J. PAUL JONES HOSPITAL BOARD

CAMDEN, ALABAMA

CONSOLIDATED FINANCIAL STATEMENTS

for the years ended September 30, 2018 and 2017

CONTENTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
J. Paul Jones Hospital Board
Camden, Alabama

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the business-type activities, J. Paul Jones Hospital Board (Board) as of and for the years ended September 30, 2018 and 2017, and the discretely presented component unit, Wilcox Community Health Foundation, Inc., as of and for the years ended December 31, 2018 and 2017, and the related notes to the consolidated financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the consolidated 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 Board'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 consolidated financial statements.

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

Continued

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities as of September 30, 2018 and 2017 and the discretely presented component unit of J. Paul Jones Hospital Board as of December 31, 2018 and 2017, and the respective changes in financial position, and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements are not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in Net Pension Liability and Related Ratios and the Schedule of Employer Contributions on pages 34 and 35 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with the sufficient evidence to express an opinion or provide any assurance.

Consolidating Information

Our audits were conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise the Board's basic financial statements. The accompanying consolidating other information, as listed in the table of contents, is presented for purposes of additional analysis of the consolidated financial statements rather than to present financial position and results of operations of the individual companies, and it is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position or results of operations of the individual companies. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2020, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

DRAFFIN + TUCKER, LLP

Albany, Georgia
May 26, 2020

J. PAUL JONES HOSPITAL BOARD

Consolidated Balance Sheets
September 30, 2018 and 2017

	2018	2017
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 78,777	$ 104,764
Patient accounts receivable, net of estimated uncollectibles of $2,600,000 in 2018 and $2,305,000 in 2017	350,717	590,844
Estimated third-party payor settlements	-	32,102
Supplies	90,328	82,353
Other current assets	384,930	411,913
Total current assets	904,752	1,221,976
Capital assets:		
Land	31,425	31,425
Depreciable capital assets, net of accumulated depreciation	1,497,432	1,677,248
Total capital assets, net of accumulated depreciation	1,528,857	1,708,673
Deferred outflows of resources:		
Deferred pension outflows	241,841	353,502
Total assets and deferred outflows of resources	$ 2,675,450	$ 3,284,151

	2018	2017
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	$ 114,682	$ 108,300
Accounts payable	195,367	173,654
Accrued expenses	189,018	264,727
Total current liabilities	499,067	546,681
Long-term debt and capital lease obligations, net of current maturities	190,498	308,400
Net pension liability	399,589	958,897
Total liabilities	1,089,154	1,813,978
Deferred inflows of resources:		
Deferred property tax revenue	384,845	407,141
Deferred pension inflows	439,291	60,158
Total deferred inflows of resources	824,136	467,299
Total liabilities and deferred inflows of resources	1,913,290	2,281,277
Net position:		
Net investment in capital assets	1,404,821	1,483,646
Unrestricted	(642,661)	(480,772)
Total net position	762,160	1,002,874
Total liabilities, deferred inflows of resources and net position	$ 2,675,450	$ 3,284,151

The accompanying notes are integral parts of these financial statements.

J. PAUL JONES HOSPITAL BOARD

Balance Sheets – Discretely Presented Component Unit
December 31, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash	$ 2,053	$ 2,475
Total assets	$ 2,053	$ 2,475
Liabilities and Net Assets		
Net assets:		
Without donor restrictions	$ 2,053	$ 2,475
Total liabilities and net assets	$ 2,053	$ 2,475

The accompanying notes are integral parts of these financial statements.

J. PAUL JONES HOSPITAL BOARD

Consolidated Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2018 and 2017

	2018	2017
Operating revenues:		
Net patient service revenue (net of provision for bad debts of $1,237,000 in 2018 and $2,574,000 in 2017)	$ 3,694,222	$ 3,232,964
Other revenue	200,369	214,399
Total operating revenues	3,894,591	3,447,363
Operating expenses:		
Salaries and wages	2,692,245	2,927,791
Employee benefits	405,950	539,471
Purchased services	788,011	474,741
Supplies	430,307	496,459
Depreciation and amortization	179,816	177,720
Other expenses	558,147	816,782
Total operating expenses	5,054,476	5,432,964
Operating loss	(1,159,885)	(1,985,601)
Nonoperating revenues (expenses):		
Noncapital grants and contributions	247,874	102,820
Tax revenues	639,537	378,036
Other nonoperating revenues	48,462	48,171
Interest expense	(16,702)	(16,809)
Total nonoperating revenues	919,171	512,218
Excess expenses	(240,714)	(1,473,383)
Net position, beginning of year	1,002,874	2,476,257
Net position, end of year	$ 762,160	$ 1,002,874

The accompanying notes are integral parts of these financial statements.

J. PAUL JONES HOSPITAL BOARD

Statements of Revenues and Support, Expenses and Changes in Net Assets –
Discretely Presented Component Unit
Years Ended December 31, 2018 and 2017

	2018	2017
Revenues:		
Contributions	$ 150,578	$ 104,856
Total revenues	150,578	104,856
Expenses:		
Program services:		
Contributions to J. Paul Jones Hospital	151,000	185,000
Supporting activities:		
Management and general	-	3,510
Total expenses	151,000	188,510
Decrease in net assets	(422)	(83,654)
Net assets, beginning of year	2,475	86,129
Net assets, end of year	$ 2,053	$ 2,475

The accompanying notes are integral parts of these financial statements.

J. PAUL JONES HOSPITAL BOARD

Consolidated Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 3,971,138	$ 4,249,636
Payments to suppliers and contractors	(1,762,727)	(1,667,623)
Payments to employees	(3,242,418)	(3,444,473)
Other receipts	200,369	214,399
Net cash used by operating activities	(833,638)	(648,061)
Cash flows from noncapital financing activities:		
Local sales tax revenues	639,537	378,036
Noncapital grants and contributions	296,336	150,991
Principal paid on long-term debt	(10,529)	(14,212)
Interest paid on long-term debt	(8,193)	(3,624)
Net cash provided by noncapital financing activities	917,151	511,191
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(100,991)	(96,315)
Interest paid on long-term debt	(8,509)	(13,185)
Net cash used by capital and related financing activities	(109,500)	(109,500)
Net decrease in cash and cash equivalents	(25,987)	(246,370)
Cash and cash equivalents, beginning of year	104,764	351,134
Cash and cash equivalents, end of year	$ 78,777	$ 104,764

Continued

J. PAUL JONES HOSPITAL BOARD

Consolidated Statements of Cash Flows, Continued
Years Ended September 30, 2018 and 2017

	2018	2017
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents	$ 78,777	$ 104,764
Total cash and cash equivalents	$ 78,777	$ 104,764
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$(1,159,885)	$(1,985,601)
Adjustments to reconcile change in operating loss to net cash used by operating activities:		
Depreciation and amortization	179,816	177,720
Provision for bad debts	1,236,842	2,573,545
Changes in:		
Patient accounts receivable	(992,028)	(1,524,771)
Supplies	(7,975)	15,245
Estimated third-party payor settlements	32,102	(32,102)
Deferred outflows of resources	111,661	(353,502)
Accounts payable	21,713	105,114
Accrued expenses	(75,709)	(285,243)
Net pension liability	(559,308)	958,897
Deferred inflows of resources	379,133	(297,363)
Net cash used by operating activities	$(833,638)	$(648,061)

Supplemental disclosures of cash flow information:
The Authority entered into capital lease obligations of $399,766 for new equipment in 2017.

