

UAB Callahan Eye Hospital Authority

**Basic Financial Statements and Other
Supplemental Information
September 30, 2019 and 2018**

UAB Callahan Eye Hospital Authority

Index

September 30, 2019 and 2018

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Report of Independent Auditors

To the Management of
UAB Callahan Eye Hospital Authority

Report on the Financial Statements

We have audited the accompanying financial statements of UAB Callahan Eye Hospital Authority (referred to herein as the "Authority"), a component unit of the University of Alabama System, which is a component unit of the State of Alabama, which comprise the statements of net position as of September 30, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the 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 our 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, we consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UAB Callahan Eye Hospital Authority as of September 30, 2019 and 2018 and its changes in financial position and 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

The accompanying management's discussion and analysis on pages 3 through 6 is required by accounting principles generally accepted in the United States of America 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 the 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 have 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 Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The combining financial statements on pages 23 through 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2020, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

Birmingham, Alabama
January 30, 2020

UAB Callahan Eye Hospital Authority

Management's Discussion and Analysis (unaudited)

September 30, 2019 and 2018

Introduction

The following discussion and analysis provides an overview of the financial position and activities of UAB Callahan Eye Hospital Authority ("CEHA" or "the Authority") as of and for the years ended September 30, 2019 and 2018. This discussion has been prepared by management and should be read in conjunction with CEHA's basic financial statements which begin on page 7, and the notes thereto, which begin on page 10.

CEHA is an affiliate of the UAB Health System (the "Health System") and is composed of two operating organizations: UAB Callahan Eye Hospital ("CEH") and the University of Alabama Ophthalmology Services Foundation ("OSF"). CEHA is an integral part of an internationally recognized medical center at the University of Alabama at Birmingham ("UAB").

On the 2nd day of November, 2012, the Board of Trustees of The University of Alabama, a constitutionally created public corporation of the State of Alabama (the "UA Board"), and sole member of the Eye Foundation, Inc. ("EFI"), an Alabama non-profit corporation, which owned and operated the Callahan Eye Hospital, adopted a resolution approving and authorizing the incorporation of The Callahan Eye Hospital Health Care Authority pursuant to the Health Care Authorities Act of 1982, found at §22-21-310 et seq.

EFI was the sole member of OSF. Upon transferring assets and liabilities of the Callahan Eye Hospital to the Authority, it also transferred its membership interests in OSF to the Authority.

On November 21, 2012, The UAB Callahan Eye Hospital Health Care Authority was incorporated. There being no changes in the operation of Callahan Eye Hospital, on January 1, 2013, all the assets and the liabilities of Callahan Eye Hospital were transferred to the Authority.

On September 15, 2017, the UA Board adopted a resolution approving and authorizing the reincorporation of the Authority as UAB Callahan Eye Hospital Authority pursuant to the provisions of the University Authority Act of 2016. On October 4, 2017, the reincorporation was completed and UAB Callahan Eye Hospital Authority was incorporated. The Authority is required to compile its financial statements in accordance with the standards of the Governmental Accounting Standards Board ("GASB").

The property, business and affairs of the Authority are managed under the direction and authority of its Board of Directors, consisting of 13 directors, each approved by the UA Board.

CEH provides basic, primary and comprehensive eye care as well as certain tertiary services that are not available elsewhere in the state or region. CEH operates the only twenty-four hour a day eye emergency department in the state and provides the only ocular trauma center in the area. Although licensed for 106 beds, CEH's primary business consists of outpatient ophthalmology and ambulatory surgery. CEH sees approximately 125,000 patients each year, and it is one of the busiest ophthalmology surgery centers in the country. In addition to the 24/7 Emergency Department and Inpatient unit, CEH operates 17 state of the art operating rooms, a laser center, a resident clinic, ten ambulatory clinics, and multiple optical shops.

The CEH medical staff consists of both academic and private practice physicians. There are approximately 450 UAB and community physicians on the medical staff of CEH, representing all ophthalmic specialties including general ophthalmology, glaucoma, cornea, retina, and plastics for reconstructive eye and/or facial surgeries. Due to a case transition initiative during 2018 and 2019 that has resulted in the moving of some of the outpatient, lower acuity cases from The University of Alabama Hospital ("UH") to CEH, the medical staff increased accordingly and now also represents specialties including otolaryngology, surgical oncology, oral and maxillofacial surgery, and plastics. Many of these community physicians have an academic appointment through the UAB Department of Ophthalmology (the "Department") and are instrumental in the training of residents.

UAB Callahan Eye Hospital Authority

Management's Discussion and Analysis (unaudited)

September 30, 2019 and 2018

OSF is a non-profit corporation organized for the purpose of providing superior patient care in a group practice setting within an academic medical center. Prior to 2015, OSF represented the private clinical practice for the faculty of the Department. On October 1, 2015 OSF and CEH entered into a provider services agreement (the "PSA") to integrate the ambulatory operations of OSF with the hospital operations of CEH. Under the terms of the PSA, OSF's fixed assets and related debt were transferred to CEH through an equity distribution, all nonphysician clinical practice employees were transferred onto CEH's payroll system, and CEH assumed responsibility for all ambulatory operations. Accordingly, the billing and collecting for professional services provided by OSF physicians in the ambulatory clinics are now managed by CEH, and CEH reimburses OSF for those services based on an agreed upon rate. CEHA management believes that this integration of hospital and ambulatory clinic will result in better patient care, greater operational efficiency, and will better position the organization for future success within the current healthcare environment.

The Department has grown rapidly over the last several years, adding a total of 13 clinical faculty and 8 research faculty since October 2013. The Department has also entered an affiliation agreement with a private retinal practice for educational and research collaboration. Excluding affiliated faculty, the department consists of 47 faculty members (34 clinical and 13 research).

OSF, through grants from The EyeSight Foundation of Alabama (ESFA), supports the Department's mission by providing funding for resident and medical student training programs as well as for research (both basic science and clinical) related to diseases of the eye.

The CEHA's strategic focus during fiscal year 2019 was continued performance improvement of clinical operations, expansion and growth of ambulatory clinical practices, and the pursuit of a more integrated approach to patient care between CEH and OSF.

CEHA continues to be motivated by successes in clinical and surgical growth, education, and research breakthroughs. CEHA and the Health System leadership continue to focus on the following:

- Providing appropriate facilities, equipment, and staff to support the development of new ophthalmology treatments and cures for blinding eye disease
- Recruiting additional ophthalmic specialists while retaining current distinguished physicians and researchers
- Strengthening clinical and research activities
- Ensuring the highest quality in ophthalmology graduate medical education and training programs
- Explicit marketing and development for UAB Callahan Eye Hospital and Callahan Eye Clinics
- Philanthropic development
- Transitioning lower acuity outpatient surgery cases from UH to CEH

UAB Callahan Eye Hospital Authority
Management's Discussion and Analysis (unaudited)
September 30, 2019 and 2018

Statement of Net Position

The Statement of Net Position presents the financial position of CEHA at the end of the fiscal year and includes all assets and liabilities of CEHA. The difference between total assets and total liabilities – *net position* – is one indicator of the current financial condition of CEHA, 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 costs less allowances for depreciation.

