

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

FINANCIAL STATEMENTS

SEPTEMBER 30, 2021 AND 2020

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
TABLE OF CONTENTS
SEPTEMBER 30, 2021 AND 2020**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3
FINANCIAL STATEMENTS	
Statements of Net Position	7
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
Notes to the Financial Statements	13
ADDITIONAL INFORMATION	
Members of the Authority Board and Officials (Unaudited)	32
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Medical West Hospital Authority, An Affiliate of UAB Health System (“the Authority”), as of and for the years ended September 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Medical West Hospital Authority, An Affiliate of UAB Health System, as of September 30, 2021 and 2020, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Warren Averett, LLC

Birmingham, Alabama
December 9, 2021

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

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
SEPTEMBER 30, 2021 AND 2020**

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

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

The Authority's strategic focus during fiscal year 2022 is to continue to improve financial performance and grow market share through focusing on the provision of quality health care to meet the current and future needs of the market. Specifically, management has goals focused to:

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

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

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
SEPTEMBER 30, 2021 AND 2020**

Net Position

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

Table A-1

Condensed Statements of Net Position (in millions of dollars)

	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Receivables, net	\$ 19.3	\$ 16.1	\$ 3.2	19.9%
Other current assets	<u>44.5</u>	<u>58.5</u>	(14.0)	-23.9%
Current assets	63.8	74.6	(10.8)	-14.5%
Other assets	4.1	4.1	-	0.0%
Capital assets	<u>42.6</u>	<u>28.8</u>	13.8	47.9%
Total assets	<u>110.5</u>	<u>107.5</u>	3.0	2.8%
Current liabilities	63.4	35.9	27.5	76.6%
Noncurrent liabilities	<u>0.9</u>	<u>36.6</u>	(35.7)	-97.5%
Total liabilities	<u>64.3</u>	<u>72.5</u>	(8.2)	-11.3%
NET POSITION				
Net investment in capital assets	6.8	(7.4)	14.2	-191.9%
Unrestricted	<u>39.4</u>	<u>42.4</u>	(3.0)	-7.1%
TOTAL NET POSITION	<u>\$ 46.2</u>	<u>\$ 35.0</u>	\$ 11.2	32.0%

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

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

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
SEPTEMBER 30, 2021 AND 2020**

As shown in Table A-1, net position increased approximately \$11.2 million from 2020. This change in net position was primarily attributable to a combined \$3 million increase in total assets and a \$8.2 million decrease in total liabilities.

Property and equipment at September 30, 2021, totals approximately \$42.6 million, net of accumulated depreciation. During 2021, total additions to property and equipment were approximately \$18.9 million, and depreciation expense was approximately \$4.8 million.

Noncurrent liabilities decreased in fiscal year 2021 by approximately \$35.7 million due to the reclassification of the term loan used for refinance of earlier bond issues that were originally used for facility additions and improvements to current liabilities. The Authority has pledged all gross revenues as collateral for this indebtedness.

Change in Net Position

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

Table A-2

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

	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues	\$ 144.1	\$ 127.7	\$ 16.4	12.8%
Professional care of patients	103.8	91.0	12.8	14.1%
Service departments	30.4	30.5	(0.1)	-0.3%
Depreciation	4.8	5.1	(0.3)	-5.9%
Total operating expenses	139.0	126.6	12.4	9.8%
Operating income	5.1	1.1	4.0	363.6%
Nonoperating net revenue (expenses)	6.1	1.4	4.7	335.7%
Change in net position	11.2	2.5	8.7	348.0%
Beginning net position	35.0	32.5	2.5	7.7%
Ending net position	\$ 46.2	\$ 35.0	\$ 11.2	32.0%

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
SEPTEMBER 30, 2021 AND 2020**

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

As shown in Table A-2 above, operating revenues increased by approximately \$16.4 million from the prior year. The primary cause of this increase was the return of volumes lost in the prior year due to the impact of the COVID-19 pandemic. Patient service revenue, net of allowances for contractual discounts, charity care, and bad debt expense, were approximately \$142.7 million for 2021, an increase of approximately \$16.6 million and 13.2% from the prior year.

Operating expenses for fiscal year 2021 were approximately \$139 million compared to approximately \$126.6 million in fiscal year 2020, a 9.8% increase driven primarily by the aforementioned return in volumes lost in 2020 due to the COVID-19 pandemic.