The accompanying notes are integral parts of these financial statements.

1. Summary of Significant Accounting Policies

Reporting entity. J. Paul Jones Hospital (Hospital) is a not-for-profit organization operated by the J. Paul Jones Hospital Board (Board), a town/county board organized under Title 22, Section 189 of the Code of Alabama 1940 and continued as such under Code of Alabama 1975, § 22-22-1. The J. Paul Jones Hospital and Board are considered governmental entities. The 22 bed hospital provides hospital service, physical therapy service, and ambulatory care to the Town of Camden, Alabama and surrounding Wilcox County. The Board has a management agreement with MedCare Emergency Medical Services, Inc. (MedCare) to operate the ambulatory care services.

The Wilcox Community Health Foundation, Inc. (Foundation) was incorporated on December 6, 1988 and has a fiscal year end of December 31. Because of the existence of common directors and other factors, the Board is deemed to have control of the Foundation.

In May 2002, the *Determining Whether Certain Organizations Are Component Units* topics of the Governmental Accounting Standards Board (GASB) Codification was issued. The purpose of this guidance is to determine whether certain organizations for which the primary government is not financially accountable, such as the Foundation, should be reported as component units based on the nature and significance of their relationships with the primary government. As a result, the Foundation is presented as a discretely presented component unit in the Board's financial statements, whereby the balance sheet and the statement of revenues and support, expenses and changes in net assets are separately presented in the accompanying financial statements.

The Foundation is a not-for-profit organization that reports under Financial Accounting Standards Board (FASB) standards, including Topic 958. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB).

The Hospital, the Board, MedCare and the Foundation are collectively referred to as the "Board" throughout the notes to the financial statements.

Use of estimates. The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America 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.

Enterprise fund accounting. The Board uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The Board prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the GASB.

Cash and cash equivalents. Cash and cash equivalents include demand deposits and money market accounts held at financial institutions.

Allowance for doubtful accounts. The Board provides an allowance for doubtful accounts based on an evaluation of the overall collectability of the accounts receivable. As accounts are known to be uncollectible, the accounts are charged against the allowance.

Continued

1. Summary of Significant Accounting Policies, Continued

Supplies. Supplies are stated at the lower of cost or market value, using the first-in, first-out method.

Capital assets. Capital assets are those assets with an initial, individual cost of $2,000 and an estimated useful life in excess of one year. Capital assets are reported at historical cost. Contributed capital assets are reported at their acquisition value at the time of their donation. Depreciation is provided over the estimated useful life of each depreciable asset and is computed on the straight-line method. The estimated useful life is assigned using AHA Useful Lives Guidelines listed below. 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.

Land improvements	15 To 20 Years
Buildings and improvements	20 To 40 Years
Equipment	3 To 7 Years

Compensated absences. The Board's eligible employees earn vacation days at varying rates depending on years of service. Employees may accumulate a maximum of 35 vacation days. Unused days over the maximum are forfeited. Upon the resignation of an employee, vacation days not used, up to 20 days, can be taken up until the date of resignation. Upon termination of employment, employees will not be compensated for any unused vacation days.

Eligible full-time employees are given twelve personal days per year, which may be taken in eight hour increments. Personal days not used by the end of the year are forfeited.

Net position. Net position of the Board is classified in two components. *Net investment in capital assets* consist 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. *Unrestricted net position* is the remaining net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of *net investment in capital assets*.

Net patient service revenue. The Board has agreements with third-party payors that provide for payments to the Board 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.

Charity care. The Board provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Board does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Continued

1. Summary of Significant Accounting Policies, Continued

Operating revenues and expenses. The Board's statements of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Board'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.

Grants and contributions. Occasionally, the Board receives grants from various state agencies as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and 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.

Income taxes. The Board is a governmental entity and is exempt from income taxes. Accordingly, no provision for income taxes has been considered in the accompanying consolidated financial statements.

The Foundation is a not-for-profit corporation that has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

The Foundation applies accounting policies that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by the relevant taxing jurisdictions, those income tax positions would be sustained. Based on that evaluation, the Foundation only recognizes the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all or a portion of the benefits of an income tax position are not recognized, a liability would be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

Based on the results of management's evaluation, no liability is recognized in the accompanying balance sheet for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of September 30, 2018 and 2017 or for the years then ended. The Foundation's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of these returns.

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

Continued

1. Summary of Significant Accounting Policies, Continued

Deferred outflows of resources. Deferred outflows of resources consist of amounts related to the defined benefit pension plan of approximately $242,000 and $354,000 at September 30, 2018 and 2017, respectively. See Note 8 for additional information.

Deferred inflows of resources. Deferred inflows of resources consist of amounts related to the defined benefit pension plan of approximately $439,000 at September 30, 2018 and $60,000 at September 30, 2017. See Note 8 for additional information.

The Board receives the proceeds of certain ad valorem tax revenues. The proceeds of taxes such as those received by the Board (referred to as imposed nonexchange revenue transactions) are recorded as deferred inflows of resources 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.

The property taxes are levied by Wilcox County on the Board's behalf on September 30th and are intended to support the Board's activities. Amounts are levied on assessed property values as of the preceding October 1st. Property taxes are considered delinquent on the day following each payment due date. The property taxes are collected and used in the fiscal year following the levy and are, therefore, deferred at year-end. Wilcox County designated 3 mils to the Board during fiscal years 2018 and 2017.

Risk management. The Board is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded commercial coverage in any of the three preceding years. See Note 11 for additional information related to the Board's general and professional coverage.

Impairment of long-lived assets. The Board evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate.

The Board has not recorded any impairment charges in the accompanying consolidated statements of revenues, expenses and changes in net position for the years ended September 30, 2018 or 2017.

Continued

1. Summary of Significant Accounting Policies, Continued

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

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.

- Level 2: Observable inputs such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

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

Net pension liability. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension items, and pension expense, information about the fiduciary net position of the defined benefit plan and additions to or deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. Net Patient Service Revenue

The Board has arrangements with third-party payors that provide for payments to the Board at amounts different from its established rates. The Board does not believe that there are any significant credit risks associated with receivables due from third-party payors.

Revenue from the Medicare and Medicaid programs accounted for approximately 43% and 15%, respectively, of the Board's net patient service revenue for the year ended 2018 and 33% and 19%, respectively, of the Board's net patient service revenue for the year ended 2017. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2017 net patient service revenue increased approximately $32,000 due to prior year retroactive adjustments in excess of amounts previously estimated.