	2019	2018	2017
Current assets	\$ 30,241,014	\$ 27,586,249	\$ 27,082,610
Capital assets, net	41,781,589	43,406,035	42,687,183
Total assets	<u>\$ 72,022,603</u>	<u>\$ 70,992,284</u>	<u>\$ 69,769,793</u>
Current liabilities	\$ 6,842,073	\$ 6,743,131	\$ 6,391,184
Other liabilities	414,038	384,457	371,724
Bonds payable, less current portion	25,513,285	26,918,048	28,293,348
Total liabilities	<u>32,769,396</u>	<u>34,045,636</u>	<u>35,056,256</u>
Net position			
Net investment in capital assets	14,863,541	15,112,687	13,048,031
Restricted expendable	3,791	3,791	4,300
Unrestricted	24,385,875	21,830,170	21,661,206
Total net position	<u>39,253,207</u>	<u>36,946,648</u>	<u>34,713,537</u>
Total liabilities and net position	<u>\$ 72,022,603</u>	<u>\$ 70,992,284</u>	<u>\$ 69,769,793</u>

Cash and cash equivalents decreased by approximately \$0.1 million from 2018 and 2019 due to capital asset purchases, principle payments on debt, and growth in patient receivables.

Total liabilities decreased by approximately \$1.3 million primarily due to the scheduled principal payments of long-term debt. In addition, net position increased by approximately \$2.3 million primarily due to 2019 operating results.

Cash and cash equivalents increased by approximately \$0.9 million from 2017 to 2018 due to the operating income earned in 2018, partially offset by capital asset purchases.

Total liabilities decreased from 2017 to 2018 by approximately \$1 million primarily due to the scheduled principal payments of long-term debt. In addition, net position increased by approximately \$2.2 million due to 2018 operating results.

UAB Callahan Eye Hospital Authority
Management's Discussion and Analysis (unaudited)
September 30, 2019 and 2018

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents the extent to which CEHA's overall net position increased or decreased during the year as a result of operations or from other income sources.

	2019	2018	2017
Net patient service revenue	\$ 73,874,902	\$ 64,652,687	\$ 58,518,715
Other revenue	<u>3,262,495</u>	<u>3,433,628</u>	<u>3,945,377</u>
Total operating revenues	77,137,397	68,086,315	62,464,092
Operating expenses	<u>(74,219,996)</u>	<u>(65,375,007)</u>	<u>(62,896,734)</u>
Operating income (loss)	2,917,401	2,711,308	(432,642)
Nonoperating expenses	<u>(610,842)</u>	<u>(478,197)</u>	<u>(175,544)</u>
Increase (decrease) in net position	<u>\$ 2,306,559</u>	<u>\$ 2,233,111</u>	<u>\$ (608,186)</u>

Net patient revenues increased by approximately \$9.2 million over fiscal year 2018 due to increased surgical case volumes, emergency department visits, and increased volumes in ambulatory clinic visits. Operating expenses for CEHA increased by approximately \$8.8 million over 2018, primarily due to increased patient volumes.

Net patient revenues increased by approximately \$6.1 million from fiscal year 2017 to 2018 due to increased surgical case volumes, emergency department visits, and increased volumes in ambulatory clinic visits. Operating expenses for CEHA increased by approximately \$2.5 million from 2017 to 2018, primarily due to increased patient volumes.

Debt Activity

CEH's current debt has a 2.17% tax-exempt interest rate. Interest is due monthly. No new debt was incurred during 2019.

UAB Callahan Eye Hospital Authority
Statements of Net Position
September 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 7,067,881	\$ 7,158,685
Investments	12,084,415	12,123,567
Patient accounts receivable, net of allowance for doubtful accounts of \$3,873,795 and \$2,066,280 as of September 30, 2019 and 2018, respectively	7,619,581	5,619,345
Due from third party payors	-	-
Other receivables	1,368,707	534,178
Inventories	1,675,967	1,733,187
Prepaid expenses	424,463	417,287
Total current assets	<u>30,241,014</u>	<u>27,586,249</u>
Noncurrent assets		
Capital assets, net	41,781,589	43,406,035
Total assets	<u>\$ 72,022,603</u>	<u>\$ 70,992,284</u>
Liabilities and Net Position		
Current liabilities		
Current portion of long-term debt	\$ 1,404,763	\$ 1,375,300
Accounts payable and accrued expenses	5,227,300	4,998,776
Accrued interest	48,010	50,463
Due to third party payors	162,000	318,592
Total current liabilities	<u>6,842,073</u>	<u>6,743,131</u>
Noncurrent liabilities		
Compensated absences	414,038	384,457
Long-term debt, less current portion	25,513,285	26,918,048
Total liabilities	<u>32,769,396</u>	<u>34,045,636</u>
Net position		
Net investment in capital assets	14,863,541	15,112,687
Restricted		
Expendable	3,791	3,791
Unrestricted	24,385,875	21,830,170
Total net position	<u>39,253,207</u>	<u>36,946,648</u>
Total liabilities and net position	<u>\$ 72,022,603</u>	<u>\$ 70,992,284</u>

The accompanying notes are an integral part of these financial statements.

UAB Callahan Eye Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2019 and 2018

	2019	2018
Operating revenues		
Net patient service revenue (net of provision for doubtful accounts of \$4,975,852 and \$3,013,655 for the years ended September 30, 2019 and 2018, respectively)	\$ 73,874,902	\$ 64,652,687
Grant revenue	1,356,769	1,410,006
Rental income	842,218	981,396
Other revenue	1,063,508	1,042,226
Total operating revenues	<u>77,137,397</u>	<u>68,086,315</u>
Operating expense		
Salaries and benefits	36,094,922	32,300,871
Supplies and other	32,837,181	28,124,813
Depreciation and amortization	5,287,893	4,949,323
Total operating expenses	<u>74,219,996</u>	<u>65,375,007</u>
Operating income (loss)	2,917,401	2,711,308
Nonoperating revenues (expenses)		
Investment income, including change in fair value	(13,008)	105,853
Interest expense	(597,834)	(584,050)
Increase in net position	<u>2,306,559</u>	<u>2,233,111</u>
Net position		
Beginning of year	<u>36,946,648</u>	<u>34,713,537</u>
End of year	<u>\$ 39,253,207</u>	<u>\$ 36,946,648</u>

The accompanying notes are an integral part of these financial statements.

