The Health Care Authority of the City of Huntsville

Combined Financial Statements

Years Ended June 30, 2024 and 2023

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Warren Averett
CPAs AND ADVISORS

101 Monroe St NE
Huntsville, AL 35801
warrenaverett.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Health Care Authority of the City of Huntsville

Opinions

We have audited the accompanying combined financial statements of the business-type activities and the discretely presented component unit of The Health Care Authority of the City of Huntsville (the Authority), as of and for the years ended June 30, 2024 and 2023, and the related notes to the combined financial statements, which collectively comprise the Authority's basic combined financial statements as listed in the table of contents.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the Authority, as of June 30, 2024 and 2023, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The financial statements of the Huntsville Hospital Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Responsibilities of Management for the Combined Financial Statements

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

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the combined financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Combined Financial Statements
Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.

- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic combined financial statements. Such information is the responsibility of management and, although not a part of the basic combined 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 combined 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 combined financial statements, and other

knowledge we obtained during our audit of the basic combined 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 as a whole. The Members of the Authority Board on page 54 has not been subjected to the auditing procedures applied by us in the audit of the basic combined financial statements, and, accordingly, we do not express an opinion on it or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2024, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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

Huntsville, Alabama
October 22, 2024

Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis (Unaudited)

This discussion provides management's analysis of The Health Care Authority of the City of Huntsville d/b/a HH Health System's (the Authority) financial performance as of and for the fiscal years ending June 30, 2024, 2023, and 2022. This analysis does not include the activities of the Huntsville Hospital Foundation, Inc. (HHF), a discretely presented component unit of the Authority.

Background

The Authority has 2,782 licensed beds, representing 2,464 acute beds and 318 skilled nursing beds and has over 19,000 employees in the health system. The flagship hospital of the health system is Huntsville Hospital, a two campus 971-bed community based not-for-profit acute care hospital, including Huntsville main, licensed for 881 beds, and Madison Hospital, licensed for ninety beds (together HH). Huntsville main also includes a women and children specialty hospital, a majority-owned long-term acute care hospital, a heart center, an orthopedic center, and a spine and neuro center, that serves as the regional referral and trauma center for north Alabama and south-central Tennessee. The Authority owns or leases and operates a healthcare delivery system including a dozen or so other hospitals and various outpatient services, providing primary, secondary and tertiary healthcare services to patients who generally reside in a fifteen-county service area in north Alabama and south-central Tennessee.

In addition, the Authority owns or leases various professional office buildings leased to providers of medical services. The Authority, inclusive of its blended component units, operates thirty-five owned primary care, 126 specialty care; occupational health & employer health clinics; outpatient surgery centers; stand-alone imaging center; stand-alone labs, and therapy centers and pharmacies. As of June 30, 2024, HH had 1,649 physician medical staff members, including allied health professionals on staff.

Subsidiaries and Blended Component Units

<u>The Health Care Authority of North Alabama d/b/a HealthGroup of Alabama (HGA)</u>

The Authority and its affiliates are members of this health care authority, formerly a limited liability company, which was organized on August 1, 1995. HGA was formed to achieve a consistent level of quality services to patients of the member hospitals in a cost-effective and efficient manner through the joint and cooperative efforts of the members. HGA operates several primary businesses including a laundry service and an occupational medicine provider, marketed as Occupational Health Group (OHG), and houses activity associated with certain Authority joint ventures.

<u>First Community Health Plan, Inc.</u>

On February 3, 1995, pursuant to the provisions of the Alabama Business Corporation Act, First Community Health Plan, Inc. (FC) was formed to operate as a state licensed, non-federally qualified health care service plan and engage in related activities. Currently, the only group insured by FC is the Senior Select Program. FC is an independent autonomous entity organized in accordance with Alabama Code Section 10-4-102. The Authority is the sponsoring organization for FC and is the sole member of FC. The Authority ceased enrollment in FC at the conclusion of calendar 2022 and FC's operations were wound-up as of December 31, 2023.

<u>HH Heart Center, LLC</u>

The Authority formed this Alabama limited liability company and wholly owned subsidiary of the Authority to direct the cardiovascular service line for the inpatient and outpatient services for the Authority. Currently, fifty-three physicians serve eight clinics and seven hospitals representing the largest Board-Certified cardiologists, cardiothoracic surgeons and cardiac anesthesiologist in north Alabama and south-central Tennessee as indicated by the American Hospital Directory.

HH Health System – The Orthopaedic Center, LLC

On June 30, 2023, the Authority, through HH Health System – The Orthopaedic Center, LLC (TOC), completed the acquisition of the operations, certain assets, and employees of a previously physician-owned physician practice. TOC operates in the Authority's market with sixteen office locations across Northern Alabama and South-central Tennessee, specializing in orthopaedics, spinal, and sports medicine.

HH Health System – Morgan, LLC

On August 28, 2012, the Authority formed this Alabama limited liability company and wholly owned subsidiary of the Authority to assume the rights and obligations of the Authority as lessee in the lease agreement between the Authority and The Health Care Authority of Morgan County – City of Decatur effective September 1, 2012. As a result of the merger, the LLC, collectively Decatur Morgan Hospital (DMH), now consists of the Decatur campus, licensed for 273 acute care beds, Decatur West, licensed for sixty-four psychiatric beds, and the Parkway campus, consisting of 120 licensed beds. DMH has been operating under one provider number since 2014. DMH is one of the largest employers in its county with 1,744 employees. DMH operates fourteen physician practices with a staff of forty-two total employed physicians. DMH owns 61.2% and is the general partner of the Surgery Center of Decatur, a fully blended component unit of DMH.

HH Health System – Shoals, LLC

On November 3, 2014, the Authority formed this Alabama limited liability company and wholly owned subsidiary of the Authority to assume the rights and obligations of the Authority as lessee in the lease agreement between the Authority and The Colbert County – Northwest Alabama Health Care Authority effective January 1, 2015. As a result of the lease, the LLC now operates as Helen Keller Hospital (HKH) and Red Bay Hospital (RBH). HKH is a 185-bed acute care facility. RBH is a critical access facility with twenty-five beds. HKH and RBH operate four physician clinics.

HH Health System – Athens Limestone, LLC

On November 10, 2015, the Authority formed this Limited Liability Company and wholly owned subsidiary to assume the rights and obligations of the Authority as lessee in the lease agreement between the Authority and the Health Care Authority of Athens and Limestone County effective January 1, 2016. As a result of the lease, the LLC operates as Athens Limestone Hospital (ALH). ALH is licensed for seventy-one beds and runs an average census of around forty-eight. ALH has a physician network of twenty clinics and fifty providers.

HH Health System – Marshall, LLC

On October 1, 2018 the Authority formed this Alabama Limited Liability company and wholly owned subsidiary of the Authority to assume the rights and obligations of the Authority as lessee in a lease agreement between the Authority and the Marshall County Health Care Authority effective October 1, 2018. As a result of the lease, the LLC now operates as Marshall Medical Centers (MMC). MMC includes Marshall Medical Center North which is licensed for ninety beds, and Marshall Medical South which is licensed for 150 beds. In addition, MMC operates several physician office practices, two wellness centers, a joint venture home health agency and the Cancer Care Center that houses Medical and Radiation Oncology services. Collectively, MMC has an average census of eighty-six patients and employs 1,620 staff members.

HH Health System – Jackson, LLC

On August 4, 2021 the Authority formed this Alabama Limited Liability company and wholly owned subsidiary of the Authority to assume the rights and obligations of the Authority through a lease and integration agreement as lessee in the lease agreement between the Authority and the Jackson County Health Care Authority effective October 1, 2021. As a result of the lease, the LLC operates as Highlands Medical Center and Highlands Health and Rehab (collectively, HMC). HMC is licensed for 170 acute care beds and 150 skilled nursing facility beds. In addition, HMC operates various other healthcare businesses, including several physician practices.

HH Health System – Lincoln, Inc.

On May 24, 2022, the Authority formed HH Health System, - Lincoln, Inc. (LHS), a tax-exempt corporation (Corporation) under Section 501(c)(3) of the Internal Revenue Code, and a wholly owned subsidiary of the Authority to assume the rights and obligations of the Authority through a lease and integration agreement as lessee in the lease agreement between the Authority and LHS effective July 1, 2022. As a result of the lease, the Corporation operates LHS effective July 1, 2022. LHS consists of Lincoln Medical Center, Donalson Care Center, Patrick Rehab/Wellness Center, and Lincoln Home Health and Hospice. LMS is licensed for ninety-one acute care beds and 168 skilled nursing facility beds. In addition, HMC operates various other healthcare businesses, including several physician practices.

HH Health System – DeKalb, LLC

On November 9, 2023 the Authority formed this Alabama Limited Liability company and wholly owned subsidiary of the Authority to acquire DeKalb Hospital (DH) from Quorum Health Corporation (Quorum) effective April 1, 2024. As a result of the acquisition, the LLC now operates DH, including related physician clinics and other outpatient facilities. DH is licensed for 134 acute care beds.

HH Health System – Tennessee, LLC

On September 27, 2016, the Authority formed this Limited Liability Company and wholly owned subsidiary for purposes of doing business in the state of Tennessee. Before being transferred to LHS during the fiscal year ended June 30, 2024, this wholly owned subsidiary of the Authority was used exclusively for physician clinics in Elkton and Fayetteville, Tennessee. As such, this entity is inactive as of June 30, 2024.

HH Health System – Caring for Life, LLC (CFL)

On June 28, 2017, the Authority formed this Limited Liability Company and wholly owned subsidiary to assume the rights and obligations of the Authority as owner of Hospice Family Care, Inc., a corporation organized under section 501(c)(3) of the Internal Revenue Code (IRC). As a result of this agreement, the LLC operates a fifteen-bed inpatient hospice facility, as well as an outpatient hospice program.

North Alabama Community Care, Inc.

The Authority is only one of three health systems in the state to own an Alabama Coordinated Health Network region. Named North Alabama Community Care, Inc. (NACC), this Northeast Alabama region serves Medicaid enrollees in care coordination.

HH Health System Emergency Medical Services, LLC

In October 2023, the Authority formed HH Health System – Emergency Medical Services, LLC, (EMS), a Limited Liability Company and wholly owned subsidiary, to eventually consolidate ambulance services included in the financial position and operating results of the Authority's various hospitals. On January 1, 2024, the Authority, through EMS, assumed the rights and certain obligations in the operations, assets and employees of Huntsville Emergency Medical Services, Inc. (HEMSI), an ambulance service serving HH's more than 370,000 residents in over 800 square miles of Madison County, Alabama. The Authority's other existing ambulance services are expected to be consolidated into EMS beginning July 1, 2024 which will not have a material effect on the combined financial statements of the Authority.

HH Health System Retail Pharmacy, LLC

The Authority established this entity in April 2020 to take advantage of hospital costing as allowed under Section 340B of the Public Health Service Act (340B), created under Section 602 of the Veterans Health Care Act of 1992, for outpatient prescriptions related to 340B-eligible patients and to obtain lower costs for non-340B-eligible outpatient customers.

ALCC Services, LLC

This component unit of the Authority leases employees to NACC and has no other operating activities.

HH Health System – ACO, LLC

The Authority is the sole member of this Accountable Care Organization (ACO), which receives and administers shared savings under the Medicare Shared Savings Program.

North Alabama Specialty Hospital, LLC (LTAC)

Effective January 1, 2023, the LTAC became a blended component unit of the Authority, as the Authority assumed a 55% interest in the LTAC and appoints the majority of the LTAC board. An unrelated organization maintains the 45% non-controlling interest. The LTAC was a thirty-one bed long-term acute care hospital which expanded to forty-seven beds upon moving from its prior location on the ALH campus to the HH campus during the fiscal year ended June 30, 2024.

Athens Limestone Equipment Lessor, LLC

The Authority is the 90% owner of this entity, which was created to purchase equipment and lease that equipment back to ALH as part of the new market tax credit transaction entered into to obtain funding for construction and furnishing of a new surgery tower for ALH.

Discretely Presented Component Unit

Huntsville Hospital Foundation, Inc.

HHF is a nonprofit corporation established in 1978 to raise funds to support the operation of the HH. HHF is organized under section 501(c)(3) of the IRC and exempt from federal and state income taxes. HHF's bylaws provide that all funds raised be distributed to or held for the benefit of HH. HHF's financial statements are included as a discretely presented component unit in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39.

Pandemic-related sources of nonoperating income

The Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act) authorized government spending to mitigate the economic effects of the COVID-19 pandemic. During the fiscal years ended June 30, 2024 and 2023, $2.5 million and $22.9 million, respectively, of COVID-19 pandemic funding, including CARES Act monies, was received and recorded as nonoperating activity, with nothing remaining in unearned revenue as of June 30, 2024 and 2023. It is unlikely that the Authority will continue to receive or remain eligible for material funding or assistance under the CARES Act or similar programs now that the pandemic has wound-down and the federal emergency has expired.

Payments from the CARES Act are not loans and, therefore, they are not subject to repayment provided the funds are used in accordance with the terms and conditions. However, as a condition to receiving distributions, providers, attested to certain terms and conditions, including, among other things, that the funds are being used for lost operating revenues and COVID-related expenses, and that the providers will not seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider.

Furthermore, the U.S. Department of Health and Human Services (HHS) has indicated that it will be closely monitoring and, along with the Office of Inspector General, auditing providers to ensure that recipients comply with the terms and conditions of relief programs and to prevent fraud and abuse. All providers will be subject to civil and criminal penalties for any deliberate omissions, misrepresentations or falsifications of any information given to HHS. The Authority has formally attested to the terms and conditions associated with the receipt of relief payments retained.

Overview of Combined Financial Statements

The Authority's combined financial statements consist of three statements – combined statements of net position; combined statements of revenues, expenses and changes in net position; and combined statements of cash flows. These combined financial statements and related notes provide information about the activities of the Authority and its combined affiliates.

The combined statements of net position present the financial position of the Authority at the end of the fiscal year and include all assets and deferred outflows and liabilities and deferred inflows of the Authority. The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. The difference between total assets and deferred outflows and total liabilities and deferred inflows is net position and is one indicator of the current financial condition of the Authority.