Continued

2. Net Patient Service Revenue, Continued

The Board believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. There has been an increase in regulatory initiatives at the state and federal levels including the initiation of the Recovery Audit Contractor (RAC) program and the Medicaid Integrity Contractor (MIC) program. These programs were created to review Medicare and Medicaid claims for medical necessity and coding appropriateness. The RAC's have authority to pursue improper payments with a three year look back from the date the claim was paid. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

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

- *Medicare.* Inpatient acute care services 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.

  The Board is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Board and audits thereof by the Medicare Administrative Contractor (MAC). The Board's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Board. The Board's Medicare cost reports have been audited by the MAC through September 30, 2014.

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

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

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

Continued

2. Net Patient Service Revenue, Continued

- *Medicaid, continued.* individual hospital will be required to reimburse its pro rata share of payments received for the difference noted. During 2018, there were no audit findings requiring reimbursement from public hospitals.

- *Blue Cross.* Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per day of hospitalization. Prior to April 1, 2017, outpatient services were paid at a prospective payment methodology or cost plus 11% depending on the type of claim. Under this methodology, the Board was reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Board and audits thereof by Blue Cross. All of the Board's Blue Cross cost reports have been audited by Blue Cross. Effective April 1, 2017, outpatient services are paid on an enhanced ambulatory patient grouping (EAPG) methodology. Under this methodology, the Board is reimbursed at prospectively determined rates per service.

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

3. Uncompensated Services

The Board was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2018 and 2017 were approximately $5,896,000 and $7,874,000, respectively.

Uncompensated care includes charity and indigent care services of approximately $20,000 and $22,000 in 2018 and 2017, respectively. The cost of charity and indigent care services provided during 2018 and 2017 were approximately $11,000 and $11,000, respectively computed by applying a total cost factor to the charges foregone.

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2018 and 2017:

	2018	2017
Gross patient charges	$ 9,590,271	$ 11,106,971
Uncompensated services:		
Indigent and charity care	19,630	22,483
Other allowances	4,639,577	5,277,979
Bad debts	1,236,842	2,573,545
Total uncompensated care	5,896,049	7,874,007
Net patient service revenue	$ 3,694,222	$ 3,232,964

Continued

4. Cash and Cash Equivalents

The Board's cash and cash equivalents are carried at cost, which approximates fair value. Cash and cash equivalents as of September 30, 2018 and 2017 are classified in the accompanying financial statements as follows:

	2018	2017
Balance sheets:		
Cash and cash equivalents	$ 78,777	$ 104,764
Total	$ 78,777	$ 104,764
Deposits consist of the following:		
Deposits	$ 71,362	$ 97,349
Money market accounts	7,415	7,415
Total	$ 78,777	$ 104,764

The carrying amount of the Foundation's cash as of September 30, 2018 and 2017 is classified in the accompanying financial statements as follows:

	2018	2017
Balance sheets:		
Cash	$ 2,053	$ 2,475
Total	$ 2,053	$ 2,475

At September 30, 2018 and 2017, the Board's deposits were held by financial institutions in the State of Alabama's Security of Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the Code of Alabama 1975, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by the financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. The Foundation's cash balance is excluded from the SAFE Program as it is not public funds.

Continued

5. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Board at September 30, 2018 and 2017 consisted of these amounts:

	2018	2017
Patient accounts receivable:		
Receivable from patients and their insurance carriers	$ 2,301,402	$ 1,853,030
Receivable from Medicare	413,072	781,747
Receivable from Medicaid	236,042	260,583
Total patient accounts receivable	2,950,516	2,895,360
Less allowance for uncollectible amounts and contractual adjustments	2,599,799	2,304,516
Patient accounts receivable, net	$ 350,717	$ 590,844
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	$ 87,453	$ 42,353
Payable to suppliers	195,367	173,654
Other	101,565	222,374
Total accounts payable and accrued expenses	$ 384,385	$ 438,381

Continued

6. Capital Assets

Capital asset changes for the years ended September 30, 2018 and 2017 were as follows:

	2017	Additions	Retirements	Transfers	2018
Land	$ 31,425	$ -	$ -	$ -	$ 31,425
Buildings and improvements	2,283,128	-	-	-	2,283,128
Equipment	2,334,059	-	-	-	2,334,059
Total capital assets being depreciated	4,617,187	-	-	-	4,617,187
Less accumulated depreciation for:					
Buildings and improvements	(1,128,561)	(38,504)	-	-	(1,167,065)
Equipment	(1,811,378)	(141,312)	-	-	(1,952,690)
Total accumulated depreciation	(2,939,939)	(179,816)	-	-	(3,119,755)
Capital assets being depreciated, net	1,677,248	(179,816)	-	-	1,497,432
Total capital assets, net	$ 1,708,673	$(179,816)	$ -	$ -	$ 1,528,857

Continued

6. Capital Assets, Continued

	2016	Additions	Retirements	Transfers	2017
Land	$ 31,425	$ -	$ -	$ -	$ 31,425
Buildings and improvements	2,283,128	-	-	-	2,283,128
Equipment	1,968,949	421,932	(56,822)	-	2,334,059
Total capital assets being depreciated	4,252,077	421,932	(56,822)	-	4,617,187
Less accumulated depreciation for:					
Buildings and improvements	(280,131)	(74,726)	53,105	(826,809)	(1,128,561)
Equipment	(2,368,721)	(291,487)	22,021	826,809	(1,811,378)
Total accumulated depreciation	(2,648,852)	(366,213)	75,126	-	(2,939,939)
Capital assets being depreciated, net	1,603,225	55,719	18,304	-	1,677,248
Total capital assets, net	$ 1,634,650	$ 55,719	$ 18,304	$ -	$ 1,708,673

At September 30, 2018, the Board had no material construction contracts.

7. Long-Term Debt

A summary of long-term debt at September 30, 2018 and 2017 follows:

	2018	2017
Note payable with Alabama Tombigbee Regional Commission (Commission) bearing interest at 4.00%, payable in monthly installments of $1,018, interest included, due July 2027, secured by assets of the Hospital.	$ 90,788	$ 98,049

Continued

7. Long-Term Debt, Continued

	2018	2017
Note payable with the Commission bearing interest at 4.00%, payable in one installment, interest included, due February 2020, secured by real estate.	$ 90,000	$ 90,000
Note payable with the U.S. Department of Agriculture bearing interest at 4.00%, payable in annual installments of $3,267, interest not included, secured by a pledge of MedCare's revenue.	356	3,624
Capital lease obligation at an imputed interest rate of 4.75%, collateralized by leased equipment.	124,036	225,027
Total long-term debt	305,180	416,700
Less current installments of long-term debt and capital lease obligations	114,682	108,300
Long-term and capital lease obligations, net of current maturities	$ 190,498	$ 308,400

A summary of changes in the Board's long-term debt for September 30, 2018 and 2017 follows:

	2017	Additions	Reductions	2018	Amounts Due Within One Year
Notes payable	$ 191,673	$ -	$ 10,529	$ 181,144	$ 8,788
Capital lease	225,027	-	100,991	124,036	105,894
Total long-term debt	$ 416,700	$ -	$ 111,520	$ 305,180	$ 114,682

	2016	Additions	Reductions	2017	Amounts Due Within One Year
Notes payable	$ 114,110	$ 91,785	$ 14,222	$ 191,673	$ 7,309
Capital lease	-	321,342	96,315	225,027	100,991
Total long-term debt	$ 114,110	$ 413,127	$ 110,537	$ 416,700	$ 108,300

Continued

7. Long-Term Debt, Continued

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

Year Ending	Notes Payable		Capital Lease Obligations	
September 30	Principal	Interest	Principal	Interest
2019	$ 8,788	$ 5,271	$ 105,894	$ 3,606
2020	99,452	3,114	18,142	108
2021	9,467	2,744	-	-
2022	9,853	2,358	-	-
2023	10,254	1,957	-	-
2024-2027	43,330	3,479	-	-
Total	$ 181,144	$ 18,923	$ 124,036	$ 3,714

8. Defined Benefit Plan

Pensions. The Employees' Retirement System of Alabama (the Plan or ERS) 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 the requirements of the Governmental Accounting Standards Board (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.

General Information about the Pension Plan

Plan description. The ERS, an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, pursuant to the *Code of Alabama 1975, Title 36, Chapter 27* (Act 515 of the Legislature of 1945). The purpose of the ERS is to provide 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. The responsibility for the general administration and operation of ERS is vested in its Board of Control which consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975, Title 36, Chapter 27* grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Continued

8. Defined Benefit Plan, Continued

General Information about the Pension Plan, Continued

Plan description, continued. The ERS 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 ERS 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 ERS who are elected by members from the same category of ERS 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 ERS.
    b. Two vested active state employees.
    c. Two vested active employees of an employer participating in ERS pursuant to the *Code of Alabama 1975, Section 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.

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.

Continued

8. Defined Benefit Plan, Continued

General Information about the Pension Plan, Continued

Benefits provided, continued. 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 90,999 and 88,517 participants as of September 30, 2018 and 2017, respectively. As of September 30, 2018 and 2017, membership consisted of:

	2018	2017
Retirees and beneficiaries currently receiving benefits	24,818	23,853
Terminated employees entitled, to, but not yet receiving benefits	1,426	1,401
Terminated employees not entitled to a benefit	7,854	7,154
Active members	56,760	55,941
Post-DROP participants who are still in active service	141	168
Total	90,999	88,517

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.

Continued

8. Defined Benefit Plan, Continued

General Information about the Pension Plan, Continued

Contributions, continued. The ERS 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 preretirement death benefit, and administrative expenses of the Plan. For the year ended September 30, 2018 and 2017, the Board's active employee contribution rate was 6.56% and 6.88% of covered payroll, and the Board's average contribution rate to fund the normal and accrued liability costs was 4.04% and 4.58% of pensionable payroll.

Board's contractually required contribution rate for the year ended September 30, 2018 and 2017, was 5.01% and 5.15% of pensionable pay for Tier 1 employees, and 4.01% and 5.00% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation as of September 30, 2015 and 2014, respectively, 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 the Board were $113,000 and $117,000 for the years ended September 30, 2018 and 2017, respectively.

Net pension liability. The Board's net pension liability as of September 30, 2018 and 2017 was measured as of September 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability as of September 30, 2018 and 2017, was determined by an actuarial valuation as September 30, 2016 and 2015, rolled forward to September 30, 2017 and 2016, respectively, using standard roll-forward techniques as shown in the following tables:

		Expected	Actual
(a)	TPL as of September 30, 2016	$ 7,624,074	$ 7,432,519
(b)	Discount rate	7.75%	7.75%
(c)	Entry age normal cost for the period October 1, 2016 – September 30, 2017	220,268	220,268
(d)	Transfers among employers	-	(40,059)
(e)	Actual benefit payments and refunds for the period October 1, 2016 - September 30, 2017	(321,547)	(321,547)
(f)	TPL as of September 30, 2017 = [(a) x (1+b)] + (c) + (d) + [(e) x (1+.05*(b))]	$ 8,101,294	$ 7,854,835
(g)	Difference between expected and actual		$(246,459)
(h)	Less liability transferred for immediate recognition		(40,059)
(i)	Experience (gain) / loss = (g) – (h), September 30, 2017		$(206,400)

Continued

8. Defined Benefit Plan, Continued

General Information about the Pension Plan, Continued

Net pension liability, continued.

		Expected	Actual – 2015 Valuation Assumptions	Actual – 2016 Valuation Assumptions
(a)	TPL as of September 30, 2015	$ 6,935,154	$ 7,020,741	$ 7,166,535
(b)	Discount rate	8.00%	8.00%	7.75%
(c)	Entry age normal cost for the period October 1, 2015 – September 30, 2016	209,924	209,924	199,798
(d)	Transfers among employers	-	-	-
(e)	Actual benefit payments and refunds for the period October 1, 2015 - September 30, 2016	(286,561)	(286,561)	(286,561)
(f)	TPL as of September 30, 2016 = [(a) x (1+b)] + (c) + (d) + [(e) x (1+.05*(b))]	$ 7,401,867	$ 7,494,301	$ 7,624,074
(g)	Difference between expected and actual		$ 92,434	
(h)	Less liability transferred for immediate recognition		-	
(i)	Experience (gain) / loss = (g) – (h), September 30, 2016		$ 92,434	
(j)	Difference between actual (2015 assumptions) and actual (2016 assumption): Assumption change (gain)/loss, September 30, 2016			$ 129,773

Actuarial assumptions. The total pension liability as of September 30, 2017 and 2016, was determined based on the annual actuarial funding valuation report prepared as of September 30, 2016 and 2015, respectively. The key actuarial assumptions are summarized below:

Inflation	2.75%
Projected salary increases	3.25% - 5.00%
Investment rate of return*	7.75%

* Net of pension plan investment expense.

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.

Continued

8. Defined Benefit Plan, Continued

General Information about the Pension Plan, Continued

Actuarial assumptions, continued. 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 actuarial assumptions used in the September 30, 2015 valuation 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, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

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%	4.40%
U.S. Large Stocks	32%	8.00%
U.S. Mid Stocks	9%	10.00%
U.S. Small Stocks	4%	11.00%
Int'l Developed Mkt Stocks	12%	9.50%
Int'l Emerging Mkt Stocks	3%	11.00%
Alternatives	10%	10.10%
Real Estate	10%	7.50%
Cash equivalents	3%	1.50%
Total	100%	

* 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.