Statements of Cash Flows

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

Requests for Information

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

FINANCIAL STATEMENTS

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2021 AND 2020**

ASSETS AND DEFERRED OUTFLOW OF RESOURCES	2021	2020
	<u> </u>	<u> </u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 38,610,728	\$ 52,788,941
Patient accounts receivable, net of estimated uncollectibles of \$12,239,370 in 2021 and \$10,185,766 in 2020	19,290,927	16,101,405
Estimated third-party settlements	701,297	581,767
Other receivables	224,582	382,699
Inventories	2,683,054	2,671,302
Prepaid expenses	1,810,775	1,536,785
Noncurrent cash and investments required for current liabilities	<u>501,547</u>	<u>576,658</u>
Total current assets	<u>63,822,910</u>	<u>74,639,557</u>
NONCURRENT CASH AND INVESTMENTS		
Designated by Board for capital improvements	3,986,060	3,985,717
Held under self-insurance trust agreement by trustee	<u>576,741</u>	<u>576,658</u>
	4,562,801	4,562,375
Less amounts required for current liabilities	<u>501,547</u>	<u>576,658</u>
Total noncurrent cash and investments	<u>4,061,254</u>	<u>3,985,717</u>
PROPERTY AND EQUIPMENT, NET	<u>42,595,549</u>	<u>28,799,459</u>
TOTAL ASSETS	<u>110,479,713</u>	<u>107,424,733</u>
DEFERRED OUTFLOW OF RESOURCES	<u>14,527</u>	<u>29,055</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u><u>\$110,494,240</u></u>	<u><u>\$107,453,788</u></u>

See notes to the financial statements.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2021 AND 2020**

	2021	2020
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 10,527,823	\$ 8,069,339
Accrued salaries and wages	1,219,564	2,270,267
Accrued and withheld payroll taxes and employee benefits	2,605,640	2,344,227
Accrued vacation and sick pay	2,345,233	2,232,329
Accrued contribution to affiliate	924,047	125,157
Accrued self-insurance losses	501,547	916,423
Medicare Advance Payments	9,465,129	11,864,218
Unearned revenue	-	7,589,760
Accrued interest on long-term obligations	68,247	68,247
Current portion of long-term obligations	35,713,202	466,263
Total current liabilities	63,370,432	35,946,230
OTHER LIABILITIES	405,824	419,874
DEFICIT INVESTMENT IN JOINT VENTURE	392,636	353,948
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION	70,375	35,784,246
NET POSITION		
Net investment in capital assets	6,826,499	(7,421,995)
Unrestricted	39,428,474	42,371,485
Total net position	46,254,973	34,949,490
TOTAL LIABILITIES AND NET POSITION	\$ 110,494,240	\$ 107,453,788

See notes to the financial statements.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Net patient service revenue, net of provision for bad debts of \$22,443,329 in 2021 and \$22,942,671 in 2020	\$ 142,672,855	\$ 126,041,003
Other operating revenue	1,501,479	1,656,619
Total operating revenues	<u>144,174,334</u>	<u>127,697,622</u>
OPERATING EXPENSES		
Professional care of patients	103,825,163	91,039,284
Service departments	30,449,569	30,490,407
Depreciation	4,750,450	5,140,873
Total operating expenses	<u>139,025,182</u>	<u>126,670,564</u>
OPERATING INCOME	<u>5,149,152</u>	<u>1,027,058</u>
NONOPERATING REVENUES (EXPENSES)		
Investment and interest income	1,323	20,419
Interest expense	(866,441)	(880,298)
Line of credit fees	-	(74,950)
Loss on disposal of property and equipment	(5,408)	(797)
Contribution obligation incurred to affiliate	(924,047)	-
CARES Act revenue	8,533,342	2,729,474
Loss on investment in joint venture	(582,438)	(353,948)
Total nonoperating revenues (expenses)	<u>6,156,331</u>	<u>1,439,900</u>
CHANGE IN NET POSITION	11,305,483	2,466,958
NET POSITION AT BEGINNING OF YEAR	<u>34,949,490</u>	<u>32,482,532</u>
NET POSITION AT END OF YEAR	<u>\$ 46,254,973</u>	<u>\$ 34,949,490</u>

