,978</u>
Total notes payable					
Capital lease obligations	-	489,407	49,282	440,125	149,372
	<u>\$ 35,821,623</u>	<u>\$ 489,407</u>	<u>\$ 321,103</u>	<u>\$ 35,989,927</u>	<u>\$ 365,350</u>
	Balance at September 30, 2017	Additions	Reductions	Balance at September 30, 2018	Amounts Due Within One Year
Notes payable:					
Term loan	\$ 35,300,000	\$ -	\$ -	\$ 35,300,000	\$ -
Guidance line	366,597	-	141,909	224,688	141,909
Notes payable	424,609	-	127,674	296,935	129,913
	<u>36,091,206</u>	<u>-</u>	<u>269,583</u>	<u>35,821,623</u>	<u>271,822</u>
Total notes payable					
Capital lease obligations	36,310	-	36,310	-	-
	<u>\$ 36,127,516</u>	<u>\$ -</u>	<u>\$ 305,893</u>	<u>\$ 35,821,623</u>	<u>\$ 271,822</u>

**MEDICAL WEST HOSPITAL AUTHORITY,
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7. LONG-TERM OBLIGATIONS – CONTINUED

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

Year Ending September 30	Bonds and Notes Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2020	\$ 215,978	\$ 822,371	\$ 149,372	\$ 11,163
2021	33,824	819,101	153,914	6,620
2022	35,300,000	884,932	136,839	1,966
	<u>\$ 35,549,802</u>	<u>\$ 2,526,404</u>	<u>\$ 440,125</u>	<u>\$ 19,749</u>

During 2017, the Authority entered into a financing agreement (the "Term Loan") with a financial institution for \$35,300,000. The proceeds were used to refund the \$15,000,000 capital expenditure line of credit (the "Capital Line") and the Series 2013-A Revenue Bonds (the "2013 Bonds"). The note accrues interest at a fixed rate of 2.32% and is due monthly beginning November 2017 and ending at the maturity date of September 30, 2022. The entire principal is due at maturity. The master trust indenture requires that the Authority comply with certain financial and nonfinancial covenants. The Authority is in compliance with all financial covenants as of September 30, 2019. To provide collateral for the note payments, the Authority pledged all of its gross revenue and all property, rights, and privileges of the Authority.

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

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

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7. LONG-TERM OBLIGATIONS – CONTINUED

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

During 2019, the Authority entered into a capital lease transaction to purchase equipment. The obligation is due in 48 monthly payments of \$2,723, which includes interest at a rate of 3%, until maturity in September 2022.

During 2019, the Authority entered into a capital lease transaction to purchase equipment. The obligation is due in 36 monthly payments of \$10,655, which includes interest at a rate of 3%, until maturity in July 2022.

8. OPERATING LEASES

In September 2005, the Authority entered into an agreement to lease medical and office space for a period of 25 years with rental payments escalating annually by 2.75%. In connection with the lease, expenses of approximately \$857,000 and \$834,000 have been recorded in the accompanying statements of revenues, expenses, and changes in net position for the years ended September 30, 2019 and 2018, respectively.

During 2014, the Authority entered into an operating lease for the freestanding emergency department building completed in April 2015. The lease is for a 15-year period. In connection with the lease, expenses of approximately \$669,000 and \$647,000 have been recorded in the accompanying statements of revenues, expenses, and changes in net position for the years ended September 30, 2019 and 2018, respectively.

In November 2015, the Authority entered into an agreement to lease medical equipment for a period of 42 months. In connection with the lease, expenses of approximately \$145,000 and \$194,000 have been recorded in the accompanying statements of revenues, expenses, and changes in net position for the years ended September 30, 2019 and 2018, respectively.

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8. OPERATING LEASES – CONTINUED

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

2020	\$ 1,621,000
2021	1,659,000
2022	1,699,000
2023	1,740,000
2024	1,782,000
2025-2029	9,501,000
2030-2031	1,348,000
	<u>\$ 19,350,000</u>

9. CONCENTRATION OF CREDIT RISK

The Authority's medical facilities are located in Jefferson County, Alabama. The Authority grants credit without collateral to its patients, most of whom are local residents insured under third-party payor agreements. As of September 30, 2019 and 2018, the mix of receivables from patients and third-party payors was as follows:

	<u>2019</u>	<u>2018</u>
Medicare	43%	45%
Medicaid	10%	9%
Blue Cross	14%	11%
Other third-party payors and commercial insurance carriers	10%	12%
Self-pay	23%	23%
	<u>100%</u>	<u>100%</u>

10. COMMITMENTS AND CONTINGENCIES

Litigation

The Authority is a defendant in various lawsuits arising in the ordinary course of business. It has been determined that losses are probable on several of these lawsuits, and a reasonable estimate of such losses has been accrued by the Authority. The liability, if any, for the remaining lawsuits against the Authority at September 30, 2019, is not determinable, but, in the opinion of management, such liability, if any, will not have a material effect upon the Authority's financial position, results of operations, or cash flows.