Continued

8. Defined Benefit Plan, Continued

General Information about the Pension Plan, Continued

Changes in net pension liability.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at September 30, 2015	$ 6,935,154	$ 6,013,035	$ 922,119
Changes recognized for the fiscal year:			
Service costs	209,924	-	209,924
Interest	543,350	-	543,350
Changes of assumptions	129,773	-	129,773
Differences between expected and actual experience	92,434	-	92,434
Contributions from the employer	-	144,991	(144,991)
Contributions from the employees	-	179,410	(179,410)
Net investment income	-	614,302	(614,302)
Benefit payments, including refunds of employee contributions	(286,561)	(286,561)	-
Net changes	688,920	652,142	36,778
Balances at September 30, 2016	7,624,074	6,665,177	958,897
Changes recognized for the fiscal year:			
Service costs	220,268	-	220,268
Interest	578,409	-	578,409
Differences between expected and actual experience	(206,400)	-	(206,400)
Contributions from the employer	-	120,677	(120,677)
Contributions from the employees	-	181,305	(181,305)
Net investment income	-	849,603	(849,603)
Benefit payments, including refunds of employee contributions	(321,457)	(321,457)	-
Transfers among employers	(40,059)	(40,059)	-
Net changes	230,761	790,069	(559,308)
Balances at September 30, 2017	$ 7,854,835	$ 7,455,246	$ 399,589

Continued

8. Defined Benefit Plan, Continued

General Information about the Pension Plan, Continued

Sensitivity of the net pension liability to changes in the discount rate. The following table presents the Board's net pension liability calculated using the discount rate of 7.75%, as well as what the Board's proportionate share of the net pension 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 (dollar amounts in thousands):

	As of September 30, 2018		
	1% Decrease 6.75%	Current Rate 7.75%	1% Increase 8.75%
Net pension liability	$ 1,287,070	$ 399,589	$(351,937)

	As of September 30, 2017		
	1% Decrease 6.75%	Current Rate 7.75%	1% Increase 8.75%
Net pension liability	$ 1,777,601	$ 958,897	$ 266,377

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position as of September 30, 2018 and 2017 is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2017 and in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2016, respectively. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2017 and 2016, respectively. The auditor's report dated August 31, 2018 and September 30, 2017, respectively, 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.

Continued

8. Defined Benefit Plan, Continued

General Information about the Pension Plan, Continued

Pension expense and deferred outflows of resources and deferred inflows of resources related to patients. For the year ended September 30, 2018, the Board recognized pension revenue of approximately $69,000 and for the year ended September 30, 2017, the Board recognized pension expense of approximately $5,000. At September 30, 2018 and 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	2018		2017	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	$ 58,200	$ 210,902	$ 75,317	$ 60,158
Change in assumptions	81,709	-	105,741	-
Net differences between projected and actual earnings on Plan investments	-	228,389	51,767	-
Employer contributions subsequent to the measurement date	101,932	-	120,677	-
Total	$ 241,841	$ 439,291	$ 353,502	$ 60,158

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

Year Ending September 30:	(Increase) Decrease to Expense
2019	$ 69,710
2020	27,200
2021	92,890
2022	87,467
2023	22,115
Total	$ 299,382

9. Medicaid Subsidies

In addition to receiving payments from Medicaid for services to hospital patients, the Board also receives disproportionate share payments and access payments from Medicaid. The net funds received by the Board amounted to approximately $348,000 and $328,000 for the years ended September 30, 2018 and 2017, respectively, and are included in the accompanying consolidated financial statements as net patient service revenue.

Continued

10. Employee Health Insurance

The Board purchased health insurance coverage for employees under which monthly premiums are paid to Blue Cross Blue Shield. Blue Cross Blue Shield is then responsible for payment of all claims. Total expenses relative to these plans were approximately $150,000 and $191,000 for September 30, 2018 and 2017, respectively.

11. Malpractice Insurance

The Board is covered by a claims made general and professional liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis. Liability limits related to this policy in 2018 and 2017 are $1 million per occurrence and $3 million in aggregate.

The Board uses a third party administrator to review and analyze incidents that may result in a claim against the Board. In conjunction with the third party administrator, incidents are assigned reserve amounts for the ultimate liability that may result from an asserted claim. The Board also uses independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims.

Various claims and assertions have been made against the Board in its normal course of providing services. In addition, other claims may be asserted arising from services provided to patients in the past. In the opinion of management, adequate provision has been considered for losses which may occur from such asserted and unasserted claims that are not covered by liability insurance.

12. Commitments and Contingencies

Compliance plan. The healthcare industry has been subjected to increased scrutiny from governmental agencies at both the federal and state level with respect to compliance with regulations. Areas of noncompliance identified at the national level include Medicare and Medicaid, Internal Revenue Service, and other regulations governing the healthcare industry. In addition, the Reform Legislation includes provisions aimed at reducing fraud, waste, and abuse in the healthcare industry. These provisions allocate significant additional resources to federal enforcement agencies and expand the use of private contractors to recover potentially inappropriate Medicare and Medicaid payments. The Board has not contracted with an outside firm for an external evaluation of the potential impact of such compliance issues. There can be no assurance that the Board will not be subjected to future investigations with accompanying monetary damages. However, based on an internal evaluation, management believes that the ultimate liability resulting from potential noncompliance will not have a material adverse effect on the financial statements.

Health care reform. There has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare at the national and the state levels. Legislation has been passed that includes cost controls on healthcare providers, insurance market reforms, delivery system reforms and various individual and business mandates among other provisions. The costs of these provisions are and will be funded in part by reductions in payments by government programs, including Medicare and Medicaid. There can be no assurance that these changes will not adversely affect the Board.

Litigation. The Board is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Board's future financial position or results from operations. See malpractice insurance disclosures in Note 11.

Continued

13. Concentrations of Credit Risk

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

	2018	2017
Medicare	14%	27%
Medicaid	8%	9%
Other third-party payors	15%	15%
Self-pay	63%	49%
Total	100%	100%

14. Subsequent Event

Coronavirus: As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. The outbreak is likely to put an unprecedented strain on the US healthcare system, disrupt or delay production and delivery of materials and products in the supply chain, and cause staffing shortages. The extent of the impact of COVID-19 on the Board's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Board's customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Board's financial position or results of operations is uncertain.

CARES Act: On March 27, 2020, the President signed the Coronavirus Aid, Relief and Economic Security Act (CARES Act). Certain provisions of the CARES Act provide relief funds to hospitals and other healthcare providers. The funding will be used to support healthcare-related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services began distributing funds on April10, 2020 to eligible providers in an effort to provide relief to both providers in areas heavily impacted by COVID-19 and those providers who are struggling to keep their doors open due to healthy patients delaying care and canceling elective services. The total amount of support the Board is eligible to receive is uncertain at this time.

PPP: On May 7, 2020, the Board received loan proceeds in the amount of $466,840 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1 percent, with a deferral of payments for the first six months. The Board intends to use the proceeds for purposes consistent with the PPP. While the Board currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, no assurances can be provided.