All revenue and expenses for the fiscal year are accounted for in the combined statement of revenues, expenses, and changes in the net position. This change is net position is an indicator of whether the overall financial condition has improved or worsened during the year by determining if the Authority has recovered all of its costs.

The combined statements of cash flows provides information about the Authority's cash receipts and cash payments during the fiscal year. It outlines the sources of the cash received, the uses of the cash, and the change in the cash balance.

Combined Statements of Net Position

The combined statements of net position shows all assets, deferred outflows, liabilities, deferred inflows and net position. A comparative summary of the Authority's combined statements of net position as of June 30, 2024, 2023, and 2022 is presented below (in thousands):

	2024	2023	2022
ASSETS AND DEFERRED OUTFLOWS			
Current assets:			
Cash and cash equivalents	**$ 216,689**	$ 118,028	$ 170,217
Patient accounts receivable, net	**348,959**	280,494	240,825
Other current assets	**138,270**	114,744	120,893
Board designated funds – current	**70,126**	137,191	72,164
Total current assets	**774,044**	650,457	604,099
Noncurrent cash and investments	**834,292**	738,065	910,745
Capital assets	**1,119,949**	1,093,235	969,118
Other assets	**37,708**	37,005	25,128
Total assets	**2,765,993**	2,518,762	2,509,090
Deferred outflows of resources	**12,316**	15,593	14,924
Total assets and deferred outflows of resources	**$ 2,778,309**	$ 2,534,355	$ 2,524,014

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Current liabilities:			
Accounts payable	**$ 129,187**	$ 91,265	$ 113,533
Salaries and benefits payable	**166,969**	139,609	177,834
Unearned revenue	**215**	5,032	66,621
Accrued interest	**1,718**	768	474
Current maturity of lease liabilities and installment obligations	**23,673**	15,537	11,102
Current maturity of bonds and notes payable	**20,625**	25,319	16,988
Commercial paper notes payable	**70,000**	137,000	70,000
Total current liabilities	**412,387**	414,530	456,552
Long-term liabilities:			
Lease liabilities and installment obligations	**73,977**	68,304	57,076
Bonds and notes payable, including bond premium	**545,000**	367,379	404,312
Deferred compensation liabilities	**2,906**	4,778	2,186
Total long-term liabilities	**621,883**	440,461	463,574
Total liabilities	**1,034,270**	854,991	920,126
Deferred inflows of resources	**18,288**	18,347	13,526
Net position	**1,725,751**	1,661,017	1,590,362
Total liabilities, deferred inflows of resources, and net position	**$ 2,778,309**	$ 2,534,355	$ 2,524,014

Fiscal Year 2024 vs. 2023

The total net position of the Authority increased $64.7 million, or 3.9%. The net increase in net position was substantially due to $54.2 million of excess of revenue over expenses and $10.9 million of net position transferred by HEMSI into EMS as of January 1, 2024.

Cash and cash equivalents, board designated funds, and other noncurrent cash and investments increased a combined $127.8 million due primarily to operating EBITDA of $141.4 million, cash of $135.4 million from the Series 2023A Bonds (see Long-Term Debt section below), and $11.9 million of investment market appreciation, partially offset by ($112.2) million of net property, plant and equipment acquisitions and ($4.0) million in cash paid to buy-back a portion of the Series 2020B Bonds (see Long-Term Debt section below).

The Authority's cash position continues to be relatively strong, but lessening due primarily to unfinanced capital expenditures and an increase in daily cash operating expenses, with 163 days cash on hand (DCOH) as of June 30, 2024. The Authority completed a Series 2023A Bond financing transaction in September 2023 to partially replenish DCOH. On September 12, 2024, Moody's re-affirmed the Authority's A1 Bond rating and its P-1 rating for its tax-exempt commercial paper (CP) notes program, with stable outlook.

Net patient accounts receivable increased $68.5 million, or 24.4%, primarily due to TOC, HEMSI, and DH balances not applicable in the prior comparative year of $48.6 million, net patient service revenue increasing 15.1% from the prior year and days in accounts receivable increasing 0.9% from 46.2 days as of June 30, 2023 to 46.6 days as of June 30, 2024. The Change Healthcare cyber-attack did not have a material impact on the Authority's billing of revenue but resulted in modest payment slowdowns from certain third party payors.

Accounts payable and salaries and benefits payable increased a combined $65.3 million, or 28.5%, more than attributable to $65.7 million of TOC, HEMSI, and DH balances not applicable in the prior year. Both of these working capital financial statement line items also have natural fluctuations in value based on timing of scheduled disbursements.

Fiscal Year 2023 vs. 2022

Although the transfer of LHS to the Authority on July 1, 2022 initially increased total assets and deferred outflows by $19.1 million or 0.8%, total assets increased $10.3 million, or 0.4%, overall. Likewise, total liabilities as of June 30, 2023 compared to June 30, 2022 decreased on a net basis but initially increased 0.4% because of LHS, and net position increased 1.0% as a result of adding LHS.

The total net position of the Authority increased $70.7 million, or 4.4%. The net increase in net position was primarily due to $0.3 million of profitability from operations and $15.6 million of LHS net position transferred to the Authority on the acquisition date, as well as $54.4 million of net nonoperating activity, as outlined in the subsequent section below.

Cash and cash equivalents, board designated funds, and other noncurrent cash and investments decreased a combined ($159.8) million due primarily to ($219.1) million of net property, plant and equipment acquisitions, (including ($68.1) million on TOC), ($61.8) million of advance repayments to CMS, ($41.3) million in cash paid to buy-back a portion of the Series 2020B Bonds (see Long-Term Debt section below),and ($19.1) million of unrealized net investment losses due to unfavorable market conditions. These factors were partially offset by $112.1 million of operating EBITDA and $41.7 million of proceeds from the Series 2022A Bonds issued to replenish the cash spend for the earlier Series 2020B Bond buy-back (see Long-Term Debt section below).

Net patient accounts receivable increased $39.7 million, or 16.5% (12.8% without the addition of LHS), primarily due to net patient service revenue increasing 8.8% from the prior year, an $8.8 million increase due to adding Lincoln, and days in accounts receivable increasing 5.2% from 43.9 days as of June 30, 2022 to 46.2 days as of June 30, 2023.

Salaries and benefits payable decreased $38.2 million, or 21.5%, almost entirely due to timing of cash flow. In the current year, pay day was on June 30, 2023 and, in the prior year, pay day was the first day following the June 30, 2022 balance sheet date, or July 1, 2022. Accounts payable likewise decreased $22.3 million, or 19.6%, primarily because June 30, 2023 was on the last business day of the week when business disbursements were current.

Unearned revenue decreased $61.6 million, or 92.4%, due primarily to CMS's recoupment of $61.8 million in advanced payments.

Capital Assets

The following table summarizes capital assets for the fiscal years ended June 30, 2024, 2023, and 2022 (in thousands):

	2024	2023	2022
Construction-in-process	**$ 44,296**	$ 171,824	$ 54,230
Land and improvements	**103,211**	99,289	99,059
Buildings	**1,345,313**	1,181,512	1,217,875
Equipment	**978,378**	928,670	1,046,292
Right of use/subscription assets	**148,236**	117,072	75,572
Total	**2,619,434**	2,498,367	2,493,028
Accumulated depreciation	**(1,499,485)**	(1,405,132)	(1,523,910)
Capital assets – net	**$ 1,119,949**	$ 1,093,235	$ 969,118

During the year ended June 30, 2024, the Authority experienced a net $26.7 million, or 2.4% increase in capital assets. Included in this were capital expenditures during the past year of $122.5 million, and $31.2 million of right of use assets and subscription agreements added since June 30, 2023. These increases were largely offset by depreciation and amortization of ($127.0) million for the year. Capital additions were funded by a mix of operating cash flow and financing (see Long-Term Debt section below).

During the year ended June 30, 2023, the Authority experienced a net $124.1 million, or 12.8% increase in capital assets. The acquisitions of TOC and LHS added $66.0 million and $5.2 million, respectively, of capital assets as of June 30, 2023. In addition, the Authority implemented net GASB 96 increases of $16.8 million and other net capital expenditures of $147.9 million. This additions activity, which, except for the TOC transaction to be explained in the next section, was primarily funded by operating cash flow as opposed to financed, was offset by ($111.8) million of depreciation and amortization.

CP Notes Payable

The Authority entered into its CP notes program in June of 2008. Prior to June 2023, the Authority had $70.0 million of its Board authorized $200.0 million CP program outstanding. This was increased by $67.0 million in June 2023 to temporarily finance the TOC acquisition, for a total of $137.0 million outstanding as of June 30, 2023. The additional $67.0 million for TOC was paid back in September 2023 as part of the Series 2023A Bond transaction (see Long-Term Debt section below) and the balance of the CP is again $70.0 million as of June 30, 2024. The CP is supported by the self-liquidity of the Authority and is not backed by any letters of credit.

Long-Term Debt

The Authority experienced the following indebtedness activity during the fiscal years ended June 30, 2024 and 2023:

- In September 2022, the Authority extinguished $53.3 million in par value of its Series 2020B Bonds for $41.3 million in cash and recognized a net gain on extinguishment of $11.9 million recorded as gain on debt extinguishment in nonoperating activity in the combined statements of revenues, expenses and changes in net position.

- In December 2022, the Authority issued Series 2022A Bonds at $41.7 million par value (an amount approximating the cash outlay for the aforementioned September 2022 extinguishment) at a premium of $0.3 million to finance certain current and prior capital expenditures.

- In June 2023, approximately $12.3 million of subscription-based information technology arrangements (SBITA) were recorded as obligations on the combined balance sheets with the adoption of GASB 96 as of the beginning of the fiscal year.

- In September 2023, the Authority issued Series 2023A Bonds at $190.0 million par value and a premium of $13.5 million to repay the $67.0 of CP issued to acquire TOC (CP Notes Payable section above) and finance certain prior capital expenditures and other current year capital expenditures from the trustee-held acquisition fund which was fully-depleted as of June 30, 2024.

- In September and October 2023, the Authority extinguished $5.1 million in par value of its Series 2020B Bonds for $4.0 million in cash and recognized a net gain on extinguishment of $1.3 million recorded as gain on debt extinguishment in nonoperating activity in the combined statements of revenues, expenses and changes in net position.

- With the acquisition of HEMSI on January 1, 2024, two bank notes payable with a combined outstanding balance of $1.2 million were brought forward to the Authority as part of HEMSI's opening balance sheet.

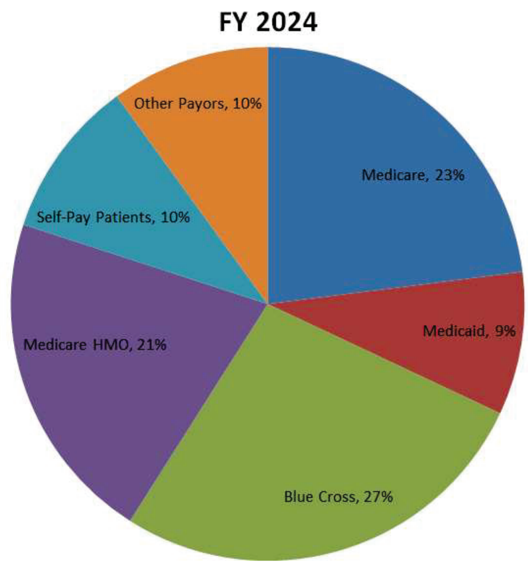
- The remaining change in indebtedness during the year ended June 30, 2024 primarily represents scheduled principal repayments on indebtedness and routine lease/ subscription activity.

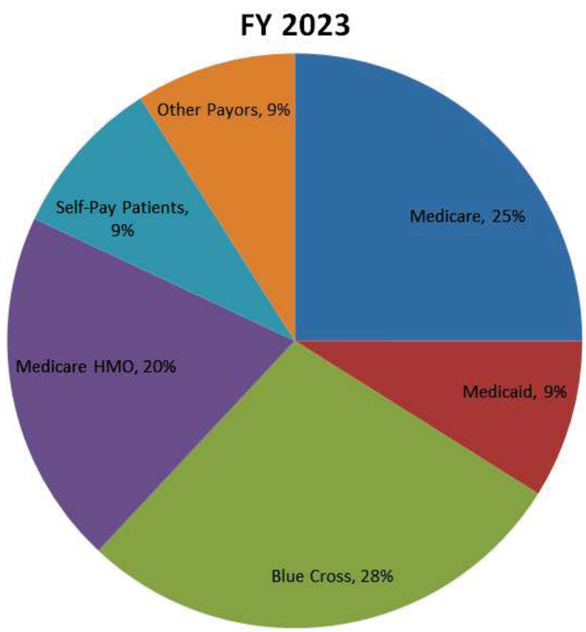
Combined Statements of Revenues, Expenses and Changes in Net Position

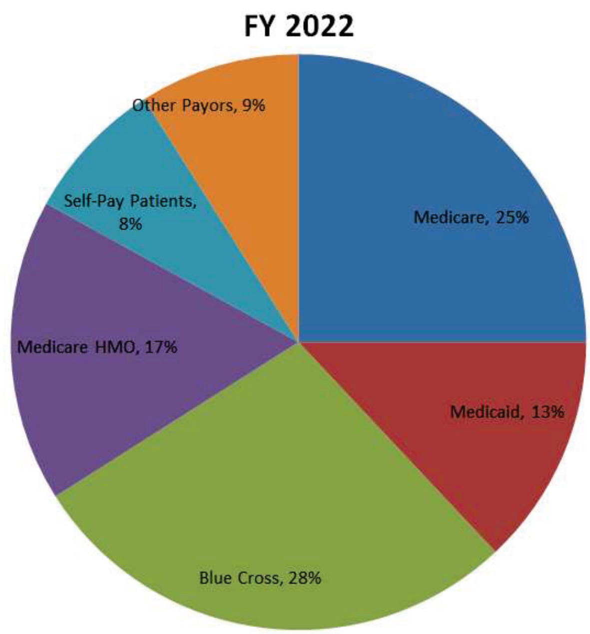
The combined statement of revenues, expenses and changes in net position presents the extent to which the Authority's overall net position increased or decreased during the year as a result of operations or other non-operating activity. A comparative summary of the Authority's condensed combined statements of revenues, expenses and changes in net position for the years ended June 30, 2024, 2023, and 2022 is presented below (in thousands):

	2024	**2023**	**2022**
Operating revenue:			
Net patient service revenue	**$ 2,616,687**	$ 2,272,534	$ 2,089,575
Other operating revenue	**98,930**	85,308	88,217
Total operating revenue	**2,715,617**	2,357,842	2,177,792
Operating expenses:			
Salaries and benefits	**1,616,977**	1,368,887	1,230,425
Other operating expenses	**1,086,165**	988,616	895,777
Total operating expenses	**2,703,142**	2,357,503	2,126,202
Operating income	**12,475**	339	51,590
Non-operating activity, net	**41,763**	54,378	(43,626)
Revenues in excess of expenses	**$ 54,238**	$ 54,717	$ 7,964

The Authority has third-party payor agreements that provide reimbursement to the Authority. The graph below represents patient revenue by payor type for fiscal years June 30, 2024, 2023, and 2022.