See notes to the financial statements.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	\$ 139,363,803	\$ 129,251,601
Payments to suppliers	(76,284,250)	(67,381,588)
Payments to employees	(59,603,608)	(54,143,602)
Other receipts and payments, net	<u>1,659,596</u>	<u>2,018,462</u>
Net cash provided by operating activities	<u>5,135,541</u>	<u>9,744,873</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Medicare advance (recoupments) payments	(2,399,089)	11,864,218
CARES Act funds received	943,582	10,319,234
Line of credit fees	-	(74,950)
Payment of contribution obligation incurred to affiliate	<u>(125,157)</u>	<u>(10,000)</u>
Net cash (used in) provided by noncapital financing activities	<u>(1,580,664)</u>	<u>22,098,502</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the sale of property and equipment	312,090	-
Purchases of property and equipment	(16,183,482)	(3,272,389)
Repayment of long-term debt	(466,932)	(680,671)
Interest paid	<u>(851,913)</u>	<u>(861,453)</u>
Net cash used in capital and related financing activities	<u>(17,190,237)</u>	<u>(4,814,513)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment income	1,323	20,419
Change in other assets	-	27,746
Change in investments	-	259,251
Contribution to investment in joint venture	<u>(543,750)</u>	<u>-</u>
Net cash (used in) provided by investing activities	<u>(542,427)</u>	<u>307,416</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(14,177,787)</u>	<u>27,336,278</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>57,351,316</u>	<u>30,015,038</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 43,173,529</u>	<u>\$ 57,351,316</u>

See notes to the financial statements.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

	2021	2020
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION		
Cash and cash equivalents	\$ 38,610,728	\$ 52,788,941
Cash and cash equivalents included in noncurrent cash and investments:		
Designated by Board for capital improvements	3,986,060	3,985,717
Held under self-insurance trust agreement	576,741	576,658
Total cash and cash equivalents	\$ 43,173,529	\$ 57,351,316
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 5,149,152	\$ 1,027,058
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,750,450	5,140,873
Provision for bad debts	22,443,329	22,942,671
Change in patient accounts receivable	(25,632,851)	(19,228,676)
Change in estimated third-party payor settlements	(119,530)	(503,397)
Change in other receivables	158,117	361,843
Change in inventories	(11,752)	(290,206)
Change in prepaid expenses	(273,990)	5,395
Change in accounts payable and accrued expenses	(222,072)	(1,573,197)
Change in salaries, wages, and related withholdings payable	(676,386)	1,247,118
Change in other current liabilities	(414,876)	785,819
Change in other liabilities	(14,050)	(170,428)
Total adjustments to reconcile operating income to net cash provided by operating activities	(13,611)	8,717,815
Net cash provided by operating activities	\$ 5,135,541	\$ 9,744,873

See notes to the financial statements.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Contribution obligation to affiliate accrued	\$ 924,047	\$ 125,157
Loss on disposal of property and equipment	\$ 5,408	\$ 797
Accrued purchases of property and equipment	\$ 2,680,556	\$ 178,368
Loss on investment in joint venture	\$ 582,438	\$ 353,948
Equipment acquired through capital lease obligations	\$ -	\$ 941,253

See notes to the financial statements.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

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

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

Reporting Entity

The accompanying financial statements include the accounts of the Authority and its wholly-owned limited liability company, Physician Integration Partners, LLC ("PIP").

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

On September 11, 2012, the Authority formed a limited liability company, Physician Integration Partners, LLC, as the sole member. At September 30, 2021 and 2020, the entity had no assets or activity recorded in its financial records.

Enterprise Fund Accounting

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

Use of Estimates

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

Cash and Cash Equivalents

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

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

Noncurrent Cash and Investments

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

Inventories

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

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Patient Accounts Receivable, Net

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

Income Taxes

As a governmental entity, the Authority is exempt from federal and state income taxes. PIP is a limited liability company. Under the provisions for this form of business, PIP is not a taxable entity, and elements of income and expense flow through and are taxed to the members.

Property and Equipment

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

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

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Medicare Advance Payments

The Authority received \$11,864,218 in fiscal year 2020 in advance payments from Medicare under the Accelerated and Advance Payment Program to help minimize the effects of revenue shortfalls due to COVID-19. The advanced payments are considered loans with repayment timelines and terms. Repayment will occur through reductions of claims. Beginning at one year from the date the payment was issued (April 2021) and continuing for 11 months, Medicare payments owed to providers will be recouped at a rate of 25%. After the 11 months end, Medicare payments owed to providers will be recouped at a rate of 50% for another six months. After the six months end, any remaining balance of the advance payments will be due. The Authority repaid \$2,399,089 of the advance payments during the year ended September 30, 2021. The Authority had advance payments of \$9,465,129 and \$11,864,218 outstanding as of September 30, 2021 and 2020, respectively.

Unearned Revenue

Unearned revenue consists of funds received under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) not recognized in income. See Note 14.