UAB Callahan Eye Hospital Authority
Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Receipts from and on behalf of patients and third-party payors	\$ 71,718,074	\$ 64,725,857
Payments to employees and related benefits	(35,879,639)	(31,876,733)
Payments to suppliers	(32,362,625)	(28,007,926)
Receipts from grantors	1,356,769	1,410,006
Receipts from tenants	842,218	981,396
Other receipts and payments	231,492	1,747,970
Net cash provided by operating activities	<u>5,906,289</u>	<u>8,980,570</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(4,045,137)	(6,172,473)
Principal payments on long-term debt and capital lease	(1,375,300)	(1,345,804)
Interest paid on long-term debt	(600,287)	(586,450)
Net cash used in capital and related financing activities	<u>(6,020,724)</u>	<u>(8,104,727)</u>
Cash flows from investing activities		
Proceeds from sale and maturities of investments	-	11,852,296
Purchases of investments	-	(12,189,167)
Interest and distributions from investments	23,631	356,832
Net cash provided by investing activities	<u>23,631</u>	<u>19,961</u>
Net decrease (increase) in cash and cash equivalents	(90,804)	895,804
Cash and cash equivalents		
Beginning of year	<u>7,158,685</u>	<u>6,262,881</u>
End of year	<u>\$ 7,067,881</u>	<u>\$ 7,158,685</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ 2,917,401	\$ 2,711,308
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	5,287,893	4,949,323
Provision for bad debts	4,975,852	3,013,655
Loss on disposal of capital assets	2,513	75,617
Changes in		
Patient accounts receivable	(6,976,088)	(3,374,765)
Other receivables	(834,529)	630,127
Inventories	57,220	(68,099)
Prepaid expenses	(7,176)	(188,166)
Estimated third-party payor settlements	(156,592)	434,280
Accounts payable and accrued expenses	610,214	784,557
Compensated absences	29,581	12,733
Net cash provided by operating activities	<u>\$ 5,906,289</u>	<u>\$ 8,980,570</u>

The accompanying notes are an integral part of these financial statements.

UAB Callahan Eye Hospital Authority

Notes to Financial Statements

September 30, 2019 and 2018

1. Description of Organization and Summary of Significant Accounting Policies

Organization

On January 1, 2013 The Callahan Eye Hospital Health Care Authority (the "HCA") was organized to assume the operations of the Callahan Eye Hospital (the "Hospital") and the assets and liabilities of both the Hospital and the Eye Foundation, Inc. (the "Foundation"). The Foundation remains in existence as a supporting organization for the Hospital.

On September 15, 2017, the Board of Trustees of The University of Alabama (the "UA Board") adopted a resolution approving and authorizing the reincorporation of the HCA as UAB Callahan Eye Hospital Authority pursuant to the provisions of the University Authority Act of 2016. On October 4, 2017, the reincorporation was completed and UAB Callahan Eye Hospital Authority (the "Authority") was incorporated.

The Authority owns and operates the Hospital along with its ambulatory clinics. The Hospital, located in Birmingham, Alabama, is an eye care specialty hospital. It provides inpatient, outpatient, emergency, and specialty ophthalmic care services and conducts other business related to clinical care and academic pursuits primarily in the subject matter of eye care and vision sciences. Admitting physicians are primarily practitioners in the local area.

The UA Board is the authorizing entity of the Authority and retains control over approving its board of directors. Accordingly, the Authority is a component unit of the University of Alabama System (the "System"), which is a component unit of the State of Alabama.

The University of Alabama Ophthalmology Services Foundation ("OSF") is organized as a not-for profit entity, which serves as the private clinical employer for the UAB Department of Ophthalmology (the "Department") faculty. OSF, through grants from the EyeSight Foundation of Alabama, also supports the Department's mission of teaching and research by providing support for resident and medical student training programs and support for research related to diseases of the eye. The Authority is the sole member of OSF.

Accounting Standards

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles prescribed by the Governmental Accounting Standards Board ("GASB"), including principles set forth in the *Audit and Accounting Guide for Health Care Organizations* and the *Audit and Accounting Guide for State and Local Governments*, industry audit guides of the American Institute of Certified Public Accountants.

Enterprise Fund Accounting

The Authority utilizes the enterprise fund method of accounting. Revenues and expenses are recognized on the accrual basis.

The Hospital is an operating division of the Authority. Both the Foundation and OSF have been determined to be blended component units of the Authority. All accounts and transactions of the Hospital, the Foundation and OSF are included in these financial statements. All intercompany transactions have been eliminated in consolidation.

UAB Callahan Eye Hospital Authority

Notes to Financial Statements

September 30, 2019 and 2018

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs could change by a material amount in the near term.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Investments and Investment Income

The Authority's investments are reported at fair value. The majority of the Authority's investment portfolio is invested in separate investment pools sponsored by the System. Fair value for the investment pools is provided by the System, based on the fair value of the underlying investment securities held by each investment pool. Fair value of the underlying securities held in each investment pool is based on quoted market prices or dealer quotes, where available, or determined using net asset values provided by underlying investment partnerships or companies, which primarily invest in readily marketable securities. Fair value for equity securities, debt securities, mutual funds and U.S. government and agency obligations held by the Authority is determined from quoted market prices or market prices of similar instruments. Investments received by gift are reported at fair value at date of receipt. Investment income, including realized and unrealized gains and losses, is reported as nonoperating revenues (expenses) in the statements of revenues, expenses and changes in net position. Investments are reported in multiple categories in the statement of net position based on their intended use or other restrictions. Investments for capital projects are funds designated by the Authority's Board of Directors and are included in noncurrent assets. All other investments are included in current assets as short term investments.

Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out method) or replacement market value.

Assets Limited as to Use

Assets limited as to use include funds set aside by the Authority's Board of Directors for education. Interest earned on these designated cash balances is reported within the accompanying statements of revenues, expenses, and changes in net position as interest income.

Capital Assets

Capital assets are recorded at cost if purchased or at acquisition value at the date of donation. Donations or gifts of long-lived assets are reported as contribution revenue within the accompanying statements of revenues, expenses, and changes in net position.

Capital assets are stated at cost less accumulated depreciation. Provisions for depreciation are computed using the straight-line method based on the estimated useful lives of the assets, which are generally ten to twenty-five years for buildings and improvements and an average of five to ten years for equipment. Medical equipment and other property held under capital leases are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the assets. Amortization of assets recorded under capital leases is included in depreciation and amortization.

UAB Callahan Eye Hospital Authority

Notes to Financial Statements

September 30, 2019 and 2018

Additions, improvements, renewals, and expenditures for maintenance that add materially to the productive capacity or extend the life of an asset are capitalized. Other expenditures for maintenance and repairs are charged to operations. Upon retirement or disposal of an asset, the asset and related accumulated depreciation are eliminated. Any gain or loss on such transactions is included in other income.

Capital assets are reviewed for impairment when service utility has declined significantly and unexpectedly. If such assets are no longer used, they are reported at the lower of carrying value or fair value. If such assets will continue to be used, the impairment loss is measured using a historical cost approach method that best reflects the diminished service utility of the capital asset. No impairment charges were recorded during the fiscal years ended September 30, 2019 and 2018.