REQUIRED SUPPLEMENTARY INFORMATION

J. PAUL JONES HOSPITAL BOARD

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
September 30, 2018, 2017, 2016 and 2015

	Fiscal Years Ending September 30,			
	2018	2017	2016	2015
Total pension liability:				
Service cost	$ 220,268	$ 209,924	$ 208,384	$ 185,798
Interest cost	578,409	543,350	515,591	486,992
Differences between expected and actual experiences	(206,400)	92,434	(97,756)	-
Changes of assumptions	-	129,773	-	-
Benefits payments, including refunds of of employee contributions	(321,457)	(286,561)	(271,902)	(358,710)
Transfers among employees	(40,059)	-	-	-
Net change in total pension liability	230,761	688,920	354,317	314,080
Total pension liability (beginning)	7,624,074	6,935,154	6,580,837	6,266,757
Total pension liability (ending)	7,854,835	7,624,074	6,935,154	6,580,837
Plan fiduciary net position:				
Contributions – employer	120,677	144,991	119,348	109,332
Contributions – employees	181,305	179,410	190,014	152,945
Net investment income	849,603	614,302	70,282	637,809
Benefit payments, including refunds of employee contributions	(321,457)	(286,561)	(271,902)	(358,710)
Transfers among employees	(40,059)	-	-	-
Net change in plan fiduciary net position	790,069	652,142	107,742	541,376
Plan fiduciary net position (beginning)	6,665,177	6,013,035	5,905,293	5,363,917
Plan fiduciary net position (ending)	7,455,246	6,665,177	6,013,035	5,905,293
Net pension liability (ending)	$ 399,589	$ 958,897	$ 922,119	$ 675,544
Net position as a percentage of pension liability	94.91%	87.42%	86.70%	89.73%
Covered payroll *	$ 2,633,380	$ 2,309,690	$ 2,255,484	$ 2,039,428
Net pension liability as a percentage of payroll	15.17%	41.52%	40.88%	33.12%

* Employer's covered payroll during the measurement period is the total covered payroll. For FY 2018 the measurement period is October 1, 2016 – September 30, 2017.

Information to present a 10-year history is not reasonably obtainable.

See independent auditor's report.

J. PAUL JONES HOSPITAL BOARD

SCHEDULE OF EMPLOYER CONTRIBUTIONS
September 30, 2018, 2017, 2016 and 2015

	Fiscal Years Ending September 30,			
	2018	2017	2016	2015
Actuarially determined contribution *	$ 101,932	$ 120,677	$ 144,991	$ 119,348
Contributions made in relation to the actuarially determined contribution *	101,932	120,677	144,991	119,348
Contribution deficiency	$ -	$ -	$ -	$ -
Covered payroll **	$ 2,524,443	$ 2,633,380	$ 2,309,690	$ 2,255,484
Contributions as a percentage of covered payroll	4.04%	4.58%	6.28%	5.29%

* The amount of employer contributions related to normal and accrued liability components of employer rate net of any refunds or error service payments. The Schedule of Employer Contributions is based on the 12 month period of the underlying financial statement.

** Employer's covered payroll for the FY 2018 is the total covered payroll for the 12 month period of the underlying financial statement.

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 contribution rates for the period October 1, 2017 to September 30, 2018:

- Actuarial cost method: Entry age
- Amortization method: Level percent closed
- Remaining amortization period: 16.1 years
- Asset valuation method: Five year smoothed market
- Inflation: 3.00%
- Salary increases: 3.75% - 7.25% including inflation
- Investment rate of return: 8.00%, net of pension plan investment expense, including inflation.

CONSOLIDATING OTHER INFORMATION

J. PAUL JONES HOSPITAL BOARD

CONSOLIDATING BALANCE SHEET
September 30, 2018

	September 30, 2018			
	Hospital	Board	EMS	Total Board
Assets and Deferred Outflows of Resources				
Current assets:				
Cash and cash equivalents	$ 24,552	$ 51,600	$ 2,625	$ 78,777
Patient accounts receivable, net	350,717	-	-	350,717
Supplies	90,328	-	-	90,328
Other current assets	384,930	-	-	384,930
Due from related parties	(145,972)	185,000	(39,028)	-
Total current assets	704,555	236,600	(36,403)	904,752
Capital assets:				
Land	4,425	27,000	-	31,425
Depreciable capital assets, net of accumulated depreciation	919,666	563,447	14,319	1,497,432
Total capital assets, net of accumulated depreciation	924,091	590,447	14,319	1,528,857
Deferred outflows of resources:				
Deferred pension outflows	241,841	-	-	241,841
Total assets and deferred outflows of resources	$ 1,870,487	$ 827,047	$(22,084)	$ 2,675,450

Continued

	September 30, 2018			
	Hospital	Board	EMS	Total Board
Liabilities, Deferred Inflows of Resources and Net Position				
Current liabilities:				
Current maturities of long-term debt and capital lease obligations	$ 114,682	$ -	$ -	$ 114,682
Accounts payable	195,367	-	-	195,367
Accrued expenses	177,872	1,458	9,688	189,018
Total current liabilities	487,921	1,458	9,688	499,067
Long-term debt and capital lease obligations, net of current maturities	190,142	-	356	190,498
Net pension liability	399,589	-	-	399,589
Total liabilities	1,077,652	1,458	10,044	1,089,154
Deferred inflows of resources:				
Deferred property tax revenue	384,845	-	-	384,845
Deferred pension inflows	439,291	-	-	439,291
Total deferred inflows of resources	824,136	-	-	824,136
Total liabilities and deferred inflows of resources	1,901,788	1,458	10,044	1,913,290
Net position:				
Net investment in capital assets	800,055	590,447	14,319	1,404,821
Unrestricted	(831,356)	235,142	(46,447)	(642,661)
Total net position	(31,301)	825,589	(32,128)	762,160
Total liabilities, deferred inflows of resources and net position	$ 1,870,487	$ 827,047	$(22,084)	$ 2,675,450

See independent auditor's report.