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10. COMMITMENTS AND CONTINGENCIES – CONTINUED

Medical Malpractice and Workers' Compensation Insurance

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

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

Medical Records Review

The Medicare Prescription Drug Improvement and Modernization Act of 2003 ("MMA") established the Recovery Audit Contractor ("RAC") three-year demonstration program to conduct post-payment reviews to detect and correct improper payments in the fee-for-service Medicare program. Each RAC had discretion over the types of reviews and record requests it would conduct within the states for which it was responsible as long as it followed the Centers for Medicare and Medicaid Services ("CMS")-defined Statement of Work. The Tax Relief and Health Care Act of 2006 made the RAC program permanent and mandated its nationwide expansion by 2010. CMS has awarded contracts to four RACs that will implement the permanent RAC program on a nationwide basis. All hospitals in the state of Alabama are subject to reviews under the RAC program, which began in August 2009.

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

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

Health Care Reform

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

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11. PENSION PLAN

The Authority has a defined contribution pension plan, Medical West 401(a) Defined Contribution Retirement Plan (the Defined Contribution Plan), that covers substantially all employees. For each participant who is categorized in the Authority's payroll system as full-time employee, the Authority makes contributions to the Defined Contribution Plan equal to 2% of the participant's compensation for each payroll period. In addition, the Authority has a deferred compensation plan that covers select employees. Under these plans, the benefits for each employee are the amounts which can be provided by the funds contributed. Contributions are determined based upon a percentage of qualified wages. Pension costs for the years ended September 30, 2019 and 2018, were approximately \$1,126,000 and \$1,109,000, respectively.

12. MEDICAID SUBSIDIES

In addition to receiving payments from Medicaid for services to hospital patients, the Authority also receives disproportionate share ("DSH") and access payments from Medicaid. The Authority has recorded net patient revenue in the accompanying statements of revenues, expenses, and changes in net position of approximately \$7,774,000 and \$6,595,000 for the years ended September 30, 2019 and 2018, respectively, in connection with DSH and access payments.

13. RELATED PARTIES

The UAB Health System provides management services for the Authority. During the years ended September 30, 2019 and 2018, no contributions were received from the UAB Health System, while expenses paid to the UAB Health System totaled approximately \$2,517,000 and \$2,808,000, respectively. For the fiscal years ended September 30, 2019 and 2018, the Authority's required payments to UAB Health System totaled approximately \$245,000 and \$225,000, respectively. Amounts payable to UAB Health System approximated \$135,000 and \$225,000 as of September 30, 2019 and 2018, respectively, and are included in accrued contribution to affiliate. These amounts are based on the financial results of the Authority, before contribution to affiliate. Additionally, amounts payable to UAB Health System for administrative salaries of approximately \$155,000 and \$305,000 as of September 30, 2019 and 2018, respectively, are included in accounts payable and accrued expenses.

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

The Western Health Services Foundation made contributions of \$25,000 and \$62,000 to the Authority to be used towards the purchase of fixed assets during fiscal years 2019 and 2018, respectively.

ADDITIONAL INFORMATION

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
MEMBERS OF THE AUTHORITY BOARD AND OFFICIALS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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

Name and Address	Position	Expiration of Term
Will Ferniany The Whitaker Building 500 22nd Street South, Suite 408 Birmingham, AL 35233	Chairman	September 30, 2022
Richard Brooks 2536 Altadena Forest Circle Birmingham, AL 35243	Vice-Chairman	September 30, 2020
Don Lilly The Whitaker Building 500 22nd Street South, Suite 502 Birmingham, AL 35233	Member	September 30, 2020
Scott Buchalter, M.D. 1802 6 th Ave S Birmingham, AL 35233	Member	September 30, 2021
Allen Pate 100 Municipal Drive P. O. Box 360628 Hoover, AL 35236-0628	Member	September 30, 2021
Don W. Holmes 7285 Warrior River Road Bessemer, AL 35023	Member	September 30, 2022
Russell Tyner Baptist Health Montgomery P. O. Box 244001 Montgomery, AL 36124	Member	September 30, 2021
John O. Issis, M.D. 985 9th Avenue S.W. Bessemer, AL 35022	Member	September 30, 2022
Barbara Humphrey 1705 14 th Ave Apt B Birmingham, AL 35205	Member	September 30, 2020

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
MEMBERS OF THE AUTHORITY BOARD AND OFFICIALS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Name and Address	Position	Expiration of Term
Sally Ebaugh, M.D. 1700 4th Avenue North Bessemer, AL 35020	Member	September 30, 2021
Dana Keith 500 University Blvd. East Tuscaloosa, AL 35401	Member	September 30, 2022
Conrad De Los Santos, D.O. 995 9 th Avenue S.W. Bessemer, AL 35022	Ex-officio Member	N/A
Keith Pennington 995 9th Avenue S.W. Bessemer, AL 35022	Ex-officio Member	N/A

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Medical West Hospital Authority, An Affiliate of UAB Health System ("the Authority"), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 5, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Warren Averett, LLC

Birmingham, Alabama
December 5, 2019