Compensated Absences

The compensated absences liability balance consists of accrued vacation and accrued sick leave. The accrued vacation time is paid out to the employees upon termination of employment. For employees hired before March 1, 2006, a portion of the accrued sick leave vests after five years with a portion of the leave vesting each year from year six to fifteen. The vested portion of sick leave is paid out upon employee termination when the employee leaves in good standing. The portion of the compensated absences expected to be paid out in the current year is recorded as accounts payable and accrued expenses, a current liability. The amount expected to be paid out in future periods greater than one year is recorded as a noncurrent liability.

Net Position

Net position of the Authority is classified into the following components:

Net Investment in Capital Assets

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted Expendable

Restricted resources to be used by the Authority subject to externally imposed stipulations that can be fulfilled by action of the Authority pursuant to those stipulations or that expire by the passage of time.

Unrestricted

Unrestricted component of net position consists of the remaining resources that do not meet the definition of net investment in capital assets, or restricted.

Costs of Borrowing

Debt issuance costs are expensed as incurred.

Interest cost is capitalized on qualified construction expenditures as a component of the cost of the related project. Capitalized interest of approximately \$44,000 was recorded in 2018.

Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, and includes estimated retroactive revenue adjustments (if necessary) due to audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services

UAB Callahan Eye Hospital Authority

Notes to Financial Statements

September 30, 2019 and 2018

are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Charity Care

The Authority 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 Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Grant Revenue

The Authority classifies revenue related to grants received for patient care and certain research and education activities as operating revenue since these programs represent components of the Authority's operations and are related to its mission of providing quality patient care and supporting research of diseases to the eye and education and training of resident and medical students. This revenue is recognized as earned during the period specified by the grant agreement.

Rental Income

The Authority has entered into several operating leases with tenants for rental of office space in the Authority's professional office building. The lease terms are generally for five years, with renewal options available for an additional five years.

Other Revenue

The Authority records income from activities related to providing health care services as other revenue. This income includes ancillary, parking deck fees, and other miscellaneous items.

Income Taxes

According to the Internal Revenue Code, the organizational structure of the Authority is exempt from Federal Income tax. This structure is also exempt from state sales tax. OSF is recognized as exempt from federal income tax under section 501(c)(3), whereby only unrelated business income is taxable.

2. Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of the corporate failure of the custodian, the investment securities may not be returned. In response to this risk, the Authority continually monitors the financial performance of the custodian for the arrangements below and those detailed in Note 3 to the financial statements.

The Authority has certain deposits which may exceed Federal Depository Insurance Corporation ("FDIC") limits at certain financial institutions. Each financial institution with which the Authority holds deposits must provide evidence of its designation by the Alabama State Treasurer as a qualified public depository ("QPD") under the Security of Alabama Funds Enhancement Act ("SAFE"). The SAFE program requires that each QPD hold collateral for all its public depositories on a pooled basis in a custody account established for the State Treasurer as SAFE administrator. In the unlikely event a public entity should suffer a deposit loss due to QPD insolvency or default, a claim form would be filed with the State Treasurer who would use the SAFE pool collateral or other means to reimburse the loss.

UAB Callahan Eye Hospital Authority

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3. Investments

During 2018, the Authority liquidated all of its previously held investments and invested the proceeds in the Long Term Reserve Pool (“LTRP”), one of the investment pools sponsored by the UA System, as described further below. The composition of the Authority’s investments, by investment type, at September 30, 2019 and 2018, is as follows:

	2019	2018
LTRP	\$ 11,957,270	\$ 11,971,077
Equity securities - common stocks	127,145	152,490
	<u>\$ 12,084,415</u>	<u>\$ 12,123,567</u>

At September 30, 2019 and 2018, \$12,084,415 and \$12,123,567 of the Authority’s total investments were classified as Short-term investments on the Statement of Net Position.

The UA Board has the responsibility for the establishment of the investment policy and the oversight of the investments for the System and related entities. In order to facilitate System-wide investment objectives and achieve economies of scale, the Board has established three distinct investment pools based primarily on the projected investment time-horizons for System funds. These investment pools are the Endowment Fund (“PEF”), Long Term Reserve Pool (“LTRP”) and the Short Term Liquidity Pool (“STLP”) (collectively, the “System Pools”). Pursuant to Board investment policies, each System or related entity may include all or a portion of their investments within the System sponsored investment pools. These investment funds are considered ‘internal’ investment pools under GASB Statement No. 31, with the assets pooled on a market value basis. Separately managed funds that are resident with each entity are to be invested consistent with the asset mix of the corresponding System investment pool.

The Long Term Reserve Pool is a longer-term fund used as an investment vehicle to manage operating reserves with a time horizon of three to seven years. This fund has an investment objective of growth and income and is invested in a diversified asset mix of liquid, semi-liquid, and illiquid securities. This fund can invest no more than 10% in illiquid assets.

Fair Value Measurements

GASB 72 sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.
- Level 2 Inputs to the valuation methodology include: Quoted prices for similar assets or liabilities in active markets; Quoted prices for identical or similar assets or liabilities in inactive markets; Inputs other than quoted prices that are observable for the assets or liabilities; Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

UAB Callahan Eye Hospital Authority
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Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Authority's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Authority's own data.

The Authority's investment in the LTRP is not considered to be fair value measurement, but rather a proportionate interest in the net position of the LTRP. Additional disclosures about the LTRP, including the fair value measurement and related leveling of investments within the LTRP, can be found within the financial statements of the University of Alabama at Birmingham as of and for the year ended September 30, 2019.

4. Capital Assets

A summary of capital assets for the years ended September 30, 2019 and 2018 are as follows:

	Balance September 30, 2018	Additions	Transfers/ Retirements	Balance September 30, 2019
Capital assets not being depreciated				
Land	\$ 2,258,268	\$ -	\$ -	\$ 2,258,268
Nondepreciable assets	84,421	27,045	-	111,466
Construction in progress	512,492	249,344	(492,256)	269,580
	<u>2,855,181</u>	<u>276,389</u>	<u>(492,256)</u>	<u>2,639,314</u>
Capital assets being depreciated				
Land improvements	128,214	-	-	128,214
Buildings and Improvements	59,099,693	511,218	-	59,610,911
Vehicles	13,068	19,900	-	32,968
Fixed equipment	6,706,556	598,237	-	7,304,793
Movable equipment	39,482,501	2,749,959	-	42,232,460
Total capital assets	<u>108,285,213</u>	<u>4,155,703</u>	<u>(492,256)</u>	<u>111,948,660</u>
Less: Accumulated depreciation for				
Land improvements	121,152	942		122,094
Buildings and improvements	34,917,871	2,020,431		36,938,302
Vehicles	13,068	2,985		16,053
Fixed equipment	4,033,429	218,627		4,252,056
Movable equipment	25,793,658	3,044,908		28,838,566
Total accumulated depreciation	<u>64,879,178</u>	<u>5,287,893</u>	<u>-</u>	<u>70,167,071</u>
Capital assets, net	<u>\$ 43,406,035</u>	<u>\$ (1,132,190)</u>	<u>\$ (492,256)</u>	<u>\$ 41,781,589</u>