Operating Revenues and Expenses

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

Net Patient Service Revenue

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

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

The difference between original estimates made by the Authority in prior years and subsequent revisions (including final settlements) for Medicare retroactive settlements was an increase to net patient service revenue of approximately \$403,000 and \$113,000 for the years ended September 30, 2021 and 2020, respectively.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position

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

Charity Care

The Authority accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Authority. In assessing a patient's inability to pay, the Authority utilizes the generally recognized poverty income levels of Alabama but also includes certain cases where incurred charges are significant when compared to income. Charity care provided in fiscal year 2021 and 2020, measured at established rates, totaled approximately \$6,800,000 and \$7,100,000, respectively, each year and is not included in net patient service revenue. The costs incurred in providing these services are included in the Authority's operating expenses.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents and noncurrent cash and investments approximates their fair value. The carrying amount of accounts receivable, accounts payable, and accrued expenses is the approximate fair value due to the short-term nature of these instruments. The fair value of the Authority's long-term obligations was estimated using the required payments of the obligations discounted at current borrowing rates. The estimated fair value of long-term obligations at September 30, 2021 and 2020, is approximately \$36,100,000 and \$37,100,000, respectively.

Deferred Outflow of Resources

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

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements for this statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged. The Authority is evaluating the impact of this statement in the year of adoption.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement establishes new accounting requirements for interest cost incurred before the end of a construction period. Generally, this statement establishes that such interest cost should be expensed in the period incurred and should no longer be subject to capitalization as part of property and equipment. The requirements of this statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The Authority is evaluating the impact of this statement in the year of adoption.

In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The requirements of this statement are effective immediately. The effective dates of the above statements which were delayed have been modified accordingly.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on net position, the change in net position or cash flows as previously stated.

Subsequent Events

The Authority has evaluated the impact of subsequent events through December 9, 2021, representing the date on which the financial statements were issued.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

2. PATIENT ACCOUNTS RECEIVABLE

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

	<u>2021</u>	<u>2020</u>
Receivable from patients and their insurance carriers	\$ 24,621,633	\$ 19,667,394
Receivable from Medicare beneficiaries	29,145,108	32,660,927
Receivable from Medicaid beneficiaries	9,523,730	7,673,036
Receivable from Blue Cross beneficiaries	<u>12,923,253</u>	<u>6,893,519</u>
Total patient accounts receivable	76,213,724	66,894,876
Less allowance for contractual adjustments	44,683,427	40,607,705
Less allowance for uncollectibles	<u>12,239,370</u>	<u>10,185,766</u>
Net patient accounts receivable	<u>\$ 19,290,927</u>	<u>\$ 16,101,405</u>

3. NET PATIENT SERVICE REVENUE

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

Medicare

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

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

Medicaid

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

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

3. NET PATIENT SERVICE REVENUE – CONTINUED

Blue Cross

Inpatient services rendered to Blue Cross subscribers are reimbursed at prospectively determined rates per day of hospitalization. Outpatient services rendered to Blue Cross subscribers are reimbursed using Enhanced Ambulatory Patient Grouping (“EAPG”). EAPG groups procedures and medical visits sharing similar characteristics and resource utilization, and generates payments based on a multiple of average resource utilization (determined by the EAPG model) and the provider base rate.

Other

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

Net patient service revenue is comprised of the following for the years ended September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Gross patient service revenue	\$ 588,356,232	\$ 554,745,609
Less contractual adjustments	416,442,294	398,708,131
Less charity care	6,797,754	7,053,804
Less provision for bad debts	<u>22,443,329</u>	<u>22,942,671</u>
	<u>\$ 142,672,855</u>	<u>\$ 126,041,003</u>

4. NONCURRENT CASH AND INVESTMENTS

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

The Board of Directors of the Authority designated cash and investments in the amounts of \$3,986,060 and \$3,985,717 for the replacement of property and equipment and for other capital purposes at September 30, 2021 and 2020, respectively.

The Authority self-insures for professional, general liability, and workers’ compensation coverage. The balance of self-insurance funds on deposit with the trustee, including accrued interest, was \$576,741 and \$576,658 at September 30, 2021 and 2020, respectively. In addition, the Authority maintains an umbrella excess liability for professional, general liability, and workers’ compensation coverage (see Note 10). Deposits to the self-insurance funds are not recognized in operations; rather, an estimate of loss is accrued when a loss becomes probable. Evaluations of the accrued losses are made periodically, and the amount of the accrual is adjusted accordingly.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

4. NONCURRENT CASH AND INVESTMENTS – CONTINUED

All of the Authority’s noncurrent cash and investments at September 30, 2021 and 2020, are held in cash and cash equivalent accounts.