<u>Fiscal Year 2024 vs. 2023</u>

Total operating revenues increased $357.8 million, or 15.2%, due principally to $144.2 of TOC, HEMSI, and DH activity not applicable in the prior year, commercial payor rate increases, and 3.3% growth of adjusted admissions as well as a 4.4% increase in surgical procedures.

Total operating expenses increased by $345.6 million, or 14.7%, a rate slightly lower than the total operating revenue increase. TOC, HEMSI, and DH not applicable in the prior year represented $170.4 million, or 49.3% of this aggregate increase. Salaries and benefits represented $248.1 million of the total, or an 18.1% increase, due to the aforementioned higher volume, the addition of TOC, HEMSI, and DH, and inflation and general salary rate pressures. Total non-payroll cash operating expenses increased $80.4 million, or 9.2%, due primarily to the addition of TOC, HEMSI, and DH, the higher volume, and inflationary pressures. Total depreciation and amortization expense increased $17.1 million, or 15.3%, due to the addition of TOC, HEMSI, and DH, as well as the aforementioned growth in capital expenditures and subscription and right of use assets recorded since June 30, 2023.

Operating margin increased year-over-year by $12.1 million due to the net effect of the operating revenue and expense changes described above. Non-operating activity decreased ($12.6) million, or (23.2%), from the prior year as follows:

		(Millions)
Pandemic-related Recognized in 2024	$	2.5
Pandemic-related Recognized in 2023		(22.9)
Opioid-related Recognized in 2023		(3.9)
Increase in Interest Expense		(9.6)
Change in Investment Market Performance		37.4
Gain on Debt Extinguishment recognized in 2023		(11.9)
Gain on Debt Extinguishment recognized in 2024		1.3
All other, net		(5.5)
	$	(12.6)

As indicated, ($24.3) million less pandemic and opioid-related funds, ($10.6) million of lower gains on the aforementioned debt restructuring transactions, ($9.6) million higher interest expense associated with variable rate indebtedness and the issuance of the Series 2023A bonds, including ($1.2) million of bond issuance costs, and other nonoperating activities were partially offset by $37.4 favorable investment performance compared to the prior year.

Excess margin decreased ($0.5) million, or (0.9%) compared to the prior year due to the combined operating and nonoperating performance, as described above.

<u>Fiscal Year 2023 vs. 2022</u>

Due to the transfer of HMC's operations to the Authority effective October 1, 2022, HMC's three months of activity from July 1, 2022 through September 30, 2022 increased total Authority operating revenue and expenses by 0.8% and 0.9% respectively. In addition, due to the transfer of LHS's operations to the Authority effective July 1, 2022, LHS's activity increased total Authority operating revenue and expenses by 2.0% and 2.1% respectively.

Total operating revenues increased $180.1 million, or 8.3% due primarily to adjusted discharges increasing a higher 11.8% (9.5% without LHS) which was financially reduced by a shift of volume from inpatient (which still increased 2.7%, 1.6% without LHS) to lower-reimbursed, compared to inpatient, outpatient volume. Payor rate increases also contributed to the operating revenue growth.

Total operating expenses increased by $231.3 million, or 10.9%, a rate higher than the total operating revenue increase. Of this, salaries and benefits represented a $138.5 million, or an 11.3% increase associated with the higher revenue volume, inflation and competition-related salary adjustments, and overtime and incentive pay to accommodate patient volume with strained available personnel due to competitive pressures and shortages in certain specialized areas, most notably nursing. Non-payroll operating expenses increased $92.8 million, or 10.4% due primarily to the net higher volume and inflationary pressures.

Operating margin decreased year-over-year by ($51.3) million, or (99.3%) due to the net effect of the operating revenue and expense changes described above. Non-operating activity increased $98.0 million, or 224.6%, from the prior year as follows:

Pandemic-related Recognized in 2023	$	22.9
Pandemic-related Recognized in 2022		(33.6)
Increase in Interest Expense		(1.8)
Change in Investment Market Performance		98.0
Gain on Debt Extinguishment		11.2
All other, net		1.3
	$	98.0

As indicated, favorable investment performance compared to the prior year was the most significant contributor to the net increase, in addition to the gain on the aforementioned debt restructuring transactions and other nonoperating activities. These increases were partially offset by $10.7 million less COVID-19 Pandemic funds, including Federal and State CARES Act, available to be recorded compared to the prior year and higher interest expense associated with the variable rate indebtedness.

Excess margin increased $46.8 million, or 587.1% compared to the prior year due to the combined operating and nonoperating performance, as described above.

Combined Statements of Cash Flows

The combined statements of cash flows presents information related to sources and uses of cash of the Authority by category: Operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The net increase in cash and cash equivalents resulting from these activities was $112.5 million for fiscal year 2024 compared to fiscal year 2023 and a decrease of $43.3 million for fiscal year 2023 compared to fiscal year 2022.

Special Recognitions

The Authority earned high marks in U.S. News & World Report's 2022-23 hospital rankings. The news organization rated HH as the Best Regional Hospital in North Alabama and No. 2 in the state, with nine clinical areas recognized as "High Performing."

The Authority also earned the American Heart Association's 2023 Get with the Guidelines – Stroke Gold Plus Award for ensuring that stroke patients receive the most appropriate treatment according to nationally recognized, research-based guidelines.

The Authority ranks among America's Best Employers of 2022 by Forbes -- one of just two North Alabama-based companies to earn that distinction.

Madison Hospital is a nationally accredited Lung Cancer Screening Center by the American College of Radiology and is also the first hospital in north Alabama to earn the 2018 IBCLC Care Award for lactation support services.

The Blue Cross Blue Shield Association offers a Blue Distinction program that recognizes the highest quality providers. Blue Distinction Specialty Care recognizes providers for delivering high-quality, effective, cost-efficient specialty care. Providers that meet quality standards earn designation as Blue Distinction Centers. Those providers that meet both quality standards and cost-efficiency standards are designated Blue Distinction Centers+. The following lists the Systems' Blue Distinction program distinctions:

Huntsville Hospital:

- Cardiac Care - Blue Distinction Center+
- Maternity Care - Blue Distinction Center+
- Spine Surgery - Blue Distinction Center+

- Bariatric Surgery (Gastric Band and Gastric Stapling) – Blue Distinction Center+

Athens-Limestone Hospital:

- Knee and Hip Replacement - Blue Distinction Center+
- Maternity Care- Blue Distinction Center

Decatur Hospital:

- Maternity Care- Blue Distinction Center+
- Centers for Substance Use Treatment & Recovery Blue Distinction Center+
- Knee and Hip Replacement – Blue Distinction Center+

Helen Keller Hospital:

- Knee and Hip Replacement - Blue Distinction Center+

Marshall Medical Centers:

- Maternity Care - Blue Distinction Center+
- Knee and Hip Replacement – Blue Distinction Center+

DeKalb Hospital:

- Rural Stroke Bronze Quality Award – American Heart & Stroke Association: Get with the Guidelines 2023
- "A" grade – The Leapfrog Group

The Authority has also received recognition for excellence or outstanding performance in the following:

- National Research Corporation Consumer Choice Award (2002, 2003, 2004, 2005, 2006, 2007, 2008 and 2009)
- Joint Commission Certificate of Distinction in the Management of Congestive Heart Failure (2008-2010)
- Joint Commission Certificate of Distinction for the Primary Stroke Center (2008-2010)
- Breast Imaging Center of Excellence – Recognition by the Commission on Quality and Safety and the Commission on Breast Imaging (2007-2009)
- American Heart Association Gold Start! Fit-Friendly Company (2009)
- Alabama Performance Excellence Award – Falls Reduction Team (2018)

- Alabama Performance Excellence Award – Health Care Sector – Tier One Commitment to Performance Excellence (2018)
- Alabama Quality Award – Gold – Anticoagulant Safety Team (2009)
- Alabama Quality Award – Silver- Medication Reconciliation Team (2009)
- Alabama Quality Award – Silver- Rapid Molecular Techniques Team (2009)
- Wound Care – Center of Excellence (2016, 2017, 2018)

Request for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions about this report or requests for additional financial information should be addressed to the System Chief Financial Officer, Huntsville Hospital, 101 Sivley Road, Huntsville, AL 35801.

The Health Care Authority of the City of Huntsville
Combined Statements of Net Position
June 30, 2024 and 2023
(in thousands)

	2024			2023		
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**Authority Combined Totals**	**Discretely Presented Component Unit HHF**	**Total Reporting Entity (Memorandum Only)**	Authority Combined Totals	Discretely Presented Component Unit HHF	Total Reporting Entity (Memorandum Only)
Current assets:						
Cash and cash equivalents	$ **216,689**	$ **1,459**	$ **218,148**	$ 118,028	$ 1,068	$ 119,096
Patient accounts receivable, net	**348,959**	**-**	**348,959**	280,494	-	280,494
Inventories	**59,503**	**-**	**59,503**	51,962	-	51,962
Prepaid expenses	**24,341**	**21**	**24,362**	22,472	20	22,492
Other assets	**1,763**	**11,246**	**13,009**	564	11,153	11,717
Other receivables	**51,434**	**621**	**52,055**	34,430	-	34,430
Estimated third-party settlements	**1,229**	**-**	**1,229**	5,316	-	5,316
Board designated funds - current	**70,126**	**-**	**70,126**	137,191	-	137,191
Total current assets	**774,044**	**13,347**	**787,391**	650,457	12,241	662,698
Noncurrent cash and investments:						
Trustee held funds	**1,255**	**-**	**1,255**	3,187	-	3,187
Board designated funds, net of current portion	**521,166**	**-**	**521,166**	424,824	-	424,824
Other investments	**303,395**	**-**	**303,395**	301,750	-	301,750
Foundation investments	**748**	**37,477**	**38,225**	552	33,913	34,465
Accrued interest - investments	**7,728**	**-**	**7,728**	7,752	-	7,752
Total noncurrent cash and investments	**834,292**	**37,477**	**871,769**	738,065	33,913	771,978
Total capital assets	**1,119,949**	**35**	**1,119,984**	1,093,235	40	1,093,275
Other assets:						
Investments in joint ventures	**16,389**	**-**	**16,389**	16,065	-	16,065
Related party note receivable	**1,817**	**-**	**1,817**	1,781	-	1,781
Net pension asset	**5,532**	**-**	**5,532**	4,584	-	4,584
Other receivables	**13,970**	**-**	**13,970**	14,575	-	14,575
Total other assets	**37,708**	**-**	**37,708**	37,005	-	37,005
Total assets	**2,765,993**	**50,859**	**2,816,852**	2,518,762	46,194	2,564,956
Deferred outflows of resources	**12,316**	**-**	**12,316**	15,593	-	15,593
Total assets and deferred outflows	$ **2,778,309**	$ **50,859**	$ **2,829,168**	$ 2,534,355	$ 46,194	$ 2,580,549

See accompanying notes.

The Health Care Authority of the City of Huntsville
Combined Statements of Net Position
June 30, 2024 and 2023
(in thousands)

(Continued)

	2024			2023		
	Authority Combined Totals	**Discretely Presented Component Unit HHF**	**Total Reporting Entity (Memorandum Only)**	Authority Combined Totals	Discretely Presented Component Unit HHF	Total Reporting Entity (Memorandum Only)
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION						
Current liabilities:						
Accounts payable	$ 129,187	$ 39	$ 129,226	$ 91,265	$ 48	$ 91,313
Salaries and benefits payable	166,969	-	166,969	139,609	-	139,609
Accrued interest	1,718	-	1,718	768	-	768
Unearned revenue	215	-	215	5,032	-	5,032
Current maturity of lease liabilities and installment obligations	23,673	-	23,673	15,537	-	15,537
Current maturity of bonds and notes payable	20,625	-	20,625	25,319	-	25,319
Commercial paper notes payable	70,000	-	70,000	137,000	-	137,000
Total current liabilities	412,387	39	412,426	414,530	48	414,578
Long-term liabilities:						
Lease liabilities and installment obligations	73,977	-	73,977	68,304	-	68,304
Bonds and notes payable, including bond premium	545,000	-	545,000	367,379	-	367,379
Deferred compensation liabilities	2,906	-	2,906	4,778	-	4,778
Total long-term liabilities	621,883	-	621,883	440,461	-	440,461
Total liabilities	1,034,270	39	1,034,309	854,991	48	855,039
Deferred inflows of resources	18,288	-	18,288	18,347	-	18,347
Net position:						
Reserved for minority interest, nonexpendable	527	-	527	899	-	899
Net investment in capital assets	387,391	35	387,426	481,499	40	481,539
Unrestricted	1,337,833	50,785	1,388,618	1,178,619	46,106	1,224,725
Total net position	1,725,751	50,820	1,776,571	1,661,017	46,146	1,707,163
Total liabilities, deferred inflows of resources, and net positior	$ 2,778,309	$ 50,859	$ 2,829,168	$ 2,534,355	$ 46,194	$ 2,580,549

See accompanying notes.