J. PAUL JONES HOSPITAL BOARD

CONSOLIDATING BALANCE SHEET
September 30, 2017

	September 30, 2017			
	Hospital	Board	EMS	Total Board
Assets and Deferred Outflows of Resources				
Current assets:				
Cash and cash equivalents	$ 54,621	$ 46,198	$ 3,945	$ 104,764
Patient accounts receivable, net	574,253	-	16,591	590,844
Estimated third-party payor settlements	32,102	-	-	32,102
Supplies	82,353	-	-	82,353
Other current assets	411,913	-	-	411,913
Due from related parties	(70,972)	110,000	(39,028)	-
Total current assets	1,084,270	156,198	(18,492)	1,221,976
Capital assets:				
Land	4,425	27,000	-	31,425
Depreciable capital assets, net of accumulated depreciation	1,079,355	582,499	15,394	1,677,248
Total capital assets, net of accumulated depreciation	1,083,780	609,499	15,394	1,708,673
Deferred outflows of resources:				
Deferred pension outflows	353,502	-	-	353,502
Total assets and deferred outflows of resources	$ 2,521,552	$ 765,697	$(3,098)	$ 3,284,151

Continued

	September 30, 2017			
	Hospital	Board	EMS	Total Board
Liabilities, Deferred Inflows of Resources and Net Position				
Current liabilities:				
Current maturities of long-term debt and capital lease obligations	$ 108,300	$ -	$ -	$ 108,300
Accounts payable	173,654	-	-	173,654
Accrued expenses	252,579	1,458	10,690	264,727
Total current liabilities	534,533	1,458	10,690	546,681
Long-term debt and capital lease obligations, net of current maturities	304,776	-	3,624	308,400
Net pension liability	958,897	-	-	958,897
Total liabilities	1,798,206	1,458	14,314	1,813,978
Deferred inflows of resources:				
Deferred property tax revenue	407,141	-	-	407,141
Deferred pension inflows	60,158	-	-	60,158
Total deferred inflows of resources	467,299	-	-	467,299
Total liabilities and deferred inflows of resources	2,265,505	1,458	14,314	2,281,277
Net position:				
Net investment in capital assets	858,753	609,499	15,394	1,483,646
Unrestricted	(602,706)	154,740	(32,806)	(480,772)
Total net position	256,047	764,239	(17,412)	1,002,874
Total liabilities, deferred inflows of resources and net position	$ 2,521,552	$ 765,697	$(3,098)	$ 3,284,151

See independent auditor's report.

J. PAUL JONES HOSPITAL BOARD

CONSOLIDATING INCOME STATEMENT
September 30, 2018

	September 30, 2018			
	Hospital	Board	EMS	Total Board
Operating revenues:				
Net patient service revenue (net of provision for bad debts of $1,237,000 in 2018)	$ 3,383,799	$ -	$ 310,423	$ 3,694,222
Other revenue	52,884	110,730	36,755	200,369
Total operating revenues	3,436,683	110,730	347,178	3,894,591
Operating expenses:				
Salaries and wages	2,425,659	-	266,586	2,692,245
Employee benefits	383,558	-	22,392	405,950
Purchased services	777,611	2,400	8,000	788,011
Supplies	428,424	-	1,883	430,307
Depreciation and amortization	159,689	19,052	1,075	179,816
Other expenses	468,261	27,928	61,958	558,147
Total operating expenses	4,643,202	49,380	361,894	5,054,476
Operating income (loss)	(1,206,519)	61,350	(14,716)	(1,159,885)
Nonoperating revenues (expenses):				
Noncapital grants and contributions	247,874	-	-	247,874
Tax revenues	639,537	-	-	639,537
Other nonoperating revenues	48,462	-	-	48,462
Interest expense	(16,702)	-	-	(16,702)
Total nonoperating revenues	919,171	-	-	919,171
Excess revenues (expenses)	(287,348)	61,350	(14,716)	(240,714)
Net position, beginning of year	256,046	764,239	(17,411)	1,002,874
Net position, end of year	$(31,302)	$ 825,589	$(32,127)	$ 762,160

See independent auditor's report.

J. PAUL JONES HOSPITAL BOARD

CONSOLIDATING INCOME STATEMENT
September 30, 2017

	September 30, 2017			
	Hospital	Board	EMS	Total Board
Operating revenues:				
Net patient service revenue (net of provision for bad debts of $2,574,000 in 2017)	$ 2,886,977	$ -	$ 345,987	$ 3,232,964
Other revenue	63,789	108,030	42,580	214,399
Total operating revenues	2,950,766	108,030	388,567	3,447,363
Operating expenses:				
Salaries and wages	2,633,514	-	294,277	2,927,791
Employee benefits	511,312	-	28,159	539,471
Purchased services	460,341	2,400	12,000	474,741
Supplies	494,110	-	2,349	496,459
Depreciation and amortization	157,593	19,052	1,075	177,720
Other expenses	667,599	56,767	92,416	816,782
Total operating expenses	4,924,469	78,219	430,276	5,432,964
Operating income (loss)	(1,973,703)	29,811	(41,709)	(1,985,601)
Nonoperating revenues (expenses):				
Noncapital grants and contributions	102,820	-	-	102,820
Tax revenues	378,036	-	-	378,036
Other nonoperating revenues	48,171	-	-	48,171
Interest expense	(16,809)	-	-	(16,809)
Total nonoperating revenues	512,218	-	-	512,218
Excess revenues (expenses)	(1,461,485)	29,811	(41,709)	(1,473,383)
Net position, beginning of year	1,717,531	734,428	24,298	2,476,257
Net position, end of year	$ 256,046	$ 764,239	$(17,411)	$ 1,002,874

See independent auditor's report.

Draffin Tucker

INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTAL INFORMATION

The Board of Directors
J. Paul Jones Hospital Board
Camden, Alabama

We have audited the consolidated financial statements of the business-type activities as of and for the years ended September 30, 2018 and 2017 and the discretely presented component unit of J. Paul Jones Hospital Board as of and for the years ended December 31, 2018 and 2017, which collectively comprise the Board's basic financial statements, and our report thereon dated May 26, 2020, which expressed unmodified opinions on those consolidated financial statements, appears on pages 1 through 3. Our audits were conducted for the purpose of forming opinions on the consolidated financial statements as a whole. The information included in this report on page 43, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

DRAFFIN + TUCKER, LLP

Albany, Georgia
May 26, 2020

J. PAUL JONES HOSPITAL BOARD

MEMBERS OF THE BOARD OF DIRECTORS (UNAUDITED)
September 30, 2018

Name and Address	Position	Expiration of Term
Dr. Sumpter D. Blackmon P. O. Box 699 Camden, Alabama 36726	Chairman	February 2020
Mr. Hal Huggins TCNB P. O. Box 458 Camden, Alabama 36726	Secretary	January 2021
Sheriff Prince Arnold P. O. Box 1 Oak Hill, Alabama 36766	Member	April 2020
Mr. Eldridge Stewart 210 Ponderosa Drive Camden, Alabama 36726	Member	January 2021
Mr. Willie Powell 7115 Highway 10, West Yellow Bluff, Alabama 36769	Member	August 2019
Dr. William R. Phillippi, Jr. 340 Earl Street Camden, Alabama 36726	Member	February 2020
Mr. Les Johnson 31 Woodland Drive Camden, Alabama 36726	Member	April 2022
Mr. Ralph Ervin 1455 KP Thomas Road Pine Hill, Alabama 36769	Member	June 2022
Mr. Dawson Smith, MSHA JNWB 414 500 22nd Street, South Birmingham, Alabama 35233	Director Network Development and Affiliations UAB Medicine UAB Health System	

See independent auditor's report on supplemental information.

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

Draffin Tucker

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

The Board of Directors
J. Paul Jones Hospital Board
Camden, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the business-type activities as of and for the year ended September 30, 2018 and the discretely presented component unit of J. Paul Jones Hospital Board as of and for the year ended December 31, 2018, and the related notes to the consolidated financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated May 26, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Board'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 opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

Our consideration of internal control was for the limited purpose described in the preceding 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. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control, that we consider to be a material weakness and significant deficiencies.