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

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

5. PROPERTY AND EQUIPMENT

At September 30, 2021, property and equipment, including additions and disposals, consists of the following:

	Balance at September 30, 2020	Additions	Disposals	Transfers of CIP	Balance at September 30, 2021
Land	\$ 3,697,849	\$ 3,267,125	\$ (88,145)	\$ -	\$ 6,876,829
Land improvements	577,456	-	-	-	577,456
Buildings	68,254,339	417,809	(56,800)	630,640	69,245,988
Fixed equipment	18,686,004	587,228	-	-	19,273,232
Major moveable equipment	51,335,647	2,418,917	(485,887)	-	53,268,677
Automobiles and related equipment	115,856	-	-	-	115,856
Capital assets at historical cost	142,667,151	6,691,079	(630,832)	630,640	149,358,038
Less accumulated depreciation	(116,954,597)	(4,750,450)	501,676	-	(121,203,371)
	25,712,554	1,940,629	(129,156)	630,640	28,154,667
Construction-in-progress	3,086,905	12,172,959	(188,342)	(630,640)	14,440,882
	\$ 28,799,459	\$ 14,113,588	\$ (317,498)	\$ -	\$ 42,595,549

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

5. PROPERTY AND EQUIPMENT – CONTINUED

At September 30, 2020, property and equipment, including additions and disposals, consists of the following:

	Balance at September 30, 2019	Additions	Disposals	Transfers of CIP	Balance at September 30, 2020
Land	\$ 3,697,849	\$ -	\$ -	\$ -	\$ 3,697,849
Land improvements	559,437	18,019	-	-	577,456
Buildings	67,980,385	274,916	(3,585)	2,623	68,254,339
Fixed equipment	18,381,819	304,185	-	-	18,686,004
Major moveable equipment	49,566,728	1,640,473	(35,119)	163,565	51,335,647
Automobiles and related equipment	93,019	22,837	-	-	115,856
Capital assets at historical cost	140,279,237	2,260,430	(38,704)	166,188	142,667,151
Less accumulated depreciation	(111,851,631)	(5,140,873)	37,907	-	(116,954,597)
	28,427,606	(2,880,443)	(797)	166,188	25,712,554
Construction-in-progress	1,121,513	2,131,580	-	(166,188)	3,086,905
	<u>\$ 29,549,119</u>	<u>\$ (748,863)</u>	<u>\$ (797)</u>	<u>\$ -</u>	<u>\$ 28,799,459</u>

Construction-in-progress at September 30, 2021, consists primarily of costs incurred to build a new hospital. On May 8, 2019, the Authority filed a Certificate of Need (“CON”) application with the State Health Planning and Development Agency to replace its existing hospital facility which was approved on August 21, 2019. The new hospital will consist of 200 licensed beds and will be located at Exit 1 on Interstate Highway 459 in unincorporated west Jefferson County. The projected cost of constructing the replacement hospital, medical office building, and parking deck is approximately \$349,000,000; and the projected cost of all necessary medical equipment and furnishings is approximately \$57,000,000. Design and construction of the new facility is expected to take three years. The construction is to be financed with existing resources and long-term debt.

6. INVESTMENT IN JOINT VENTURE

The Authority currently participates in a joint venture, Shift Rx UAB MW, LLC (ShiftRx). ShiftRx was formed on August 18, 2019, for the purpose of operating a retail pharmacy and gift shop located within the Hospital. As of September 30, 2021, the Authority has a 75% equity interest in ShiftRx. The Authority has determined that their investment in ShiftRx qualifies as an investment under GASB Statement No. 72 and is, therefore, recorded under the equity method under GASB Statement No. 90. The Authority’s deficit in joint venture was \$392,636 and \$353,948 at September 30, 2021 and 2020, respectively. The Authority’s net loss from joint venture was \$582,438 and \$353,948 for the fiscal years ended September 30, 2021 and 2020, respectively. During the year ended September 30, 2021, the Authority made an additional capital contribution of \$543,750 to the joint venture.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

6. INVESTMENT IN JOINT VENTURE – CONTINUED

In July 2020, the Authority guaranteed a \$850,000 line of credit of ShiftRx which matured in March 2021. The line of credit was refinanced with a promissory note for \$845,000 in March 2021, which matures in March 2026. The note requires monthly principal and interest payments of \$15,780 beginning in April 2021. Interest on the note accrues at a rate of 4.5% annually. In the event ShiftRx is unable to make a payment, the Authority would be required to make that payment.