The Health Care Authority of the City of Huntsville
Combined Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2024 and 2023
(in thousands)

	2024			2023		
	Authority Combined Totals	**Discretely Presented Component Unit HHF**	**Total Reporting Entity (Memorandum Only)**	Authority Combined Totals	Discretely Presented Component Unit HHF	Total Reporting Entity (Memorandum Only)
Operating revenue:						
Net patient service revenue	**$ 2,616,687**	**$ -**	**$ 2,616,687**	$ 2,272,534	$ -	$ 2,272,534
Other operating revenue	**98,930**	**9,750**	**108,680**	85,308	17,927	103,235
Total operating revenue	**2,715,617**	**9,750**	**2,725,367**	2,357,842	17,927	2,375,769
Operating expenses:						
Salaries and benefits	**1,616,977**	**-**	**1,616,977**	1,368,887	-	1,368,887
Supplies	**575,063**	**-**	**575,063**	526,944	-	526,944
Other operating expenses	**382,215**	**9,486**	**391,701**	349,900	9,515	359,415
Depreciation and amortization expense	**128,887**	**9**	**128,896**	111,772	7	111,779
Total operating expenses	**2,703,142**	**9,495**	**2,712,637**	2,357,503	9,522	2,367,025
Operating Income	**12,475**	**255**	**12,730**	339	8,405	8,744
Nonoperating activity:						
Investment income, net	**51,428**	**4,440**	**55,868**	14,057	3,715	17,772
Gain on debt extinguishment	**1,296**	**-**	**1,296**	11,881	-	11,881
Interest expense	**(26,675)**	**(18)**	**(26,693)**	(17,058)	(18)	(17,076)
County tax appropriation	**187**	**-**	**187**	292	-	292
Other income (loss), net	**15,527**	**(3)**	**15,524**	45,206	-	45,206
Total nonoperating activity, net	**41,763**	**4,419**	**46,182**	54,378	3,697	58,075
Revenue in excess of expenses	**54,238**	**4,674**	**58,912**	54,717	12,102	66,819
Net position transferred	**10,868**	**-**	**10,868**	15,617	-	15,617
Other, net	**(372)**	**-**	**(372)**	321	-	321
Increase in net position	**64,734**	**4,674**	**69,408**	70,655	12,102	82,757
Net position as of beginning of year	**1,661,017**	**46,146**	**1,707,163**	1,590,362	34,044	1,624,406
Net position as of end of year	**$ 1,725,751**	**$ 50,820**	**$ 1,776,571**	$ 1,661,017	$ 46,146	$ 1,707,163

See accompanying notes.

The Health Care Authority of the City of Huntsville
Combined Statements of Cash Flows
Years Ended June 30, 2024 and 2023
(in thousands)

	2024			2023		
	Authority Combined Totals	**Discretely Presented Component Unit HHF**	**Total Reporting Entity (Memorandum Only)**	Authority Combined Totals	Discretely Presented Component Unit HHF	Total Reporting Entity (Memorandum Only)
Cash flows from operating activities:						
Receipts from and on behalf of patients	**$ 2,556,116**	**$ -**	**$ 2,556,116**	$ 2,171,037	$ -	$ 2,171,037
Payments to suppliers	**(928,578)**	**(9,589)**	**(938,167)**	(900,477)	(19,610)	(920,087)
Payments to employees	**(1,593,569)**	**-**	**(1,593,569)**	(1,399,699)	-	(1,399,699)
Other receipts and payments, net	**83,021**	**9,129**	**92,150**	80,952	17,927	98,879
Net cash provided by (used in) operating activities	**116,990**	**(460)**	**116,530**	(48,187)	(1,683)	(49,870)
Cash flows from noncapital financing activities:						
County tax appropriation	**187**	**-**	**187**	292	-	292
Other, net	**(372)**	**-**	**(372)**	321	-	321
Net cash (used in) provided by noncapital financing activities	**(185)**	**-**	**(185)**	613	-	613
Cash flows from capital and related financing activities:						
Issuance of related party note receivable, net	**(36)**	**-**	**(36)**	(17)	-	(17)
Proceeds from issuance of long-term debt, net	**203,528**	**-**	**203,528**	41,988	-	41,988
Purchase of capital assets, net	**(112,205)**	**(4)**	**(112,209)**	(189,045)	(14)	(189,059)
Commercial paper (repaid) purchased	**(67,000)**	**-**	**(67,000)**	67,000	-	67,000
Payment of bonds and notes payable	**(29,441)**	**-**	**(29,441)**	(59,268)	-	(59,268)
Change in capital leases and installment obligations	**(20,121)**	**-**	**(20,121)**	(29,692)	-	(29,692)
Interest payments	**(23,378)**	**(18)**	**(23,396)**	(18,363)	(18)	(18,381)
Net cash used in capital and related financing activities	**(48,653)**	**(22)**	**(48,675)**	(187,397)	(32)	(187,429)
Cash flows from investing activities:						
Investment income	**51,452**	**4,440**	**55,892**	13,286	3,715	17,001
Other income (loss), net	**15,527**	**(3)**	**15,524**	45,206	-	45,206
Purchases of investments	**(331,742)**	**-**	**(331,742)**	(130,604)	-	(130,604)
Sales of investments	**316,042**	**-**	**316,042**	248,177	-	248,177
Increase in investments	**-**	**(3,564)**	**(3,564)**	-	(2,496)	(2,496)
Transfer/ acquisition	**(6,960)**	**-**	**(6,960)**	15,617	-	15,617
Net cash provided by investing activities	**44,319**	**873**	**45,192**	191,682	1,219	192,901
Increase (decrease) in cash and cash equivalents	**112,471**	**391**	**112,862**	(43,289)	(496)	(43,785)
Cash and cash equivalents as of beginning of year	**177,228**	**1,068**	**178,296**	220,517	1,564	222,081
Cash and cash equivalents as of end of year	**$ 289,699**	**$ 1,459**	**$ 291,158**	$ 177,228	$ 1,068	$ 178,296

See accompanying notes.

The Health Care Authority of the City of Huntsville
Combined Statements of Cash Flows
Years Ended June 30, 2024 and 2023
(in thousands)

(Continued)

	2024			2023		
	Authority Combined Totals	**Discretely Presented Component Unit HHF**	**Total Reporting Entity (Memorandum Only)**	Authority Combined Totals	Discretely Presented Component Unit HHF	Total Reporting Entity (Memorandum Only)
Reconciliation of cash and cash equivalents to Combined Statements of Net Position:						
Cash and cash equivalents	**$ 216,689**	**$ 1,459**	**$ 218,148**	$ 118,028	$ 1,068	$ 119,096
Cash and cash equivalents in board designated funds	**73,010**	**-**	**73,010**	59,200	-	59,200
Total cash and cash equivalents	**$ 289,699**	**$ 1,459**	**$ 291,158**	$ 177,228	$ 1,068	$ 178,296
Reconciliation of operating income to net cash provided by (used in) operating activities:						
Operating income	**$ 12,475**	**$ 255**	**$ 12,730**	$ 339	$ 8,405	$ 8,744
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:						
Depreciation and amortization	**128,887**	**9**	**128,896**	111,772	7	111,779
Provision for bad debts	**384,626**	**-**	**384,626**	342,474	-	342,474
Change in patient accounts receivable	**(444,467)**	**-**	**(444,467)**	(382,143)	-	(382,143)
Change in inventories and other current assets	**(24,657)**	**(715)**	**(25,372)**	(5,721)	(10,128)	(15,849)
Change in accounts payable and accrued expenses	**62,787**	**(9)**	**62,778**	(60,493)	33	(60,460)
Change in unearned revenue	**(4,817)**	**-**	**(4,817)**	(61,589)	-	(61,589)
Change in other long-term liabilities	**(1,931)**	**-**	**(1,931)**	7,413	-	7,413
Change in estimated third-party settelments	**4,087**	**-**	**4,087**	(239)	-	(239)
	104,515	**(715)**	**103,800**	(48,526)	(10,088)	(58,614)
Net cash provided by (used in) operating activities	**$ 116,990**	**$ (460)**	**$ 116,530**	$ (48,187)	$ (1,683)	$ (49,870)
Supplemental disclosure of noncash investing, capital, and financing activities						
Capital assets acquired through capital leases and installment obligations	**$ 31,164**	**$ -**	**$ 31,164**	$ 45,355	$ -	$ 45,355
Capital assets acquired through transfer of ownership	**$ 12,317**	**$ -**	**$ 12,317**	$ 15,617	$ -	$ 15,617
Unrealized securities gain (loss)	**$ 11,940**	**$ 4,509**	**$ 16,449**	$ (19,053)	$ (2,927)	$ (21,980)

See accompanying notes

Notes to Combined Financial Statements

1. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting entity

The Health Care Authority of the City of Huntsville's (the Authority) accompanying combined financial statements include the financial statements of the Authority, doing business as Huntsville Hospital [one campus known as Huntsville Hospital (Main), representing the flagship hospital and a specialty hospital for women and children, and the other campus known as Madison Hospital (MH)], together referred to herein as HH; and:

Its fully blended component units:

- The Health Care Authority of North Alabama d/b/a HealthGroup of Alabama (HGA)
- First Community Health Plan, Inc. (FC) (through December 31, 2023)

Its wholly-owned subsidiaries:

- HH Heart Center, LLC (HC)
- HH Health System – The Orthopaedic Center, LLC (TOC) (effective June 30, 2023)
- HH Health System – Morgan, LLC (DMH) and DMH's fully blended component unit, the Surgery Center of Decatur, L.P. (SCD)
- HH Health System – Shoals, LLC (HKH)
- HH Health System – Athens Limestone, LLC (ALH)
- HH Health System – Marshall, LLC (MMC)
- HH Health System – Jackson, LLC (HMC)
- HH Health System – Lincoln, Inc. (LHS)
- HH Health System – DeKalb, LLC (DH) (effective April 1, 2024)
- HH Health System – Tennessee, LLC (TN)
- HH Health System – Caring for Life, LLC (CFL)
- North Alabama Community Care, Inc. (NACC)
- HH Health System – Emergency Medical Services, LLC (EMS) (effective January 1, 2024)
- HH Health System – Retail Pharmacy, LLC (RP)
- ALCC Services, LLC (ALCC)
- HH Health System – ACO, LLC (ACO)

Its majority owned, combined subsidiaries:

- North Alabama Specialty Hospital, LLC (LTAC), 55% owned (effective January 1, 2023)
- Athens-Limestone Equipment Lessor, LLC (ALEL), 90% owned

Its discretely-presented component unit:

- Huntsville Hospital Foundation, Inc. (HHF).

All significant intercompany transactions have been eliminated in combination.

All dollar amounts disclosed in the footnotes are in thousands.

The Authority

The Authority is a public authority that operates a regional health care system made up of fifteen hospitals, fourteen of which are located throughout north Alabama, including a women and children specialty hospital and a majority-owned long-term acute care hospital, as well as a fifteenth hospital in South-central Tennessee. In addition, the Authority owns a heart center, an orthopedic center, a spine and neuro center, multiple satellite outpatient facilities, and various professional office buildings which are leased to various providers of medical services.

Subsidiaries and blended component units

The Health Care Authority of North Alabama d/b/a HealthGroup of Alabama (HGA)

The Authority is a member of this health care authority, formerly a limited liability company, which was organized on August 1, 1995. The members consist of the Authority and its wholly owned subsidiaries. HGA was formed to achieve a consistent level of quality services to patients of the member hospitals in a cost-effective and efficient manner through the joint and cooperative efforts of the members.

First Community Health Plan, Inc. (FC)

FC is an independent not-for-profit autonomous organization organized in accordance with Alabama Code Section 10-4-102. The Authority is the sponsoring organization for FC and is the sole member of the FC. The only group insured by the FC is the Senior Select Program. In addition, the Authority manages FC under a management agreement that subjects FC to the control of the Authority. The Authority ceased enrollment in FC at the conclusion of calendar 2022 and FC's operations were wound-up as of December 31, 2023.

HH Heart Center, LLC (HC)

This wholly owned subsidiary, created as a result of the Authority's purchase of the assets of the Heart Center, P.C. (HC), effective September 1, 2009, enhances the Authority's ability to provide advanced cardiovascular services.

HH Health System – The Orthopaedic Center, LLC (TOC)

On June 30, 2023, the Authority, through HH Health System – The Orthopaedic Center, LLC (TOC), completed the acquisition of the operations, assets, and employees of this previously physician-owned physician practice consisting primarily of fixed assets, see Note 3, for approximately $68,064. TOC operates in the Authority's market with sixteen office locations across Northern Alabama and South-central Tennessee, specializing in orthopaedics, spinal, and sports medicine.

HH Health System – Morgan, LLC (DMH)

On August 28, 2012, the Authority formed this Alabama Limited Liability Company and wholly owned subsidiary of the Authority to assume the rights and obligations of the Authority as lessee in the lease agreement between the Authority and The Health Care Authority of Morgan County – City of Decatur effective September 1, 2012. As a result of the merger, the LLC now consists of the Decatur campus, Decatur West, and the Parkway campus, collectively, Decatur Morgan Hospital (DMH). DMH began operating under one provider number in 2014. DMH owns 61.2% and is the general partner of the Surgery Center of Decatur, a fully blended component unit of DMH.

HH Health System – Shoals, LLC (HKH and RBH)

On November 3, 2014, the Authority formed this Alabama Limited Liability Company and wholly owned subsidiary of the Authority to assume the rights and obligations of the Authority as lessee in the lease agreement between the Authority and The Colbert County – Northwest Alabama Health Care Authority effective January 1, 2015. As a result of the lease, the LLC operates as Helen Keller Hospital (HKH) and Red Bay Hospital (RBH).

HH Health System – Athens Limestone, LLC (ALH)

On November 10, 2015, the Authority formed this Limited Liability Company and wholly owned subsidiary to assume the rights and obligations of the Authority as lessee in the lease agreement between the Authority and the Health Care Authority of Athens and Limestone County. As a result of the lease, the LLC operates as Athens Limestone Hospital (ALH).

HH Health System – Marshall, LLC (MMC)

On October 1, 2018, the Authority formed this Alabama Limited Liability Company and wholly owned subsidiary of the Authority to assume the rights and obligations of the Authority through a lease and integration agreement as lessee in the lease agreement between the Authority and The Marshall County Health Care Authority. As a result of the lease, the LLC operates as Marshall Medical Center North, Marshall Medical Center South, and Marshall Cancer Center, collectively Marshall Medical Centers (MMC). The term of the lease and integration is forty years with the option to extend. The agreements are cancelable due to merger, dissolution, or sale of the Authority wherein the Authority no longer has majority control.