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	Balance September 30, 2017	Additions	Transfers/ Retirements	Balance September 30, 2018
Capital assets not being depreciated				
Land	\$ 2,258,268	\$ -	\$ -	\$ 2,258,268
Nondepreciable assets	54,456	29,965	-	84,421
Construction in progress	1,998,873	716,984	(2,203,365)	512,492
	<u>4,311,597</u>	<u>746,949</u>	<u>(2,203,365)</u>	<u>2,855,181</u>
Capital assets being depreciated				
Land improvements	128,214	-	-	128,214
Buildings and Improvements	56,208,684	2,891,009	-	59,099,693
Vehicles	13,068	-	-	13,068
Fixed equipment	6,560,302	137,791	8,463	6,706,556
Movable equipment	35,396,234	4,106,605	(20,338)	39,482,501
Total capital assets	<u>102,618,099</u>	<u>7,882,354</u>	<u>(2,215,240)</u>	<u>108,285,213</u>
Less: Accumulated depreciation for				
Land improvements	120,210	942	-	121,152
Buildings and improvements	32,948,615	1,969,256	-	34,917,871
Vehicles	13,068	-	-	13,068
Fixed equipment	3,840,437	192,992	-	4,033,429
Movable equipment	23,008,586	2,786,133	(1,061)	25,793,658
Total accumulated depreciation	<u>59,930,916</u>	<u>4,949,323</u>	<u>(1,061)</u>	<u>64,879,178</u>
Capital assets, net	<u>\$ 42,687,183</u>	<u>\$ 2,933,031</u>	<u>\$ (2,214,179)</u>	<u>\$ 43,406,035</u>

Depreciation expense of \$5,287,893 and \$4,949,323 was recognized during the years ended September 30, 2019 and 2018 respectively.

Construction in progress at September 30, 2019 and 2018 consists principally of computer software installation projects, parking deck renovations, and renovations to the central sterile unit and first floor of the Hospital. All construction in progress is planned for completion in 2020.

During 2019 and 2018, the Authority acquired \$94,801 and \$573,750 of capital assets that were recorded in accounts payable at each respective year end.

5. Long-Term Debt and Other Noncurrent Liabilities

A schedule of the changes in the Authority's long-term debt and noncurrent liabilities for 2019 and 2018 follows:

	Balance September 30, 2018	Additions	Payments	September 30, 2019 Current	September 30, 2019 Noncurrent
Compass mortgage tax exempt loan	\$ 28,293,348	\$ -	\$ (1,375,300)	\$ 1,404,763	\$ 25,513,285
Total debt	28,293,348	-	(1,375,300)	1,404,763	25,513,285
Other liabilities					
Compensated absences	915,372	2,100,113	(2,029,681)	571,767	414,038
	<u>\$ 29,208,720</u>			<u>\$ 1,976,530</u>	<u>\$ 25,927,323</u>

UAB Callahan Eye Hospital Authority
Notes to Financial Statements
September 30, 2019 and 2018

	Balance September 30, 2017	Additions	Payments	September 30, 2018 Current	September 30, 2018 Noncurrent
Compass mortgage tax exempt loan	\$ 29,639,152	\$ -	\$ (1,345,804)	\$ 1,375,300	\$ 26,918,048
Total debt	29,639,152	-	(1,345,804)	1,375,300	26,918,048
Other liabilities					
Compensated absences	885,057	1,922,046	(1,891,731)	530,915	384,457
	<u>\$ 30,524,209</u>			<u>\$ 1,906,215</u>	<u>\$ 27,302,505</u>

In November 2015, the Authority executed a \$32 million direct, tax exempt loan from Compass Mortgage Corporation. This loan is considered a direct borrowing under the provisions of GASB No. 88. Proceeds from the loan were used to refund the 2009 BBVA Compass Bank loan and the BBVA Compass Bank term loan. The funds were also used to finance the Authority's facility and infrastructure improvements. The loan has a 2.17% tax-exempt interest rate, and principal and interest are due monthly. The loan matures in November 2025.

The future minimum maturities of long-term debt and interest payments, based on the interest rate effective September 30, 2019, are as follows:

Years Ending September 30,	Long-Term Debt	
	Principal	Interest
2020	\$ 1,404,763	\$ 570,823
2021	1,436,869	538,717
2022	1,467,723	507,864
2023	1,499,891	475,695
2024	1,532,232	443,354
Thereafter	19,576,570	473,822
	<u>\$ 26,918,048</u>	<u>\$ 3,010,275</u>

In October 2016, the Authority joined three other affiliated entities (The University of Alabama Hospital, a division of the University of Alabama at Birmingham; The University of Alabama Health Services Foundation, P.C.; and The UAB Health System) in the formation of an obligated group through a master trust indenture. Under the terms of the indenture, each of the participating entities can issue its own debt through a conduit entity, the UAB Medicine Financing Authority, but all members of the obligated group are jointly and severally liable for the debt of each entity issued through the obligated group. In October 2016 and May 2017, the University of Alabama Hospital ("U.A. Hospital") issued a combined \$430.9 million of debt through the obligated group. In May 2017, The University of Alabama Health Services Foundation, P.C. ("HSF") issued \$174.2 million of debt through the obligated group. In June 2019, The UAB Health System issued \$111.5 million of debt through the obligated group. The Authority would be contingently liable for this debt if U.A. Hospital, HSF, or the Health System defaulted on these obligations. However, management of the Authority does not consider it likely that either of these entities will default on its obligations, and therefore has not recorded a liability for any portion of that debt.

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6. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Authority at September 30, 2019 and 2018 consisted of these amounts:

	2019	2018
Receivable from patients and other insurance carriers	\$ 7,984,198	\$ 5,221,446
Receivable from Medicare	1,677,543	1,172,375
Receivable from Blue Cross	1,502,415	1,070,419
Receivable from Medicaid	<u>329,220</u>	<u>221,385</u>
Total patient accounts receivable	11,493,376	7,685,625
Bad debt reserve	<u>(3,873,795)</u>	<u>(2,066,280)</u>
Patient accounts receivable, net	<u>\$ 7,619,581</u>	<u>\$ 5,619,345</u>
Accounts payable and accrued expenses		
Payable to suppliers	\$ 2,570,945	\$ 2,528,123
Payable to employees (including payroll taxes)	<u>2,656,355</u>	<u>2,470,653</u>
Total accounts payable and accrued expenses	<u>\$ 5,227,300</u>	<u>\$ 4,998,776</u>

7. Net Patient Service Revenue

The Authority has agreements with governmental and other third-party payors that provide for reimbursements to the Authority at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Authority's billings at established rates for services and amounts reimbursed by third-party payors.