A summary of the unaudited financial information of the joint venture (GAAP basis) as of and for the fiscal years ended September 30, 2021 and 2020, is as follows:

	<u>2021</u>	<u>2020</u>
Total assets	\$ 540,904	\$ 464,382
Total liabilities	<u>(1,064,418)</u>	<u>(936,312)</u>
Total equity (deficit)	<u>\$ (523,514)</u>	<u>\$ (471,930)</u>
Total revenue	\$ 1,735,890	\$ 1,701,799
Total cost of sales	(1,398,182)	(1,273,211)
Total expenses	<u>(1,114,292)</u>	<u>(900,518)</u>
Net loss	<u>\$ (776,584)</u>	<u>\$ (471,930)</u>

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

7. DEBT

Fiscal year 2021 and 2020 changes in the Authority's long-term debt are as follows:

	<u>Balance at September 30, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at September 30, 2021</u>	<u>Amounts Due Within One Year</u>
Notes payable:					
Term loan	\$ 35,300,000	\$ -	\$ -	\$ 35,300,000	\$ 35,300,000
Notes payable	33,855	-	33,855	-	-
Total notes payable	35,333,855	-	33,855	35,300,000	35,300,000
Capital lease obligations	916,654	-	433,077	483,577	413,202
	<u>\$ 36,250,509</u>	<u>\$ -</u>	<u>\$ 466,932</u>	<u>\$ 35,783,577</u>	<u>\$ 35,713,202</u>

	<u>Balance at September 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at September 30, 2020</u>	<u>Amounts Due Within One Year</u>
Notes payable:					
Term loan	\$ 35,300,000	\$ -	\$ -	\$ 35,300,000	\$ -
Guidance line	82,780	-	82,780	-	-
Notes payable	167,022	-	133,167	33,855	33,855
Total notes payable	35,549,802	-	215,947	35,333,855	33,855
Capital lease obligations	440,125	941,253	464,724	916,654	432,408
	<u>\$ 35,989,927</u>	<u>\$ 941,253</u>	<u>\$ 680,671</u>	<u>\$ 36,250,509</u>	<u>\$ 466,263</u>

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

Year Ending September 30	<u>Notes Payable</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 35,300,000	\$ 884,932	\$ 413,202	\$ 8,587
2023	-	-	70,375	352
	<u>\$ 35,300,000</u>	<u>\$ 884,932</u>	<u>\$ 483,577</u>	<u>\$ 8,939</u>

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

7. DEBT – CONTINUED

During 2017, the Authority entered into a financing agreement (the “Term Loan”) with a financial institution for \$35,300,000. The proceeds were used to refund the \$15,000,000 capital expenditure line of credit (the “Capital Line”) and the Series 2013-A Revenue Bonds (the “2013 Bonds”). The note accrues interest at a fixed rate of 2.32% and is due monthly beginning November 2017 and ending at the maturity date of September 30, 2022. The entire principal is due at maturity. The master trust indenture requires that the Authority comply with certain financial and nonfinancial covenants. The Authority is in compliance with all financial covenants as of September 30, 2021. To provide collateral for the note payments, the Authority pledged all of its gross revenue and all property, rights, and privileges of the Authority. This note was repaid on October 21, 2021 (see Note 16).

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

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

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

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

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

During 2020, the Authority entered into a capital lease transaction to purchase equipment. The obligation was due in 12 monthly payments of \$11,058, including interest at a rate of 3%, until maturity in November 2020.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

7. DEBT – CONTINUED

During 2020, the Authority entered into a capital lease transaction to purchase equipment. The obligation is due in 36 monthly payments of \$23,576, including interest at a rate of 3%, until maturity in January 2023.

As of September 30, 2020, the Authority also had an unused line of credit in the amount \$15,000,000 which matured in February 2021 and was not renewed. There were no borrowings on the line of credit during the years ended September 30, 2021 and 2020.

8. OPERATING LEASES

In September 2005, the Authority entered into an agreement to lease medical and office space for a period of 25 years with rental payments escalating annually by 2.75%. In connection with the lease, expenses of approximately \$805,000 and \$881,000 have been recorded in the accompanying statements of revenues, expenses, and changes in net position for the years ended September 30, 2021 and 2020, respectively.

During 2014, the Authority entered into an operating lease for the freestanding emergency department building completed in April 2015. The lease is for a 15-year period. In connection with the lease, expenses of approximately \$706,000 and \$683,000 have been recorded in the accompanying statements of revenues, expenses, and changes in net position for the years ended September 30, 2021 and 2020, respectively.