HH Health System – Jackson, LLC (HMC)

On August 4, 2021, the Authority formed this Alabama Limited Liability Company and wholly owned subsidiary of the Authority to assume the rights and obligations of the Authority through a lease and integration agreement as lessee in the lease agreement between the Authority and The Jackson County Health Care Authority. As a result of the lease, the LLC operates as Highlands Medical Center (HMC). The term of the lease and integration is forty years with the option to extend. The agreements are cancelable due to merger, dissolution, or sale of the Authority wherein the Authority no longer has majority control.

HH Health System – Lincoln, Inc. (LHS)

On May 24, 2022, the Authority formed HH Health System, - Lincoln, Inc. (LHS), a tax-exempt corporation (Corporation) under Section 501(c)(3) of the Internal Revenue Code, and a wholly owned subsidiary of the Authority to assume the rights and obligations of the Authority through a lease and integration agreement as lessee in the lease agreement between the Authority and LHS effective July 1, 2022. As a result of the lease, the Corporation operates LHS. LHS consists of Lincoln Medical Center, Donalson Care Center, Patrick Rehab/Wellness Center, and Lincoln Home Health and Hospice based in Fayetteville, Tennessee. [see Note 2 for summary of assets, deferred outflows of resources, (liabilities), and (deferred inflows of resources) transferred at their carrying values as of the effective date]. The term of the lease and integration is forty years with the option to extend. The agreements are cancelable due to merger, dissolution, or sale of the Authority wherein the Authority no longer has majority control.

HH Health System – DeKalb, LLC (DH)

On November 9, 2023 the Authority formed this Alabama Limited Liability company and wholly owned subsidiary of the Authority to acquire DeKalb Hospital (DH) from Quorum Health Corporation (Quorum) effective March 31, 2024.

As a result of the acquisition, the LLC now operates DH, including related physician clinics and other outpatient facilities. DH is licensed for 134 acute care beds.

HH Health System – Tennessee, LLC (TN)

On September 27, 2016, the Authority formed this Limited Liability Company and wholly owned subsidiary for purposes of doing business in the state of Tennessee. Before being transferred to LHS during the fiscal year ended June 30, 2024, this wholly owned subsidiary of the Authority was used exclusively for physician clinics in Elkton and Fayetteville, Tennessee. As such, this entity is inactive as of June 30, 2024.

HH Health System – Caring for Life, LLC (CFL)

This wholly owned subsidiary was created as a result of the Authority's assumption of the operations of Hospice Family Care, Inc., effective August 1, 2017. CFL operates an inpatient hospice facility in Huntsville, Alabama.

North Alabama Community Care, Inc. (NACC)

The Authority is only one of three health systems in the state to own an Alabama Coordinated Health Network region. Named North Alabama Community Care, Inc., this Northeast Alabama region serves Medicaid enrollees in care coordination.

HH Health System Emergency Medical Services, LLC (EMS)

In October 2023, the Authority formed HH Health System – Emergency Medical Services, LLC, (EMS), a Limited Liability Company and wholly owned subsidiary, to eventually consolidate ambulance services included in the financial position and operating results of the Authority's various hospitals. On January 1, 2024, the Authority, through EMS, assumed the rights and obligations of the operations, assets and employees of Huntsville Emergency Medical Services, Inc. (HEMSI), an ambulance service serving HH's more than 370,000 residents in over 800 square miles of Madison County, Alabama. The Authority's other existing ambulance services are expected to be consolidated into EMS beginning July 1, 2024 which will not have a material effect on the combined financial statements of the Authority.

HH Health System Retail Pharmacy, LLC (RP)

The Authority established this entity in April 2020 to take advantage of hospital costing as allowed under Section 340B of the Public Health Service Act (340B), created under Section 602 of the Veterans Health Care Act of 1992, for outpatient prescriptions related to 340B-eligible patients and to obtain lower costs for non-340B-eligible outpatient customers.

ALCC Services, LLC (ALCC)

This components' sole activity is to lease employees to NACC.

HH Health System – ACO, LLC (ACO)

The Authority is the sole member of this Accountable Care Organization (ACO), which receives and administers shared savings under the Medicare Shared Savings Program.

North Alabama Specialty Hospital, LLC (LTAC)

Effective January 1, 2023, the LTAC became a blended component unit of the Authority, as the Authority assumed a 55% interest in the LTAC and appoints the majority of the LTAC board. An unrelated organization maintains the 45% non-controlling interest. The LTAC was a thirty-one bed long-term acute care hospital which expanded to forty-seven beds upon moving from its prior location on the ALH campus to the HH campus during the fiscal year ended June 30, 2024.

Athens Limestone Equipment Lessor, LLC (ALEL)

The Authority is the 90% owner of this entity, which was created to purchase equipment and lease that equipment back to ALH as part of the new market tax credit transaction entered into to obtain funding for construction and furnishing of a new surgery tower for ALH.

Discretely presented component unit

Huntsville Hospital Foundation, Inc.

HHF is a nonprofit corporation established in 1978 to raise funds to support the operation of the HH. HHF's bylaws provide that all funds raised be distributed to or held for the benefit of HH. HHF is a discretely presented component unit in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39.

Principles of combination

The memorandum-only totals in the combined financial statements aggregate the combined Authority and its discretely presented component unit HHF. In accordance with governmental accounting standards, no combining or other eliminations were recognized in arriving at the memorandum-only totals; thus, they do not represent combined information as defined by relevant accounting principles. Also, unless otherwise noted, all footnotes relate only to the Authority and its blended component units.

Basis of accounting

The Authority is considered a governmental entity and accordingly follows accounting standards issued by the GASB. The Authority utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis using the economic resources measurement focus. Substantially all revenues and expenses are subject to accrual.

Use of estimates

The preparation of combined 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, deferred outflows and inflows of resources, and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Income taxes

On July 25, 1989, the Authority's Board of Directors passed a resolution discontinuing its tax-exempt status under Internal Revenue Service (IRS) Code Section 501(c)(3). The Authority is a political subdivision of the City of Huntsville; therefore, it is not a taxable entity. The Authority and its blended component units have evaluated its tax positions as required under relevant accounting standards and have determined there are no uncertain tax positions. HHF is exempt from income taxes (see Note 11).

Cash and cash equivalents

Cash and cash equivalents include all bank accounts with a maturity of three months or less when purchased, excluding amounts whose use is limited by board designation.

Security for Alabama Funds Enhancement (SAFE) Act

The Authority, a political subdivision of the State of Alabama, has certain cash balances covered under the State of Alabama SAFE Act Program, which is designed to protect these bank deposits of "covered public entities" against loss. Under the SAFE Act Program, each qualified public depository (QPD) is generally required to pledge collateral for all its public deposits on a pooled basis to a custody account established by the State Treasurer as SAFE administrator. In the unlikely event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. Cash balances included within the Authority's combined financial statements for nongovernmental entities (HHF and FC) are not eligible to participate in the SAFE Program. These funds are covered up to FDIC limits, and no material amounts were over established limits.

Accounts receivable

Patient accounts receivable are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts and third-party contractual discounts. The allowance for uncollectible accounts is based on historical allowances and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts and decreased by write-offs of accounts determined by management to be uncollectible. The allowances for third-party discounts are based on the estimated differences between the Authority's established rates and the actual amounts to be received under each contract. Changes in estimates by material amounts are reasonably possible in the near term. Accounts receivable are stated net of an allowance for bad debts of $355,167 and $349,780 as of June 30, 2024 and 2023, respectively.

Inventories

Inventories are priced at the lower of cost or market.

Noncurrent cash and investments

Noncurrent cash and investments include assets limited as to use designated by the Authority's board for capital improvements, over which the board retains control and may, at its discretion, subsequently use for other purposes, as well as other noncurrent investments.

Noncurrent cash and investments available to satisfy commercial paper (CP) notes payable and certain other short-term obligations are reclassified to current assets.

Investments held by trustee for deferred compensation

These assets represent assets held under deferred compensation arrangements.

Investments in joint ventures

The Authority records its investments in unconsolidated entities utilizing the equity method of accounting. Under the equity method, original investments are recorded at cost and adjusted for the Authority's share of undistributed earnings or losses as nonoperating activity and reduced for distributions. See Note 10 related to the Authority's investments in joint ventures.

Investments in debt securities

Investments in debt securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating activity.

Capital assets

Capital assets are recorded at cost. Depreciation is provided on a straight-line basis generally over estimated useful lives recommended by the American Hospital Association. Gains or losses from the sale of capital assets are recorded in other income on the combined statements of revenues, expenses, and changes in net position.

Depreciation is computed over the estimated useful lives of the assets, ranging from five to forty years for buildings, three to twenty years for equipment, and five to twenty-five years for land and improvements. Right of use assets under intangible lease and subscription-based information technology arrangement (SBITA) assets are amortized using the straight-line method over the shorter period of the lease term, contract term or the estimated useful life of the assets. Such amortization is included in depreciation and amortization expense on the combined financial statements of revenues, expenses, and changes in net position.

Discount rate for capitalized subscriptions and leases is determined based on tax-exempt borrowing rates over an average of a three to fifteen year time period.

Maintenance and repairs

Maintenance and repairs are charged to expense when incurred. Routine renewals and replacements are charged to expense, while those which improve or extend the life of existing properties are capitalized.

Deferred outflows of resources

Deferred outflows of resources are not assets but represent the consumption of net position that pertains to future periods, at which time the expense will be recognized. The Authority's deferred outflows of resources consist of the unamortized balance of (1) losses incurred on various bond refundings totaling $716 and $1,836 as of June 30, 2024 and 2023, respectively, which is being amortized over the shorter life of the old or new debt, (2) goodwill in the amount of $7,901 and $8,831 as of June 30, 2024 and 2023, respectively, which is being amortized over its estimated useful lives, (3) deferred outflows in the amount of $1,017 and $1,575 as of June 30, 2024 and 2023, respectively, related to the Authority's defined benefit pension plan as discussed in Note 9, and (4) deferred outflows from the TOC acquisition aggregating $2,682 and $3,351 as of June 30, 2024 and 2023, respectively, which is being amortized over its estimated useful lives.

Unearned revenue

The Authority records as unearned revenue resources received for which the earnings process has not been completed.

Deferred inflows of resources

Deferred inflows of resources are not liabilities but represent the acquisition of net assets that pertain to future periods, at which time the income will be recognized. The Authority's deferred inflows of resources consist of (1) deferred inflows in the amount of $1,740 and $1,584 as of June 30, 2024 and 2023, respectively, related to the defined benefit pension plan as discussed in Note 9 and (2) deferred inflows in the amount of $16,548 and $16,763 as of June 30, 2024 and 2023, respectively, related to leases.

Compensated Absences

The majority of the Authority's employees accrue earned time off (ETO) at varying rates depending on years of service. Accumulated ETO time may be carried over each year up to a maximum amount, depending on years of service.

Net position

Net position is classified as follows:

Reserved for minority interest, nonexpendable

This represents the portion of net position attributable to third-party holdings in blended subsidiaries that are less than wholly owned.

Net investment in capital assets

This includes capital assets, net of accumulated depreciation, less any debt issued to finance those assets, but does not include unexpended debt proceeds.

Unrestricted net position

This represents the remaining net position that does not meet the definition of either of the above two categories.

Operating revenues and expenses

The combined 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, which is the principal activity of the Authority. Operating expenses are all expenses incurred to provide health care services, excluding financing costs.

Nonoperating activity

Nonexchange transactions, such as donations; distributions from HHF for non-operating uses – primarily those related to capital expenditures, as contrasted with distributions from HHF relating to the provision of patient care generally recorded as other operating income; investment income activity; equity income from joint ventures; and certain grants, including COVID-19 pandemic funding under the Coronavirus Aid, Relief, and Economic Security act of 2020 (CARES Act) and other similar programs; are generally reported as nonoperating activity. During the fiscal years ended June 30, 2024 and 2023, $2,529 and $22,890, respectively, of COVID-19 pandemic monies, was received and recorded as nonoperating activity with nothing recorded as unearned revenue as of June 30, 2024 and 2023 (see Note 12).

Revenues recognized from the CARES Act Provider Relief Fund (PRF) are limited to lost revenues and COVID-19 related expenses as defined by ongoing and evolving U.S. Health and Human Services (HHS) definitions. Conditions may exist, or arise, that are outside of this report date, but in the scope of the HHS definition that would disallow previously recognized PRF proceeds for the years ended June 30, 2024 and 2023. As such, amounts recognized as nonoperating revenue on the combined statements of revenues, expenses, and changes in net position could be subject to change and those changes could be material to the Authority.

Net patient service revenue

The Authority has agreements with third-party payors that provide for payments to the Authority of amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in the future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. In compliance with GASB pronouncements, net patient service revenues have been reduced by the amount of provisions for bad debts incurred by the Authority. Provision for bad debts was $384,626 and $342,474 for the years ended June 30, 2024 and 2023, respectively.

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 governmental programs will change by a material amount in the near term.

Uncompensated care

The Authority often provides Charity Care, uncollectible, and uncompensated Medicaid and Medicare care to the indigent (collectively “Uncompensated Care”) without charge or at amounts less than its established rates. Charity Care patients are identified based on financial and background information obtained from the patient and/or family members of the patient and subsequent analysis. The Authority does not pursue collection of amounts determined to be Charity Care; therefore, they are not reported as revenue. The Authority has measured the cost of Charity Care charges classified as charity based on a ratio of total operating expenses (including depreciation and net of other operating revenue) to gross patient charges. The ratio of costs to charges determined in this fashion for the years ended June 30, 2024 and 2023 was approximately 25% and 24%, respectively.

The calculated cost of Charity Care provided under the Authority’s Charity Care policies totaled approximately $39,000 and $40,500 for the years ended June 30, 2024 and 2023, respectively. Total Uncompensated Care, including Charity Care, was approximately $171,400 and $147,400 for the fiscal years ending June 30, 2024 and 2023, respectively. Uncompensated Care has increased in recent years as a result of increases in gross patient revenues with the overall percentage of gross revenues remaining relatively constant over the time period. This growth is expected to continue into the future as a result of continued growth in volume.