Continued

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 Board's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiencies 2018-001 through 2018-005 presented in the accompanying Schedule of Findings and Responses to be material weaknesses.

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. We consider deficiency 2018-006 presented in the accompanying Schedule of Findings and Responses to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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 Board's Response to Findings

The Board's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Board's response was not subjected to the auditing procedures applied in the audit of the consolidated 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 Board'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 Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DRAFFIN + TUCKER, LLP

Albany, Georgia
May 26, 2020

Material Weakness 2018-001

Condition:	Cash, accounts receivable, accrued expenses, net position, fixed assets as well as other balance sheet areas are not reconciled timely to supporting documentation. Variances were identified but not corrected in a timely fashion.
Criteria:	A process should be in place to ensure all balance sheet accounts are reconciled completely on a regular basis allowing adequate time for review by the appropriate personnel.
Cause:	The Board implemented a new accounting system during fiscal year 2016 which disrupted the normal course of operation within the accounting and business office functions.
Effect:	The Board's financial statements could be materially misstated due to errors not detected in a timely manner.
Recommendation:	All balance sheet accounts on the general ledger should be accurately reconciled to the appropriate subsidiary ledger and/or supporting documentation and all variances investigated on a regular basis. This control will help ensure the accurate reporting of the Board's financial position and operations.
Views of responsible officials and planned corrective actions:	It is the policy of the Board to ensure all balance sheet accounts are reconciled completely on a regular basis allowing adequate time for review by the appropriate personnel. The facility is once again operating in the normal course of operations within the accounting functions; therefore, any issues have been resolved within the accounting system.

Continued

Material Weakness 2018-002

Condition:	There is a lack of segregation of duties in various processes including the financial reporting, cash, payroll, debt, accounts payable, and journal entry functions.
Criteria:	To ensure appropriate reporting and physical safeguard of assets, certain responsibilities such as authorization, recordkeeping, and custody should be appropriately segregated. In situations where all three elements cannot be adequately segregated, a robust review process should be implemented.
Cause:	Due to the nature of operations, there are not enough personnel to adequately staff all functions creating the need for key personnel to perform tasks outside their normal duties.
Effect:	While no specific misstatements were noted due to segregation issues, the potential for misappropriation exists when appropriate safeguards are not in place.
Recommendation:	It is recommended that a review process of system access be performed to determine which access is necessary to carry out day-to-day activities and limiting access, where possible. Further, it is recommended that an additional review process be implemented at the CEO or board level for areas where segregation is not possible.
Views of responsible officials and planned corrective actions:	Due to staffing constraints, the Board is not able to separate all duties. It is the policy of the Board to ensure appropriate reporting and physical safeguard of assets, and responsibilities segregated where appropriate. We are continuing to evaluate the staffing needs, job assignments, and potential for additional review processes in order to facilitate the segregation of duties.

Continued

Material Weakness 2018-003

Condition:	Property ledgers for all components are not updated regularly, which resulted in a material understatement of capital assets and depreciation expense.
Criteria:	Property ledgers should be maintained in order to reflect the Board's capital assets, accumulated depreciation of the capital assets, and any additions or disposals of capital assets throughout the fiscal year. Depreciation expense should be calculated for the fiscal year using a current property ledger.
Cause:	Property ledgers detailing all capital assets and related accumulated depreciation for the components of the Board were not updated on a regular basis.
Effect:	The Board's financial statements could be materially misstated.
Recommendation:	It is recommended that a property ledger for each component is maintained and updated on a regular basis to help ensure the accurate reporting of the Board's capital assets.
Views of responsible officials and planned corrective actions:	It is the policy of the Board to ensure the property ledger is reconciled to the general ledger on a regular basis. The Board will perform a regular detailed review of the property ledger in order to appropriately capture all activity going forward.

Continued

Material Weakness 2018-004

Condition:	Expenses paid to vendors are not recorded as they are incurred, therefore, the necessary accruals for these expenses are not being considered, which resulted in a material understatement of accounts payable and operating expenses.
Criteria:	Expenses should be recorded on the general ledger as they are incurred. If the expense is not paid when recorded, an accrual should be reflected in accounts payable for that expense.
Cause:	Processes are not in place to record expenses as they are incurred.
Effect:	The Board's financial statements could be materially misstated.
Recommendation:	It is recommended that all expenses are accrued for by recording the expense in accounts payable when the invoice is received. This will ensure that the expense is recorded in the proper period.
Views of responsible officials and planned corrective actions:	It is the policy of the Board to ensure all expenses are accounted for during the correct month. The Board will enter all invoices into the accounting system regularly allowing adequate time for review by the appropriate personnel.

Continued

Material Weakness 2018-005

Condition:	Accrual for salary expense at fiscal year-end is not calculated or updated from year to year, which resulted in a material overstatement of accrued expenses.
Criteria:	Any portion of salary expense related to the fiscal year but not paid out until after fiscal year-end, should be calculated and recorded on the general ledger as an accrued expense.
Cause:	Accrued salaries were calculated and recorded as an audit entry in prior years and then carried forward for the following years without recalculation.
Effect:	The Board's financial statements could be materially misstated.
Recommendation:	It is recommended that an accrual is calculated and recorded at year-end for the portion of salary expense related to the current fiscal year but has not yet been paid. This will ensure that all salary expense is recorded in the proper period.
Views of responsible officials and planned corrective actions:	It is the policy of the Board to ensure all payroll expenses are accounted for during the correct fiscal period. The Board will calculate and record accrual of payroll expenses related to the current fiscal year at year-end.

Continued

Significant Deficiency 2018-006 (Prior Year Comment)

Condition:	There is no secondary review of wire-transfers made or manual checks written. The CEO is the sole signer on the operating bank account and is the only person able to place wire-transfers. The corresponding entries for these actions are also made by the CEO with no secondary review.
Criteria:	To ensure appropriate reporting and physical safeguard of assets, certain responsibilities such as authorization, recordkeeping, and custody should be appropriately segregated. In situations where all three elements cannot be adequately segregated, a robust review process should be implemented.
Cause:	Due to the nature of operations, there are not enough personnel to adequately staff all functions creating the need for key personnel to perform tasks outside their normal duties.
Effect:	The Board's financial statements could be materially misstated.
Recommendation:	It is recommended that there is a secondary review of wire transfers made and the associated journal entries, and a secondary review of manual checks written. In addition, we recommend that an additional signer be added to the bank accounts and a policy put in place for review of large dollar manual checks.
Views of responsible officials and planned corrective actions:	It is the policy of the Board to ensure appropriate reporting and physical safeguard of assets. The Board is no longer writing manual checks and the initiation of wire transfers will be handled by accounts payable and approved by the CEO. Documentation of all wire transfers will be kept on file.