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

2022	\$ 1,897,000
2023	1,938,000
2024	1,980,000
2025	2,023,000
2026	2,083,000
2027-2031	<u>9,258,000</u>
	<u><u>\$ 19,179,000</u></u>

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

9. CONCENTRATION OF CREDIT RISK

The Authority's medical facilities are located in Jefferson County, Alabama. The Authority grants credit without collateral to its patients, most of whom are local residents insured under third-party payor agreements. As of September 30, 2021 and 2020, the mix of receivables from patients and third-party payors was as follows:

	<u>2021</u>	<u>2020</u>
Medicare	38%	49%
Medicaid	13%	11%
Blue Cross	17%	10%
Other third-party payors and commercial insurance carriers	12%	11%
Self-pay	20%	19%
	<u>100%</u>	<u>100%</u>

10. COMMITMENTS AND CONTINGENCIES

Litigation

The Authority is a defendant in various lawsuits arising in the ordinary course of business. It has been determined that losses are probable on several of these lawsuits, and a reasonable estimate of such losses has been accrued by the Authority. The liability, if any, for the remaining lawsuits against the Authority at September 30, 2021, is not determinable, but, in the opinion of management, such liability, if any, will not have a material effect upon the Authority's financial position, results of operations, or cash flows.

Medical Malpractice and Workers' Compensation Insurance

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

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

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

10. COMMITMENTS AND CONTINGENCIES – CONTINUED

Medical Records Review

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

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

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

Health Care Reform

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

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

11. PENSION PLAN

The Authority has a defined contribution pension plan, Medical West 401(a) Defined Contribution Retirement Plan (the Defined Contribution Plan), that covers substantially all employees. For each participant who is categorized in the Authority's payroll system as full-time employee, the Authority makes contributions to the Defined Contribution Plan equal to 2% of the participant's compensation for each payroll period. Employer contributions are vested 30% after three years of service, 40% after four years, 60% after five years, 80% after six years, and 100% after seven years. The nonvested portion of the account balance of the participant who has separated from service shall be immediately forfeited and applied to reduce future employer contributions. In addition, the Authority has a deferred compensation plan that covers select employees. Under these plans, the benefits for each employee are the amounts which can be provided by the funds contributed. Contributions are determined based upon a percentage of qualified wages. Pension costs for the years ended September 30, 2021 and 2020, were approximately \$1,281,000 and \$727,000, respectively. As a cost-saving initiative during the COVID-19 pandemic, the Authority elected to suspend the 2% contribution to the Defined Contribution Plan beginning in June 2020 and resuming in January 2021.

12. MEDICAID SUBSIDIES

In addition to receiving payments from Medicaid for services to hospital patients, the Authority also receives disproportionate share ("DSH") and access payments from Medicaid. The Authority also pays intergovernmental transfers for DSH and access payments. The Authority has recorded net patient revenue in the accompanying statements of revenues, expenses, and changes in net position of approximately \$10,116,000 and \$9,509,000 for the years ended September 30, 2021 and 2020, respectively, in connection with the Medicaid subsidies.

13. RELATED PARTIES

The UAB Health System provides management services for the Authority. During the years ended September 30, 2021 and 2020, no contributions were received from the UAB Health System, while expenses paid to the UAB Health System totaled approximately \$2,560,000 and \$2,689,000, respectively. For the fiscal years ended September 30, 2021 and 2020, the Authority's contribution obligation to UAB Health System totaled approximately \$924,000 and \$0, respectively. Amounts payable to UAB Health System approximated \$924,000 and \$125,000 as of September 30, 2021 and 2020, respectively, and are included in accrued contribution to affiliate. These amounts are based on the financial results of the Authority, before contribution to affiliate and excluding CARES Act revenue recognized (see Note 14). Additionally, amounts payable to UAB Health System for administrative salaries of approximately \$196,000 and \$189,000 as of September 30, 2021 and 2020, respectively, are included in accounts payable and accrued expenses.

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

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

14. CARES ACT FUNDING

The CARES Act provides various forms of federal assistance for hospitals, including \$175 billion in relief funds to hospitals and other health care providers on the front line of the COVID-19 pandemic. The Authority received \$943,582 and \$10,319,234 in fiscal years 2021 and 2020, respectively, from funds established under the CARES Act in the form of various grants that, as long as certain terms and conditions are met by the Authority, some or all of the funds may not be required to be repaid by the Authority. Revenue is recognized when the terms and conditions are met, including, among other things, that the funds are being used for COVID-related costs and lost revenues as a result of the pandemic. During fiscal year 2021, the Authority completed its required reporting for the funds received to date and determined that the funds received had been earned. The Authority recognized \$8,533,342 and \$2,729,474 as nonoperating revenue and recorded \$0 and \$7,589,760 as unearned revenue for the fiscal years ended September 30, 2021 and 2020, respectively. The funds recognized and the Authority's required reporting are subject to government review and audit.