Subsequent events

Management has evaluated subsequent events and their potential effects on these combined financial statements through October 22, 2024, which is the date the combined financial statements were issued.

2. Transfers/Acquisition of Operations

On January 1, 2024, the Authority assumed the operations of HEMSI for insignificant consideration exchanged. As a result of the transfer, the Authority recognized the following assets, liabilities, and net position. The net position received through the transfer of ownership is presented as net position transferred on the combined statement of revenues, expenses and changes in net position for the year ended June 30, 2024:

(in thousands)

Cash and cash equivalents	$	50
Patient accounts receivable, net		8,624
Prepaid expenses		144
Other receivables		490
Total capital assets		4,547
Accounts payable		(474)
Salaries and benefits payable		(1,297)
Lease liabilities and installment obligations		(65)
Notes payable		(1,151)
Net position transferred	$	10,868

Effective April 1, 2024, the Authority acquired DH for $5,000 plus certain working capital items transferred to the Authority as part of the acquisition. As a result of the acquisition, the Authority recognized, at fair value, the following assets, liabilities, and net assets acquired. The net assets obtained through the acquisition was offset by cash payments to QHC, of which $266 was overpaid by the Authority based on a contractual reconciliation three months after closing and is receivable from QHC as of June 30, 2024:

Cash and cash equivalents	$	3
Inventories		2,468
Prepaid expenses		197
Total capital assets		7,770
Salaries and benefits payable		(724)
Lease liabilities and installment obligations		(2,701)
Net assets acquired	$	7,013

On July 1, 2022, the Authority assumed the operations of LHS under an integration and operating lease agreement with the goal to improve the financial condition of LHS facilities by reducing costs and expanding clinical services to the citizens of Lincoln County, Tennessee. There was insignificant consideration exchanged as a result of the integration and lease agreement. As a result of the transfer, the Authority recognized the following assets, deferred outflows of resources, (liabilities), (deferred inflows of resources), and net position. The net position received through the transfer of ownership is presented as net position transferred on the combined statement of revenues, expenses and changes in net position for the year ended June 30, 2023:

Cash and cash equivalents	$	12,543
Patient accounts receivable, net		2,957
Inventories		633
Prepaid expenses		252
Other assets		699
Estimated third-party settlements		347
Other investments		901
Total capital assets		3,659
Accounts payable		(1,264)
Salaries and benefits payable		(1,588)
Unearned revenue		(1,676)
Lease liabilities and installment obligations		(1,846)
Net position transferred	$	15,617

(in thousands)

3. Capital Assets

Capital assets consist of the following as of June 30, 2024 and 2023:

	Balance July 1, 2023	Additions	Transfers and Disposals	Balance June 30, 2024
Construction-in-process	**$ 171,824**	**$ 62,879**	**$ (190,407)**	**$ 44,296**
Land and improvements	**99,289**	**2,607**	**1,315**	**103,211**
Buildings	**1,181,512**	**164,761**	**(960)**	**1,345,313**
Equipment	**928,670**	**82,381**	**(32,673)**	**978,378**
	2,381,295	**312,628**	**(222,725)**	**2,471,198**
Accumulated depreciation	**(1,372,525)**	**(100,268)**	**24,946**	**(1,447,847)**
	1,008,770	**212,360**	**(197,779)**	**1,023,351**
Right of use assets:				
Right of Use Assets – Buildings	**64,730**	**9,673**	**(286)**	**74,117**
Right of Use Assets – Equipment	**26,637**	**11,928**	**(4,598)**	**33,967**
Subscriptions – Software	**25,705**	**16,981**	**(2,534)**	**40,152**
	117,072	**38,582**	**(7,418)**	**148,236**
Accumulated amortization	**(32,607)**	**(26,674)**	**7,643**	**(51,638)**
Right of use assets, net	**84,465**	**11,908**	**225**	**96,598**
Total capital assets	**$1,093,235**	**$224,268**	**$(197,554)**	**$1,119,949**

	Balance July 1, 2022	Additions	Transfers and Disposals	Balance June 30, 2023
Construction-in-process	$ 54,230	$ 82,331	$ 35,263	$ 171,824
Land and improvements	99,059	1,693	(1,463)	99,289
Buildings	1,217,875	22,101	(58,464)	1,181,512
Equipment	1,046,292	45,087	(162,709)	928,670
	2,417,456	151,212	(187,373)	2,381,295
Accumulated depreciation	(1,514,214)	(89,294)	230,983	(1,372,525)
	903,242	61,918	43,610	1,008,770
Right of use assets:				
Right of Use Assets – Buildings	57,316	7,856	(442)	64,730
Right of Use Assets – Equipment	18,256	11,794	(3,413)	26,637
Subscriptions – Software	-	25,705	-	25,705
	75,572	45,355	(3,855)	117,072
Accumulated amortization	(9,696)	(21,550)	(1,361)	(32,607)
Right of use assets, net	65,876	23,805	(5,216)	84,465
Total capital assets	$969,118	$85,723	$38,394	$1,093,235

(in thousands)

Included in transfers and disposals for the fiscal year ended June 30, 2024 are $4,547 of net assets related to the acquisition of HEMSI and $7,770 of net assets related to the transfer of assets from DH. Included in transfers and disposals for the fiscal year ended June 30, 2023 are $65,960 of net assets related to the acquisition of TOC and $3,659 of net assets related to the transfer of assets from LHS.

4. Investments

The Authority records its investments in debt securities at fair value based on quoted market prices and yield curves. As of June 30, 2024 and 2023, the investments were summarized and mature as follows:

	2024	2023
Cash and cash equivalents	**$ 73,010**	$ 59,200
Annuity contracts	**1,255**	3,187
Government agency obligations	**281,842**	240,433
Corporate bonds	**540,583**	564,684
	$ 896,690	$ 867,504

		Investment Maturities (in Years)			
June 30, 2024	**Carrying Amount**	**Less Than 1**	**1 – 5**	**6 – 10**	**More Than 10**
Investment Type:					
Government agency obligations	**$ 281,842**	**$ 12,806**	**$ 78,527**	**$ 27,483**	**$ 163,026**
Corporate bonds	**540,583**	**74,680**	**412,438**	**52,174**	**1,291**
Total	**$ 822,425**	**$ 87,486**	**$ 490,965**	**$ 79,657**	**$ 164,317**

		Investment Maturities (in Years)			
June 30, 2023	**Carrying Amount**	**Less Than 1**	**1 – 5**	**6 – 10**	**More Than 10**
Investment Type:					
Government agency obligations	$ 240,433	$ 28,372	$ 85,858	$ 46,531	$ 79,672
Corporate bonds	564,684	53,814	387,284	115,865	7,721
Total	$ 805,117	$ 82,186	$ 473,142	$ 162,396	$ 87,393

The amounts above exclude HHF investments of $37,477 and $33,913 as of June 30, 2024 and 2023, respectively.

(in thousands)

5. Deposit and Investment Risk

As of June 30, 2024, the Authority's investment policy limits investments, excluding HHF investments, to the following:

1. Bank depositories that maintain specified asset levels and specified capital to asset ratios. The bank must be a QPD under the Alabama SAFE Act (see Note 1). Violation of either criterion shall require immediate board notification.

2. Securities of the federal government and its AAA-rated agencies. There is no limitation on direct or AAA-rated indirect obligations of the United States of America.

3. Money funds and repurchase agreements backed by U.S. direct or indirect obligations.

4. Enhanced cash/ short-term fixed income with maximum maturities (other than money market which has no limitation) of three months to three years, all investment grade, and a minimum credit quality rating of A or equivalent at the time of purchase.

5. Core fixed income with no maximum maturity (except repurchase agreements at three months), all investment grade, and a minimum credit quality rating of BBB – or equivalent at the time of purchase.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment policy limits enhanced cash/ short-term fixed income investments to those rated A or better by Moody's at the time of purchase and core fixed income investments to those rated BBB- or better by Moody's at the time of purchase. Credit quality distributions for investments, with credit exposure as a percentage of total investments, are as follows as of June 30, 2024:

Investment Type	Rating	Percentage
Cash and cash equivalents	Not rated	8%
Corporate bonds	Aaa	5%
Corporate bonds	Aa	5%
Corporate bonds	A	19%
Corporate bonds	Baa	32%
Government agency obligations	*	31%

*Guaranteed by the full faith and credit of the United States Government

Custodial credit risk

Custodial credit risk is the risk that, in the event of a failure, the securities held in custody may not be returned. As a result of the Authority's participation in the Alabama SAFE Act Program (see Note 1), substantially all of the Authority's bank deposits totaling $289,699 and $177,228 as of June 30, 2024 and 2023, respectively, were fully insured or collateralized. The Authority had investments in corporate bonds and government agency obligations totaling $822,425 and $805,117, which were held in safekeeping as of June 30, 2024 and 2023, respectively. These investments were segregated from the assets of the custodian and were not subject to the custodian's credit risk.

(in thousands)

Interest rate risk

The Authority manages its investments' timeline by averaging investment maturities and chooses to present its exposure to interest rate changes using the weighted average maturity method. Although certain investments have a maturity exceeding one year, the Authority considers its maturity for interest rate risk purposes to be the length of time to its next interest reset date. The weighted average maturity of these investments in years by category was as follows as of June 30:

	2024	2023
Asset-backed securities	**16.259**	12.650
Certificates of deposit	**0.000**	0.497
Corporate Bonds	**3.308**	3.827
Government agency obligations	**18.536**	19.470
Municipal bonds	**5.601**	6.072
U.S. Treasury securities	**0.786**	0.643
Overall	**6.795**	6.011

6. Short-Term Debt

Tax-exempt CP notes

On February 28, 2012, the Authority passed a resolution amending and restating the original CP note resolution increasing the maximum aggregate principal amount of notes to $200,000, which remains in effect as of June 30, 2024 and 2023.

The original resolution has also been amended to modify the purposes for which proceeds of funding notes may be applied. The purposes currently include refunding of bonds, notes, or other evidences of indebtedness that may be designated by the governing body of the Authority, financing the costs of capital improvements to the Authority's health care facilities, and any other purposes permitted by the Authority's enabling law that is specified in a supplement to the resolution.

The notes are general obligations of the Authority for which general credit is pledged. The notes are secured by a pledge of revenues on parity with the Authority's outstanding master indenture obligations. Each note matures on a business day not later than 270 days after the date of issuance of such note. In the event that the notes cannot be remarketed, the Authority will retire the maturing notes with cash reserves. During the years ended June 30, 2024 and 2023, the Authority made interest payments, totaling $3,043 and $1,780, respectively, and remarketed existing CP totaling approximately $917,000 and $489,000, respectively. The notes outstanding totaled $70,000 and $137,000 as of June 30, 2024 and 2023, respectively, with interest rates varying from 3.63% to 3.75% as of June 30, 2024.

Changes in the Authority's CP during the years ended June 30, 2024 and 2023, respectively, were as follows:

	Balance July 1, 2023	Additions	Payments	Balance June 30, 2024	Current Maturity
CP notes payable	**$ 137,000**	**$ -**	**$ 67,000**	**$ 70,000**	**$ 70,000**

(in thousands)

	Balance July 1, 2022	Additions	Payments	Balance June 30, 2023	Current Maturity
CP notes payable	$ 70,000	$ 67,000	$ -	$ 137,000	$ 137,000

7. Long-Term Debt

Series 2013-A Notes

On April 1, 2013, the Authority issued tax-exempt notes to BBVA Compass as part of a tax-exempt loan transaction to finance the refunding of a portion of the previously outstanding 1994-A and 1994-B Health Care Facilities Revenues Bonds. The notes bore interest at a fixed rate of 1.67% with required monthly principal and interest payments and matured in June 2024.

Series 2014-A Notes

On May 1, 2014, the Authority issued tax-exempt notes to PNC Bank for the purpose of refunding outstanding debt and funding future capital improvements for ALH. The notes bore interest at 1.92% per annum and were subject to adjustment based on the credit rating of the Authority. The notes matured in May 2024.

Series 2015-A Notes

On June 1, 2015, the Authority issued the Series 2015-A Notes to Regions Bank (Regions), which advance-refunded a portion of a previous bond issue in the same amount. In advance-refunding the previous issue, the Authority reduced its 15-year debt service payments and recognized a gain based on the present value of the reduced debt service payments. The refunding resulted in an accounting loss, which was included in deferred outflows of resources and is being amortized over the life of the notes. The notes bear interest at a fixed rate of 1.89% with required monthly principal and interest payments and matures in June 2025. The notes are secured by pledged revenues.

Series 2016-A Notes

On July 1, 2016, the Authority issued the Series 2016-A Notes to Regions, which repaid an equivalent amount of the Authority's outstanding CP. The notes bear interest at a fixed rate of 1.97% with required monthly principal and interest payments and matures in July 2026. The notes are secured by pledged revenues.

Series 2020-A Notes

On April 30, 2020, the Authority issued the Series 2020-A Notes to Regions, which repaid an equivalent amount of the Authority's outstanding CP. The notes bear interest at a fixed rate of 1.94% with required monthly principal and interest payments due in monthly installments and matures in May 2035. The notes are secured by pledged revenues.

Series 2020B Bonds

The Series 2020B Bonds were issued in October 2020 and are general obligations of the Authority for which its general credit was pledged. In addition, the bonds are secured by a pledge of revenues. Interest on the bonds are payable semiannually on June 1 and December 1 and principal annually upon commencement of maturities on June 1 at remaining fixed rates ranging from 3.0% to 5.0%. Any bond that matures after June 1, 2030 may be redeemed in whole or in part at a redemption price equal to 100% of the principal amount redeemed plus accrued interest thereon to the redemption date.

In September and October 2023, the Authority extinguished $5,140 in par value and recognized a net gain on extinguishment of $1,296, included in nonoperating activity on the combined statements of revenues, expenses and changes in net position. September 2022, the Authority extinguished $53,285 (the 2022 Extinguishment) in par value and recognized a net gain on extinguishment of $11,881, included in nonoperating activity on the combined statements of revenues, expenses and changes in net position.