A summary of the basis of reimbursement with major third-party payors follows:

Medicare

Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain defined payments related to Medicare beneficiaries are paid based upon retroactive determination methodologies. The Authority is paid for retroactively determined items at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits by the Medicare fiscal intermediary. The Authority's Medicare cost reports have been audited and settled by the Medicare fiscal intermediary for all fiscal years through September 30, 2014. Approximately 48% and 47% of the Authority's net patient service revenue was derived from Medicare or Medicare Managed Care beneficiaries in 2019 and 2018, respectively.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined daily rates. Outpatient services are reimbursed based on prospectively determined fee schedules. These rates are not subject to retroactive adjustment. Approximately 5% of the Authority's net patient service revenue was derived from Medicaid beneficiaries in 2019 and 2018.

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Blue Cross

Inpatient services rendered to Blue Cross subscribers are reimbursed at rates per day of hospitalization, based on a cost reimbursement methodology. Outpatient services are also reimbursed under a cost reimbursement methodology. The Authority is reimbursed at a tentative rate until final settlement is determined after submission of cost reports and audits thereof by Blue Cross. The Authority's Blue Cross cost reports have been audited and settled through September 30, 2016. Approximately 30% and 32% of the Authority's net patient service revenue was derived from Blue Cross beneficiaries in 2019 and 2018, respectively.

Other

The Authority has entered into payment agreements with certain health maintenance organizations (including Medicare HMOs), preferred provider organizations, employers, and individuals. The basis for payment to the Authority under these agreements includes prospectively determined rates per day, cost plus established amounts or percentages, and discount off charges.

The composition of net patient service revenue is as follows for the years ended September 30, 2019 and 2018:

	2019	2018
Gross patient service revenue	\$ 240,752,476	\$ 205,395,981
Less: Provision for contractual and other adjustments	(161,901,722)	(137,729,639)
Less: Provision for bad debts	(4,975,852)	(3,013,655)
Net patient service revenue	<u>\$ 73,874,902</u>	<u>\$ 64,652,687</u>

8. Charity Care

The Authority maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated costs of those services, and supplies and equivalent service statistics. The estimated cost of charity care provided during the years ended September 30, 2019 and 2018 was approximately \$1,171,000 and \$1,316,000, respectively, calculated based on the ratio of total direct and indirect costs to established charges applied to the charges foregone under the charity care policy.

9. Rental Income

The Authority leases space in its facilities to certain related parties (Note 11) and to third-parties engaged in eye care and related services. Minimum future rentals under these noncancelable operating leases at September 30, 2019 are as follows:

2020	\$ 580,431
2021	589,976
2022	457,437
2023	471,162
2024	165,613
Thereafter	-
	<u>\$ 2,264,619</u>

UAB Callahan Eye Hospital Authority

Notes to Financial Statements

September 30, 2019 and 2018

10. Employee Benefit Plan

The Authority, previously The Eye Foundation, Inc., sponsored The Callahan Eye Hospital 403(b) ("403(b) Plan"), a defined contribution savings plan, for the benefit of eligible employees. The plan allowed employees to contribute up to 12% of their compensation to the plan on a tax-deferred basis. The Authority contributed 3% to 6% of compensation as matching contributions based on employee deferral contributions. After the organizational restructure to a health care authority in 2012, the 403(b) Plan was converted into a 457(b) plan and a 401(a) plan for the match contributions. During 2019 and 2018, the Authority contributed approximately \$512,223 and \$486,000, respectively, to these plans. Contributions made by the Authority vest 100% beginning after the fourth month of service, for those employees converted from the 403(b) Plan. Contributions for new employees to the 401(a) plan become 100% vested after three years. Employees are 100% vested in their contributions at all times.

The 403(b) Plan and 401(a) Plan contain a provision for nonselective contributions, which will be made by the Authority on behalf of all employees who, as of January 1, 2003, have 20 or more years of service (eligible employees). A nonselective contribution will be made during each plan year equal to 7% of an employee's compensation for eligible employees who have attained age 55 as of January 1, 2003 and completed 1,000 hours of service during the plan year, or 5% of an employee's compensation for all other eligible employees who have completed 1,000 hours of service during the plan year.

OSF sponsors The University of Alabama Ophthalmology 403(b) ("OSF Plan"), a defined contribution savings plan, for the benefit of eligible employees. The OSF Plan allows employees to contribute a percentage of their compensation to the plan on a tax-deferred basis. During 2019 and 2018, employees could contribute up to a maximum of \$19,000 and \$18,500, respectively, to this plan. Employees can contribute to the OSF Plan immediately on date of hire. After one year of continuous service, employees are eligible to receive a three-to-one match on the first 5% of salary contributed by the employee. During 2019 and 2018, OSF contributed approximately \$727,000 and \$655,000, respectively, to this plan. Employees are 100% vested in both the employee and employer contributions to the OSF Plan at all times. OSF also sponsors The University of Alabama Ophthalmology Services Foundation 457(b) plan. Faculty members may participate up to the IRS allowed amount. There is no employer match on 457(b) contributions.

11. Related Party Transactions

The Authority received rental income of approximately \$239,000 and \$262,000 during the years ended September 30, 2019 and 2018, respectively, from UAB for certain research and administrative office space.

The Authority purchases various services and leases certain employees from UAB. For the years ended September 30, 2019 and 2018, the Authority paid approximately \$3.4 million and \$3.6 million, respectively, for these services and employees. In addition, for the years ended September 30, 2019 and 2018, the Authority and OSF paid a combined amount of approximately \$1.5 million and \$1.4 million, respectively, for research activities (included in supplies and other expense).

UAB Callahan Eye Hospital Authority

Notes to Financial Statements

September 30, 2019 and 2018

12. Concentration of Credit Risk

The Authority grants credit to patients, most of whom are local residents. The Authority generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of or is otherwise entitled to receive benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, preferred provider arrangements and commercial insurance policies). The mix of receivables from patients and third-party payors at September 30, 2019 and 2018 follows:

	2019	2018
Medicare	15 %	15 %
Blue Cross	13	14
Medicaid	3	3
Patients and other third-party payors	69	68
	<u>100 %</u>	<u>100 %</u>

13. Support from EyeSight Foundation of Alabama

During 1997, EyeSight Foundation of Alabama (“ESFA”), formerly Alabama Eye Institute, Inc., sold the Foundation to HSF and UAB. In connection with this transfer, ESFA agreed to provide certain support to the Authority; the level of support provided is at the sole discretion of ESFA’s board of directors. During the years ended September 30, 2019 and 2018, the Authority received grants of approximately \$1,330,000 and \$1,360,000, respectively, from ESFA for purposes of research, education, and indigent care.

14. Malpractice Insurance

The Authority manages risks related to medical malpractice, general liability, and employee healthcare through a combination of risk pooling arrangements and commercial insurance coverage. The risks are subject to various claim and aggregate limits with excess liability coverage provided by independent insurers. The Authority participates in the University of Alabama Professional Liability Trust Fund (the “Trust Fund”). The Trust Fund uses premiums paid by the Authority and other contributing entities, together with earnings thereon, to pay liabilities arising from performance of certain professional services by employees of these entities.