15. COVID-19

The COVID-19 outbreak in the United States has caused a material adverse impact on economic and market conditions, including business disruption to the Authority through mandated and voluntary closings of many businesses. A high degree of risk and uncertainty exist as of the date these financial statements were issued as to the ongoing impact that COVID-19 could have on the Authority's future operations. The CARES Act (see Note 14) includes other aspects which could provide additional funds to the Authority in the future. As of the date of this report, the amount of any such future funds to be received, or the effectiveness of the amounts already received that are ultimately retained will be in offsetting the financial burden expected to be incurred by the Authority related to COVID-19, is uncertain.

16. SUBSEQUENT EVENTS

On October 21, 2021, the Authority sold substantially all assets related to the main facility in Bessemer, Alabama to UAB Health System, a related party (see Note 13), for a sales price of \$51,250,000. The proceeds were reduced by a payable to the related party in the amount of \$2,690,360 related to the purchase of the real property for the new hospital location, and payments of approximately \$35,349,000 were made to a financial institution to pay off the Authority's Term Loan and related interest (see Note 7). This resulted in net proceeds received by the Authority of approximately \$13,211,000. In conjunction with the sale, the Authority leased the facility until construction is completed on the new facility (see Note 5), with annual payments of \$1. The lease may be terminated by either party with 90 days prior written notice.

On November 16, 2021, the Authority issued Series 2021A Revenue Bonds totaling \$309,145,000 to evidence the Authority's payment obligation with respect to a construction loan by PNC Bank with respect to the new replacement hospital.

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

16. SUBSEQUENT EVENTS – CONTINUED

Additionally, the Authority executed a promissory note to evidence its repayment obligation with respect to a draw down loan in the authorized amount of \$51,185,000 obtained from Greater Nevada Credit Union (GNCU) to finance equipment for the new replacement hospital. The authorized amount of this loan is to be drawn down by the Authority as it purchases equipment over the term of the loan.

The United States Department of Agriculture (USDA) has issued a commitment to take out the construction loan at the time that is the sooner of completion of the project or the maturity date of their loan and to guarantee the equipment loan when proceeds of the GNCU loan have been fully disbursed. The Authority is required by the USDA commitment to contribute a minimum of \$16,000,000 in equity for the project. The USDA requires that the Authority's equity contribution be spent before the PNC Bank or GNCU loan proceeds are spent. The Authority has spent its required contribution to the project.

ADDITIONAL INFORMATION

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
MEMBERS OF THE AUTHORITY BOARD AND OFFICIALS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

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

Name and Address	Position	Expiration of Term
Don Lilly The Whitaker Building 500 22nd Street South, Suite 502 Birmingham, AL 35233	Chairman	September 30, 2023
Richard Brooks 2536 Altadena Forest Circle Birmingham, AL 35243	Vice Chairman	September 30, 2023
Will Ferniany The Whitaker Building 500 22nd Street South, Suite 408 Birmingham, AL 35233	Member	September 30, 2022
Loring Rue, M.D. 619 19th Street S. New Hillman Building (NHB) 320 Birmingham, AL 35294	Member	September 30, 2024
Allen Pate 100 Municipal Drive P. O. Box 360628 Hoover, AL 35236-0628	Member	September 30, 2024
Don W. Holmes 7285 Warrior River Road Bessemer, AL 35023	Member	September 30, 2022
John O. Issis, M.D. 985 9th Avenue S.W. Bessemer, AL 35022	Member	September 30, 2022
Sally Ebaugh, M.D. 1700 4th Avenue North Bessemer, AL 35020	Member	September 30, 2024

**MEDICAL WEST HOSPITAL AUTHORITY,
AN AFFILIATE OF UAB HEALTH SYSTEM
MEMBERS OF THE AUTHORITY BOARD AND OFFICIALS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

Name and Address	Position	Expiration of Term
Dana Keith 500 University Blvd. East Tuscaloosa, AL 35401	Member	September 30, 2022
Reid Jones The Whitaker Building 500 22nd Street South, Suite 402 Birmingham, AL 35233	Member	September 30, 2024
Barbara Humphrey 1705 14th Ave Apt B Birmingham, AL 35205	Member	September 30, 2023

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Medical West Hospital Authority, An Affiliate of UAB Health System ("the Authority"), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 9, 2021.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Warren Averett, LLC

Birmingham, Alabama
December 9, 2021