2022 HEMSI Note

On July 5, 2022, HEMSI issued a $1,060 Note to ServisFirst Bank. The Note bears interest at a fixed rate of 4.19% with required monthly principal and interest payments due in monthly installments and matures in July 2025. The notes are secured by certain ambulance vehicles.

Series 2022A Bonds

On December 15, 2022, the Authority issued the Series 2022A Bonds to evidence a loan from Bank of America, N.A. (BANA) to replenish the net cash paid from the 2022 Extinguishment and to finance certain prior and future capital. Proceeds were $41,988, inclusive of an initial $288 original issue premium, and are general obligations of the Authority for which its general credit was pledged. In addition, the bonds are secured by a pledge of revenues. Interest on the bonds are payable semiannually on June 1 and December 1 and principal annually upon commencement of maturities on June 1 at a fixed rate of 6.0% that is swapped to a variable rate based on a total return swap (the 2022 Swap) with BANA in which the Authority pays a variable rate equal to the Securities Industry and Financial Markets Association (SIFMA) USD-SIFMA Municipal Swap Index plus 100 basis points and receives a fixed rate equal to 6.0%. The notional amount of the 2022 Swap is $41,700 and terminates in 2027. The Series 2022A Bonds matures in June 2046.

As of June 30, 2024 and 2023, the 2022 Swap has a fair value of approximately $180 and $67, respectively, included in accrued interest in the combined balance sheets. The Authority has not been required to pledge collateral due to a credit-related event or to secure its mark-to-market position, but it could be required to do so in the future. The Authority's payment obligations under the 2022 Swap are secured by an obligation issued under the Master Indenture.

2023 HEMSI Note

On August 8, 2023, HEMSI issued a $640 Note to Regions. The Note bears interest at a fixed rate of 6.65% with required monthly principal and interest payments due in monthly installments and matures in August 2026. The notes are secured by certain ambulance vehicles.

Series 2023A Bonds

The Series 2023A Bonds were issued in September 2023 with proceeds totaling $203,528, inclusive of a $13,528 original issue premium, and are general obligations of the Authority for which its general credit was pledged. In addition, the bonds are secured by a pledge of revenues. Interest on the bonds is payable semiannually on June 1 and December 1 and principal annually on June 1 upon commencement of maturities at 5.0%. Any bond may be redeemed in whole or in part on any business day on or after March 1, 2030 at a redemption price equal to 100% of the principal amount redeemed plus accrued interest thereon to the redemption date. The bonds are subject to mandatory tender on June 1, 2030.

Except for the 2022 Swap, neither the Authority nor its affiliates has any other interest rate swaps, derivatives or other hedging agreements outstanding, and neither the Authority nor its affiliates has any present plans for the use of any such derivative instruments.

(in thousands)

New Market Tax Credit Transaction

The Authority entered into a transaction on May 3, 2018 to obtain financing through the New Market Tax Credit (NMTC) Program sponsored by the Department of Treasury. The NMTC Program permits certain corporate taxpayers to receive a credit against federal income taxes for making qualified equity investments (QEI) in community development entities. The credit provided to the investor totals 39% of the initial value of the QEI and is claimed over a seven-year allowance period.

As part of this transaction, the Authority, through its blended component unit ALEL, issued two notes payable in the amounts of $1,381 and $619. Both notes mature on May 31, 2048. Interest is payable quarterly at a rate of 3.817% through the seven-year allowance period. At the completion of the seven-year allowance period, the principal will be paid over the remaining term of the notes.

A summary of the Authority's outstanding bonds and notes payable is as follows as of June 30:

	2024	2023
Bonds and notes payable:		
Series 2013-A Notes	$ -	$ 4,272
Series 2014-A Notes	-	1,000
Series 2015-A Notes	4,630	9,261
Series 2016-A Notes	10,417	15,417
Series 2020-A Notes	114,583	125,000
Series 2020B Bonds	174,405	179,545
2022 HEMSI Note	399	-
Series 2022A Bonds	41,700	41,700
2023 HEMSI Note	475	-
Series 2023A Bonds	190,000	-
NMTC notes payable	1,381	1,381
NMTC notes payable	619	619
	538,609	378,195
Net un-accreted bond premium payable	27,016	14,503
	565,625	392,698
Current maturity of bonds and notes payable	(20,625)	(25,319)
	$ 545,000	$ 367,379

(in thousands)

Debt service requirements of the Authority's various bonds and notes as of June 30, 2024 are as follows:

Year Ending June 30,	Principal	Interest	Total
2025	$ 20,625	$ 21,280	$ 41,905
2026	15,673	20,903	36,576
2027	10,872	20,626	31,498
2028	10,417	20,424	30,841
2029	10,417	20,215	30,632
Five Year Total	68,004	103,448	171,452
2030-2034	68,068	87,668	155,736
2035-2039	81,902	73,920	155,822
2040-2044	96,895	54,941	151,836
2045-2049	114,665	32,566	147,231
2050-2054	109,075	10,259	119,334
	$ 538,609	$ 362,802	$ 901,411

The trust indentures underlying the bonds contain certain covenants and other terms and conditions typical of such debt agreements for organizations like the Authority. Management believes the Authority is in compliance with these covenants as of June 30, 2024 and 2023.

Changes in the Authority's bonds and notes payable, deferred compensation liabilities, during the years ended June 30, 2024 and 2023, were as follows:

	Balance July 1, 2023	Net Additions	Reductions	Balance June 30, 2024	Current Maturity
Bonds and notes payable	$ 392,698	$ 203,664	$ 30,737	$ 565,625	$ 20,625
Deferred compensation	4,778	2,135	4,007	2,906	-
	$ 397,476	$ 205,799	$ 34,744	$ 568,531	$ 20,625

	Balance July 1, 2022	Net Additions	Reductions	Balance June 30, 2023	Current Maturity
Bonds and notes payable	$ 421,300	$ 41,988	$ 70,590	$ 392,698	$ 25,319
Deferred compensation	2,186	2,592	-	4,778	-
	$ 423,486	$ 44,580	$ 70,590	$ 397,476	$ 25,319

(in thousands)

8. Liabilities associated with right-of-use and subscription assets

Lease and SBITDA agreements are summarized as follows as of June 30, 2024 and 2023:

Description	Dates	Payment Terms	Payment Amounts	Interest Rates	Balance 6/30/2024
Building	**11/2003 – 4/2024**	**1 - 63 Years**	**$1 - $687**	**0.1% - 9.7%**	**$ 54,887**
Equipment	**8/2018 – 4/2024**	**1- 24 Years**	**$1 - $145**	**2.0%-11.9%**	**24,395**
Other					**1,978**
					$ 81,260
SBITAs	**7/2019 - 6/2024**	**1 - 6 Years**	**$1 - $345**	**2.0% - 5.3%**	**$ 16,390**

Description	Dates	Payment Terms	Payment Amounts	Interest Rates	Balance 6/30/2023
Buildings	11/2003 – 6/2023	2 - 63 Years	$2 - $152	0.1% - 4.9%	$ 53,317
Equipment	8/2018 – 2/2023	2- 24 Years	$1 - $90	2.0% - 6.5%	17,858
Other					1,470
					$ 72,645
SBITAs	7/2019 - 6/2023	1 - 5 Years	$1 - $48	3.8%	$ 12,303

Annual requirements to amortize lease and SBITA obligations and related interest are as follows as of June 30, 2024:

Year Ending June 30,	Principal	Interest
2025	$ 23,673	$ 4,037
2026	18,095	2,603
2027	13,956	1,896
2028	10,869	1,222
2029	7,817	807
2030-2034	13,435	2,376
2035-2039	3,722	1,336
2040-2044	3,183	808
2045-2049	1,663	290
2050-2054	114	118
2055-2059	126	106
2060-2064	139	93
2065-2069	154	78
2070-2074	170	62
2075-2079	188	44
2080-2084	207	24
2085-2089	139	4
	$ 97,650	$ 15,904

9. Retirement Plans

Defined contribution plans

Effective January 1, 2013, the Authority established the HH Health System 401(k) Retirement Plan (System Plan) for all employees hired after January 1, 2013. Under the System Plan, the Authority contributes an amount necessary to match 50% of each participant's net eligible salary deferral not to exceed 5% of compensation.

In addition to the System Plan, the Authority maintains several legacy defined contribution retirement plans established or acquired over the years. The Health Care Authority 401(k) Retirement Plan (Authority Plan) was established in 1985 covering substantially all employees of HH hired prior to January 1, 2013. Effective July 1, 2013, the Authority Plan was amended to allow the Authority to contribute an amount necessary to match 100% of each participant's net eligible salary deferral not to exceed 5% of compensation.

Also in addition to the System Plan, the Authority maintains the Health Care Authority Special 401(k) Retirement Plan and the Health Care Authority Benefit Restoration Plan 415(m) for designated executives and physicians. These plans allow the Authority to contribute an amount necessary to match 100% of each participant's net eligible salary deferral not to exceed 5% of compensation. Additionally, designated executives and physicians receive an additional contribution to these plans of between 5%-30% of their base salary into the plans.

HKH employees were previously covered under the Retirement System of Alabama (RSA) defined benefit plan. The Authority did not assume any obligation or liability for any benefits due the RSA. Effective January 1, 2015, the employees became eligible to participate in the System Plan. Additionally, several physician employees were covered under a non-qualified deferred compensation plan maintained by HKH. The Authority assumed responsibility for the payout of these assets; however, no additional liability has accrued under the deferred compensation plan, as the participating physicians are no longer employees of HKH.

ALH employees were previously covered under an Aetna Life Insurance company group pension contract. The Authority did not assume any obligation or liability for any benefits due related to the Aetna Life Insurance Company. Effective January 1, 2016, the employees became eligible to participate in the System Plan.

HC employees were previously covered under a 401(k) plan sponsored by the Heart Center, P.C. Effective January 1, 2012, these employees became eligible to participate in the Authority Plan. HC employees hired after January 1, 2013 are allowed to participate in the System Plan.

MMC employees were previously covered under a defined contribution plan, the MCHCA Profit Sharing Plan, and the MCHCA 403(b) Tax-Sheltered Annuity Plan. Effective January 1, 2019, the employees became eligible to participate in the System Plan.

HMC employees were previously covered under the Jackson County Health Care Authority 401(a) Plan, the Jackson County Health Care Authority 457(b) Employee Savings Plan, and the Jackson County Health Care Authority 403(b) Plan. The Authority did not assume any obligation or liability for any benefits for these previous plans. Effective April 1, 2022, the employees became eligible to participate in System Plan.

LHS employees were previously covered under the Tennessee Consolidated Retirement System and/or the State of Tennessee 401(k) and 457 Deferred Compensation Retirement Plan. The Authority did not assume any obligation or liability for any benefits for these previous plans. Effective July 1, 2022, the employees became eligible to participate in System Plan.

(in thousands)

TOC employees were previously covered under a 401(k) plan sponsored by the previously physician-owned physician practice. Effective June 30, 2023, these employees became eligible to participate in the Authority Plan.

DH employees were previously covered under the Quorum Health Retirement Savings Plan. The Authority did not assume any obligation or liability for any benefits for this previous plan. Effective April 1, 2024, the employees became eligible to participate in the System Plan.

HEMSI employees were previously covered under the HEMSI 403(b) Plan. The Authority did not assume any obligation or liability for any benefits for this previous plan. Effective January 1, 2024, the employees became eligible to participate in the System Plan.

The Authority incurred costs related to the defined contribution plans for the years ended June 30, 2024 and 2023 of $23,318 and $21,189, respectively.

Defined benefit pension plan

MMC sponsors the Retirement Plan for Employees of Marshall Medical Center (RPMMC), a defined benefit pension and retirement plan which covered substantially all salaried employees with 10 years of service as of July 1, 1996, the date in which the plan was frozen to new entrants. The plan did not issue a separate stand-alone financial report. The Authority has assumed all related assets and liabilities related to the RPMMC. The RPMMC has thirty-five participants (and only five active) remaining. The net pension asset for the fiscal years ended June 30, 2024 and June 30, 2023 was $5,532 and $4,584, respectively. The RPMMC is fully funded as of June 30, 2024.

Other plans

The Authority maintains the Huntsville Hospital 457(b) Eligible Deferred Compensation Plan covering substantially all employees, allowing for deferral of salary up to the IRS deferred compensation limits.

The Authority also maintains a defined benefit plan for select senior executives. This plan allows the Authority to contribute amounts necessary to meet the retirement benefit targets established by the plan.

10. Investments in Joint Ventures

Surgery Center of Huntsville

Effective December 31, 2012, the Authority acquired a 51% equity interest in the Surgery Center of Huntsville in a transaction resulting in goodwill. The goodwill is amortized over a twenty year period which approximates the lives of the respective Surgery Center assets. As of June 30, 2024 and 2023, the remaining unamortized goodwill balance was $7,901 and $8,831, respectively, and is included on the combined statements of net position as deferred outflow of resources.

As of June 30, 2024 and 2023, the combined summary of the Surgery Center's unaudited financial information for the 12-month periods was as follows:

	Assets	Liabilities	Equity	Revenues	Net Income
2024	**$ 11,647**	**$ 4,786**	**$ 6,861**	**$ 44,015**	**$ 6,669**

(in thousands)

	Assets	Liabilities	Equity	Revenues	Net Income
2023	$ 10,521	$ 4,374	$ 6,147	$ 41,086	$ 6,204

Athens Limestone Leverage Lender, LLC

The Authority created this special purpose entity on May 3, 2018 as a conduit for participation in a NTMC for the purpose of obtaining funding for the construction of a new surgery tower for ALH. The Authority owns 47.4% of this entity and accounts for its investment under the equity method. At the inception of the NMTC, the Authority provided this entity with a source loan in the amount of $1,383 which is presented as a related party note receivable on the combined statement of net position. The source loan has a term of 30 years, maturing on May 1, 2048. Interest is paid at an annual rate of 1% and principal payments do not begin until the conclusion of the compliance period (7 years).