If the Trust Fund is terminated, appropriate provision for payment of reported claims will be made, and the balance in the Trust Fund will be distributed to the University of Alabama Health Services Foundation and University Hospital in accordance with the trust fund agreement. The Trust Fund notified the Authority that the Trust Fund Policy Committee voted to waive 100% of the premium for the 2019 and 2018 fiscal years. These amounts are included in Supplies and other expenses within the accompanying statements of revenues, expenses, and changes in net position.

15. Impact of Recently Issued Accounting Standards

The GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (“GASB 83”), in November 2016. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement is effective for reporting periods beginning after June 15, 2018. The Authority has determined that there was no material impact from its adoption of GASB 83.

UAB Callahan Eye Hospital Authority
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September 30, 2019 and 2018

The GASB issued Statement No. 84, *Fiduciary Activities* (“GASB 84”), in January 2017. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement is effective for reporting periods beginning after December 15, 2018. The Authority is evaluating whether there will be any material impact from its adoption of GASB 84.

The GASB issued Statement No. 87, *Leases* (“GASB 87”), in June 2017. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement is effective for financial statements for reporting periods beginning after December 15, 2019. The Authority is evaluating whether there will be any material impact from its adoption of GASB 87.

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, in April 2018. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement is effective for reporting periods beginning after June 15, 2018. The Authority has adopted GASB 88 and reflected these disclosures within these financial statements.

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, in June 2018. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement is effective for reporting periods beginning after December 15, 2019. The Authority is evaluating whether there will be any material impact from its adoption of GASB 89.

The GASB issued Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*, in August 2018. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement is effective for reporting periods beginning after December 15, 2018. The Authority is evaluating whether there will be any material impact from its adoption of GASB 90.

The GASB issued Statement No. 91, *Conduit Debt Obligations*, in May 2019. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement is effective for reporting periods beginning after December 15, 2020. The Authority is evaluating whether there will be any material impact from its adoption of GASB 91.

Other Supplemental Information

UAB Callahan Eye Hospital Authority
Combining Statement of Net Position
September 30, 2019

	Eye Foundation, Inc.	Callahan Eye Hospital	University of Alabama Ophthalmology Services Foundation	Eliminations	Total
Assets					
Current assets					
Cash and cash equivalents	\$ 104,910	\$ 5,911,692	\$ 1,051,279	\$ -	\$ 7,067,881
Investments	-	12,084,415	-	-	12,084,415
Patients accounts receivable, net	-	7,619,581	-	-	7,619,581
Other receivables	-	1,324,101	44,606	-	1,368,707
Intercompany receivable	-	-	1,302,774	(1,302,774)	-
Inventories	-	1,675,967	-	-	1,675,967
Prepaid expenses	-	424,463	-	-	424,463
Total current assets	104,910	29,040,219	2,398,659	(1,302,774)	30,241,014
Noncurrent assets					
Capital assets, net	-	41,781,589	-	-	41,781,589
Total assets	<u>\$ 104,910</u>	<u>\$ 70,821,808</u>	<u>\$ 2,398,659</u>	<u>\$ (1,302,774)</u>	<u>\$ 72,022,603</u>
Liabilities and Net position					
Current liabilities					
Current portion of long-term debt	\$ -	\$ 1,404,763	\$ -	\$ -	\$ 1,404,763
Accounts payable and accrued expenses	-	4,641,351	585,949	-	5,227,300
Accrued interest	-	48,010	-	-	48,010
Due to third party payors	-	162,000	-	-	162,000
Intercompany payable	-	646,073	-	(646,073)	-
Total current liabilities	-	6,902,197	585,949	(646,073)	6,842,073
Noncurrent liabilities					
Compensated absences	-	414,038	-	-	414,038
Long-term debt, less current portion	-	25,513,285	-	-	25,513,285
Intercompany payable	-	656,701	-	(656,701)	-
Total liabilities	-	33,486,221	585,949	(1,302,774)	32,769,396
Net position					
Net investment in capital assets	-	14,863,541	-	-	14,863,541
Restricted expendable	3,791	-	-	-	3,791
Unrestricted	101,119	22,472,046	1,812,710	-	24,385,875
Total net position	104,910	37,335,587	1,812,710	-	39,253,207
Total liabilities and net position	<u>\$ 104,910</u>	<u>\$ 70,821,808</u>	<u>\$ 2,398,659</u>	<u>\$ (1,302,774)</u>	<u>\$ 72,022,603</u>

UAB Callahan Eye Hospital Authority
Combining Statement of Net Position
September 30, 2018

	Eye Foundation, Inc.	Callahan Eye Hospital	University of Alabama Ophthalmology Services Foundation	Eliminations	Total
Assets					
Current assets					
Cash and cash equivalents	\$ 78,165	\$ 5,902,189	\$ 1,178,331	\$ -	\$ 7,158,685
Investments	-	12,123,567	-	-	12,123,567
Patients accounts receivable, net	-	5,619,345	-	-	5,619,345
Other receivables	-	517,754	16,424	-	534,178
Due from third party payors	-	-	-	-	-
Intercompany receivable	-	-	1,386,487	(1,386,487)	-
Inventories	-	1,733,187	-	-	1,733,187
Prepaid expenses	-	417,287	-	-	417,287
Total current assets	<u>78,165</u>	<u>26,313,329</u>	<u>2,581,242</u>	<u>(1,386,487)</u>	<u>27,586,249</u>
Noncurrent assets					
Capital assets, net	-	43,406,035	-	-	43,406,035
Total assets	<u>\$ 78,165</u>	<u>\$ 69,719,364</u>	<u>\$ 2,581,242</u>	<u>\$ (1,386,487)</u>	<u>\$ 70,992,284</u>
Liabilities and Net position					
Current liabilities					
Current portion of long-term debt	\$ -	\$ 1,375,300	\$ -	\$ -	\$ 1,375,300
Accounts payable and accrued expenses	-	4,389,057	609,719	-	4,998,776
Accrued interest	-	50,463	-	-	50,463
Due to third party payors	-	318,592	-	-	318,592
Intercompany payable	-	729,786	-	(729,786)	-
Total current liabilities	<u>-</u>	<u>6,863,198</u>	<u>609,719</u>	<u>(729,786)</u>	<u>6,743,131</u>
Noncurrent liabilities					
Compensated absences	-	384,457	-	-	384,457
Long-term debt, less current portion	-	26,918,048	-	-	26,918,048
Intercompany payable	-	656,701	-	(656,701)	-
Total liabilities	<u>-</u>	<u>34,822,404</u>	<u>609,719</u>	<u>(1,386,487)</u>	<u>34,045,636</u>
Net position					
Net investment in capital assets	-	15,112,687	-	-	15,112,687
Restricted expendable	3,791	-	-	-	3,791
Unrestricted	74,374	19,784,273	1,971,523	-	21,830,170
Total net position	<u>78,165</u>	<u>34,896,960</u>	<u>1,971,523</u>	<u>-</u>	<u>36,946,648</u>
Total liabilities and net position	<u>\$ 78,165</u>	<u>\$ 69,719,364</u>	<u>\$ 2,581,242</u>	<u>\$ (1,386,487)</u>	<u>\$ 70,992,284</u>