Athens Limestone Hospital Surgery Tower, LLC

The Authority created this entity as the qualified active low-income community business in which qualified investments were made under the NMTC for the purpose of obtaining funding for construction of a surgery tower for ALH. ALH owns 35.25% of this entity and accounts for its investment under the equity method. ALH made an initial capital contribution to this entity of $1,000 on May 3, 2018. Under the operating agreement of this entity, ALH is not allocated any portion of the losses of this entity, only income.

ContinuumRX Home Infusion

The Authority has a 35% ownership interest with ContinuumRX for the Huntsville location of ContinuumRX. ContinuumRx partners with healthcare systems and their providers to provide home infusion therapies and services and improve post-acute care coordination and care management.

LHC Group Strategic Partnerships Home Care

The Authority has a 33% ownership interest in Home Care operations through LHC Group Strategic Partnerships (LHC). LHC partners with healthcare systems and their providers to provide home care services for community patients.

Urgent Team Management, LLC d/b/a Urgent Care

Beginning September 30, 2019, the Authority has a 50% ownership interest with Urgent Team Management, LLC, part of the family of urgent care and walk-in centers network through North Alabama, with nine current locations.

North Alabama Cancer Care Organization, LLC

Since 2016, the Authority has a 10% ownership interest in North Alabama Cancer Care Organization LLC, one of the largest radiation cancer networks in the southeast offering several types of radiation therapy designed to treat all forms and stages of cancer.

HGA Home Medical Equipment, LLC

Since 2016, the Authority shares an equal 50% ownership interest with Med-South, Inc. in HGA Home Medical Equipment LLC (HME).

11. Related Parties and Affiliations

Huntsville Hospital Foundation, Inc.

HHF was established to raise funds to support the operation of HH. HHF's bylaws provide that all funds raised be distributed to or held for the benefit of the Authority, specifically HH.

Currently, HHF's assets are distributed to HH for both operating and nonoperating purposes and in amounts and in periods determined by the donor restriction or HHF's Board of Trustees. These distributions are recorded by the Authority when received in the combined statements of revenues, expenses, and changes in net position. Distributions for operating purposes consist primarily of amounts to offset salaries and other such costs, such as supplies, incurred by HH throughout the year and are recorded by the Authority as other operating income. Distributions totaling $1,585 and $2,244 have been made to HH by HHF for such operating purposes for the years ended June 30, 2024 and 2023, respectively. Distributions for nonoperating purposes consist primarily of amounts to offset purchases of special equipment, construction, and renovations incurred by HH throughout the year and are recorded by the Authority as nonoperating activity. Distributions totaling $4,020 and $4,212 have been made to HH by HHF for such nonoperating purposes for the years ended June 30, 2024 and 2023, respectively. The Authority pays the operating expenses incurred by HHF. HHF is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3) and is also exempt from state income taxes.

Lawrence Medical Center Management and Affiliation Agreement

Effective October 1, 2012, the Authority entered into an initial, but continuing, three-year management and affiliation agreement with the Lawrence County Health Care Authority, which operates Lawrence Medical Center, an acute care hospital located in Moulton, Alabama. The agreement created an affiliated health care delivery system that permits more cost-effective and efficient delivery of health services in north Alabama and surrounding areas. This agreement automatically renews for subsequent five-year terms not to exceed 50 years.

VIVA Health Partnership

In 2020, the Authority entered into a contractual relationship with The University of Alabama at Birmingham Health System to offer a shared risk Medicare Advantage product in North Alabama through VIVA Health, as well as to align to meet opportunities in population health, value-based care and rural health care. HH VIVA Medicare became effective for enrollees effective January 1, 2021

12. Commitments and Contingencies

Capital Improvements

The Authority has an ongoing capital improvement program, which includes various capital-related purchases. The future costs associated with these capital improvements total approximately $42,900 as of June 30, 2024.

CARES Act Funding

Payments from the CARES Act are not considered loans and, therefore, they are not subject to repayment provided all conditions to retain are met, including the earnings process. However, as a condition to receiving distributions, providers must agree to certain terms and conditions, including, among other things, that the funds are being used for lost operating revenues and COVID-related costs, as defined by HHS guidance, and that the providers will not seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider.

(in thousands)

Furthermore, HHS has indicated that it will be closely monitoring and, along with the Office of Inspector General, auditing providers to ensure that recipients comply with the terms and conditions of relief programs and to prevent fraud and abuse. All providers will be subject to civil and criminal penalties for any deliberate omissions, misrepresentations or falsifications of any information given to HHS. The Authority has formally accepted the terms and conditions associated with the receipt of relief payments received and retained. The single audits for years ending June 30, 2022 and 2023, which were due to be filed on or before March 31, 2023 and 2024, respectively, are in the process of being completed by the Authority's current external auditors but have not been finalized due primarily to the delay of the predecessor external audit firm in completing the audit for the year ending June 30, 2021.

There can be no assurance that the terms of provider relief funding or other programs will not change or be interpreted in ways that affect our funding or eligibility to participate or our ability to comply with applicable requirements and retain amounts received. The Authority continues to assess the potential impact of the CARES Act and the potential impact of future stimulus measures, if any, and the impact of other laws, regulations, and guidance related to COVID-19 on The Authority's business, results from operations, financial condition and cash flows. The use of CARES Act funding is subject to validation and audit and, therefore, the possibility exists that monies recognized as nonoperating activity could be subject to recoupment in the future.

13. Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are from north Alabama and south-central Tennessee and are insured under third-party payor agreements. For the years ended June 30, the gross charges payor mix from patients and third-party payors was as follows:

	2024	2023
Blue Cross	**27%**	28%
Medicare	**23%**	25%
Medicare HMO	**21%**	20%
Other third-party payors	**10%**	9%
Self-Pay Patients	**10%**	9%
Medicaid	**9%**	9%
	100%	100%

14. Patient Service Revenue

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

(in thousands)

Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Under the outpatient prospective payment system, payment rates for outpatient services are based on groups of services rather than individual services. The services classified within each group are comparable both clinically and in terms of resources. The classification system is based on ambulatory payment classification (APC) groups. 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.

Blue Cross

Inpatient services rendered to Blue Cross program beneficiaries are paid at prospectively determined rates per tiered day of hospitalization. Outpatient services are reimbursed at predetermined rates based on Enhanced Ambulatory Patient Groups (EAPG) reimbursement methodology.

Medicaid

Inpatient services rendered to Medicaid subscribers are reimbursed at prospectively determined rates per day of hospitalization. Outpatient services are reimbursed based on an established fee schedule. The prospectively determined per diem rates are not subject to retroactive adjustment.

The hospitals operated by the Authority qualify for Medicaid disproportionate share payments based on formulas established by the Alabama Medicaid Agency (the Agency). The Authority receives these disproportionate share payments in addition to the fee-for-service payments for inpatient and outpatient services with inpatient service fees paid on a per diem rate and outpatient services paid at a per encounter rate. The net proceeds of these payments are included in operating revenues on the accompanying combined statements of revenues, expenses, and changes in net position.

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 prospectively determined rates per discharge and discounts from established charges.

The Authority's net patient service revenue was comprised of the following as of June 30:

	2024	2023
Gross patient service charges	**$ 10,686,450**	$ 9,398,220
Provision for contractual adjustments	**(7,524,004)**	(6,613,992)
Charity	**(161,133)**	(169,220)
Provision for bad debts	**(384,626)**	(342,474)
	$ 2,616,687	$ 2,272,534

(in thousands)

15. Fair Value Measurements

The Authority values its investments at fair value and discloses the following three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value:

Level 1 – Observable inputs, such as quoted prices in active markets;

Level 2 – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3 – Unobservable inputs in which there is little or no market data and which require the reporting entity to develop its own assumptions.

These investments are all valued based on the market approach that uses prices and other relevant information generated by market transactions involving identical or comparable assets.

Government agency obligations and corporate bonds: Valued using a matrix pricing model (level 2).

Fair value measurements at June 30, 2024:

	Fair Value Measurement at Report Date Using			
Assets	**Fair Value**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Corporate bonds	**$ 540,583**	**$ -**	**$ 540,583**	**$ -**
Government agency obligations	**281,842**	**-**	**281,842**	**-**
	$ 822,425	**$ -**	**$ 822,425**	**$ -**

The above schedule excludes cash and cash equivalents of $73,010 and guaranteed contracts measured at contract value of $1,255.

Fair value measurements at June 30, 2023:

	Fair Value Measurement at Report Date Using			
Assets	**Fair Value**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Corporate bonds	$ 564,684	$ -	$ 564,684	$ -
Government agency obligations	240,433	-	240,433	-
	$ 805,117	$ -	$ 805,117	$ -

The above schedule excludes cash and cash equivalents of $59,200 and guaranteed contracts measured at contract value of $3,187.

Huntsville Hospital Foundation

HHF's investments at fair value totaled $44,398 as of June 30, 2024. Of total investments, $35,036 were classified as Level 1 investments, $852 were classified as Level 2 investments, $6,921 were classified as Level 3 investments, and $1,589 were investments measured at fair value using the NAV practical expedient. The investments at fair value totaled $37,408 as of June 30, 2023. Of total investments, $29,471 were classified as Level 1 investments, $4,442 were classified as Level 2 investments, and $3,495 were classified as Level 3 investments.

16. Risk Management

Litigation

From time to time, the Authority is party to various claims and litigation; however, management, with consideration of guidance provided by legal counsel, does not expect the resolution of these lawsuits to have any material adverse effect on the combined financial condition of the Authority.

Insurance, including professional liability

The Authority has a comprehensive insurance program covering all facilities and operations limiting the cost of personal injury or property damage claims. The deductible on professional liability insurance is $1,000 per occurrence and $3,000 aggregate per year. As of June 30, 2024 and 2023, the Authority had $2,108 and $3,280, respectively, of estimated professional liability claims reserves recorded.

Employee medical coverage

The Authority has implemented a self-insurance program for employee medical coverage. The Authority limits its losses through the purchase of a stop-loss policy from a reinsurer. The policy deductible is $600 per eligible person. As of June 30, 2024 and 2023, the Authority had $10,686 and $9,692, respectively, of estimated medical liability claims reserves recorded. The Authority paid and accrued claims to other health care providers totaling $106,846 and $92,448 for the years ended June 30, 2024 and 2023, respectively.

Workers' Compensation

The Authority has implemented a self-insurance program for workers' compensation coverage. The Authority limits its losses through the purchase of a stop-loss policy for workers' compensation and employers' liability. The deductible on the policy is $1,000 per accident or illness. As of June 30, 2024 and 2023, the Authority had $5,041 and $4,810, respectively, of estimated claims reserves that were recorded at the net present value of $3,672 and $3,706 (using a discount rate of 4.5% and 4.2%), respectively.

17. Condensed Financial Information – Blended Component Units

The following tables represent the condensed financial information of the Authority's major blended component units consisting of DMH, HKH, ALH, MMC, HMC, LHS, and DH as of June 30 and for the years then ended. The condensed financial information represents the aggregated amounts for the noted major blended component units, no combining or other eliminations were recognized in arriving at the aggregated amounts.

(in thousands)

Condensed statements of net position

	2024	2023
Current assets	$ 176,656	$ 151,713
Noncurrent cash and investments	86,451	90,691
Capital assets	367,680	338,573
Other assets	16,373	15,898
Total assets	647,160	596,875
Deferred outflows of resources	1,017	1,575
Total assets and deferred outflows of resources	$ 648,177	$ 598,450
Current liabilities	$ 86,281	$ 66,775
Intercompany balances	217,724	142,659
Long-term liabilities	27,454	28,772
Total liabilities	331,459	238,206
Deferred inflows of resources	7,446	6,958
Restricted for minority interest, nonexpendable	396	510
Net investment in capital assets	325,835	303,163
Unrestricted	(16,959)	49,613
Total net position	309,272	353,286
Total liabilities, deferred inflows of resources, and net position	$ 648,177	$ 598,450

Condensed statements of revenues, expenses, and changes in net position

	2024	2023
Operating revenue	$ 850,224	$ 781,849
Operating expenses	903,564	829,563
Operating loss	(53,340)	(47,714)
Nonoperating activity	9,440	22,728
Revenue in deficit of expenses	(43,900)	(24,986)
Net position transferred	-	15,617
Other	(114)	(64)
Decrease in net position	(44,014)	(9,433)
Net position as of beginning of year	353,286	362,719
Net position as of end of year	$ 309,272	$ 353,286

(in thousands)

Condensed statements of cash flows

	2024	2023
Net cash provided by (used in):		
Operating activities	**$ 60,135**	$ (8,466)
Capital and related financing activities	**(64,926)**	(89,219)
Noncapital financing activities	**72**	227
Investing activities	**15,930**	49,771
Net increase (decrease)	**11,211**	(47,687)
Cash and cash equivalents:		
Beginning of year	**11,384**	59,071
End of year	**$ 22,595**	$ 11,384

Warren Averett
CPAs AND ADVISORS

101 Monroe St NE
Huntsville, AL 35801
warrenaverett.com

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

Board of Directors
The Health Care Authority of the City of Huntsville
Huntsville, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Health Care Authority of the City of Huntsville (the Authority), as of and for the year ended June 30, 2024, 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 October 22, 2024. The financial statements of the Huntsville Hospital Foundation, Inc. were not audited in accordance with Government Auditing Standards, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Huntsville Hospital Foundation, Inc.

Report on Internal Control over Financial Reporting
In planning and performing our audit of the combined 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or 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 or significant deficiencies may exist that were not identified.

We have separately communicated a significant deficiency regarding segregation of duties for The Huntsville Hospital Foundation, Inc. in our letter to the Board of Trustees dated October 17, 2024.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's combined 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 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

Huntsville, Alabama
October 22, 2024

BOARD MEMBER	POSITION	EXPIRATION
Mike Goodman	Chair	April 15, 2027
Amit Arora, M.D.	Vice Chair	April 15, 2027
Frank M. Caprio	Secretary	April 15, 2025
Philip W. Bentley, Jr.	Member	August 15, 2029
Kerry Fehrenbach	Member	August 15, 2027
Tharon Honeycutt	Member	April 15, 2029
Janice Johnson	Member	April 15, 2029
Michael McFadden, M.D.	Member	August 15, 2025
Beth Richardson	Member	April 15, 2025
Roy Rollings	Member at Large	August 1, 2025
James Bolte	Member at Large	May 1, 2026