UAB Callahan Eye Hospital Authority
Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2019

	Eye Foundation, Inc.	Callahan Eye Hospital	University of Alabama Ophthalmology Services Foundation	Eliminations	Total
Operating revenues					
Net patient service revenue (net of provision for bad debts) \$	-	\$ 73,874,902	\$ -	\$ -	\$ 73,874,902
Contribution revenue	26,744	25	1,330,000	-	1,356,769
Rental income	-	842,218	-	-	842,218
Other income	-	586,514	10,633,857	(10,156,863)	1,063,508
Total operating revenues	<u>26,744</u>	<u>75,303,659</u>	<u>11,963,857</u>	<u>(10,156,863)</u>	<u>77,137,397</u>
Operating expenses					
Salaries and benefits	-	25,347,943	10,746,979	-	36,094,922
Supplies and other	-	41,618,354	1,375,690	(10,156,863)	32,837,181
Depreciation and amortization	-	5,287,893	-	-	5,287,893
Total operating expenses	<u>-</u>	<u>72,254,190</u>	<u>12,122,669</u>	<u>(10,156,863)</u>	<u>74,219,996</u>
Operating income (loss)	26,744	3,049,469	(158,812)	-	2,917,401
Nonoperating revenues (expenses)					
Investment income, including change in fair value	-	(13,008)	-	-	(13,008)
Interest expense	-	(597,834)	-	-	(597,834)
Income (loss) before transfers	26,744	2,438,627	(158,812)	-	2,306,559
Net position					
Beginning of year	<u>78,166</u>	<u>34,896,959</u>	<u>1,971,523</u>	<u>-</u>	<u>36,946,648</u>
End of year	<u>\$ 104,910</u>	<u>\$ 37,335,586</u>	<u>\$ 1,812,711</u>	<u>\$ -</u>	<u>\$ 39,253,207</u>

UAB Callahan Eye Hospital Authority
Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2018

	Eye Foundation, Inc.	Callahan Eye Hospital	University of Alabama Ophthalmology Services Foundation	Eliminations	Total
Operating revenues					
Net patient service revenue (net of provision for bad debts) \$	-	\$ 64,652,687	\$ -	\$ -	\$ 64,652,687
Contribution revenue	40,572	259,434	1,110,000		1,410,006
Rental income	-	981,396	-		981,396
Other income	-	651,451	9,431,993	(9,041,218)	1,042,226
Total operating revenues	<u>40,572</u>	<u>66,544,968</u>	<u>10,541,993</u>	<u>(9,041,218)</u>	<u>68,086,315</u>
Operating expenses					
Salaries and benefits	-	22,695,213	9,605,658		32,300,871
Supplies and other	709	36,015,058	1,150,264	(9,041,218)	28,124,813
Depreciation and amortization	-	4,949,323	-		4,949,323
Total operating expenses	<u>709</u>	<u>63,659,594</u>	<u>10,755,922</u>	<u>(9,041,218)</u>	<u>65,375,007</u>
Operating income (loss)	39,863	2,885,374	(213,929)	-	2,711,308
Nonoperating revenues (expenses)					
Investment income, including change in fair value	-	105,853	-	-	105,853
Interest expense	-	(584,050)	-	-	(584,050)
Income (loss) before transfers	39,863	2,407,177	(213,929)	-	2,233,111
Transfers to Callahan Eye Hospital	-	-	-	-	-
Increase (decrease) in net position	39,863	2,407,177	(213,929)	-	2,233,111
Net position					
Beginning of year	<u>38,303</u>	<u>32,489,782</u>	<u>2,185,452</u>	-	<u>34,713,537</u>
End of year	<u>\$ 78,166</u>	<u>\$ 34,896,959</u>	<u>\$ 1,971,523</u>	\$ -	<u>\$ 36,946,648</u>

UAB Callahan Eye Hospital Authority
Other Supplemental Information
September 30, 2019

Note to Other Supplemental Information

The accompanying combining information has been prepared for purposes of additional analysis and is not a required part of the basic financial statements. The first three columns represent the information of the three entities that combine to form the UAB Callahan Eye Hospital Authority as described in Note 1 to the financial statements. The fourth column, "Eliminations," represents the elimination of intercompany transactions and balances between the first three columns, which are primarily comprised of intercompany payables and receivables. The fifth column, "Total," represents the total of the first four columns and agrees to the basic financial statements of the UAB Callahan Eye Hospital Authority.

Other than as described above, the schedules of supplemental combining financial information are prepared in accordance with accounting policies described in the accompanying notes to the basic financial statements. These schedules are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America as a result of the exclusion of all required disclosures, as well as the information included within the "Eliminations" column.

UAB Callahan Eye Hospital Authority
Board Members and Officials
September 30, 2019

Director/Title	Position	Business Address	Term Expires
Reid Jones UAB Health System	Member	John N. Whitaker Building Suite 402 500 22nd Street South Birmingham, AL 35233	2021
Michael Callahan, MD	Member	700 18th Street South Suite 410 Birmingham, AL 35233	2020
Chris Girkin, MD Chairman, UAB Dept of Ophthalmology	Member	700 18th Street South Suite 601 Birmingham, AL 35233	2021
Lindsay Rhodes, MD	Member	700 18th Street South Suite 601 Birmingham, AL 35233	2019
Deak Rushton	Member	No. 3 Office Park Circle Suite 250 Birmingham, AL 35223	2019
S. Dawn Bulgarella, CPA, MSHA	Member	John N. Whitaker Building Suite 408 500 22nd Street South Birmingham, AL 35233	2021
Danny Markstein IV	Member	420 20th Street North Suite 2525 Birmingham, AL 35204	2019
David Randall	Member	John N. Whitaker Building Suite 408 500 22nd Street South Birmingham, AL 35233	2020
Will Ferniany, PhD CEO UAB Health System	Member	John N. Whitaker Building Suite 408 500 22nd Street South Birmingham, AL 35233	2021
Selwyn Vickers, MD Sr. VP for School of Medicine/Dean	Member	Faculty Office Tower, Suite 1203 510 20th Street South Birmingham, AL 35233	2019
Virginia Lolley, MD CEH Chief of Staff	Member	700 18th Street South Suite 200 Birmingham, AL 35233	2021
Stephen (Steve) A. Yoder UAB Office of the Provost	Member	AB 1019 1720 2nd Avenue South Birmingham, AL 35294	2020
Joan Ragsdale	Chair	7405 King Mtn. Ct. Birmingham, AL 35216	2020



Report of Independent Auditors 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 Management of UAB Callahan Eye Hospital Authority

We have audited, 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, the financial statements of UAB Callahan Eye Hospital Authority (referred to herein as the "Authority"), a component unit of the University of Alabama System, which is a component unit of the State of Alabama, which comprise the statement of net position as of September 30, 2019, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 30, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

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

PricewaterhouseCoopers LLP

Birmingham, Alabama
January 30, 2020